

ARES CAPITAL CORP  
Form N-2/A  
July 19, 2011

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As filed with the Securities and Exchange Commission on July 19, 2011

Registration No. 333-174716

**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*

PRE-EFFECTIVE AMENDMENT NO. 1  
 POST-EFFECTIVE AMENDMENT NO.

**ARES CAPITAL CORPORATION**

(Exact Name of Registrant as Specified in Charter)

245 Park Avenue, 44<sup>th</sup> Floor  
New York, New York 10167

(Address of Principal Executive Offices)

Registrant's Telephone Number, including Area Code: (212) 750-7300

Joshua M. Bloomstein  
Ares Capital Corporation  
245 Park Avenue, 44<sup>th</sup> Floor  
New York, New York 10167  
(212) 750-7300

(Name and Address of Agent for Service)

*Copies of information to:*

Monica J. Shilling  
Proskauer Rose LLP  
2049 Century Park East, 32<sup>nd</sup> Floor  
Los Angeles, CA 90067-3206  
(310) 557-2900

**Approximate Date of Proposed Public Offering:** From time to time 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).

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CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

| Title of Securities Being Registered            | Amount Being Registered | Proposed Maximum Offering Price Per Unit | Proposed Maximum Aggregate Offering Price(1) | Amount of Registration Fee |
|---|-------------------------|--|--|----------------------------|
| Common Stock, \$0.001 par value per share(2)(3) |                         |  |  |                            |
| Preferred Stock, \$0.001 par value per share(2) |                         |  |  |                            |
| Subscription Rights(2)                          |                         |  |  |                            |
| Warrants(4)                                     |                         |  |  |                            |
| Debt Securities(5)                              |                         |  |  |                            |
| Units(6)  |                         |  |  |                            |
| Total   |                         |  | \$2,000,000,000(7)                           | \$232,200(8)               |

- (1) Estimated pursuant to Rule 457(o) solely for the purpose of determining the registration fee. The proposed maximum offering price per security will be determined from time to time, by the Registrant in connection with the sale by the Registrant of the securities registered under this registration statement.
- (2) Subject to Note 7 below, there is being registered hereunder an indeterminate number of shares of common stock or preferred stock, or subscription rights to purchase shares of common stock as may be sold, from time to time separately or as units in combination with other securities registered hereunder.
- (3) Includes such indeterminate number of shares of common stock as may, from time to time, be issued upon conversion or exchange of other securities registered hereunder, to the extent any such securities are, by their terms, convertible or exchangeable for common stock.
- (4) Subject to Note 7 below, there is being registered hereunder an indeterminate number of warrants as may be sold, from time to time separately or as units in combination with other securities registered hereunder, representing rights to purchase common stock, preferred stock or debt securities.
- (5) Subject to Note 7 below, there is being registered hereunder an indeterminate principal amount of debt securities as may be sold, from time to time separately or as units in combination with other securities registered hereunder. If any debt securities are issued at an original issue discount, then the offering price shall be in such greater principal amount as shall result in an aggregate price to investors not to exceed \$2,000,000,000.
- (6) Subject to Note 7 below, there is being registered hereunder an indeterminate number of units. Each unit may consist of a combination of any one or more of the securities being registered hereunder and may also include securities issued by third parties, including the U.S. Treasury.
- (7) In no event will the aggregate offering price of all securities issued from time to time pursuant to this registration statement exceed \$2,000,000,000.
- (8) Previously paid.

**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, AS AMENDED, OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO 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 it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

**Subject to Completion, dated July 19, 2011**

PROSPECTUS

**\$2,000,000,000**

**Common Stock  
Preferred Stock  
Debt Securities  
Subscription Rights  
Warrants  
Units**

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Ares Capital Corporation is a specialty finance company that is a closed-end, non-diversified management investment company incorporated in Maryland. We have elected to be regulated as a business development company under the Investment Company Act of 1940. Our investment objective is to generate both current income and capital appreciation through debt and equity investments. We invest primarily in first and second lien senior loans and mezzanine debt, which in some cases includes an equity component. To a lesser extent, we also make equity investments.

We are externally managed by Ares Capital Management LLC, a wholly owned subsidiary of Ares Management LLC, a global alternative asset manager and a Securities and Exchange Commission ("SEC") registered investment adviser with approximately \$40 billion of total committed capital under management as of March 31, 2011. Ares Operations LLC, a wholly owned subsidiary of Ares Management LLC, provides the administrative services necessary for us to operate.

Our common stock is traded on The NASDAQ Global Select Market under the symbol "ARCC." On July 18, 2011 the last reported sales price of our common stock on The NASDAQ Global Select Market was \$15.16 per share. The net asset value per share of our common stock at March 31, 2011 (the last date prior to the date of this prospectus on which we determined net asset value) was \$15.45.

**Investing in our securities involves risks that are described in the "Risk Factors" section beginning on page 27 of this prospectus, including the risk of leverage.**

We may offer, from time to time, in one or more offerings or series, up to \$2,000,000,000 of our common stock, preferred stock, debt securities, subscription rights to purchase shares of our common stock, warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, or units comprised of any combination of the foregoing, which we refer to, collectively, as the "securities." The preferred stock, debt securities, subscription rights and warrants (including as part of a unit) offered hereby may be convertible or exchangeable into shares of our common stock. The securities may be offered at prices and on terms to be described in one or more supplements to this prospectus. In the event we offer common stock, the offering price per share of our common stock less any underwriting commissions or discounts will generally not be less than the net asset value per share of our common stock at the time we make the offering. However, we may issue shares of our common stock pursuant to this prospectus at a price per share that is less than our net asset value per share (a) in connection with a rights offering to our existing stockholders, (b) with the prior approval of the majority of our common stockholders or (c) under such circumstances as the SEC may permit. This

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prospectus and the accompanying prospectus supplement concisely provide important information about us that you should know before investing in our securities. Please read this prospectus and the accompanying prospectus supplement before you invest and keep it for future reference. We file annual, quarterly and current reports, proxy statements and other information with the SEC. This information is available free of charge by calling us collect at (310) 201-4200 or on our website at [www.arescapitalcorp.com](http://www.arescapitalcorp.com). The SEC also maintains a website at [www.sec.gov](http://www.sec.gov) that contains such information.

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**Neither the SEC 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.**

**This prospectus may not be used to consummate sales of securities unless accompanied by a prospectus supplement.**

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The date of this prospectus is \_\_\_\_\_, 2011.

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You should rely only on the information contained in this prospectus and the accompanying prospectus supplement. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus and the accompanying prospectus supplement is accurate only as of the date on the front cover of this prospectus and the accompanying prospectus supplement, as applicable. Our business, financial condition, results of operations and prospects may have changed since that date.

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**ABOUT THIS PROSPECTUS**

This prospectus is part of a registration statement that we have filed with the SEC, using the "shelf" registration process. Under the shelf registration process, we may offer, from time to time, in one or more offerings or series, up to \$2,000,000,000 of our common stock, preferred stock, debt securities, subscription rights to purchase shares of our common stock, warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, or units comprised of any combination of the foregoing, on terms to be determined at the time of the offering. The securities may be offered at prices and on terms described in one or more supplements to this prospectus. This prospectus provides you with a general description of the securities that we may offer. Each time we use this prospectus to offer securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. Please carefully read this prospectus and the prospectus supplement together with any exhibits and the additional information described under the headings "Available Information" and "Risk Factors" before you make an investment decision.

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**PROSPECTUS SUMMARY**

*This summary highlights some of the information contained elsewhere 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. Except where the context suggests otherwise, the terms "we," "us," "our," "the Company" and "Ares Capital" refer to Ares Capital Corporation and its consolidated subsidiaries; "Ares Capital Management" and the "investment adviser" refer to Ares Capital Management LLC; "Ares Operations" and the "administrator" refer to Ares Operations LLC; and "Ares" refers to Ares Management LLC ("Ares Management") and its affiliated companies (other than portfolio companies of its affiliated funds).*

*As described in more detail below, we consummated the acquisition (the "Allied Acquisition") of Allied Capital Corporation ("Allied Capital") on April 1, 2010. Other than as set forth in the pro forma financial information or otherwise specifically set forth herein, financial information presented herein for and as of periods ending on or prior to March 31, 2010 does not include any information in respect of Allied Capital. In addition, other than as set forth in the pro forma financial information or otherwise specifically set forth herein, financial information for the three months ended March 31, 2011 and the year ended December 31, 2010, including, without limitation, with respect to the Company's consolidated statements of operations, stockholders' equity and cash flows, only includes results attributable to Allied Capital for the period beginning on April 1, 2010.*

**THE COMPANY**

**Overview**

Ares Capital, a Maryland corporation, is a specialty finance company that is a closed-end, non-diversified management investment company. We have elected to be regulated as a business development company, or a "BDC," under the Investment Company Act of 1940, as amended, or the "Investment Company Act." We were founded on April 16, 2004, were initially funded on June 23, 2004 and completed our initial public offering on October 8, 2004. We are one of the largest BDCs with approximately \$13 billion of total committed capital under management as of March 31, 2011, including available debt capacity (subject to leverage and borrowing base restrictions), funds directly or indirectly managed or co-managed by us or one of our wholly owned subsidiaries and funds managed or sub-managed by our wholly owned portfolio company, Ivy Hill Asset Management, L.P. ("IHAM").

We are externally managed by our investment adviser, Ares Capital Management, a wholly owned subsidiary of Ares Management, a global alternative asset manager and a SEC registered investment adviser with approximately \$40 billion of total committed capital under management as of March 31, 2011. Our administrator, a wholly owned subsidiary of Ares Management, provides the administrative services necessary for us to operate.

Our investment objective is to generate both current income and capital appreciation through debt and equity investments. We invest primarily in U.S. middle-market companies, where we believe the supply of primary capital is limited and the investment opportunities are most attractive. However, we may from time to time invest in larger companies. In this prospectus, we generally use the term "middle-market" to refer to companies with annual EBITDA between \$10 million and \$250 million. As used herein, EBITDA represents net income before net interest expense, income tax expense, depreciation and amortization.

On April 1, 2010, we consummated the Allied Acquisition in an all stock merger whereby each existing share of common stock of Allied Capital was exchanged for 0.325 shares of our common stock. The Allied Acquisition was valued at approximately \$908 million as of April 1, 2010. In connection therewith, we issued approximately 58.5 million shares of our common stock to Allied Capital's then-existing stockholders, thereby resulting in our then-existing stockholders owning approximately

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69% of the combined company and the then-existing Allied Capital stockholders owning approximately 31% of the combined company.

We invest primarily in first and second lien senior loans and mezzanine debt, which in some cases includes an equity component. First and second lien senior loans generally are senior debt instruments that rank ahead of subordinated debt of a given portfolio company. These loans also have the benefit of security interests on the assets of the portfolio company, which may rank ahead of or be junior to other security interests. Mezzanine debt is subordinated to senior loans and is generally unsecured. Our investments have generally ranged between \$20 million and \$200 million each, although the investment size may be more or less than this range. Our investment sizes are expected to grow with our capital availability.

To a lesser extent, we also make preferred and/or common equity investments, which have generally been non-control equity investments of less than \$20 million (usually in conjunction with a concurrent debt investment). However, we may increase the size or change the nature of these investments. Also, as a result of the Allied Acquisition, Allied Capital's equity investments, which included equity investments larger than those we have historically made and controlled portfolio company equity investments, became part of our portfolio. We intend to actively seek opportunities over time to dispose of certain of the assets that were acquired in the Allied Acquisition, particularly non-yielding equity investments, as well as lower or non-yielding debt investments and investments that may not be core to our investment strategy, and generally rotate them into higher-yielding first and second lien senior loans and mezzanine debt investments. However, there can be no assurance that this strategy will be successful. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Portfolio and Investment Activity" for further information on the rotation of investments acquired as part of the Allied Acquisition.

The proportion of these types of investments will change over time given our views on, among other things, the economic and credit environment we are operating in. In connection with our investing activities, we may make commitments with respect to indebtedness or securities of a potential portfolio company substantially in excess of our final investment. In such situations, while we may initially agree to fund up to a certain dollar amount of an investment, we may subsequently syndicate a portion of such amount to third parties, such that we are left with a smaller investment than what was reflected in our original commitment. In addition to originating investments, we may also acquire investments in the secondary market.

The first and second lien senior loans in which we invest generally have stated terms of three to 10 years and the mezzanine debt investments in which we invest generally have stated terms of up to 10 years, but the expected average life of such first and second lien loans and mezzanine debt is generally between three and seven years. However, we may invest in loans and securities with any maturity or duration. The instruments in which we invest typically are not initially rated by any rating agency, but we believe that if such instruments were rated, they would be below investment grade (rated lower than "Baa3" by Moody's Investors Service, lower than "BBB-" by Fitch Ratings or lower than "BBB-" by Standard & Poor's Ratings Services). We may invest without limit in debt or other securities of any rating, as well as debt or other securities that have not been rated by any nationally recognized statistical rating organization.

We believe that our investment adviser, Ares Capital Management, is able to leverage the current investment platform, resources and existing relationships with financial sponsors, financial institutions, hedge funds and other investment firms of Ares to provide us with attractive investments. In addition to deal flow, the Ares investment platform assists our investment adviser in analyzing, structuring and monitoring investments. Ares has been in existence for more than 13 years and its senior principals have an average of over 21 years experience investing in senior loans, high yield bonds, mezzanine debt and private equity securities. The Company has access to the Ares staff of approximately 170 investment professionals and approximately 145 administrative professionals who



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provide assistance in accounting, finance, legal, compliance, operations, information technology and investor relations.

Since our initial public offering on October 8, 2004 through March 31, 2011, our realized gains have exceeded our realized losses by \$113.2 million (excluding the one-time gain on the Allied Acquisition and gains/losses from the extinguishment of debt and other assets). For this same time period, our portfolio exits have resulted in an aggregate cash flow realized internal rate of return to us of approximately 15% (based on original cash invested of \$3.5 billion and total proceeds from such exits of \$4.2 billion). Approximately 79% of the exits resulted in an aggregate cash flow internal rate of return to us of 10% or greater. Internal rate of return is the discount rate that makes the net present value of all cash flows related to a particular investment equal to zero. Internal rate of return is gross of expenses related to investments as these expenses are not allocable to specific investments. Investments are considered to be exited when the original investment objective has been achieved through the receipt of cash and/or non-cash consideration upon the repayment of our debt investment or sale of an investment or through the determination that no further consideration was collectible and, thus, a loss may have been realized. These internal rate of return results are historical results relating to our past performance and are not necessarily indicative of future results, the achievement of which cannot be assured.

While our primary focus is to generate current income and capital appreciation through investments in first and second lien senior loans and mezzanine debt and, to a lesser extent, equity securities of eligible portfolio companies, we also may invest up to 30% of our portfolio in opportunistic investments in non-qualifying assets, as permitted by the Investment Company Act. See "Regulation." Specifically, as part of this 30% basket, we may invest in debt of middle-market companies located outside of the United States, in investment funds that are operating pursuant to certain exceptions to the Investment Company Act, in advisers to similar investment funds and in debt and equity of public companies that are not considered "eligible portfolio companies" (as defined in the Investment Company Act) because their market capitalization of publicly traded equity securities exceeds the levels provided for in the Investment Company Act. We expect that these public companies generally will have debt that may be non-investment grade. From time to time, we may also invest in high yield bonds, which, depending on the issuer, may or may not be included in this 30% basket.

We and General Electric Capital Corporation and certain of its affiliates (collectively, "GE") also co-invest through an unconsolidated vehicle, the Senior Secured Loan Fund LLC, which operates using the name "Senior Secured Loan Program" (the "SSLP"). The SSLP was initially formed in December 2007 to invest in "stretch senior" and "unitranche" loans (loans that combine both senior and subordinated debt, generally in a first lien position) of middle-market companies and currently has approximately \$5.1 billion of available capital, approximately \$2.9 billion in aggregate principal amount of which was funded as of March 31, 2011. At March 31, 2011, our total available capital provided to the SSLP was approximately \$1 billion, of which approximately \$300 million was unfunded. The SSLP is capitalized as transactions are completed and all portfolio decisions and generally all other decisions in respect of the SSLP must be approved by both GE and the Company.

We also manage an unconsolidated fund, AGILE Fund I, LLC (the "AGILE Fund"), which had approximately \$67.9 million of total committed capital under management as of March 31, 2011.

In addition, our portfolio company, IHAM, manages 10 unconsolidated credit funds, which are described in more detail under "Business Investments Managed Funds Portfolio" below, and sub-manages four other unconsolidated credit funds (such 14 funds managed or sub-managed by IHAM are collectively referred to as the "IHAM Funds"). We have also made direct investments in securities of certain of these vehicles. As of March 31, 2011, IHAM had total committed capital under management of approximately \$3.4 billion, which includes approximately \$0.4 billion invested by Ares Capital in IHAM or securities issued by funds managed or sub-managed by IHAM.

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**About Ares**

Founded in 1997, Ares is a global alternative asset manager and SEC registered investment adviser with approximately \$40 billion of total committed capital under management and over 380 employees as of March 31, 2011.

Ares specializes in originating and managing assets in both the leveraged finance and private equity markets. Ares' leveraged finance activities include the origination, acquisition and management of senior loans, high yield bonds, mezzanine debt and special situation investments. Ares' private equity activities focus on providing flexible, junior capital to middle-market companies. Ares has the ability to invest across a capital structure, from senior floating rate debt to common equity. This flexibility, combined with Ares' "buy and hold" philosophy, enables Ares to structure an investment to meet the specific needs of a company rather than the less flexible demands of the public markets.

Ares is comprised of the following groups:

**Global Private Debt Group.** The Ares Global Private Debt Group manages the assets of Ares Capital, the IHAM Funds, Ares Credit Strategies Fund II, L.P., Ares Credit Strategies Fund III, L.P. and Ares' private debt middle-market financing business in Europe, Ares Capital Europe ("ACE"), which together had approximately \$15 billion of total committed capital under management as of March 31, 2011, including capital which may be committed for investment both directly and through certain financial services portfolio companies of the Company. The Ares Global Private Debt Group focuses primarily on non-syndicated first and second lien senior loans and mezzanine debt, which in some cases may include an equity component. The Ares Global Private Debt Group also makes equity investments in private middle-market companies, usually in conjunction with a concurrent debt investment.

**Capital Markets Group.** The Ares Capital Markets Group had approximately \$19 billion of total committed capital under management as of March 31, 2011 through a variety of funds and investment vehicles, focusing primarily on syndicated senior secured loans, high yield bonds, distressed debt, other liquid fixed income investments and other publicly traded debt securities.

**Private Equity Group.** The Ares Private Equity Group had approximately \$6 billion of total committed capital under management as of March 31, 2011, primarily through Ares Corporate Opportunities Fund L.P., Ares Corporate Opportunities Fund II, L.P. and Ares Corporate Opportunities Fund III, L.P. (collectively referred to as "ACOF"). ACOF generally makes private equity investments in amounts substantially larger than the private equity investments anticipated to be made by Ares Capital. In particular, the Ares Private Equity Group generally focuses on control-oriented equity investments in under-capitalized companies or companies with capital structure issues.

Ares' senior principals have been working together as a group for many years and have an average of over 21 years of experience in leveraged finance, private equity, distressed debt, investment banking and capital markets. They are backed by a large team of highly disciplined professionals. Ares' rigorous investment approach is based upon an intensive, independent financial analysis, with a focus on preservation of capital, diversification and active portfolio management. These fundamentals underlie Ares' investment strategy and have resulted in large pension funds, banks, insurance companies, endowments and certain high net worth individuals investing in Ares' funds.

**Ares Capital Management**

Ares Capital Management, our investment adviser, is served by an origination, investment and portfolio management team of approximately 55 U.S.-based investment professionals led by the senior partners of the Ares Global Private Debt Group: Michael Arougheti, Eric Beckman, Kipp deVeer,

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Mitchell Goldstein, Michael Smith and Gordon Watters. Ares Capital Management leverages off of Ares' investment platform and benefits from the significant capital markets, trading and research expertise of Ares' investment professionals. Ares has approximately 170 investment professionals covering current investments in more than 1,100 companies across over 30 industries. Ares Capital Management's investment committee has nine members, including the senior partners of the Ares Global Private Debt Group and senior partners in the Ares Capital Markets Group and the Ares Private Equity Group.

**Recent Developments**

On April 27, 2011, we redeemed the \$161.2 million in outstanding aggregate principal amount of our unsecured 6.00% Notes due 2012 (the "2012 Notes") for a total redemption price (including a redemption premium) of \$169.3 million, which resulted in a loss on the extinguishment of debt of \$10.5 million, in accordance with the terms of the indenture governing the 2012 Notes.

On June 6, 2011, we entered into a restated investment advisory and management agreement, referred to herein as our investment advisory and management agreement or our restated investment advisory and management agreement, with our investment adviser. The restated investment advisory and management agreement (i) lowered the quarterly income hurdle rate used in calculating the income portion of the incentive fee payable to our investment adviser from 2.0% (or 8.0% annually) to 1.75% (or 7.0% annually), adjusted the related quarterly "catch-up" hurdle rate from 2.5% to 2.1875% (or from 10.0% to 8.75% annually) and lowered the general hurdle rate for deferral of payment of incentive fees generally from 8.0% over the prior four full calendar quarters to 7.0% over the prior four full calendar quarters; and (ii) provided that the capital gains portion of the incentive fee will be calculated using the actual purchase price paid by the Company for an asset as the "cost" of such asset even when U.S. generally accepted accounting principles ("GAAP") requires the Company to record cost at fair value, whether such purchase price is higher or lower than the fair value of such asset at the time of acquisition. As previously disclosed, we will be required to accrue an additional amount of capital gains incentive fees payable up to a maximum of approximately \$26 million under GAAP for the fiscal quarter ended June 30, 2011, even though no such fees would be payable to our investment adviser at the time of such accrual. See "Management Investment Advisory and Management Agreement Duration, Termination and Amendment."

As of June 30, 2011 we had made new investment commitments of approximately \$889 million, of which approximately \$728 million was funded, since March 31, 2011. Of these new commitments, 87% were made in first lien senior secured debt, 1% in second lien senior secured debt, 3% in senior subordinated debt, 7% in subordinated notes of the Senior Secured Loan Program to fund senior and unitranche loans made by the Senior Secured Loan Program and 2% were in equity securities. Of the approximately \$889 million of new investment commitments, 93% were floating rate with a weighted average spread at amortized cost of 8.1% and 5% were fixed rate with a weighted average yield at amortized cost of 12.3%.

As of June 30, 2011, we had exited approximately \$377 million of investments since March 31, 2011. Of these investments, 33% were in first lien senior secured debt, 24% were in second lien senior secured debt, 21% were in senior subordinated debt, 4% were in commercial real estate investments and 18% were in equity securities. Of the approximately \$377 million of investments, 30% were in floating rate investments with a weighted average spread at amortized cost of 7.4%. Of the remaining investments, 42% were fixed rate investments with a weighted average yield at amortized cost of 12.4%, 18% were non-interest bearing and 10% were in investments on non-accrual status. Also, of the approximately \$377 million of investments exited since March 31, 2011, approximately \$212 million were investments acquired as part of the Allied Acquisition. Additionally, we recognized net realized gains of approximately \$14 million on the investments exited that were acquired as part of the Allied Acquisition.

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In addition, as of June 30, 2011, we had an investment backlog and pipeline of \$1.1 billion and \$500 million, respectively. We may syndicate a portion of these investments and commitments to third parties. The consummation of any of the investments in this backlog and pipeline depends upon, among other things: satisfactory completion of our due diligence investigation of the prospective portfolio company, our acceptance of the terms and structure of such investment and the execution and delivery of satisfactory transaction documentation. We cannot assure you that we will make any of these investments or that we will syndicate any portion of such investments and commitments.

**MARKET OPPORTUNITY**

We believe that current market conditions present attractive opportunities for us to invest in middle-market companies. Specifically:

We believe that many senior lenders have, in recent years, de-emphasized their service and product offerings to middle-market businesses in favor of lending to large corporate clients and managing capital markets transactions. In addition, commercial and investment banks are limited in their ability to underwrite and syndicate bank loans and high yield securities for middle-market issuers as they seek to build capital and reduce leverage, resulting in opportunities for alternative funding sources and therefore higher new-issue market opportunities.

We believe that there is a lack of market participants that are willing to not only underwrite but also hold loans. As a result, we believe our ability to minimize syndication risk for a company seeking financing by being able to hold our loans without syndicating them is a competitive advantage.

We believe there is a large pool of uninvested private equity capital for middle-market businesses. We expect private equity firms will seek to leverage their investments by combining equity capital with senior secured loans and mezzanine debt from other sources, such as the Company.

A high volume of senior secured and high yield debt was originated in the calendar years 2004 through 2007 and will come due in the near term and, accordingly, we believe that new financing opportunities will increase as many companies seek to refinance this indebtedness.

**COMPETITIVE ADVANTAGES**

We believe that we have the following competitive advantages over other capital providers to middle-market companies:

**The Ares Platform**

As of March 31, 2011, Ares managed approximately \$40 billion of total committed capital under management in the related asset classes of non-syndicated first and second lien senior loans, syndicated loans, high yield bonds, mezzanine debt and private equity. We believe Ares' current investment platform provides a competitive advantage in terms of access to origination and marketing activities and diligence for Ares Capital. Specifically, the Ares platform provides the Company an advantage through its deal flow generation and investment evaluation process. Ares' asset management platform also provides additional market information, company knowledge and industry insight that benefit the investment and due diligence process. Ares' professionals maintain extensive financial sponsor and intermediary relationships, which provide valuable insight and access to transactions and information.

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**Seasoned Management Team**

Ares' senior professionals have an average of more than 21 years of experience in leveraged finance, including substantial experience in investing in leveraged loans, high yield bonds, mezzanine debt, distressed debt and private equity securities. The investment professionals in the Ares Global Private Debt Group and members of our investment adviser's investment committee also have significant experience originating and investing across market cycles. As a result of Ares' extensive investment experience and the history of its seasoned management team, Ares has developed a strong reputation across U.S. and European capital markets. We believe that Ares' long history in the leveraged loan market and the extensive experience of its principals originating and investing across market cycles provides Ares Capital with a competitive advantage in identifying, originating, investing in and managing a portfolio of investments in middle-market companies.

**Experience and Focus on Middle-Market Companies**

Ares has historically focused on investments in middle-market companies and we benefit from this experience. In sourcing and analyzing deals, our investment adviser benefits from Ares' extensive network of relationships focused on middle-market companies, including management teams, members of the investment banking community, private equity groups and other investment firms with whom Ares has had long-term relationships. We believe this network enables us to identify well-positioned prospective portfolio company investments. The Ares Global Private Debt Group works closely with Ares' other investment professionals, who together currently oversee a portfolio of investments in over 1,100 companies across over 30 industries, and provide access to an extensive network of relationships and insights into industry trends and the state of the capital markets.

**Disciplined Investment Philosophy**

In making its investment decisions, our investment adviser has adopted Ares' long-standing, consistent, credit-based investment approach that was developed over 21 years ago by its founders. Specifically, our investment adviser's investment philosophy, portfolio construction and portfolio management involve an assessment of the overall macroeconomic environment and financial markets and company-specific research and analysis. Its investment approach emphasizes capital preservation, low volatility and minimization of downside risk. In addition to engaging in extensive due diligence from the perspective of a long-term investor, our investment adviser's approach seeks to reduce risk in investments by focusing on:

businesses with strong franchises and sustainable competitive advantages;

industries with positive long-term dynamics that have performed through the credit cycle;

businesses and industries with cash flows that are dependable and predictable, including those that have strategic M&A value;

management teams with demonstrated track records and appropriate economic incentives;

rates of return commensurate with the perceived risks;

securities or investments that are structured with favorable terms and covenants; and

businesses backed by experienced private equity sponsors.

**Extensive Industry Focus**

We seek to concentrate our investing activities in industries with a history of predictable and dependable cash flows and in which the Ares investment professionals have had extensive investment experience. Ares investment professionals have developed long-term relationships with management teams and management consultants in over 30 industries, and have accumulated substantial information



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and identified potential trends within these industries. In turn, we benefit from these relationships, information and identification of potential trends in making investments.

**Flexible Transaction Structuring and Scale**

We believe that being one of the largest BDCs with approximately \$13 billion of total committed capital under management as of March 31, 2011, including available debt capacity (subject to leverage and borrowing base restrictions), funds directly or indirectly managed or co-managed by us or one of our wholly owned subsidiaries and funds managed or sub-managed by certain financial services portfolio companies makes us a more desirable capital provider, especially in competitive markets. We are flexible in structuring investments, including the types of investments and the terms associated with such investments. Ares has extensive experience investing in a wide variety of structures for companies with a diverse set of terms and conditions. We believe this approach and experience enables our investment adviser to identify attractive investment opportunities throughout economic cycles and across a company's capital structure so we can make investments consistent with our stated investment objective and preserve principal while seeking appropriate risk adjusted returns. In addition, we have the ability to provide "one stop" financing with the ability to invest capital across the balance sheet and syndicate and hold larger investments than many of our competitors. We believe that the ability to underwrite, syndicate and hold larger investments benefits our stockholders by (a) potentially increasing net income and earnings through syndication, (b) increasing originated deal flow flexibility, (c) broadening market relationships and deal flow, (d) allowing us to optimize our portfolio composition and (e) allowing us to provide capital to middle-market companies, which we believe currently have limited access to capital from traditional lending sources. In addition, we believe that the ability to provide capital at every level of the balance sheet provides a strong value proposition to middle-market borrowers and our senior debt capabilities provide superior deal origination and relative value analysis capabilities compared to traditional "mezzanine only" lenders.

**Broad Origination Strategy**

We focus on self-originating most of our investments by pursuing a broad array of investment opportunities in middle-market companies across multiple channels. We also leverage off of the extensive relationships of the broader Ares platform, including relationships with the companies in the funds managed by IHAM, to identify investment opportunities. We believe that this allows for asset selectivity and that there is a significant relationship between proprietary deal origination and credit performance. We believe that our focus on generating proprietary deal flow and lead investing also gives us greater control over capital structure, deal terms, pricing and documentation and enables us to actively manage our portfolio investments. Moreover, by leading the investment process, we are often able to secure controlling positions in credit tranches, thereby providing additional control in investment outcomes. We also have originated substantial proprietary deal flow from middle-market intermediaries, which often allows us to act as the sole or principal source of institutional capital to the borrower.

**OPERATING AND REGULATORY STRUCTURE**

Our investment activities are managed by Ares Capital Management, which is wholly owned by Ares, and supervised by our board of directors, a majority of whom are independent of Ares and its affiliates. Ares Capital Management is registered under the Investment Advisers Act of 1940, or the "Advisers Act." Under our investment advisory and management agreement, we have agreed to pay Ares Capital Management an annual base management fee based on our total assets, as defined under the Investment Company Act (other than cash and cash equivalents, but including assets purchased with borrowed funds), and an incentive fee based on our performance. See "Management Investment Advisory and Management Agreement."

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As a BDC, we are required to comply with certain regulatory requirements. While we are permitted to finance investments using debt, our ability to use debt is limited in certain significant respects. See "Business Operating and Regulatory Structure" and "Regulation." We have elected to be treated for U.S. federal income tax purposes as a regulated investment company, or a "RIC," under Subchapter M of the Internal Revenue Code of 1986, or the "Code." See "Certain Material U.S. Federal Income Tax Considerations."

**MARKET CONDITIONS**

Due to volatility in global markets, the availability of capital and access to capital markets has been limited over the last several years. As the global liquidity situation and market conditions evolve, we will continue to monitor and adjust our approach to funding accordingly. However, given the unprecedented nature of the recent volatility in the global markets and the uncertainty around the strength of the U.S. economic recovery, there can be no assurance that these activities will be successful. While levels of market disruption and volatility have improved, there can be no assurance that adverse market conditions will not repeat themselves. If they do, we could face materially higher financing costs. Consequently, our operating strategy could be materially and adversely affected. See "Risk Factors Risks Relating to Our Business Capital markets have recently been in a period of disruption and instability. These market conditions materially and adversely affected debt and equity capital markets in the United States, which had, and may in the future have, a negative impact on our business and operations."

In connection with prior depressed market conditions of the general economy, the stocks of BDCs as an industry have in the past traded at near historic lows as a result of concerns over liquidity, credit quality, leverage restrictions and distribution requirements. In some cases, certain BDCs became "forced sellers" of assets, defaulted on their indebtedness, decreased their distributions to stockholders or announced share repurchase programs. We cannot assure you that the market pressures we face will not have a material adverse effect on our business, financial condition and results of operations.

**ACQUISITION OPPORTUNITIES**

We believe the recent dislocation and illiquidity in the credit markets has increased the likelihood of further consolidation in our industry. To that end, we and our portfolio company IHAM are evaluating (and expect to continue to evaluate in the future) a number of potential strategic acquisition opportunities, including acquisitions of:

asset portfolios;

contracts to manage CLO vehicles and other investment vehicles;

other private and public finance companies or asset managers; and

selected secondary market assets.

We and our portfolio company IHAM have been and from time to time engage in discussions with counterparties in respect of various potential strategic acquisition and investment transactions, including potential acquisitions of other finance companies. Some of these transactions could be material to our business and, if consummated, could be difficult to integrate, result in increased leverage or dilution and/or subject us to unexpected liabilities. However, none of these discussions has progressed to the point where the consummation of any such transaction could be deemed to be probable or reasonably certain as of the date of this prospectus. Consummation of any such transaction will be subject to completion of due diligence, finalization of key business and financial terms (including price) and negotiation of final definitive documentation as well as a number of other factors and conditions including, without limitation, the approval of our board of directors (after having determined that such transaction is in the best interest of our stockholders), any required third party



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consents and, in certain cases, the approval of our stockholders. We cannot predict how quickly the terms of any such transaction could be finalized, if at all. Accordingly, there can be no assurance that definitive documentation for any such transaction would be executed or even if executed, that any such transaction will be consummated. In connection with evaluating potential strategic acquisition and investment transactions, we have, and may in the future, incur significant expenses for the evaluation and due diligence investigation of these potential transactions.

**LIQUIDITY**

As of March 31, 2011, our total consolidated indebtedness was \$1.5 billion aggregate principal amount, approximately \$1.4 billion aggregate principal amount of which was unsecured indebtedness of Ares Capital and approximately \$0.1 billion of which was secured indebtedness of our wholly owned subsidiaries.

As of March 31, 2011, of the \$1.5 billion aggregate principal amount of total outstanding indebtedness: (i) no amounts were outstanding under our \$810.0 million revolving credit facility (the "Revolving Credit Facility") or the \$400.0 million revolving funding facility of our wholly owned subsidiary, Ares Capital CP Funding LLC ("Ares Capital CP") (the "Revolving Funding Facility" and, together with the Revolving Credit Facility, the "Facilities"), (ii) \$138.6 million aggregate principal amount of our CLO Notes (as defined below) were outstanding under our debt securitization (the "Debt Securitization"), (iii) \$161.2 million aggregate principal amount of our 2012 Notes were outstanding; (iv) \$200.0 million aggregate principal amount of our 7.75% senior notes that mature on October 15, 2040 (the "2040 Notes") were outstanding, (v) \$230.0 million aggregate principal amount of our 6.875% senior notes due on April 15, 2047 (the "2047 Notes" and, together with the 2012 Notes and the 2040 Notes, the "Unsecured Notes") were outstanding, (vi) \$575.0 million aggregate principal amount of our convertible senior unsecured notes that mature on February 1, 2016 (the "February 2016 Convertible Notes") were outstanding and (vii) \$230.0 million aggregate principal amount of our convertible senior unsecured notes that mature on June 1, 2016 (the "June 2016 Convertible Notes" and, together with the February 2016 Convertible Notes, the "Convertible Notes") were outstanding.

On April 27, 2011, we redeemed the \$161.2 million in outstanding aggregate principal amount of 2012 Notes for a total redemption price (including a redemption premium) of approximately \$169.3 million, which resulted in a loss on the extinguishment of debt of \$10.5 million, in accordance with the terms of the indenture governing the 2012 Notes. See "Recent Developments" and "Management's Discussion and Analysis of Financial Condition and Results of Operations Recent Developments" for information on the redemption of the 2012 Notes. We intend to continue borrowing under the Facilities in the future and we may increase the size of the Facilities or otherwise issue additional debt securities or other evidences of indebtedness in the future.

For more information on the Company's debt, see "Management's Discussion and Analysis of Financial Condition and Results of Operations Financial Condition, Liquidity and Capital Resources."

**RISK FACTORS**

Investing in Ares Capital involves risks. The following is a summary of certain risks that you should carefully consider before investing in our securities. In addition, see "Risk Factors" beginning on page 27 for a more detailed discussion of the factors you should carefully consider before deciding to invest in our securities.

**Risks Relating to Our Business**

Capital markets have recently been in a period of disruption and instability. These market conditions materially and adversely affected debt and equity capital markets in the United

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States, which had, and may in the future have, a negative impact on our business and operations.

A failure on our part to maintain our status as a BDC would significantly reduce our operating flexibility.

We are dependent upon certain key personnel of Ares for our future success and upon their access to other Ares investment professionals.

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

We may be unable to realize the benefits anticipated by the Allied Acquisition or it may take longer than anticipated to achieve such benefits.

Our ability to grow depends on our ability to raise capital.

Regulations governing our operation as a BDC affect our ability to, and the way in which we, raise additional capital.

We borrow money, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing with us.

In addition to regulatory requirements that restrict our ability to raise capital, the Facilities, the CLO Notes, the Unsecured Notes and the Convertible Notes contain various covenants that, if not complied with, could accelerate repayment under the Facilities, the CLO Notes, the Unsecured Notes and the Convertible Notes, thereby materially and adversely affecting our liquidity, financial condition and results of operations.

Our credit ratings may change and as a result the cost and flexibility under our debt instruments may change.

We operate in a highly competitive market for investment opportunities.

We may be subject to certain corporate-level taxes regardless of whether we continue to qualify as a RIC.

We may have difficulty paying our required distributions under applicable tax rules if we recognize income before or without receiving cash representing such income.

We may in the future determine to fund a portion of our investments with preferred stock, which would magnify the potential for gain or loss and the risks of investing in us in the same way as our borrowings.

We are exposed to risks associated with changes in interest rates.

Many of our portfolio investments are not publicly traded and, as a result, the fair value of these investments may not be readily determinable.

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

We may experience fluctuations in our quarterly results.

There are significant potential conflicts of interest that could impact our investment returns.

Changes in laws or regulations governing our operations or the operations of our portfolio companies, changes in the interpretation thereof or newly enacted laws or regulations, such as the Dodd-Frank Act, and any failure by us or our portfolio companies to comply with these laws or regulations, could require changes to certain business practices of us or our portfolio companies, negatively impact the operations, cash flows or financial condition of

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us or our portfolio companies, impose additional costs on us or our portfolio companies or otherwise adversely affect our business or the business of our portfolio companies.

Our investment adviser's liability is limited under the investment advisory and management agreement, and we are required to indemnify our investment adviser against certain liabilities, which may lead our investment adviser to act in a riskier manner on our behalf than it would when acting for its own account.

We may be obligated to pay our investment adviser incentive compensation even if we incur a loss.

We may not replicate Ares' historical success and our ability to enter into transactions with Ares and our other affiliates is restricted.

**Risks Relating to Our Investments**

Declines in market prices and liquidity in the corporate debt markets can result in significant net unrealized depreciation of our portfolio, which in turn would reduce our net asset value.

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

Investments in privately held middle-market companies involve significant risks.

Our debt investments may be risky and we could lose all or part of our investment.

Investments in equity securities, many of which are illiquid with no readily available market, involve a substantial degree of risk.

There may be circumstances where our debt investments could be subordinated to claims of other creditors or we could be subject to lender liability claims.

Our portfolio companies may incur debt or issue equity securities that rank equally with, or senior to, our investments in such companies.

When we are a debt or minority equity investor in a portfolio company, we are often not in a position to exert influence on the entity, and other equity holders and management of the company may make decisions that could decrease the value of our portfolio holdings.

Our portfolio companies may be highly leveraged.

Our investment adviser's incentive fee may induce it to make certain investments, including speculative investments.

Our investments in foreign companies may involve significant risks in addition to the risks inherent in U.S. investments. We may also expose ourselves to risks if we engage in hedging transactions.

We may initially invest a portion of the net proceeds of offerings pursuant to this prospectus primarily in high-quality short-term investments, which will generate lower rates of return than those expected from the interest generated on first and second lien loans and mezzanine debt.

The Allied Acquisition may have triggered certain "change of control" provisions and other restrictions in certain of our and Allied Capital's contracts and the failure to obtain any required consents or waivers could adversely impact us.

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**Risks Relating to Offerings Pursuant to this Prospectus**

Our shares of common stock have traded at a discount from net asset value and may do so again in the future, which could limit our ability to raise additional equity capital.

There is a risk that investors in our common stock may not receive dividends or that our dividends may not grow over time and that investors in our debt securities may not receive all of the interest income to which they are entitled.

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.

Investing in our common stock may involve an above average degree of risk.

The market price of our common stock may fluctuate significantly.

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

Your interest in us may be diluted if you do not fully exercise your subscription rights in any rights offering. In addition, if the subscription price is less than our net asset value per share, then you will experience an immediate dilution of the aggregate net asset value of your shares.

Investors in offerings of our common stock will likely incur immediate dilution upon the closing of such offering.

Our stockholders will experience dilution in their ownership percentage if they opt out of our dividend reinvestment plan.

Our stockholders may experience dilution upon the conversion of the Convertible Notes.

Our stockholders may receive shares of our common stock as dividends, which could result in adverse tax consequences to them.

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.

The trading market or market value of our publicly issued debt securities may fluctuate.

Terms relating to redemption may materially adversely affect your return on any debt securities that we may issue.

Our credit ratings may not reflect all risks of an investment in our debt securities.

**OUR CORPORATE INFORMATION**

Our administrative offices are located at 2000 Avenue of the Stars, 12th Floor, Los Angeles, California 90067, telephone number (310) 201-4200, and our executive offices are located at 245 Park Avenue, 44th Floor, New York, New York 10167, telephone number (212) 750-7300.

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**OFFERINGS**

We may offer, from time to time, in one or more offerings or series, up to \$2,000,000,000 of our common stock, preferred stock, debt securities, subscription rights to purchase shares of our common stock, warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, or units comprised of any combination of the foregoing, on terms to be determined at the time of the offering. We will offer our securities at prices and on terms to be set forth in one or more supplements to this prospectus. The offering price per share of our common stock, less any underwriting commissions or discounts, generally will not be less than the net asset value per share of our common stock at the time of an offering. However, we may issue shares of our common stock pursuant to this prospectus at a price per share that is less than our net asset value per share (a) in connection with a rights offering to our existing stockholders, (b) with the prior approval of the majority of our common stockholders or (c) under such other circumstances as the SEC may permit. Any such issuance of shares of our common stock below net asset value may be dilutive to the net asset value of our common stock. See "Risk Factors Risks Relating to Offerings Pursuant to this Prospectus."

At our 2011 annual stockholders meeting, subject to certain determinations required to be made by our board of directors, our stockholders approved our ability to sell or otherwise issue shares of our common stock, not exceeding 25% of our then outstanding common stock, at a price below the then current net asset value per share during a period beginning on June 6, 2011 and expiring on the earlier of June 6, 2012 and the date of our 2012 annual stockholders meeting.

We may offer our securities directly to one or more purchasers, including existing stockholders in a rights offering, through agents that we designate from time to time or to or through underwriters or dealers. The prospectus supplement relating to each offering will identify any agents or underwriters involved in the sale of our securities, and will set forth any applicable purchase price, fee, commission or discount arrangement between us and our agents or underwriters or among our underwriters or the basis upon which such amount may be calculated. See "Plan of Distribution." We may not sell any of our securities through agents, underwriters or dealers without delivery of a prospectus supplement describing the method and terms of the offering of our securities.

Set forth below is additional information regarding offerings of our securities:

|                 |  |
|-----------------|--|
| Use of proceeds | Unless otherwise specified in a prospectus supplement, we intend to use the net proceeds from the sale of our securities for general corporate purposes, which includes, among other things, (a) investing in portfolio companies in accordance with our investment objective and strategies and market conditions and (b) repaying indebtedness. Each supplement to this prospectus relating to an offering will more fully identify the use of the proceeds from such offering. See "Use of Proceeds." |
| Distributions   | We intend to distribute quarterly dividends to our stockholders out of assets legally available for distribution. Our quarterly dividends, if any, will be determined by our board of directors. For more information, see "Price Range of Common Stock and Distributions."  |
| Taxation        | We have elected to be treated for U.S. federal income tax purposes as a RIC. As a RIC, we generally will not pay corporate-level U.S. federal income taxes on any income and gain that we distribute to  |



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|---|--|
| our stockholders as dividends on a timely basis. Among other things, in order to maintain our RIC status, we must meet specified income source and asset diversification requirements and distribute annually generally an amount equal to at least 90% of our investment company taxable income, out of assets legally available for distribution. See "Risk Factors Risks Relating to Our Business We may be subject to certain corporate-level taxes regardless of whether we continue to qualify as a RIC" and "Price Range of Common Stock and Distributions." |  |
| Dividend reinvestment plan  | We have a dividend reinvestment plan for our stockholders. This is an "opt out" dividend reinvestment plan. As a result, if we declare a cash dividend, then stockholders' dividends will be automatically reinvested in additional shares of our common stock, unless they specifically "opt out" of the dividend reinvestment plan so as to receive cash. Stockholders whose cash dividends are reinvested in additional shares of our common stock will be subject to the same U.S. federal, state and local tax consequences as stockholders who elect to receive their dividends in cash. See "Dividend Reinvestment Plan."   |
| The NASDAQ Global Select Market symbol  | "ARCC"   |
| Anti-takeover provisions  | Our board of directors is divided into three classes of directors serving staggered three-year terms. This structure is intended to provide us with a greater likelihood of continuity of management, which may be necessary for us to realize the full value of our investments. A staggered board of directors also may serve to deter hostile takeovers or proxy contests, as may certain other measures adopted by us. See "Description of Our Capital Stock."   |
| Leverage  | We borrow funds to make additional investments. We use this practice, which is known as "leverage," to attempt to increase returns to our common stockholders, but it involves significant risks. See "Risk Factors," "Senior Securities" and "Regulation Indebtedness and Senior Securities." With certain limited exceptions, we are only allowed to borrow amounts such that our asset coverage, as defined in the Investment Company Act, equals at least 200% after such borrowing. The amount of leverage that we employ at any particular time will depend on our investment adviser's and our board of directors' assessments of market and other factors at the time of any proposed borrowing. |
| Management arrangements   | Ares Capital Management serves as our investment adviser. Ares Operations serves as our administrator. For a description of Ares Capital Management, Ares Operations, Ares and our contractual arrangements with these companies, see "Management Investment Advisory and Management Agreement," and " Administration Agreement."  |
| Available information   | We are required to file periodic reports, proxy statements and other information with the SEC. This information is available free of charge by calling us collect at (310) 201-4200 or on our website at <a href="http://www.arescapitalcorp.com">www.arescapitalcorp.com</a> . The SEC also maintains a website at <a href="http://www.sec.gov">www.sec.gov</a> that contains this information.   |

Table of Contents**FEEES AND EXPENSES**

The following table is intended to assist you in understanding the costs and expenses that an investor in our common stock will bear, directly or indirectly, based on the assumptions set forth below. 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 or to be paid by "you," "us," "the Company" or "Ares Capital," or that "we" will pay fees or expenses, stockholders will directly or indirectly bear such fees or expenses as investors in Ares Capital.

|  |                  |
|--|------------------|
| <b>Stockholder transaction expenses (as a percentage of offering price):</b>   |                  |
| Sales load paid by us  | (1)              |
| Offering expenses  | (2)              |
| Dividend reinvestment plan expenses  | None (3)         |
| <b>Total stockholder transaction expenses paid</b>   | <b>(4)</b>       |
| <b>Estimated annual expenses (as a percentage of consolidated net assets attributable to common stock)(5):</b>   |                  |
| Management fees  | 2.22%(6)         |
| Incentive fees payable under investment advisory and management agreement (20% of pre-incentive fee net investment income and 20% of realized capital gains, subject to certain limitations) | 2.05%(7)         |
| Interest payments on borrowed funds  | 3.91%(8)         |
| Other expenses   | 1.28%(9)         |
| Acquired fund fees and expenses  | 0.01%(10)        |
| <b>Total annual expenses (estimated)</b>   | <b>9.47%(11)</b> |

- 
- (1) In the event that the securities to which this prospectus relates are sold to or through underwriters, a corresponding prospectus supplement will disclose the applicable sales load (underwriting discount or commission). Purchases of shares of our common stock on the secondary market are not subject to sales charges but may be subject to brokerage commissions or other charges. The table does not include any sales load that stockholders may have paid in connection with their purchase of shares of our common stock.
- (2) The related prospectus supplement will disclose the estimated amount of offering expenses, the offering price and the offering expenses borne by us as a percentage of the offering price.
- (3) The expenses of the dividend reinvestment plan are included in "Other expenses."
- (4) The related prospectus supplement will disclose the offering price and the total stockholder transaction expenses as a percentage of the offering price.
- (5) "Consolidated net assets attributable to common stock" equals our average net assets for the three months ended March 31, 2011.
- (6) Our management fee is currently 1.5% of our total assets other than cash and cash equivalents (which includes assets purchased with borrowed amounts). For the purposes of this table, we have assumed that we maintain no cash or cash equivalents. The 2.22% reflected on the table is calculated on our average net assets (rather than our total assets). See "Management Investment Advisory and Management Agreement."
- (7)

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This item represents our investment adviser's incentive fees based on annualizing actual amounts earned on our pre-incentive fee net investment income for the three months ended March 31, 2011 and assumes that the incentive fees earned at the end of the 2011 calendar year will be

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based on the actual cumulative realized capital gains computed net of cumulative realized capital losses and unrealized capital depreciation as of March 31, 2011. For purposes of this table, we have assumed that this fee will remain constant although it is based on Ares Capital's performance and will not be paid unless Ares Capital achieves certain goals. We expect to invest or otherwise utilize all of the net proceeds from securities registered under the registration statement of which this prospectus is a part pursuant to a particular prospectus supplement within three months of the date of the offering pursuant to such prospectus supplement and may have capital gains and interest income that could result in the payment of an incentive fee to our investment adviser in the first year after completion of offerings pursuant to this prospectus. Since our initial public offering through March 31, 2011, the average quarterly incentive fee payable to our investment adviser has been approximately 0.60% of our weighted average net assets (2.39% on an annualized basis). For more detailed information about incentive fees previously incurred by us, please see Note 3 to our consolidated financial statements for the year ended December 31, 2010 and the three months ended March 31, 2011.

The incentive fee consists of two parts:

The first, payable quarterly in arrears, equals 20% of our pre-incentive fee net investment income (including interest that is accrued but not yet received in cash), subject to a 1.75% quarterly (7.0% annualized) hurdle rate and a "catch-up" provision measured as of the end of each calendar quarter. Under this provision, in any calendar quarter, our investment adviser receives no incentive fee until our net investment income equals the hurdle rate of 1.75% but then receives, as a "catch-up," 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 rate but is less than 2.1875%. The effect of this provision is that, if pre-incentive fee net investment income exceeds 2.1875% in any calendar quarter, our investment adviser will receive 20% of our pre-incentive fee net investment income as if a hurdle rate did not apply.

The second part, payable annually in arrears, equals 20% of our realized capital gains on a cumulative basis from inception through the end of the year, if any, 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.

We will defer cash payment of any incentive fee otherwise earned by our investment adviser if, during the most recent four full calendar quarter period ending on or prior to the date such payment is to be made, the sum of (a) our aggregate distributions to our stockholders and (b) our change in net assets (defined as total assets less indebtedness and before taking into account any incentive fees payable during the period) is less than 7.0% of our net assets (defined as total assets less indebtedness) at the beginning of such period.

These calculations will be adjusted for any share issuances or repurchases.

"Incentive fees payable under investment advisory and management agreement" does not include an accrual (in accordance with GAAP) for a capital gains incentive fee of \$15.1 million for the three months ended March 31, 2011 because no capital gains incentive fee was payable under the investment advisory and management agreement. GAAP requires that the capital gains incentive fee accrual consider the cumulative aggregate unrealized capital appreciation in the calculation, as a capital gains incentive fee would be payable if such unrealized capital appreciation were realized, even though such unrealized capital appreciation is not permitted to be considered in calculating the fee actually payable under the Investment Company Act or the investment advisory and management agreement. The GAAP accrual is calculated using the aggregate cumulative realized capital gains and losses and aggregate cumulative unrealized capital depreciation included in the calculation of the Capital Gains Fee (as defined below) plus the aggregate cumulative unrealized capital appreciation. If such amount is positive at the end of a period, then GAAP

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requires us to record a capital gains incentive fee equal to 20% of such amount, less the aggregate amount of actual Capital Gains Fees paid in all prior years. If such amount is negative, then there is no accrual for such year. There can be no assurance that such unrealized capital appreciation will be realized in the future or that the amount accrued for will ultimately be paid.

See "Management Investment Advisory and Management Agreement."

- (8) "Interest payments on borrowed funds" represents an estimate of our annualized interest expenses based on actual interest and credit facility expenses incurred for the three months ended March 31, 2011. During the three months ended March 31, 2011, our average borrowings were \$1,543.4 million and cash paid for interest expense was \$24.1 million. We had outstanding borrowings of \$1,534.8 million (with a carrying value of \$1,428.0 million) at March 31, 2011. This item is based on our assumption that our borrowings and interest costs after an offering will remain similar to those prior to such offering. The prospectus supplement related to the offering of any debt securities pursuant to this prospectus will calculate this item based on the effects of our borrowings and interest costs after the issuance of such debt securities. The amount of leverage that we employ at any particular time will depend on, among other things, our board of directors' and our investment adviser's assessment of market and other factors at the time of any proposed borrowing. See "Risk Factors Risks Relating to Our Business We borrow money, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing with us."
- (9) Includes our overhead expenses, including payments under our administration agreement (as defined below), based on our allocable portion of overhead and other expenses incurred by Ares Operations in performing its obligations under the administration agreement, and income taxes. Such expenses are estimates based on annualized "Other expenses" for the three months ended March 31, 2011. The holders of shares of our common stock (and not the holders of our debt securities or preferred stock, if any) indirectly bear the cost associated with our annual expenses. See "Management Administration Agreement."
- (10) The Company's stockholders indirectly bear the expenses of underlying investment companies in which the Company invests. This amount includes the fees and expenses of investment companies in which the Company is invested as of March 31, 2011. Certain of these investment companies are subject to management fees, which generally range from 1% to 2.5% of total net assets, or incentive fees, which generally range between 15% to 25% of net profits. When applicable, fees and expenses are based on historic fees and expenses for the investment companies. For those investment companies with little or no operating history, fees and expenses are based on expected fees and expenses stated in the investment companies' offering memorandum, private placement memorandum or other similar communication without giving effect to any performance. Future fees and expenses for these investment companies may be substantially higher or lower because certain fees and expenses are based on the performance of the investment companies, which may fluctuate over time. The amount of the Company's average net assets used in calculating this percentage was based on average monthly net assets of \$3.1 billion for the three months ended March 31, 2011.
- (11) "Total annual expenses" as a percentage of consolidated net assets attributable to common stock are higher than the total annual expenses percentage would be for a company that is not leveraged. We borrow money to leverage and increase our total assets. The SEC requires that the "Total annual expenses" percentage be calculated as a percentage of net assets (defined as total assets less indebtedness and before taking into account any incentive fees payable during the period), rather than the total assets, including assets that have been funded with borrowed monies.

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The following example demonstrates the projected dollar amount of total cumulative expenses over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed that we would have no additional leverage, that none of our assets are cash or cash equivalents, and that our annual operating expenses would remain at the levels set forth in the table above. Transaction expenses are not included in the following example. In the event that shares to which this prospectus relates are sold to or through underwriters, a corresponding prospectus supplement will restate this example to reflect the applicable sales load.

|   | 1 year | 3 years | 5 years | 10 years |
|---|--------|---------|---------|----------|
| You would pay the following expenses on a \$1,000 common stock investment, assuming a 5% annual return(1) | \$ 76  | \$ 222  | \$ 361  | \$ 677   |

(1)

The above illustration assumes that we will not realize any capital gains computed net of all realized capital losses and unrealized capital depreciation. The expenses you would pay, based on a \$1,000 investment and assuming a 5% annual return resulting entirely from net realized capital gains (and therefore subject to the capital gain incentive fee), and otherwise making the same assumptions in the example above, would be: 1 year, \$86; 3 years, \$250; 5 years, \$405; and 10 years, \$752. However, cash payment of the capital incentive fee would be deferred if, during the most recent four full calendar quarter period ending on or prior to the date the payment set forth in the example is to be made, the sum of (a) our aggregate distributions to our stockholders and (b) our change in net assets (defined as total assets less indebtedness and before taking into account any incentive fees payable during the period) was less than 8.0% of our net assets (defined as total assets less indebtedness) at the beginning of such period (as adjusted for any share issuances or repurchases).

The foregoing table is to assist you in understanding the various costs and expenses that an investor in our common stock will bear directly or indirectly. While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. The incentive fee under the investment advisory and management agreement, which, assuming a 5% annual return, would either not be payable or have an insignificant impact on the expense amounts shown above, is not included in the example. 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, while the example assumes reinvestment of all dividends and distributions at net asset value, if our board of directors authorizes and we declare a cash dividend, participants in our dividend reinvestment plan who have not otherwise elected to receive cash 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 valuation date for the dividend. See "Dividend Reinvestment Plan" for additional information regarding our dividend reinvestment plan.

**This example and the expenses in the table above should not be considered a representation of our future expenses as actual expenses (including the cost of debt, if any, and other expenses) that we may incur in the future and such actual expenses may be greater or less than those shown.**

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**SELECTED CONDENSED CONSOLIDATED FINANCIAL DATA OF ARES CAPITAL**

The following selected financial and other data as of and for the years ended December 31, 2010, 2009, 2008, 2007 and 2006 are derived from our consolidated financial statements, which have been audited by KPMG LLP, an independent registered public accounting firm whose report thereon is included elsewhere in this prospectus. The selected financial and other data for the three months ended March 31, 2011 and other quarterly financial information are derived from our unaudited financial statements, but in the opinion of management, reflects all adjustments (consisting only of normal recurring adjustments) that are necessary to present fairly the results of such interim periods. Interim results as of and for the three months ended March 31, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. The data should be read in conjunction with our consolidated financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Senior Securities," which are included elsewhere in this prospectus or the accompanying prospectus supplement.

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**ARES CAPITAL CORPORATION AND SUBSIDIARIES**  
**SELECTED FINANCIAL DATA**  
**As of and For the Three Months Ended March 31, 2011 and**  
**As of and For the Years Ended December 31, 2010, 2009, 2008, 2007 and 2006**  
**(dollar amounts in millions, except per share data)**

|  | As of and For<br>the Three<br>Months Ended<br>March 31,<br>2011 | As of and<br>the Year Ended<br>December 31,<br>2010 | As of and For<br>the Year Ended<br>December 31,<br>2009 | As of and For<br>the Year Ended<br>December 31,<br>2008 | As of and For<br>the Year Ended<br>December 31,<br>2007 | As of and For<br>the Year Ended<br>December 31,<br>2006 |
|--|---|---|---|---|---|---|
| Total Investment Income  | \$ 135.7  | \$ 483.4  | \$ 245.3  | \$ 240.4  | \$ 188.9  | \$ 120.0  |
| Total Expenses   | 85.8  | 262.2   | 111.3   | 113.2   | 94.8  | 58.4  |
| Net Investment Income Before Income Taxes  | 49.9  | 221.2   | 134.0   | 127.2   | 94.1  | 61.6  |
| Income Tax Expense (Benefit), Including Excise Tax   | 2.0   | 5.4   | 0.6   | 0.2   | (0.8)   | 4.9   |
| Net Investment Income  | 47.9  | 215.8   | 133.4   | 127.0   | 94.9  | 56.7  |
| Net Realized and Unrealized Gains (Losses) on Investments, Foreign Currencies, Extinguishment of Debt and Other Assets | 75.9  | 280.1   | 69.3  | (266.5)   | (4.1)   | 13.0  |
| Gain on the Allied Acquisition   |   | 195.9   |   |   |   |   |
| Net Increase (Decrease) in Stockholders' Equity Resulting from Operations  | \$ 123.8  | \$ 691.8  | \$ 202.7  | \$ (139.5)  | \$ 90.8   | \$ 69.7   |
| <b>Per Share Data:</b>   |   |   |   |   |   |   |
| Net Increase (Decrease) in Stockholder's Equity Resulting from Operations:   |   |   |   |   |   |   |
| Basic(1)   | \$ 0.61   | \$ 3.91   | \$ 1.99   | \$ (1.56)   | \$ 1.34   | \$ 1.58   |
| Diluted(1)   | \$ 0.61   | \$ 3.91   | \$ 1.99   | \$ (1.56)   | \$ 1.34   | \$ 1.58   |
| Cash Dividend Declared   | \$ 0.35   | \$ 1.40   | \$ 1.47   | \$ 1.68   | \$ 1.66   | \$ 1.64   |
| Net Asset Value  | \$ 15.45  | \$ 14.92  | \$ 11.44  | \$ 11.27  | \$ 15.47  | \$ 15.17  |
| Total Assets   | \$ 4,707.0  | \$ 4,562.5  | \$ 2,313.5  | \$ 2,091.3  | \$ 1,829.4  | \$ 1,348.0  |
| Total Debt (Carrying Value)  | \$ 1,428.0  | \$ 1,378.5  | \$ 969.5  | \$ 908.8  | \$ 681.5  | \$ 482.0  |
| Total Debt (Principal Value)   | \$ 1,534.8  | \$ 1,435.1  | \$ 969.5  | \$ 908.8  | \$ 681.5  | \$ 482.0  |
| Total Stockholders' Equity   | \$ 3,163.0  | \$ 3,050.5  | \$ 1,257.9  | \$ 1,094.9  | \$ 1,124.6  | \$ 789.4  |
| <b>Other Data:</b>   |   |   |   |   |   |   |
| Number of Portfolio Companies at Period End(2)   | 154   | 170   | 95  | 91  | 78  | 60  |
| Principal Amount of Investments Purchased  | \$ 468.3  | \$ 1,583.9  | \$ 575.0  | \$ 925.9  | \$ 1,251.3  | \$ 1,087.5  |
| Principal Amount of Investments Acquired as part of the Allied Acquisition   | \$  | \$ 1,833.8  | \$  | \$  | \$  | \$  |
| Principal Amount of Investments Sold and Repayments  | \$ 560.5  | \$ 1,555.1  | \$ 515.2  | \$ 485.3  | \$ 718.7  | \$ 430.0  |
| Total Return Based on Market Value(3)  | 5.0%  | 43.6%   | 119.9%  | (45.3)%   | (14.8)%   | 29.1%   |
| Total Return Based on Net Asset Value(4)   | 4.1%  | 31.6%   | 17.8%   | (11.2)%   | 9.0%  | 10.7%   |
| Weighted Average Yield of Debt and Income Producing Securities at Fair Value(5):                                       | 12.6%   | 12.9%   | 12.7%   | 12.8%   | 11.7%   | 12.0%   |
| Weighted Average Yield of Debt and Income Producing Securities at Amortized Cost(5):                                   | 12.8%   | 13.2%   | 12.1%   | 11.7%   | 11.6%   | 11.6%   |



- (1) In accordance with Accounting Standards Codification ("ASC") 260-10 (previously Statement of Financial Accounting Standards ("SFAS") No. 128, Earnings Per Share), the weighted average shares of common stock outstanding used in computing basic and diluted earnings per common share have been adjusted retroactively by a factor of 1.02% to recognize the bonus element associated with rights to acquire shares of common stock that we issued to stockholders of record as of March 24, 2008 in connection with a rights offering.
- (2) Includes commitments to portfolio companies for which funding had yet to occur.

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- (3) Total return based on market value for the three months ended March 31, 2011 equals the increase of the ending market value at March 31, 2011 of \$16.95 per share over the ending market value at December 31, 2010 of \$16.48 per share plus the declared dividends of \$0.35 per share for the three months ended March 31, 2011. Total return based on market value for the year ended December 31, 2010 equals the increase of the ending market value at December 31, 2010 of \$16.48 per share over the ending market value at December 31, 2009 of \$12.45 per share plus the declared dividends of \$1.40 per share for the year ended December 31, 2010. Total return based on market value for the year ended December 31, 2009 equals the increase of the ending market value at December 31, 2009 of \$12.45 per share over the ending market value at December 31, 2008 of \$6.33 per share plus the declared dividends of \$1.47 per share for the year ended December 31, 2009. Total return based on market value for the year ended December 31, 2008 equals the decrease of the ending market value at December 31, 2008 of \$6.33 per share from the ending market value at December 31, 2007 of \$14.63 per share plus the declared dividends of \$1.68 per share for the year ended December 31, 2008. Total return based on market value for the year ended December 31, 2007 equals the decrease of the ending market value at December 31, 2007 of \$14.63 per share from the ending market value at December 31, 2006 of \$19.11 per share plus the declared dividends of \$1.66 per share for the year ended December 31, 2007. Total return based on market value for the year ended December 31, 2006 equals the increase of the ending market value at December 31, 2006 of \$19.11 per share over the ending market value at December 31, 2005 of \$16.07 per share plus the declared dividends of \$1.64 per share for the year ended December 31, 2006. Total return based on market value is not annualized.
- (4) Total return based on net asset value for the three months ended March 31, 2011 equals the change in net asset value during the period (adjusted for share issuances) plus the declared dividends of \$0.35 per share for the three months ended March 31, 2011, divided by the beginning asset value. Total return based on net asset value for the year ended December 31, 2010 equals the change in net asset value during the period (adjusted for share issuances) plus the declared dividends of \$1.40 per share for the year ended December 31, 2010, divided by the beginning net asset value. Total return based on net asset value for the year ended December 31, 2009 equals the change in net asset value during the period (adjusted for share issuances) plus the declared dividends of \$1.47 per share for the year ended December 31, 2009, divided by the beginning net asset value. Total return based on net asset value for the year ended December 31, 2008 equals the change in net asset value during the period (adjusted for share issuances) plus the declared dividends of \$1.68 per share for the year ended December 31, 2008, divided by the beginning net asset value. Total return based on net asset value for the year ended December 31, 2007 equals the change in net asset value during the period (adjusted for share issuances) plus the declared dividends of \$1.66 per share for the year ended December 31, 2007, divided by the beginning net asset value. Total return based on net asset value for the year ended December 31, 2006 equals the change in net asset value during the period (adjusted for share issuances) plus the declared dividends of \$1.64 per share for the year ended December 31, 2006, divided by the beginning net asset value. Total return based on net asset value is not annualized.
- (5) Weighted average yield on debt and income producing securities at fair value is computed as (a) the annual stated interest rate or yield earned plus the net annual amortization of original issue discount and market discount earned on accruing debt included in such securities, divided by (b) total debt and income producing securities at fair value included in such securities. Weighted average yield on debt and income producing securities at amortized cost is computed as (a) annual stated interest rate or yield earned plus the net annual amortization of original issue discount and market discount earned on accruing debt included in such securities, divided by (b) total income producing securities and debt at amortized cost included in such securities.

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**SELECTED QUARTERLY DATA (Unaudited)**  
**(dollar amounts in thousands, except per share data)**

|  | <b>2011</b> |            |
|--|-------------|------------|
|  |             | <b>Q1</b>  |
| Total investment income  |             | \$ 135,691 |
| Net investment income before net realized and unrealized gains (losses) and incentive compensation |             | \$ 95,494  |
| Incentive compensation   |             | \$ 47,671  |
| Net investment income before net realized and unrealized gains                                     |             | \$ 47,823  |
| Net realized and unrealized gains  |             | \$ 75,943  |
| Net increase in stockholders' equity resulting from operations                                     |             | \$ 123,766 |
| Basic and diluted earnings per common share  |             | \$ 0.61    |
| Net asset value per share as of the end of the quarter   |             | \$ 15.45   |

|  | <b>2010</b> |            |               |           |
|--|-------------|------------|---------------|-----------|
|  | <b>Q4</b>   | <b>Q3</b>  | <b>Q2</b>     | <b>Q1</b> |
| Total investment income  | \$ 157,170  | \$ 138,126 | \$ 121,590    | \$ 66,510 |
| Net investment income before net realized and unrealized gains (losses) and incentive compensation | \$ 99,323   | \$ 89,025  | \$ 64,514     | \$ 39,849 |
| Incentive compensation   | \$ 35,973   | \$ 17,805  | \$ 14,973     | \$ 8,144  |
| Net investment income before net realized and unrealized gains (losses)                            | \$ 63,350   | \$ 71,220  | \$ 49,541     | \$ 31,705 |
| Net realized and unrealized gains (losses)   | \$ 93,538   | \$ 57,157  | \$ 280,613(1) | \$ 44,710 |
| Net increase in stockholders' equity resulting from operations                                     | \$ 156,888  | \$ 128,377 | \$ 330,154    | \$ 76,415 |
| Basic and diluted earnings per common share  | \$ 0.79     | \$ 0.67    | \$ 1.73       | \$ 0.61   |
| Net asset value per share as of the end of the quarter   | \$ 14.92    | \$ 14.43   | \$ 14.11      | \$ 11.78  |

(1) Includes gain on the Allied Acquisition of \$195,876.

|  | <b>2009</b> |           |           |           |
|--|-------------|-----------|-----------|-----------|
|  | <b>Q4</b>   | <b>Q3</b> | <b>Q2</b> | <b>Q1</b> |
| Total investment income  | \$ 69,264   | \$ 60,881 | \$ 59,111 | \$ 56,016 |
| Net investment income before net realized and unrealized gains (losses) and incentive compensation | \$ 47,920   | \$ 41,133 | \$ 39,935 | \$ 37,750 |
| Incentive compensation   | \$ 9,568    | \$ 8,227  | \$ 7,987  | \$ 7,550  |
| Net investment income before net realized and unrealized gains (losses)                            | \$ 38,352   | \$ 32,906 | \$ 31,948 | \$ 30,200 |
| Net realized and unrealized gains (losses)   | \$ 31,278   | \$ 30,370 | \$ 2,805  | \$ 4,834  |
| Net increase in stockholders' equity resulting from operations                                     | \$ 69,630   | \$ 63,276 | \$ 34,753 | \$ 35,034 |
| Basic and diluted earnings per common share  | \$ 0.64     | \$ 0.62   | \$ 0.36   | \$ 0.36   |
| Net asset value per share as of the end of the quarter   | \$ 11.44    | \$ 11.16  | \$ 11.21  | \$ 11.20  |

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|  | 2008         |             |             |             |
|--|--------------|-------------|-------------|-------------|
|  | Q4           | Q3          | Q2          | Q1          |
| Total investment income  | \$ 62,723    | \$ 62,067   | \$ 63,464   | \$ 52,207   |
| Net investment income before net realized and unrealized gains (losses) and incentive compensation | \$ 40,173    | \$ 41,025   | \$ 45,076   | \$ 32,466   |
| Incentive compensation   | \$ 8,035     | \$ 8,205    | \$ 9,015    | \$ 6,493    |
| Net investment income before net realized and unrealized gains (losses)                            | \$ 32,138    | \$ 32,820   | \$ 36,061   | \$ 25,973   |
| Net realized and unrealized gains (losses)   | \$ (142,638) | \$ (74,213) | \$ (32,789) | \$ (16,807) |
| Net (decrease) increase in stockholders' equity resulting from operations                          | \$ (110,500) | \$ (41,393) | \$ 3,272    | \$ 9,166    |
| Basic and diluted (loss) earnings per common share   | \$ (1.14)    | \$ (0.43)   | \$ 0.04     | \$ 0.12     |
| Net asset value per share as of the end of the quarter   | \$ 11.27     | \$ 12.83    | \$ 13.67    | \$ 15.17    |

Table of Contents**UNAUDITED SELECTED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**

The following table sets forth the unaudited pro forma condensed consolidated statement of operations for Ares Capital and Allied Capital as a consolidated entity. The unaudited pro forma condensed consolidated operating data for the year ended December 31, 2010 is presented as if the Allied Acquisition had been completed on January 1, 2010. In the opinion of management, all adjustments necessary to reflect the effect of this transaction have been made. The Allied Acquisition was accounted for under the acquisition method of accounting as provided by ASC 805-10 (previously SFAS No. 141(R)), *Business Combinations* ("ASC 805-10").

The unaudited pro forma condensed consolidated statement of operations should be read together with the respective historical audited and unaudited consolidated financial statements of Allied Capital and Ares Capital, and the notes thereto, included elsewhere in this prospectus or the accompanying prospectus supplement. The unaudited pro forma condensed consolidated statement of operations is presented for comparative purposes only and does not necessarily indicate the future operating results of Ares Capital following the completion of the Allied Acquisition. The unaudited pro forma condensed consolidated statement of operations does not include adjustments to reflect any cost savings or other operational efficiencies that may be realized as a result of the Allied Acquisition or any future merger related restructuring or integration expenses.

The following should be read in connection with the section entitled "Unaudited Pro Forma Condensed Consolidated Statement of Operations" and other information included in this prospectus and the accompanying prospectus supplement.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations Allied Acquisition" for a description of the terms of the Allied Acquisition and "Risk Factors Risks Relating to Our Business We may be unable to realize the benefits anticipated by the Allied Acquisition or it may take longer than anticipated to achieve such benefits" for a description of certain risks associated with the Allied Acquisition.

**(dollar amounts in thousands, except per share data and as otherwise indicated)**

|  | <b>For the<br/>Year Ended<br/>December 31,<br/>2010</b> |
|--|---|
| Total Investment Income  | \$ 537,488  |
| Total Expenses   | 291,912   |
| Net Investment Income Before Income Taxes  | 245,576   |
| Income Tax Expense   | 6,594   |
| Net Investment Income  | 238,982   |
| Net Realized and Unrealized Gains on Investments, Foreign Currencies, Acquisitions Extinguishment of Debt and Sale of Other Assets | 246,879   |
| Net Increase in Stockholders' Equity Resulting from Operations   | \$ 485,861  |

Table of Contents**UNAUDITED PRO FORMA PER SHARE DATA**

The following selected unaudited combined pro forma per share information for the year ended December 31, 2010 reflects the Allied Acquisition and related transactions as if they had occurred on January 1, 2010.

Such unaudited pro forma combined per share information is based on the historical financial statements of Ares Capital and Allied Capital and on publicly available information and certain assumptions and adjustments as discussed in the section entitled "Unaudited Pro Forma Condensed Consolidated Statement of Operations." This unaudited pro forma combined per share information is provided for illustrative purposes only and is not necessarily indicative of what the operating results of Ares Capital or Allied Capital would have been had the Allied Acquisition and related transactions been completed at the beginning of the period indicated, nor are they necessarily indicative of any future operating results.

The following should be read in connection with the section entitled "Unaudited Pro Forma Condensed Consolidated Statement of Operations" and other information included in this prospectus and the accompanying prospectus supplement.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations Allied Acquisition" for a description of the terms of the Allied Acquisition and "Risk Factors Risks Relating to Our Business We may be unable to realize the benefits anticipated by the Allied Acquisition or it may take longer than anticipated to achieve such benefits" for a description of certain risks associated with the Allied Acquisition.

|   | <b>For the Year Ended<br/>December 31, 2010</b> |                           |  |   |
|---|---|---------------------------|--|---|
|   | <b>Ares<br/>Capital</b>                         | <b>Allied<br/>Capital</b> | <b>Pro forma<br/>Combined<br/>Ares Capital</b> | <b>Per<br/>Equivalent<br/>Allied Capital<br/>Share(2)</b> |
| <b>Net Increase (Decrease) in Stockholders' Equity Resulting from Operations:</b> |   |                           |  |   |
| Basic   | \$ 3.91   | \$ (0.20)                 | \$ 2.54  | \$ 0.83   |
| Diluted   | \$ 3.91   | \$ (0.20)                 | \$ 2.54  | \$ 0.83   |
| Cash Dividends Declared(1)  | \$ 1.40   | \$ 0.20                   | \$ 1.40  | \$ 0.46   |

(1) The cash dividends declared per share represent the actual dividends declared per share for the period presented. The pro forma combined dividends declared is the dividends per share as declared by Ares Capital.

(2) The Allied Capital equivalent pro forma per share amount is calculated by multiplying the pro forma combined share amounts by the common stock exchange ratio of 0.325.

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**RISK FACTORS**

*Before you invest in our securities, 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 and the accompanying prospectus supplement, including our consolidated financial statements and the related notes thereto, before you decide whether to make an investment in our securities. The risks set out below are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. If any of the following events occur, our business, financial condition and results of operations could be materially adversely affected. In such case, the net asset value of our common stock and the trading price of our securities could decline, and you may lose all or part of your investment.*

**RISKS RELATING TO OUR BUSINESS**

**Capital markets have recently been in a period of disruption and instability. These market conditions materially and adversely affected debt and equity capital markets in the United States, which had, and may in the future have, a negative impact on our business and operations.**

Beginning in 2007, the U.S. capital markets entered into a period of disruption as evidenced by a lack of liquidity in the debt capital markets, significant write-offs in the financial services sector, the re-pricing of credit risk in the broadly syndicated credit market and the failure of major financial institutions. Despite actions of the U.S. federal government, these events contributed to worsening general economic conditions that materially and adversely impacted the broader financial and credit markets and reduced the availability of debt and equity capital for the market as a whole and financial services firms in particular. While market conditions have improved, the strength of the U.S. economic recovery is uncertain and there can be no assurance that adverse market conditions will not repeat themselves or worsen in the future. If these adverse market conditions return, we and other companies in the financial services sector may have to access, if available, alternative markets for debt and equity capital in order to grow. Equity capital may be difficult to raise because, subject to some limited exceptions, as a BDC, we are generally not able to issue additional shares of our common stock at a price less than net asset value without first obtaining approval for such issuance from our stockholders and our independent directors. At our 2011 annual stockholders meeting, subject to certain determinations required to be made by our board of directors, our stockholders approved our ability to sell or otherwise issue shares of our common stock, not exceeding 25% of our then outstanding common stock, at a price below the then current net asset value per share during a period beginning on June 6, 2011 and expiring on the earlier of June 6, 2012 and the date of our 2012 annual stockholders meeting. In addition, our ability to incur indebtedness (including by issuing preferred stock) is limited by applicable regulations such that our asset coverage, as defined in the Investment Company Act, must equal at least 200% immediately after each time we incur indebtedness. The debt capital that will be available to us in the future, if at all, may be at a higher cost and on less favorable terms and conditions than what we currently experience. Any inability to raise capital could have a negative effect on our business, financial condition and results of operations.

Moreover, the re-appearance of market conditions similar to those experienced from 2007 through 2009 could make it difficult to extend the maturity of or refinance our existing indebtedness and any failure to do so could have a material adverse effect on our business.

Given the recent extreme volatility and dislocation in the capital markets, many BDCs have faced, and may in the future face, a challenging environment in which to raise or access capital. At times during the recent significant changes in the capital markets, our ability to raise capital was affected and consequently the pace of our investment activity had slowed. In addition, significant changes in the capital markets, including the recent extreme volatility and disruption, has had, and may

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in the future have, a negative effect on the valuations of our investments and on the potential for liquidity events involving our investments. While most of our investments are not publicly traded, applicable accounting standards require us to assume as part of our valuation process that our investments are sold in a principal market to market participants (even if we plan on holding an investment through its maturity). As a result, volatility in the capital markets can adversely affect our investment valuations. Further, the illiquidity of our investments may make it difficult for us to sell such investments to access capital if required. As a result, we could realize significantly less than the value at which we have recorded our investments if we were required to sell them for liquidity purposes. An inability to raise or access capital could have a material adverse impact on our business, financial condition or results of operations.

**A failure on our part to maintain our status as a BDC would significantly reduce our operating flexibility.**

If we fail to maintain our status as a BDC, we might be regulated as a closed-end investment company under the Investment Company Act, which would subject us to additional regulatory restrictions and significantly decrease our operating flexibility. In addition, any such failure could cause an event of default under our outstanding indebtedness, which could have a material adverse effect on our business, financial condition or results of operations.

**We are dependent upon certain key personnel of Ares for our future success and upon their access to other Ares investment professionals.**

We depend on the diligence, skill and network of business contacts of certain key personnel of the Ares Global Private Debt Group. We also depend, to a significant extent, on access to the investment professionals of other groups within Ares and the information and deal flow generated by Ares' investment professionals in the course of their investment and portfolio management activities. Our future success depends on the continued service of the key personnel of the Ares Global Private Debt Group. The departure of any of these individuals, or of a significant number of the investment professionals or partners of Ares, could have a material adverse effect on our business, financial condition or results of operations. In addition, we cannot assure you that Ares Capital Management will remain our investment adviser or that we will continue to have access to Ares' investment professionals or its information and deal flow.

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

Our ability to achieve our investment objective depends on our ability to acquire suitable investments and monitor and administer those investments, which depends, in turn, on our investment adviser's 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 the structuring of our investment process and the ability of our investment adviser to provide competent, attentive and efficient services to us. Our executive officers and the members of our investment adviser's investment committee have substantial responsibilities in connection with their roles at Ares and with the other Ares funds, as well as responsibilities under the investment advisory and management agreement. They may also be called upon to provide significant managerial assistance to certain of our portfolio companies. These demands on their time, which will increase as the number of investments grow, may distract them or slow the rate of investment. In order to grow, Ares will need to hire, train, supervise, manage and retain new employees. However, we cannot assure you that we will be able to do so effectively. Any failure to manage our future growth effectively could have a material adverse effect on our business, financial condition and results of operations.



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In addition, as we grow, we may open up new offices in new geographic regions that may increase our direct operating expenses without corresponding revenue growth.

**We may be unable to realize the benefits anticipated by the Allied Acquisition or it may take longer than anticipated to achieve such benefits.**

On April 1, 2010, we consummated the Allied Acquisition. The realization of certain benefits anticipated as a result of the Allied Acquisition will depend in part on the continued integration of Allied Capital's investment portfolio and business with our investment portfolio and business. The dedication of management resources to the legacy Allied Capital portfolio may detract attention from our day-to-day business, including new origination activity, and there can be no assurance that there will not be material adverse consequences to our business, financial condition and results of operations.

Further, as a result of the Allied Acquisition, Allied Capital's equity investments, including equity investments larger than those we have traditionally made and controlled portfolio company equity investments, became part of our portfolio. We intend to actively seek opportunities over time to dispose of certain of the assets that were acquired in the Allied Acquisition, particularly non-yielding equity investments, as well as lower or non-yielding debt investments and investments that may not be core to our investment strategy, and generally rotate them into higher-yielding first and second lien senior loans and mezzanine debt investments. However, there can be no assurance that this strategy will be successful. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Portfolio and Investment Activity" for further information on the rotation and repositioning of investments acquired as part of the Allied Acquisition.

**Our ability to grow depends on our ability to raise capital.**

We will need to periodically access the capital markets to raise cash to fund new investments. We have elected to be treated as a RIC and operate in a manner so as to qualify for the U.S. federal income tax treatment applicable to RICs. Among other things, in order to maintain our RIC status, we must distribute to our stockholders on a timely basis generally an amount equal to at least 90% of our investment company taxable income (as defined by the Code), and, as a result, such distributions will not be available to fund investment originations. We must continue to borrow from financial institutions and issue additional securities to fund our growth. Unfavorable economic or capital market conditions may increase our funding costs, limit our access to the capital markets or could result in a decision by lenders not to extend credit to us. An inability to successfully access the capital markets could limit our ability to grow our business and fully execute our business strategy and could decrease our earnings, if any.

In addition, with certain limited exceptions, we are only allowed to borrow amounts or issue debt securities or preferred stock, which we refer to collectively as "senior securities," such that our asset coverage, as defined in the Investment Company Act, equals at least 200% immediately after such borrowing, which, in certain circumstances, may restrict our ability to borrow or issue debt securities or preferred stock. The amount of leverage that we employ will depend on our investment adviser's and our board of directors' assessments of market and other factors at the time of any proposed borrowing or issuance of senior securities. We cannot assure you that we will be able to maintain our current facilities, obtain other lines of credit or issue senior securities at all or on terms acceptable to us.

**Regulations governing our operation as a BDC affect our ability to, and the way in which we, raise additional capital.**

We may issue senior securities or borrow money from banks or other financial institutions, up to the maximum amount permitted by the Investment Company Act. Under the provisions of the Investment Company Act, we are permitted, as a BDC, to incur indebtedness or issue senior securities

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only in amounts such that our asset coverage, as defined in the Investment Company Act, equals at least 200% after each such incurrence or issuance. If the value of our assets declines, we may be unable to satisfy this test, which may prohibit us from paying dividends and could prevent us from maintaining our status as a RIC or may prohibit us from repurchasing shares of our common stock. In addition, our inability to satisfy this test could cause an event of default under our existing indebtedness. If we cannot satisfy this test, we may be required to sell a portion of our investments at a time when such sales may be disadvantageous and, depending on the nature of our leverage, repay a portion of our indebtedness. Accordingly, any failure to satisfy this test could have a material adverse effect on our business, financial condition or results of operations. As of March 31, 2011, our asset coverage for senior securities was 321%.

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 current net asset value per share of our common stock if our board of directors determines that such sale is in our best interests and the best interests of our stockholders, and our stockholders approve such sale. Any such sale would be dilutive to the net asset value per share of our common stock. In any such case, the price at which our securities are to be issued and sold may not be less than a price which, in the determination of our board of directors, closely approximates the market value of such securities (less any commission or discount). If our common stock trades at a discount to net asset value, this restriction could adversely affect our ability to raise capital.

At our 2011 annual stockholders meeting, subject to certain determinations required to be made by our board of directors, our stockholders approved our ability to sell or otherwise issue shares of our common stock, not exceeding 25% of our then outstanding common stock, at a price below the then current net asset value per share during a period beginning on June 6, 2011 and expiring on the earlier of June 6, 2012 and the date of our 2012 annual stockholders meeting.

To generate cash for funding new investments, we have also securitized, and may in the future seek to securitize, our loans. To securitize loans, we may create a separate, wholly owned subsidiary and contribute or sell a pool of loans to such subsidiary (or one of its subsidiaries). Such subsidiary may then sell equity, issue debt or sell interests in the pool of loans, on a limited-recourse basis, the payments on which are generally limited to the pool of loans and the proceeds therefrom. We may also retain a portion of the equity interests in the securitized pool of loans. Any retained equity would be exposed to losses on the related pool of loans before any of the related debt securities. An inability to successfully securitize our loan portfolio could limit our ability to grow our business and fully execute our business strategy. The securitization market is subject to changing market conditions (including the recent, unprecedented dislocation of the securitization and finance markets generally) and we may not be able to access this market when we would otherwise deem appropriate. Moreover, the successful securitization of our loan portfolio might expose us to losses as the residual loans in which we do not sell interests may be those that are riskier and more apt to generate losses. The Investment Company Act may also impose restrictions on the structure of any securitization.

**We borrow money, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing with us.**

Borrowings, also known as leverage, magnify the potential for gain or loss on amounts invested and, therefore, increase the risks associated with investing in our securities. We currently borrow under our Facilities and have issued or assumed other senior securities, and in the future may borrow from, or issue additional senior securities to, banks, insurance companies, funds, institutional investors and other lenders and investors. Lenders and holders of such senior securities have fixed dollar claims on our consolidated assets that are superior to the claims of our common stockholders or any preferred stockholders. If the value of our consolidated assets increases, then leveraging would cause the net

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asset value per share of our common stock to increase more sharply than it would have had we not incurred leverage.

Conversely, if the value of our consolidated assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had we not incurred leverage. Similarly, any increase in our consolidated income in excess of consolidated interest payable on the borrowed funds would cause our net income to increase more than it would had we not incurred leverage, while any decrease in our consolidated income would cause net income to decline more sharply than it would have had we not incurred leverage. Such a decline could negatively affect our ability to make common stock dividend payments. There can be no assurance that a leveraging strategy will be successful.

As of March 31, 2011, we had no amounts outstanding under our Facilities, \$138.6 million in aggregate principal amount outstanding of our CLO Notes (excluding the Retained Notes (as defined below)), \$591.2 million in aggregate principal amount outstanding of the Unsecured Notes and \$805.0 million in aggregate principal amount outstanding of our Convertible Notes. In order for us to cover our annual interest payments on indebtedness, we must achieve annual returns on our March 31, 2011 total assets of at least 1.8%. The weighted average stated interest rate charged on our borrowings as of March 31, 2011 was 5.7%. We intend to continue borrowing under the Facilities in the future and we may increase the size of the Facilities or issue additional debt securities or other evidences of indebtedness (although there can be no assurance that we will be successful in doing so). Our ability to service our debt depends largely on our financial performance and is subject to prevailing economic conditions and competitive pressures. The amount of leverage that we employ at any particular time will depend on our investment adviser's and our board of directors' assessments of market and other factors at the time of any proposed borrowing.

Our Facilities, the CLO Notes, the Unsecured Notes and the Convertible Notes 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. A failure to renew our Facilities or to add new or replacement debt facilities or issue additional debt securities or other evidences of indebtedness could have a material adverse effect on our business, financial condition or results of operations.

The following table illustrates the effect on return to a holder of our common stock of the leverage created by our use of borrowing at the weighted average stated interest rate of 5.7% as of March 31, 2011, together with (a) our total value of net assets as of March 31, 2011; (b) \$1,534.8 million of principal indebtedness outstanding as of March 31, 2011 and (c) hypothetical annual returns on our portfolio of minus 15% to plus 15%.

|  |         |         |         |        |       |        |        |
|--|---------|---------|---------|--------|-------|--------|--------|
| Assumed Return on Portfolio (Net of Expenses)(1) | -15%    | -10%    | -5%     | 0%     | 5%    | 10%    | 15%    |
| Corresponding Return to Common Stockholders(2)   | -25.07% | -17.62% | -10.18% | -2.74% | 4.70% | 12.14% | 19.58% |

(1) The assumed portfolio return is required by regulation of the SEC and is not a prediction of, and does not represent, our projected or actual performance. Actual returns may be greater or less than those appearing in the table. Pursuant to SEC regulation, this table is calculated as of March 31, 2011. As a result, it has not been updated to take into account our redemption of the 2012 Notes or any changes in assets since March 31, 2011.

(2) In order to compute the "Corresponding Return to Common Stockholders," the "Assumed Return on Portfolio" is multiplied by the total value of our assets at March 31, 2011 to obtain an assumed return to us. From this amount, the interest expense (calculated by multiplying the weighted average stated interest rate of 5.7% by the \$1,534.8 million of principal debt) is subtracted to

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determine the return available to stockholders. The return available to stockholders is then divided by the total value of our net assets as of March 31, 2011 to determine the "Corresponding Return to Common Stockholders."

**In addition to regulatory requirements that restrict our ability to raise capital, the Facilities, the CLO Notes, the Unsecured Notes and the Convertible Notes contain various covenants that, if not complied with, could accelerate repayment under the Facilities, the CLO Notes, the Unsecured Notes and the Convertible Notes, thereby materially and adversely affecting our liquidity, financial condition and results of operations.**

The agreements governing the Facilities, the CLO Notes, the Unsecured Notes and the Convertible Notes require us to comply with certain financial and operational covenants. These covenants include:

restrictions on the level of indebtedness that we are permitted to incur in relation to the value of our assets;

restrictions on our ability to incur liens; and

maintenance of a minimum level of stockholders' equity.

As of the date of this prospectus, we are in compliance in all material respects with the covenants of the Facilities, the CLO Notes, the Unsecured Notes and the Convertible Notes. However, our continued compliance with these covenants depends on many factors, some of which are beyond our control. For example, depending on the condition of the public debt and equity markets and pricing levels, net unrealized depreciation in our portfolio may increase in the future. Any such increase could result in our inability to comply with our obligation to restrict the level of indebtedness that we are able to incur in relation to the value of our assets or to maintain a minimum level of stockholders' equity.

Accordingly, although we believe we will continue to be in compliance, there are no assurances that we will continue to comply with the covenants in the Facilities, the Debt Securitization, the Unsecured Notes and the Convertible Notes. Failure to comply with these covenants could result in a default under the Facilities, the Debt Securitization, the Unsecured Notes or the Convertible Notes that, if we were unable to obtain a waiver from the lenders or holders of such indebtedness, as applicable, could accelerate repayment under such indebtedness and thereby have a material adverse impact on our business, financial condition and results of operations.

**Our credit ratings may change and as a result the cost and flexibility under our debt instruments may change.**

As of March 31, 2011, we had a long-term counterparty credit rating from Standard & Poor's Ratings Services of "BBB," a long-term issuer default rating from Fitch Ratings of "BBB" and a long-term issuer rating from Moody's Investors Service of "Ba1." Interest expense on our Revolving Credit Facility and the Revolving Funding Facility is based on a pricing grid that fluctuates depending on our credit ratings. There can be no assurance that our ratings will be maintained. If our ratings are downgraded, our cost of borrowing will increase.

In addition, if the ratings of our CLO Notes are downgraded, our ability to engage in certain transactions in respect of the investments held in the Debt Securitization, among other things, may under certain circumstances be restricted and certain principal proceeds may under certain circumstances be required to be used to further reduce the outstanding principal balance of the CLO Notes. There can be no assurance that the CLO Notes ratings will be maintained.

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In addition, ratings agencies are required to make substantial changes to their ratings policies and practices as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which President Obama signed into law on July 21, 2010. There can be no assurance that such changes will not affect our ratings.

**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 make in middle-market companies. We compete with other BDCs, public and private funds, commercial and investment banks, commercial financing companies, insurance companies, high yield investors, hedge funds, and, to the extent they provide an alternative form of financing, private equity funds. Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. 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 Investment Company Act imposes on us as a BDC and that the Code imposes on us as a RIC. 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 pursue attractive investment opportunities from time to time.

We do not seek to compete primarily based on the interest rates we offer and we believe that some of our competitors may make loans with interest rates that are comparable to or lower than the rates we offer. Rather, we compete with our competitors based on our existing investment platform, seasoned investment professionals, experience and focus on middle-market companies, disciplined investment philosophy, extensive industry focus and flexible transaction structuring. For a more detailed discussion of these competitive advantages, see "Business Competitive Advantages."

We may lose investment opportunities if we do not match our competitors' pricing, terms and structure. For instance, during the first quarter of 2011, we saw pressure on deal structure and pricing, including increased leverage and lower pricing, and expect to continue to see this at least through the second and third quarters of 2011. If we match our competitors' pricing, terms and structure, we may experience decreased net interest income and increased risk of credit loss. As a result of operating in such a competitive environment, we may make investments that are on less favorable terms than what we may have originally anticipated, which may impact our return on these investments.

**We may be subject to certain corporate-level taxes regardless of whether we continue to qualify as a RIC.**

We have elected to be treated as a RIC under Subchapter M of the Code and operate in a manner so as to qualify for the U.S. federal income tax treatment applicable to RICs. As a RIC, we generally will not pay corporate-level U.S. federal income taxes on our income and gain that we distribute to our stockholders as dividends on a timely basis. To qualify as a RIC, we must meet certain income source, asset diversification and annual distribution requirements (and will pay corporate-level U.S. federal income tax on any undistributed income). We may also be subject to certain U.S. federal excise taxes, as well as state, local and foreign taxes.

We will satisfy the Annual Distribution Requirement (as defined below) for a RIC if we distribute to our stockholders on a timely basis generally an amount equal to at least 90% of our investment company taxable income (as defined by the Code) for each year. Because we use debt financing, we are subject to certain asset coverage ratio requirements under the Investment Company Act and financial covenants under our indebtedness that could, under certain circumstances, restrict us

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from making distributions necessary to qualify as a RIC. If we are unable to obtain cash from other sources, we may fail to qualify as a RIC and, thus, may be subject to corporate-level income tax. Because we must make distributions to our stockholders as described above, such amounts, to the extent a stockholder is not participating in our dividend reinvestment plan, will not be available to fund investment originations. We will be subject to corporate-level U.S. federal income tax on any undistributed income and/or gain.

To qualify as a RIC, we must also meet certain annual income source requirements at the end of each taxable year and asset diversification requirements at the end of each calendar quarter. Failure to meet these tests may result in our having to (a) dispose of certain investments quickly or (b) raise additional capital to prevent the loss of RIC status. Because most of our investments are in private companies and are generally illiquid, any such dispositions may be at disadvantageous prices and may result in losses. Also, the rules applicable to our qualification as a RIC are complex with many areas of uncertainty. Accordingly, no assurance can be given that we have qualified or will continue to qualify as a RIC. If we fail to qualify as a RIC for any reason and become subject to regular "C" corporation 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. Such a failure would have a material adverse effect on us and our stockholders. The recently enacted "Regulated Investment Company Modernization Act of 2010," which is effective for 2011 and later tax years, provides some relief from RIC disqualification due to failures of the income source and asset diversification requirements, although there may be additional taxes due in such cases. We cannot assure you that we would qualify for any such relief should we fail the income source or asset diversification requirements.

**We may have difficulty paying our required distributions under applicable tax rules if we recognize income before or without receiving cash representing such income.**

For U.S. federal income tax purposes, we 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 payment-in-kind ("PIK") interest, which represents contractual interest added to the loan balance and due at the end of the loan term. Such original issue discount or increases in loan balances are included in income before we receive any corresponding cash payments. We also may be required to include in income certain other amounts that we will not receive in cash, including, for example, amounts attributable to hedging and foreign currency transactions or cancellation of indebtedness income resulting from a restructuring of an investment in debt securities.

Since, in certain cases, we may recognize income before or without receiving cash in respect of such income, we may have difficulty meeting the U.S. federal income tax requirement to distribute generally an amount equal to at least 90% of our investment company taxable income (as defined by the Code) to maintain our status as a RIC. 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 investment originations to meet these distribution requirements. If we are not able to obtain cash from other sources, we may fail to qualify as a RIC and thus be subject to additional corporate-level taxes. Such a failure would have a material adverse effect on us and on our stockholders. See "Certain Material U.S. Federal Income Tax Considerations Taxation as a RIC."

**We may in the future determine to fund a portion of our investments with preferred stock, which would magnify the potential for gain or loss and the risks of investing in us in the same way as our borrowings.**

Because preferred stock is another form of leverage and the dividends on any preferred stock we issue must be cumulative, preferred stock has the same risks to our common stockholders as borrowings. Payment of such dividends and repayment of the liquidation preference of such preferred

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stock must take preference over any dividends or other payments to our common stockholders, and preferred stockholders are not subject to any of our expenses or losses and are not entitled to participate in any income or appreciation in excess of their stated preference.

**We are exposed to risks associated with changes in interest rates.**

General interest rate fluctuations may have a substantial negative impact on our investments and investment opportunities and, accordingly, may have a material adverse effect on our investment objective and rate of return on invested capital. Because we borrow money and may issue debt securities or preferred stock to make investments, our net investment income is dependent upon the difference between the rate at which we borrow funds or pay interest or dividends on such debt securities or preferred stock and the rate at which we invest these funds. As a result, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income.

Trading prices for debt that pays a fixed rate of return tend to fall as interest rates rise. Trading prices tend to fluctuate more for fixed-rate securities that have longer maturities. In the past, we have entered into certain hedging transactions, such as interest rate swap agreements, to mitigate our exposure to adverse fluctuations in interest rates, and we may do so again in the future. In addition, we may increase our floating rate investments to position the portfolio for rate increases. However, we cannot assure you that such transactions will be successful in mitigating our exposure to interest rate risk. Hedging transactions may also limit our ability to participate in the benefits of lower interest rates with respect to our portfolio investments.

Although we have no policy governing the maturities of our investments, under current market conditions we expect that we will invest in a portfolio of debt generally having maturities of up to 10 years. This means that we are subject to greater risk (other things being equal) than a fund invested solely in shorter-term securities. A decline in the prices of the debt we own could adversely affect the trading price of our shares. Also, an increase in interest rates available to investors could make an investment in our common stock less attractive if we are not able to increase our dividend rate, which could reduce the value of our common stock.

**Many of our portfolio investments are not publicly traded and, as a result, the fair value of these investments may not be readily determinable.**

A large percentage of our portfolio investments are not publicly traded. The fair value of investments that are not publicly traded may not be readily determinable. We value these investments quarterly at fair value as determined in good faith by our board of directors based on the input of our management and audit committee and independent valuation firms that have been engaged at the direction of our board of directors to assist in the valuation of each portfolio investment without a readily available market quotation at least once during a trailing 12-month period. The valuation process is conducted at the end of each fiscal quarter, with approximately 50% (based on value) of our valuations of portfolio companies without readily available market quotations subject to review by an independent valuation firm each quarter. However, we may use additional independent valuation firms to review the value of our investments more frequently, including in connection with the occurrence of significant events or changes in value affecting a particular investment. The types of factors that may be considered in valuing our investments include the enterprise value of the portfolio company (an estimate of the total fair value of the portfolio company's debt and equity), 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, comparison to publicly traded companies, discounted cash flow and other relevant factors. Because such valuations, and particularly valuations of private investments 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

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that would have been used if a ready market for these investments existed and may differ materially from the values that we may ultimately realize. Our net asset value per share could be adversely affected if our determinations regarding the fair value of these investments are materially higher than the values that we realize upon disposition of such investments.

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

As we generally make investments in private companies, substantially all of these investments are subject to legal and other restrictions on resale or are otherwise 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 could realize significantly less than the value at which we have 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 or an affiliated manager of Ares has material non-public information regarding such portfolio company.

**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 rates payable on the debt investments we make, the default rates on such investments, 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 that could impact our investment returns.**

Certain of our executive officers and directors, and members of the investment committee of our investment adviser, serve or may serve as officers, directors or principals of other entities and affiliates of our investment adviser and investment funds managed by our affiliates. Accordingly, they may have obligations to investors in those entities, the fulfillment of which might not be in our or our stockholders' best interests or that may require them to devote time to services for other entities, which could interfere with the time available to provide services to us. Certain members of our investment adviser's investment committee have significant responsibilities for other Ares funds. For example, Messrs. Ressler and Rosenthal are required to devote a substantial majority of their business time to the affairs of ACOF. Similarly, although the professional staff of our investment adviser will devote as much time to the management of the Company as appropriate to enable our investment adviser to perform its duties in accordance with the investment advisory and management agreement, the investment professionals of our investment adviser may have conflicts in allocating their time and services among the Company, on the one hand, and investment vehicles managed by Ares or one or more of its affiliates, on the other hand. These activities could be viewed as creating a conflict of interest insofar as the time and effort of the professional staff of our investment adviser and its officers and employees will not be devoted exclusively to the business of the Company but will instead be allocated between the business of the Company and the management of these other investment vehicles. However, Ares believes that the efforts of such individuals are synergistic with and beneficial to the affairs of Ares Capital, ACOF and these other investment vehicles managed by Ares or its affiliates.

In addition, certain Ares funds may have investment objectives that compete or overlap with, and may from time to time invest in asset classes similar to those targeted by, Ares Capital. Consequently, we, on the one hand, and these other entities, may from time to time pursue the same or similar capital and investment opportunities. Our investment adviser endeavors to allocate investment opportunities in a fair and equitable manner, and in any event consistent with any fiduciary



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duties owed to Ares Capital. Nevertheless, it is possible that we may not be given the opportunity to participate in certain investments made by investment funds managed by investment managers affiliated with Ares. In addition, there may be conflicts in the allocation of investment opportunities among us and the funds managed by us or one or more of our controlled affiliates, or among the funds they manage. We may or may not participate in investments made by funds managed by us or one or more of our controlled affiliates.

We have from time to time sold assets to certain funds managed by IHAM and, as part of our investment strategy, we may offer to sell additional assets to funds managed by us and/or one or more of our controlled affiliates (including IHAM) or we may purchase assets from funds managed by us and/or one or more of our controlled affiliates. In addition, funds managed by us or one or more of our controlled affiliates (including IHAM) may offer assets to or may purchase assets from one another. While assets may be sold or purchased at prices that are consistent with those that could be obtained from third parties in the marketplace, and although these types of transactions generally require approval of one or more independent parties, there may be an inherent conflict of interest in such transactions between us and funds managed by us or one of our controlled affiliates.

We pay management and incentive fees to our investment adviser, and reimburse our investment adviser for certain expenses it incurs. In addition, investors in our common stock will invest on a gross basis and receive distributions on a net basis after expenses, resulting in, among other things, a lower rate of return than one might achieve if distributions were made on a gross basis.

Our investment adviser's management fee is based on a percentage of our total assets (other than cash or cash equivalents but including assets purchased with borrowed funds) and, consequently, our investment adviser may have conflicts of interest in connection with decisions that could affect our total assets, such as decisions as to whether to incur indebtedness or to make future investments.

The part of the incentive fee payable by us that relates to our pre-incentive fee net investment income is computed and paid on income that may include interest that is accrued but not yet received in cash. If a portfolio company defaults on a loan that is structured to provide accrued interest, it is possible that accrued interest previously used in the calculation of the incentive fee will become uncollectible.

Our investment advisory and management agreement renews for successive annual periods if approved by our board of directors or by the affirmative vote of the holders of a majority of our outstanding voting securities, including, in either case, approval by a majority of our independent directors (as defined below). However, both we and our investment adviser have the right to terminate the agreement without penalty upon 60 days' written notice to the other party. Moreover, conflicts of interest may arise if our investment adviser seeks to change the terms of our investment advisory and management agreement, including, for example, the terms for compensation. See "Management Investment Advisory and Management Agreement." While any material change to the investment advisory and management agreement must be submitted to stockholders for approval under the Investment Company Act, we may from time to time decide it is appropriate to seek stockholder approval to change the terms of the agreement.

We are party to an administration agreement (as defined below), with our administrator, Ares Operations, a wholly owned subsidiary of Ares, pursuant to which our administrator furnishes us with administrative services and we pay our administrator at cost our allocable portion of overhead and other expenses (including travel expenses) incurred by our administrator in performing its obligations under our administration agreement, including our allocable portion of the cost of certain of our officers (including our chief compliance officer, chief financial officer, general counsel, secretary and treasurer) and their respective staffs, but not investment professionals.

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Our portfolio company, IHAM, is party to an administration agreement, referred to herein as the "IHAM administration agreement," with Ares Operations. Pursuant to the IHAM administration agreement, our administrator provides IHAM with administrative services and IHAM reimburses our administrator for all of the actual costs associated with such services, including its allocable portion of our administrator's overhead and the cost of our administrator's officers and respective staff in performing its obligations under the IHAM administration agreement. Prior to entering into the IHAM administration agreement, IHAM was party to a services agreement with our investment adviser, pursuant to which our investment adviser provided similar services.

We recently entered into a new office lease that will expire in February 2026 pursuant to which we are leasing office facilities from a third party and began paying rent in May 2011. We also entered into separate subleases with Ares Management and IHAM, pursuant to which Ares Management and IHAM will sublease approximately 15% and 20%, respectively, of the new office space, for a fixed rent equal to 15% and 20%, respectively, of the basic annual rent payable by us under the new office lease, plus certain additional costs and expenses.

As a result of the arrangements described above, there may be times when the management team of Ares (including those members of management focused primarily on managing Ares Capital) has interests that differ from those of our stockholders, giving rise to a conflict.

Our stockholders may have conflicting investment, tax and other objectives with respect to their investments in us. The conflicting interests of individual stockholders may relate to or arise from, among other things, the nature of our investments, the structure or the acquisition of our investments, and the timing of dispositions of our investments. As a consequence, conflicts of interest may arise in connection with decisions made by our investment adviser, including with respect to the nature or structuring of our investments, that may be more beneficial for one stockholder than for another stockholder, especially with respect to stockholders' individual tax situations. In selecting and structuring investments appropriate for us, our investment adviser will consider the investment and tax objectives of the Company and our stockholders, as a whole, not the investment, tax or other objectives of any stockholder individually.

**Changes in laws or regulations governing our operations or the operations of our portfolio companies, changes in the interpretation thereof or newly enacted laws or regulations, such as the Dodd-Frank Act, and any failure by us or our portfolio companies to comply with these laws or regulations, could require changes to certain business practices of us or our portfolio companies, negatively impact the operations, cash flows or financial condition of us or our portfolio companies, impose additional costs on us or our portfolio companies or otherwise adversely affect our business or the business of our portfolio companies.**

We and our portfolio companies are subject to regulation by laws and regulations at the local, state, federal and, in some cases, foreign levels. These laws and regulations, as well as their interpretation, may be changed from time to time, and new laws and regulations may be enacted. Accordingly, any change in these laws or regulations, changes in their interpretation, or newly enacted laws or regulations and any failure by us or our portfolio companies to comply with these laws or regulations, could require changes to certain business practices of us or our portfolio companies, negatively impact the operations, cash flows or financial condition of us or our portfolio companies, impose additional costs on us or our portfolio companies or otherwise adversely affect our business or the business of our portfolio companies.

On July 21, 2010, President Obama signed into law the Dodd-Frank Act. Many of the provisions of the Dodd-Frank Act have extended implementation periods and delayed effective dates and will require extensive rulemaking by regulatory authorities. In particular, Title IV of the Dodd-Frank Act, the Private Fund Investment Advisers Registration Act of 2010 (the "Advisers

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Registration Act"), becomes effective one year after the date of enactment and eliminates the "private adviser exemption" from SEC registration currently contained in Section 203(b)(3) of the Advisers Act. This provision exempted from registration investment advisers who do not hold themselves out to the public as investment advisers and have fewer than 15 clients. As a result, many investment advisers to private funds (with some exceptions) will be required to register with the SEC and will become subject to substantial regulatory reporting and recordkeeping requirements regarding the private funds they advise. Consequently, the Advisers Registration Act will likely require our wholly owned portfolio company, IHAM, to register as an investment adviser under the Advisers Act. This would require IHAM to comply with the regulatory restrictions and obligations imposed on registered investment advisers generally. In addition, as a BDC, we are currently restricted in our ability to invest in a registered investment adviser.

We are seeking relief from the SEC to enable us to continue to invest in IHAM following any registration by IHAM as a registered investment adviser; however, there can be no assurance that such relief will be granted. If we are not able to obtain such relief, we may not be able to make future investments in IHAM, which could harm IHAM's business and the performance of our investment in IHAM.

While the impact of the Dodd-Frank Act on us and our portfolio companies may not be known for an extended period of time, the Dodd-Frank Act, including future rules implementing its provisions and the interpretation of those rules, along with other legislative and regulatory proposals directed at the financial services industry or affecting taxation that are proposed or pending in the U.S. Congress, may negatively impact the operations, cash flows or financial condition of us or our portfolio companies, impose additional costs on us or our portfolio companies, intensify the regulatory supervision of us or our portfolio companies or otherwise adversely affect our business or the business of our portfolio companies.

**Our investment adviser's liability is limited under the investment advisory and management agreement, and we are required to indemnify our investment adviser against certain liabilities, which may lead our investment adviser to act in a riskier manner on our behalf than it would when acting for its own account.**

Our investment adviser has not assumed any responsibility to us other than to render the services described in the investment advisory and management agreement, and it will not be responsible for any action of our board of directors in declining to follow our investment adviser's advice or recommendations. Pursuant to the investment advisory and management agreement, our investment adviser and its members and their respective officers, managers, partners, agents, employees, controlling persons and members and any other person or entity affiliated with it will not be liable to us for their acts under the investment advisory and management agreement, absent willful misfeasance, bad faith, gross negligence or reckless disregard in the performance of their duties. We have agreed to indemnify, defend and protect our investment adviser and its members and their respective officers, managers, partners, agents, employees, controlling persons and members and any other person or entity affiliated with it with respect to all damages, liabilities, costs and expenses resulting from acts of our investment adviser not arising out of willful misfeasance, bad faith, gross negligence or reckless disregard in the performance of their duties under the investment advisory and management agreement. These protections may lead our investment adviser to act in a riskier manner when acting on our behalf than it would when acting for its own account. See "Risk Factors Risks Relating to Our Investments Our investment adviser's incentive fee may induce it to make certain investments, including speculative investments."

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**We may be obligated to pay our investment adviser incentive compensation even if we incur a loss.**

Our investment adviser is entitled to incentive compensation for each fiscal quarter in an amount equal to a percentage of the excess of our pre-incentive fee net investment income for that quarter (before deducting incentive compensation and certain other items) above a threshold return for that quarter. Our pre-incentive fee net investment income for incentive compensation purposes excludes realized and unrealized capital losses or depreciation that we may incur in the fiscal quarter, even if such capital losses or depreciation result in a net loss on our statement of operations for that quarter. Thus, we may be required to pay our investment adviser incentive compensation for a fiscal quarter even if there is a decline in the value of our portfolio or we incur a net loss for that quarter.

Under the investment advisory and management agreement, we will defer cash payment of any incentive fee otherwise earned by our investment adviser if, during the most recent four full calendar quarter periods ending on or prior to the date such payment is to be made, the sum of (a) our aggregate distributions to our stockholders and (b) our change in net assets (defined as total assets less indebtedness and before taking into account any incentive fees payable during the period) is less than 8.0% of our net assets (defined as total assets less indebtedness) at the beginning of such period. These calculations will be adjusted for any share issuances or repurchases. Any deferred incentive fees will be carried over for payment in subsequent calculation periods to the extent such payment can then be made under the investment advisory and management agreement.

If a portfolio company defaults on a loan that is structured to provide accrued interest, it is possible that accrued interest previously used in the calculation of the incentive fee will become uncollectible. Our investment adviser is not under any obligation to reimburse us for any part of the incentive fee it received that was based on accrued income that we never receive as a result of a default on the obligation that resulted in the accrual of such income.

**We may not replicate Ares' historical success and our ability to enter into transactions with Ares and our other affiliates is restricted.**

We cannot assure you that Ares Capital will replicate Ares' historical success, and we caution you that our investment returns could be substantially lower than the returns achieved by other Ares managed funds.

Further, we and certain of our controlled affiliates are prohibited under the Investment Company Act from knowingly participating in certain transactions with our upstream affiliates, or our investment adviser and its affiliates, without the prior approval of our independent directors and, in some cases, the SEC. Any person that owns, directly or indirectly, 5% or more of our outstanding voting securities is our upstream affiliate for purposes of the Investment Company Act and we are generally prohibited from buying or selling any security (other than our securities) from or to such affiliate, absent the prior approval of our independent directors. The Investment Company Act also prohibits "joint" transactions with an upstream affiliate, or our investment adviser or its affiliates, which could include investments in the same portfolio company (whether at the same or different times), without prior approval of our independent directors. In addition, we and certain of our controlled affiliates are prohibited from buying or selling any security from or to, or entering into joint transactions with, our investment adviser and its affiliates, or any person who owns more than 25% of our voting securities or is otherwise deemed to control, be controlled by, or be under common control with us, absent the prior approval of the SEC through an exemptive order (other than in certain limited situations pursuant to current regulatory guidance). The analysis of whether a particular transaction constitutes a joint transaction requires a review of the relevant facts and circumstances then existing.

We have applied for an exemptive order from the SEC that would permit us and certain of our controlled affiliates to co-invest with funds managed by Ares. Any such order, if issued, will be subject

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to certain terms and conditions and there can be no assurance that such order will be granted by the SEC. Accordingly, we cannot assure you that we or our controlled affiliates will be permitted to co-invest with funds managed by Ares, other than in the limited circumstances currently permitted by regulatory guidance or in the absence of a joint transaction.

**RISKS RELATING TO OUR INVESTMENTS**

**Declines in market prices and liquidity in the corporate debt markets can result in significant net unrealized depreciation of our portfolio, which in turn would reduce our net asset value.**

As a BDC, we are required to carry our investments at market value or, if no market value is ascertainable, at fair value as determined in good faith by or under the direction of our board of directors. We may take into account the following types of factors, if relevant, in determining the fair value of our investments: the enterprise value of a portfolio company (an estimate of the total fair value of the portfolio company's debt and equity), 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, a comparison of the portfolio company's securities to similar publicly traded securities, changes in the interest rate environment and the credit markets generally that may affect the price at which similar investments may be made in the future and other relevant factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we use the pricing indicated by the external event to corroborate our valuation. While most of our investments are not publicly traded, applicable accounting standards require us to assume as part of our valuation process that our investments are sold in a principal market to market participants (even if we plan on holding an investment through its maturity). As a result, volatility in the capital markets can also adversely affect our investment valuations. Decreases in the market values or fair values of our investments are recorded as unrealized depreciation. The effect of all of these factors on our portfolio can reduce our net asset value by increasing net unrealized depreciation in our portfolio. Depending on market conditions, we could incur substantial realized losses and may suffer unrealized losses, which could have a material adverse impact on our business, financial condition and results of operations.

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

Many of our portfolio companies may be susceptible to economic downturns or recessions (including the recent economic downturn that began in 2007) and may be unable to repay our loans during these periods. Therefore, during these periods our non-performing assets may increase and the value of our portfolio may decrease if we are required to write down the values of our investments. Adverse economic conditions may also 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 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. We experienced to some extent such effects during the recent economic downturn and may experience such effects again in any future downturn or recession.

A portfolio company's failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially, acceleration of the time when the loans are due and foreclosure on its assets representing collateral for its obligations, which could trigger cross defaults under other agreements and jeopardize our portfolio company's ability to meet its obligations under the debt that we hold and the value of any equity securities we own. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting portfolio company.

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**Investments in privately held middle-market companies involve significant risks.**

We primarily invest in privately held U.S. middle-market companies. Investments in privately held middle-market companies involve a number of significant risks, including the following:

these companies may have limited financial resources and may be unable to meet their obligations, 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 typically 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;

there is generally little public information about these companies. These companies and their financial information are not subject to the Securities Exchange Act of 1934 (the "Exchange Act") and other regulations that govern public companies, and we may be unable to uncover all material information about these companies, which may prevent us from making a fully informed investment decision and cause us to lose money on our investments;

they generally have less predictable operating results and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position;

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.

**Our debt investments may be risky and we could lose all or part of our investment.**

The debt that we invest in is typically not initially rated by any rating agency, but we believe that if such investments were rated, they would be below investment grade (rated lower than "Baa3" by Moody's Investors Service, lower than "BBB-" by Fitch Ratings or lower than "BBB-" by Standard & Poor's Ratings Services). Indebtedness of below investment grade quality is regarded as having predominantly speculative characteristics with respect to the issuer's capacity to pay interest and repay principal. Therefore, our investments may result in an above average amount of risk and volatility or loss of principal. We also invest in assets other than first and second lien and mezzanine debt investments, including high-yield securities, U.S. government securities, credit derivatives and other structured securities and certain direct equity investments. These investments entail additional risks that could adversely affect our investment returns.

In addition, to the extent interest payments associated with such debt are deferred, such debt will be subject to greater fluctuations in value based on changes in interest rates. Also, such debt could subject us to phantom income, and since we generally do not receive any cash prior to maturity of the debt, the investment is of greater risk.

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**Investments in equity securities, many of which are illiquid with no readily available market, involve a substantial degree of risk.**

We may purchase common and other equity securities. Although common stock has historically generated higher average total returns than fixed income securities over the long-term, common stock also has experienced significantly more volatility in those returns and in recent years has significantly under performed relative to fixed income securities. The equity securities we acquire may fail to appreciate and may decline in value or become worthless and our ability to recover our investment will depend on our portfolio company's success. Investments in equity securities involve a number of significant risks, including:

any equity investment we make in a portfolio company could be subject to further dilution as a result of the issuance of additional equity interests and to serious risks as a junior security that will be subordinate to all indebtedness (including trade creditors) or senior securities in the event that the issuer is unable to meet its obligations or becomes subject to a bankruptcy process;

to the extent that the portfolio company requires additional capital and is unable to obtain it, we may not recover our investment; and

in some cases, equity securities in which we invest will not pay current dividends, and our ability to realize a return on our investment, as well as to recover our investment, will be dependent on the success of the portfolio company. Even if the portfolio company is successful, our ability to realize the value of our investment may be dependent on the occurrence of a liquidity event, such as a public offering or the sale of the portfolio company. It is likely to take a significant amount of time before a liquidity event occurs or we can otherwise sell our investment. In addition, the equity securities we receive or invest in may be subject to restrictions on resale during periods in which it could be advantageous to sell them.

There are special risks associated with investing in preferred securities, including:

preferred securities may include provisions that permit the issuer, at its discretion, to defer distributions for a stated period without any adverse consequences to the issuer. If we own a preferred security that is deferring its distributions, we may be required to report income for tax purposes before we receive such distributions;

preferred securities are subordinated to debt in terms of priority to income and liquidation payments, and therefore will be subject to greater credit risk than debt;

preferred securities may be substantially less liquid than many other securities, such as common stock or U.S. government securities; and

generally, preferred security holders have no voting rights with respect to the issuing company, subject to limited exceptions.

Additionally, when we invest in first and second lien senior loans or mezzanine debt, we may acquire warrants or other equity securities as well. 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.

We may invest, to the extent permitted by law, in the equity securities of investment funds that are operating pursuant to certain exceptions to the Investment Company Act and in advisers to similar investment funds and, to the extent we so invest, will bear our ratable share of any such company's





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expenses, including management and performance fees. We will also remain obligated to pay management and incentive fees to Ares Capital Management with respect to the assets invested in the securities and instruments of such companies. With respect to each of these investments, each of our common stockholders will bear his or her share of the management and incentive fee of Ares Capital Management as well as indirectly bearing the management and performance fees and other expenses of any such investment funds or advisers.

As a result of the Allied Acquisition, Allied Capital's equity investments, including equity investments larger than those we have traditionally made and controlled portfolio company equity investments, became part of our portfolio. We intend to actively seek opportunities over time to dispose of certain of these investments and generally rotate them into higher-yielding first and second lien senior loans and mezzanine debt or other investments. However, there can be no assurance that this strategy will be successful.

**There may be circumstances where our debt investments could be subordinated to claims of other creditors or we could be subject to lender liability claims.**

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, a bankruptcy court might recharacterize our debt holding as an equity investment and subordinate all or a portion of our claim to that of other creditors. In addition, lenders can be subject to lender liability claims for actions taken by them where they become too involved in the borrower's business or exercise control over the borrower. For example, we could become subject to a lender's liability claim, if, among other things, we actually render significant managerial assistance.

**Our portfolio companies may incur debt or issue equity securities that rank equally with, or senior to, our investments in such companies.**

Our portfolio companies may have, or may be permitted to incur, other debt, or issue other equity securities, that rank equally with, or senior to, our investments. By their terms, such instruments may provide that the holders are entitled to receive payment of dividends, interest or principal on or before the dates on which we are entitled to receive payments in respect of our investments. These debt instruments would usually prohibit the portfolio companies from paying interest on or repaying our investments in the event and during the continuance of a default under such debt. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of securities ranking senior to our investment in that portfolio company typically are entitled to receive payment in full before we receive any distribution in respect of our investment. After repaying such holders, the portfolio company may not have any remaining assets to use for repaying its obligation to us. In the case of securities ranking equally with our investments, we would have to share on an equal basis any distributions with other security holders in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant portfolio company.

The rights we may have with respect to the collateral securing any junior priority loans we make to our portfolio companies may also be limited pursuant to the terms of one or more intercreditor agreements that we enter into with the holders of senior debt. Under such an intercreditor agreement, at any time that senior obligations are outstanding, we may forfeit certain rights with respect to the collateral to the holders of the senior obligations. These rights may include the right to commence enforcement proceedings against the collateral, the right to control the conduct of such enforcement proceedings, the right to approve amendments to collateral documents, the right to release liens on the collateral and the right to waive past defaults under collateral documents. We may not have the ability to control or direct such actions, even if as a result our rights as junior lenders are adversely affected.

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**When we are a debt or minority equity investor in a portfolio company, we are often not in a position to exert influence on the entity, and other equity holders and management of the company may make decisions that could decrease the value of our portfolio holdings.**

When we make debt or minority equity investments, we are subject to the risk that a portfolio company may make business decisions with which we disagree and the other equity holders and management of such company may take risks or otherwise act in ways that do not serve our interests. As a result, a portfolio company may make decisions that could decrease the value of our investment.

**Our portfolio companies may be highly leveraged.**

Some of our portfolio companies may be highly leveraged, which may have adverse consequences to these companies and to us as an investor. These companies may be subject to restrictive financial and operating covenants and the leverage may impair these companies' ability to finance their future operations and capital needs. As a result, these companies' flexibility to respond to changing business and economic conditions and to take advantage of business opportunities may be limited. Further, a leveraged company's income and net assets will tend to increase or decrease at a greater rate than if borrowed money were not used.

**Our investment adviser's incentive fee may induce it to make certain investments, including speculative investments.**

The incentive fee payable by us to Ares Capital Management may create an incentive for Ares Capital Management to make investments on our behalf that are risky or more speculative than would be the case in the absence of such compensation arrangement. The way in which the incentive fee payable to our investment adviser is determined, which is calculated as a percentage of the return on invested capital, may encourage our investment adviser to use leverage to increase the return on our investments. Under certain circumstances, the use of leverage may increase the likelihood of default, which would disfavor the holders of our common stock and the holders of securities convertible into our common stock. In addition, our investment adviser will receive the incentive fee based, in part, upon net capital gains realized on our investments. Unlike the 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, our investment adviser may have a tendency to invest more 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 part of the incentive fee payable by us that relates to our pre-incentive fee net investment income will be computed and paid on income that may include interest that is accrued but not yet received in cash. If a portfolio company defaults on a loan that is structured to provide accrued interest, it is possible that accrued interest previously used in the calculation of the incentive fee will become uncollectible. Our investment adviser is not under any obligation to reimburse us for any part of the incentive fee it received that was based on such accrued interest that we never actually receive.

Because of the structure of the incentive fee, it is possible that we may have to pay an incentive fee in a quarter where we incur a loss. For example, if we receive pre-incentive fee net investment income in excess of the hurdle rate for a quarter, we will pay the applicable incentive fee even if we have incurred a loss in that quarter due to realized and/or unrealized capital losses. In addition, if market interest rates rise, we may be able to invest our funds in debt instruments that provide for a higher return, which would increase our pre-incentive fee net investment income and make it easier for our investment adviser to surpass the fixed hurdle rate and receive an incentive fee based on such net investment income.

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**Our investments in foreign companies may involve significant risks in addition to the risks inherent in U.S. investments. We may also expose ourselves to risks if we engage in hedging transactions.**

Our investment strategy contemplates potential investments in 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 (potentially at confiscatory levels), less liquid markets, less available information than is generally the 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, our investments that are 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 cannot assure you that such strategies will be effective or without risk to us.

We have and may in the future enter into hedging transactions, which may expose us 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. Use of these hedging instruments may include counter-party credit risk.

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 transactions 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 (or be able 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. See also "Risk Factors Risk Relating to Our Business We are exposed to risks associated with changes in interest rates."

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**We may initially invest a portion of the net proceeds of offerings pursuant to this prospectus primarily in high-quality short-term investments, which will generate lower rates of return than those expected from the interest generated on first and second lien loans and mezzanine debt.**

We may initially invest a portion of the net proceeds of offerings primarily in cash, cash equivalents, U.S. government securities and other high-quality short-term investments. These securities may earn yields substantially lower than the income that we anticipate receiving once we are fully invested in accordance with our investment objective. As a result, we may not be able to achieve our investment objective and/or pay any dividends during this period or, if we are able to do so, such dividends may be substantially lower than the dividends that we expect to pay when our portfolio is fully invested. If we do not realize yields in excess of our expenses, we may incur operating losses and the market price of our shares may decline.

**The Allied Acquisition may have triggered certain "change of control" provisions and other restrictions in certain of our and Allied Capital's contracts and the failure to obtain any required consents or waivers could adversely impact us.**

Certain agreements of Allied Capital and Ares Capital or their controlled affiliates may have required a consent, amendment or waiver of one or more counterparties in connection with the Allied Acquisition. Our failure to have obtained any such consent, amendment or waiver may permit such counterparties to terminate, or otherwise increase their rights or our obligations under, any such agreement because the Allied Acquisition may have violated an anti-assignment, change of control or other provision. As a result, we may have to seek to replace that agreement with a new agreement or seek a waiver or amendment to such agreement. We cannot assure you that we will be able to replace, amend or obtain a waiver under any such agreement on comparable terms or at all.

**RISKS RELATING TO OFFERINGS PURSUANT TO THIS PROSPECTUS**

**Our shares of common stock have traded at a discount from net asset value and may do so again in the future, which could limit our ability to raise additional equity capital.**

Shares of closed-end investment companies frequently trade at a market price that is less than the net asset value that is attributable to those shares. This characteristic of closed-end investment companies is separate and distinct from the risk that our net asset value per share may decline. It is not possible to predict whether any shares of our common stock will trade at, above, or below net asset value. In the recent past, including during much of 2009, the stocks of BDCs as an industry, including at times shares of our common stock, traded below net asset value and at near historic lows as a result of concerns over liquidity, leverage restrictions and distribution requirements. When our common stock is trading below its net asset value per share, we will generally not be able to issue additional shares of our common stock at its market price without first obtaining approval for such issuance from our stockholders and our independent directors. At our 2011 annual stockholders meeting, subject to certain determinations required to be made by our board of directors, our stockholders approved our ability to sell or otherwise issue shares of our common stock, not exceeding 25% of our then outstanding common stock, at a price below the then current net asset value per share during a period beginning on June 6, 2011 and expiring on the earlier of June 6, 2012 and the date of our 2012 annual stockholders meeting.

**There is a risk that investors in our common stock may not receive dividends or that our dividends may not grow over time and that investors in our debt securities may not receive all of the interest income to which they are entitled.**

We intend to make distributions on a quarterly basis to our stockholders out of assets legally available for distribution. We cannot assure you that we will achieve investment results that will allow

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us to make a specified level of cash distributions or year-to-year increases in cash distributions. If we declare a dividend and if more stockholders opt to receive cash distributions rather than participate in our dividend reinvestment plan, we may be forced to sell some of our investments in order to make cash dividend payments.

In addition, due to the asset coverage test applicable to us as a BDC, we may be limited in our ability to make distributions. Further, if we invest a greater amount of assets in equity securities that do not pay current dividends, it could reduce the amount available for distribution. See "Price Range of Common Stock and Distributions."

The above-referenced restrictions on distributions may also inhibit our ability to make required interest payments to holders of our debt, which may cause a default under the terms of our debt agreements. Such a default could materially increase our cost of raising capital, as well as cause us to incur penalties under the terms of our debt agreements.

**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 our bylaws contain provisions that may discourage, delay or make more difficult a change in control of Ares Capital or the removal of our directors. We are subject to the Maryland Business Combination Act, subject to any applicable requirements of the Investment Company 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 (the "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 an offer.

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 discourage, delay, defer, make more difficult or prevent a transaction or a change in control that might otherwise be in the best interests of our stockholders.

**Investing in our common stock may involve an above average degree of risk.**

The investments we make in accordance with our investment objective may result in a higher amount of risk than alternative investment options and volatility or loss of principal. Our investments in portfolio companies may be highly speculative and aggressive and, therefore, an investment in our securities may not be suitable for someone with lower risk tolerance.

**The market price of our common stock may fluctuate significantly.**

The capital and credit markets have recently experienced a period of extreme volatility and disruption that began in 2007. The market price and liquidity of the market for shares of our common

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stock may be significantly affected by numerous factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include:

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

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

changes in law, regulatory policies or tax guidelines, or interpretations thereof, particularly with respect to RICs or BDCs;

loss of our RIC status;

changes in our earnings or variations in our operating results;

changes in the value of our portfolio of investments;

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

departure of Ares Capital Management's key personnel;

operating performance of companies comparable to us;

short-selling pressure with respect to shares of our common stock or BDCs generally;

future sales of our securities convertible into or exchangeable or exercisable for our common stock or the conversion of such securities, including the Convertible Notes;

uncertainty surrounding the strength of the U.S. economic recovery;

concerns regarding European sovereign debt;

general economic trends (including inflationary concerns) and other external factors (including the U.S. budget deficit); and

loss of a major funding source.

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. If our stock price fluctuates significantly, we may be the target of securities litigation in the future. Securities litigation could result in substantial costs and divert management's attention and resources from our business.

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

At our 2011 annual stockholders meeting, subject to certain determinations required to be made by our board of directors, our stockholders approved our ability to sell or otherwise issue shares of our common stock, not exceeding 25% of our then outstanding common stock, at a price below the then current net asset value per share during a period beginning on June 6, 2011 and expiring on the earlier of June 6, 2012 and the date of our 2012 annual stockholders meeting.

In addition, at our 2009 annual stockholders meeting, our stockholders approved a proposal authorizing us to sell or otherwise issue warrants or securities to subscribe for or convertible into shares of our common stock subject to certain limitations (including, without limitation, that the number of shares issuable does not exceed 25% of our then outstanding common stock and that the exercise or conversion price thereof is not, at the date of issuance, less than the greater of the market value per share and the net asset value per share of our common stock). The authorization granted to sell or

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issue warrants or securities to subscribe for or convertible into shares of our common stock has no expiration.

Any decision to sell shares of our common stock below its then current net asset value per share or securities to subscribe for or convertible into shares of our common stock would be subject to the determination by our board of directors that such issuance is in our and our stockholders' best interests.

If we were to sell shares of our common stock below its then current net asset value per share, such sales would result in an immediate dilution to the net asset value per share of our common stock. This dilution would occur as a result of the sale of shares at a price below the then current net asset value per share of our common stock and a proportionately greater decrease in the stockholders' interest in our earnings and assets and their voting interest in us than the increase in our assets resulting from such issuance. Because the number of shares of common stock that could be so issued and the timing of any issuance is not currently known, the actual dilutive effect cannot be predicted.

In addition, if we issue warrants or securities to subscribe for or convertible into shares of our common stock, subject to certain limitations, the exercise or conversion price per share could be less than net asset value per share at the time of exercise or conversion (including through the operation of anti-dilution protections). Because we would incur expenses in connection with any issuance of such securities, such issuance could result in a dilution of the net asset value per share at the time of exercise or conversion. This dilution would include reduction in net asset value per share as a result of the proportionately greater decrease in the stockholders' interest in our earnings and assets and their voting interest than the increase in our assets resulting from such issuance.

Further, if current stockholders of the Company do not purchase any shares to maintain their percentage interest, regardless of whether such offering is above or below the then current net asset value per share, their voting power will be diluted. For additional information and hypothetical examples of these risks, see "Sales of Common Stock Below Net Asset Value" and the prospectus supplement pursuant to which such sale is made.

**Your interest in us may be diluted if you do not fully exercise your subscription rights in any rights offering. In addition, if the subscription price is less than our net asset value per share, then you will experience an immediate dilution of the aggregate net asset value of your shares.**

In the event we issue subscription rights, stockholders who do not fully exercise their subscription rights should expect that they will, at the completion of a rights offering pursuant to this prospectus, own a smaller proportional interest in us than would otherwise be the case if they fully exercised their rights. We cannot state precisely the amount of any such dilution in share ownership because we do not know at this time what proportion of the shares will be purchased as a result of such rights offering.

In addition, if the subscription price is less than the net asset value per share of our common stock, then our stockholders would experience an immediate dilution of the aggregate net asset value of their shares as a result of the offering. The amount of any decrease in net asset value is not predictable because it is not known at this time what the subscription price and net asset value per share will be on the expiration date of a rights offering or what proportion of the shares will be purchased as a result of such rights offering. Such dilution could be substantial. See "Risk Factors Risks Relating to Offerings Pursuant to this Prospectus The net asset value per share of our common stock may be diluted if we sell shares of our common stock in one or more offerings at prices below the then current net asset value per share of our common stock or securities to subscribe for or convertible into shares of our common stock" and "Sales of Common Stock Below Net Asset Value."



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**Investors in offerings of our common stock will likely incur immediate dilution upon the closing of such offering.**

We generally expect the public offering price of any offering of shares of our common stock to be higher than the book value per share of our outstanding common stock (unless we offer shares pursuant to a rights offering or after obtaining prior approval for such issuance from our stockholders and our independent directors). Accordingly, investors purchasing shares of common stock in offerings pursuant to this prospectus may pay a price per share that exceeds the tangible book value per share after such offering.

**Our stockholders will experience dilution in their ownership percentage if they opt out of our dividend reinvestment plan.**

All dividends declared in cash payable to stockholders that are participants in our dividend reinvestment plan are automatically reinvested in shares of our common stock. As a result, our stockholders that opt out of our dividend reinvestment plan will experience dilution in their ownership percentage of our common stock over time.

**Our stockholders may experience dilution upon the conversion of the Convertible Notes.**

The February 2016 Convertible Notes are convertible into shares of our common stock beginning August 15, 2015 or, under certain circumstances, earlier and the June 2016 Convertible Notes are convertible into shares of our common stock beginning on December 15, 2015, or, under certain circumstances, earlier. Upon conversion of the Convertible Notes, we have the choice to pay or deliver, as the case may be, at our election, cash, shares of our common stock or a combination of cash and shares of our common stock. The current conversion price of the February 2016 Convertible Notes is approximately \$19.13 per share of common stock and the current conversion price of the June 2016 Convertible Notes is approximately \$19.04, in each case subject to adjustment in certain circumstances. If we elect to deliver shares of common stock upon a conversion at the time our tangible book value per share exceeds the conversion price in effect at such time, our stockholders may incur dilution. In addition, our stockholders will experience dilution in their ownership percentage of common stock upon our issuance of common stock in connection with the conversion of the Convertible Notes and any dividends paid on our common stock will also be paid on shares issued in connection with such conversion after such issuance.

**Our stockholders may receive shares of our common stock as dividends, which could result in adverse tax consequences to them.**

In order to satisfy the Annual Distribution Requirement applicable to RICs, we have the ability to declare a large portion of a dividend in shares of our common stock instead of in cash. As long as a portion of such dividend is paid in cash (which portion can be as low as 10% for our taxable years ending on or before December 31, 2011) and certain requirements are met, the entire distribution would be treated as a dividend for U.S. federal income tax purposes. As a result, a stockholder would be taxed on 100% of the fair market value of the dividend on the date a stockholder received it in the same manner as a cash dividend, even though most of the dividend was paid in shares of our common stock.

**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.**

Sales of substantial amounts of our common stock, or the availability of such common stock for sale (including as a result of the conversion of our Convertible Notes into common stock), could adversely affect the prevailing market prices for our common stock. If this occurs and continues, it

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could impair our ability to raise additional capital through the sale of securities should we desire to do so.

**The trading market or market value of our publicly issued debt securities may fluctuate.**

Our publicly issued debt securities may or may not have an established trading market. We cannot assure you that a trading market for our publicly issued debt securities will ever develop or be maintained if developed. In addition to our creditworthiness, many factors may materially adversely affect the trading market for, and market value of, our publicly issued debt securities. These factors include, but are not limited to, the following:

the time remaining to the maturity of these debt securities;

the outstanding principal amount of debt securities with terms identical to these debt securities;

the ratings assigned by national statistical ratings agencies;

the general economic environment;

the supply of debt securities trading in the secondary market, if any;

the redemption or repayment features, if any, of these debt securities;

the level, direction and volatility of market interest rates generally; and

market rates of interest higher or lower than rates borne by the debt securities.

You should also be aware that there may be a limited number of buyers when you decide to sell your debt securities. This too may materially adversely affect the market value of the debt securities or the trading market for the debt securities.

**Terms relating to redemption may materially adversely affect your return on any debt securities that we may issue.**

If your debt securities are redeemable at our option, we may choose to redeem your debt securities at times when prevailing interest rates are lower than the interest rate paid on your debt securities. In addition, if your debt securities are subject to mandatory redemption, we may be required to redeem your debt securities also at times when prevailing interest rates are lower than the interest rate paid on your debt securities. In this circumstance, you may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as your debt securities being redeemed.

**Our credit ratings may not reflect all risks of an investment in our debt securities.**

Our credit ratings are an assessment by third parties of our ability to pay our obligations. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of our debt securities. Our credit ratings, however, may not reflect the potential impact of risks related to market conditions generally or other factors discussed above on the market value of or trading market for the publicly issued debt securities.

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**FORWARD-LOOKING STATEMENTS**

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

our, or our portfolio companies', future business, operations, operating results or prospects;

the return or impact of current and future investments;

the impact of a protracted decline in the liquidity of credit markets on our business;

the impact of fluctuations in interest rates on our business;

the impact of changes in laws or regulations (including interpretation thereof) governing our operations or the operations of our portfolio companies;

the valuation of our investments in portfolio companies, particularly those having no liquid trading market;

our ability to successfully integrate our business with the business of Allied Capital, including rotating out of certain investments acquired in connection therewith;

our ability to recover unrealized losses;

market conditions and our ability to access alternative debt markets and additional debt and equity capital;

our contractual arrangements and relationships with third parties;

Middle East turmoil and the potential for rising energy prices and its impact on the industries in which we invest;

the general economy (including inflation and the U.S. budget deficit) and its impact on the industries in which we invest;

the uncertainty surrounding the strength of the U.S. economic recovery;

European sovereign debt issues;

the financial condition of and ability of our current and prospective portfolio companies to achieve their objectives;

our expected financings and investments;

our ability to successfully integrate any acquisitions;

the adequacy of our cash resources and working capital;

the timing, form and amount of any dividend distributions;

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

the ability of our investment adviser to locate suitable investments for us and to monitor and administer our investments.

We use words such as "anticipates," "believes," "expects," "intends," "will," "should," "may" and similar expressions to identify forward-looking statements, although not all forward-looking statements include these words. Our actual results and condition could differ materially from those implied or expressed in the forward-looking statements for any reason, including the factors set forth in "Risk Factors" and elsewhere in this prospectus.

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

The forward-looking statements in this prospectus are excluded from the safe harbor protection provided by Section 27A of the Securities Act of 1933 (the "Securities Act") and Section 21E of the Exchange Act.

Table of Contents**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**

**Ares Capital Corporation and Subsidiaries**  
**Pro Forma Condensed Consolidated Statement of Operations**  
**For the Year Ended December 31, 2010**  
**Unaudited**  
**(in thousands, except per share data)**

|   | Actual Ares<br>Capital | Actual Allied<br>Capital | Pro Forma<br>Adjustments | Ares Capital<br>Pro Forma<br>Combined |
|---|------------------------|--------------------------|--------------------------|---------------------------------------|
| <b>Performance Data:</b>                        |                        |                          |                          |                                       |
| Interest and dividend income                    | \$ 407,997             | \$ 49,461                | \$ (A)\$                 | 457,458                               |
| Fees and other income                           | 75,399                 | 4,631                    |                          | 80,030                                |
| Total investment income                         | 483,396                | 54,092                   |                          | 537,488                               |
| Interest and credit facility fees               | 79,347                 | 23,605                   | (B)                      | 102,952                               |
| Base management fees                            | 51,998                 |                          | 7,876 (C)                | 59,874                                |
| Incentive management fees                       | 76,895                 |                          | (D)                      | 76,895                                |
| Other expenses                                  | 53,948                 | 31,357                   | (33,114)(E)              | 52,191                                |
| Total expenses                                  | 262,188                | 54,962                   | (25,238)                 | 291,912                               |
| Net investment income before taxes              | 221,208                | (870)                    | 25,238                   | 245,576                               |
| Income taxes                                    | 5,392                  | 1,202                    |                          | 6,594                                 |
| Net investment income after taxes               | 215,816                | (2,072)                  |                          | 238,982                               |
| Net realized gains (losses)                     | 45,478                 | (71,532)                 |                          | (26,054)                              |
| Net unrealized gains (losses)                   | 230,743                | 40,277                   |                          | 271,020                               |
| Net realized and unrealized gains (losses)      | 276,221                | (31,255)                 |                          | 244,966                               |
| Gain on the Allied Acquisition                  | 195,876                |                          | (195,876)                |                                       |
| Gain on extinguishment of debt                  |                        | 4,964                    |                          | 4,964                                 |
| Loss on extinguishment of debt                  | (1,961)                | (6,972)                  |                          | (8,933)                               |
| Gain on sale of other assets                    | 5,882                  |                          |                          | 5,882                                 |
| Net increase (decrease) in stockholders' equity | \$ 691,834             | \$ (35,335)              | \$ (170,638)             | \$ 485,861                            |
| Weighted average shares outstanding             | 176,732                | 179,938                  | (165,355)(F)             | 191,315                               |
| Earnings (loss) per share                       | \$ 3.91                | \$ (0.20)                | \$ (1.17)                | \$ 2.54                               |

\*

Please see Note 2 of the accompanying notes to pro forma condensed consolidated statement of operations on page 57.

See accompanying notes to pro forma condensed consolidated statement of operations.

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**Ares Capital Corporation and Subsidiaries**  
**Notes to Pro Forma Condensed Consolidated Statement of Operations**  
**Unaudited**  
**(In thousands, unless otherwise stated)**

**1. BASIS OF PRO FORMA PRESENTATION**

The unaudited pro forma condensed consolidated statement of operations related to the merger is included for the year ended December 31, 2010. On October 26, 2009, we entered into a definitive agreement to acquire Allied Capital in the Allied Acquisition. On April 1, 2010, we completed the Allied Acquisition by acquiring the outstanding shares of Allied Capital in exchange for shares of our common stock in a transaction valued at approximately \$908 million as of the closing date. Concurrently with the completion of the Allied Acquisition, we assumed and then repaid in full the \$137 million of remaining amounts outstanding on Allied Capital's \$250 million senior secured term loan. We also assumed all of Allied Capital's other outstanding debt obligations, including approximately \$745 million in aggregate principal amount of the 2011 Notes, the 2012 Notes and the 2040 Notes (collectively, the "Allied Unsecured Notes").

Under the terms of the transaction, each Allied Capital stockholder received 0.325 shares of our common stock for each share of Allied Capital common stock then owned by such stockholder. In connection with the Allied Acquisition, approximately 58.5 million shares of our common stock (including the effect of outstanding in-the money Allied Capital stock options) were issued to Allied Capital's then-existing stockholders, thereby resulting in our then-existing stockholders owning approximately 69% of the combined company and the then-existing Allied Capital stockholders owning approximately 31% of the combined company.

The Allied Acquisition was accounted for in accordance with the acquisition method of accounting as detailed in ASC 805-10. The acquisition method of accounting requires an acquirer to recognize the assets acquired, the liabilities assumed and any noncontrolling interest in the acquired entity based on their fair values as of the date of acquisition. As described in more detail in ASC 805-10, if the total acquisition date fair value of the identifiable net assets acquired exceeds the fair value of the consideration transferred, the excess will be recognized as a gain. Upon completion of our determination of the fair value of Allied Capital's identifiable net assets as of April 1, 2010, the fair value of such net assets exceeded the fair value of the consideration transferred, thereby, resulting in the recognition of a gain. The valuation of the investments acquired as part of the Allied Acquisition was done in accordance with Ares Capital's valuation policy (see Notes 2 and 8 to the consolidated financial statements for the year ended December 31, 2010).



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Following is the allocation of the purchase price to the assets acquired and liabilities assumed as a result of the Allied Acquisition:

|   |           |                  |
|---|-----------|------------------|
| Common stock issued   | \$        | 872,727          |
| Payments to holders of "in-the-money"<br>Allied Capital stock options |           | 35,011(1)        |
| <b>Total purchase price</b>   | <b>\$</b> | <b>907,738</b>   |
| Assets acquired:  |           |                  |
| Investments   | \$        | 1,833,766        |
| Cash and cash equivalents   |           | 133,548          |
| Other assets  |           | 80,078           |
| <b>Total assets acquired</b>  |           | <b>2,047,392</b> |
| <b>Debt and other liabilities assumed</b>                             |           | <b>(943,778)</b> |
| <b>Net assets acquired</b>  |           | <b>1,103,614</b> |
| <b>Gain on acquisition of Allied Capital</b>                          |           | <b>(195,876)</b> |
|   | <b>\$</b> | <b>907,738</b>   |

(1) Represents cash payment for holders of any "in-the-money" Allied Capital stock options that elected to receive cash.

Ares Capital has elected to be treated as a RIC under subchapter M of the Code and operates in a manner so as to qualify for the tax treatment applicable to RICs. In order to qualify as a RIC, among other things, Ares Capital is required to timely distribute to its stockholders generally at least 90% of its investment company taxable income, as defined by the Code, for each year. The unaudited pro forma condensed consolidated financial information reflects that Ares Capital has made and intends to continue to make the requisite distributions to its stockholders, which will generally relieve Ares Capital from U.S. federal income taxes.

The unaudited pro forma condensed consolidated statement of operations presented in this document is for illustrative purposes only and does not necessarily indicate the results of operations that would have resulted had the merger and subsequent combination been completed at the beginning of the applicable period presented, nor the impact of expense efficiencies, asset dispositions, share repurchases and other factors. The unaudited pro forma condensed consolidated statement of operations is not indicative of the results of operations in future periods of the combined company.

## 2. PRO FORMA ADJUSTMENTS

The pro forma purchase accounting allocation included in the unaudited pro forma condensed consolidated statement of operations is as follows:

- A. The purchase price of certain investments in debt securities acquired from Allied Capital was determined by Ares Capital to be less than the expected recovery value of such investments. In accordance with Generally Accepted Accounting Principles ("GAAP"), subsequent to April 1, 2010, Ares Capital will record the accretion to the expected recovery value in interest income over the remaining term of the investment. Other than what was included in the actual results for Ares Capital for the year ended December 31, 2010, interest income has not been adjusted to reflect the accretion to the expected recovery value for the periods presented. The accretion for the first 12 months subsequent to April 1, 2010 is estimated to be approximately \$12 million. However, there can be no assurance that such accretion will be more or less than such estimate.
- B. The fair value of the outstanding debt assumed from Allied Capital was determined by Ares Capital to be below the face amount of such debt. In accordance with GAAP, subsequent to



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April 1, 2010, Ares Capital will record accretion to the face amount in interest expense over the remaining term of the debt. Other than what was included in the actual results for Ares Capital for the year ended December 31, 2010, interest expense has not been adjusted to reflect the accretion to the face value for the periods presented. The accretion for the first 12 months subsequent to April 1, 2010 is estimated to be approximately \$11 million. However, there can be no assurance that such accretion will be more or less than such estimate.

- C. Base management fees were computed based on 1.5% of average total assets other than cash and cash equivalents but including assets purchased with borrowed funds per Ares Capital's investment advisory and management agreement with Ares Capital Management.
- D. Incentive management fees were recomputed based on the formula in Ares Capital's investment advisory and management agreement with Ares Capital Management.
- E. Adjustments to other expenses were made to reflect compensation costs for Allied Capital's employees that would have been covered by the base management fees paid to Ares Capital Management and therefore not incurred by Ares Capital. Additionally, all stock option costs were excluded as such costs would not exist at Ares Capital as there is no stock option plan maintained by Ares Capital. Payments of stock option costs to employees would have been similarly incurred by Ares Capital in the form of incentive management fees paid to Ares Capital Management. Lastly, any actual costs incurred related to the merger and subsequent combination, primarily various transaction costs, were also excluded.
- F. Weighted average shares for the year ended December 31, 2010 have been adjusted to reflect the following:

| (in thousands)   | For the<br>Year Ended<br>December 31, 2010 |
|--|--|
| Ares Capital weighted average shares outstanding   | 176,732                                    |
| Estimated additional weighted average shares outstanding as a result of the Allied Acquisition | 14,583                                     |
| Ares Capital adjusted weighted average shares outstanding                                      | 191,315                                    |

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**USE OF PROCEEDS**

Unless otherwise specified in a prospectus supplement, we intend to use the net proceeds from the sale of our securities for general corporate purposes, which includes investing in portfolio companies in accordance with our investment objective and strategies and market conditions. We also expect to use the net proceeds of an offering to repay or repurchase outstanding indebtedness, which may include indebtedness under (a) the Revolving Credit Facility (no principal amount outstanding as of June 30, 2011), (b) the Revolving Funding Facility (\$347.8 million principal amount outstanding as of June 30, 2011), (c) the CLO Notes under the Debt Securitization (\$138.3 million aggregate principal amount outstanding as of June 30, 2011), (d) the 2040 Notes (\$200.0 million aggregate principal amount outstanding as of June 30, 2011), (e) the 2047 Notes (\$230.0 million aggregate principal amount outstanding as of June 30, 2011); (f) the February 2016 Convertible Notes (\$575.0 million aggregate principal amount outstanding as of June 30, 2011) and (g) the June 2016 Convertible Notes (\$230.0 million aggregate principal amount outstanding as of June 30, 2011).

The interest charged on the indebtedness incurred under the Revolving Credit Facility is based on LIBOR (one, two, three or six month) plus an applicable spread of between 2.50% and 4.00%. As of June 30, 2011, the one, two, three and six month LIBOR were 0.19%, 0.22%, 0.25% and 0.40%, respectively, and the applicable LIBOR spread was 3.00%. The Revolving Credit Facility matures on January 22, 2013. Subject to certain exceptions, the interest charged on the Revolving Funding Facility is based on LIBOR plus an applicable spread of between 2.25% and 3.75% or on a "base rate" (which is the higher of a prime rate, or the federal funds rate plus 0.50%) plus an applicable spread of between 1.25% to 2.75%, in each case based on a pricing grid depending upon the credit rating of the Company. The effective LIBOR spread under the Revolving Funding Facility on June 30, 2011 was 2.75%. The Revolving Funding Facility is scheduled to expire on January 18, 2016 (subject to two one-year extension options exercisable upon mutual consent). As of June 30, 2011, the blended pricing of the CLO Notes, excluding fees, was approximately three-month LIBOR plus 0.38%. The CLO Notes mature on December 20, 2019 and the reinvestment period for this vehicle expired on June 17, 2011. The interest charged on the Unsecured Notes and Convertible Notes is as follows: (a) 7.75% in the case of the 2040 Notes, (b) 6.875% in the case of the 2047 Notes, (c) 5.75% in the case of the February 2016 Convertible Notes and (d) 5.125% in the case of the June 2016 Convertible Notes. The 2040 Notes, 2047 Notes, February 2016 Convertible Notes and June 2016 Convertible Notes mature on October 14, 2040, April 15, 2047, February 1, 2016 and June 1, 2016, respectively. The supplement to this prospectus relating to an offering may more fully identify the use of the proceeds from such offering.

We anticipate that substantially all of the net proceeds of an offering of securities pursuant to this prospectus and its related prospectus supplement will be used for the above purposes within three months of any such offering, depending on the availability of appropriate investment opportunities consistent with our investment objective and strategies and market conditions, but no longer than within six months of any such offerings.

Our primary focus is to generate current income and capital appreciation through investments in first and second lien senior loans and mezzanine debt and, to a lesser extent, equity securities of eligible portfolio companies. In addition to such investments, we may invest up to 30% of our portfolio in opportunistic investments of non-eligible portfolio companies. As part of this 30%, we may invest in debt of middle-market companies located outside of the United States. Pending such investments, we will invest a portion of the net proceeds primarily in cash, cash equivalents, U.S. government securities and other high-quality short-term investments. These securities may earn yields substantially lower than the income that we anticipate receiving once we are fully invested in accordance with our investment objective. As a result, we may not be able to achieve our investment objective and/or pay any dividends during this period or, if we are able to do so, such dividends may be substantially lower than the dividends that we expect to pay when our portfolio is fully invested. If we do not realize yields in excess of our expenses, we may incur operating losses and the market price of our common stock and debt securities may decline. See "Regulation Temporary Investments" for additional information about temporary investments we may make while waiting to make longer-term investments in pursuit of our investment objective.

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Our common stock is traded on The NASDAQ Global Select Market under the symbol "ARCC." Our common stock has historically traded at prices both above and below our net asset value per share. It is not possible to predict whether our common stock will trade at, above or below net asset value. See "Risk Factors Risks Relating to Offerings Pursuant to this Prospectus Our shares of common stock have traded at a discount from net asset value and may do so again in the future, which could limit our ability to raise additional equity capital."

The following table sets forth, for each fiscal quarter for the fiscal years ended December 31, 2009, 2010 and 2011, the net asset value per share of our common stock, the range of high and low closing sales prices of our common stock, the closing sales price as a percentage of net asset value and the dividends or distributions declared by us. On July 18, 2011, the last reported closing sales price of our common stock on The NASDAQ Global Select Market was \$15.16 per share, which represented a discount of approximately 1.88% to the net asset value per share reported by us as of March 31, 2011.

|                                       | Net Asset Value(1) | Price Range |          | High Sales Price to Net Asset Value(2) | Low Sales Price to Net Asset Value(2) | Cash Dividend Per Share(3) |
|---------------------------------------|--------------------|-------------|----------|--|---------------------------------------|----------------------------|
|                                       |                    | High        | Low      |  |                                       |                            |
| <b>Year ended December 31, 2009</b>   |                    |             |          |  |                                       |                            |
| First Quarter                         | \$ 11.20           | \$ 7.39     | \$ 3.21  | 66.0%                                  | 28.7%                                 | \$ 0.42                    |
| Second Quarter                        | \$ 11.21           | \$ 8.31     | \$ 4.53  | 74.1%                                  | 40.4%                                 | \$ 0.35                    |
| Third Quarter                         | \$ 11.16           | \$ 11.02    | \$ 7.04  | 98.7%                                  | 63.1%                                 | \$ 0.35                    |
| Fourth Quarter                        | \$ 11.44           | \$ 12.71    | \$ 10.21 | 111.1%                                 | 89.2%                                 | \$ 0.35                    |
| <b>Year ended December 31, 2010</b>   |                    |             |          |  |                                       |                            |
| First Quarter                         | \$ 11.78           | \$ 14.82    | \$ 11.75 | 125.8%                                 | 99.7%                                 | \$ 0.35                    |
| Second Quarter                        | \$ 14.11           | \$ 16.40    | \$ 12.53 | 116.2%                                 | 88.8%                                 | \$ 0.35                    |
| Third Quarter                         | \$ 14.43           | \$ 15.89    | \$ 12.44 | 110.1%                                 | 86.2%                                 | \$ 0.35                    |
| Fourth Quarter                        | \$ 14.92           | \$ 17.26    | \$ 15.64 | 115.7%                                 | 104.8%                                | \$ 0.35                    |
| <b>Year ending December 31, 2011</b>  |                    |             |          |  |                                       |                            |
| First Quarter                         | \$ 15.45           | \$ 17.83    | \$ 16.08 | 115.4%                                 | 104.1%                                | \$ 0.35                    |
| Second Quarter                        | *                  | \$ 17.71    | \$ 15.70 | *                                      | *                                     | \$ 0.35                    |
| Third Quarter (through July 18, 2011) | *                  | \$ 16.24    | \$ 15.16 | *                                      | *                                     | **                         |

(1) Net asset value per share is determined as of the last day in the relevant quarter and therefore may not reflect the net asset value per share on the date of the high and low closing sales prices. The net asset values shown are based on outstanding shares at the end of the relevant quarter.

(2) Calculated as the respective high or low closing sales price divided by net asset value.

(3) Represents the dividend or distribution declared in the relevant quarter.

\* Net asset value has not yet been calculated for this period.

\*\* Dividend has not yet been declared for this period.

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

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The following table summarizes our dividends or distributions declared to date:

| <b>Date Declared</b>    | <b>Record Date</b> | <b>Payment Date</b> | <b>Amount</b> |
|-------------------------|--------------------|---------------------|---------------|
| December 16, 2004       | December 27, 2004  | January 26, 2005    | \$ 0.30       |
| Total declared for 2004 |                    |                     | \$ 0.30       |
| February 23, 2005       | March 7, 2005      | April 15, 2005      | \$ 0.30       |
| June 20, 2005           | June 30, 2005      | July 15, 2005       | \$ 0.32       |
| September 6, 2005       | September 16, 2005 | September 30, 2005  | \$ 0.34       |
| December 12, 2005       | December 22, 2005  | January 16, 2006    | \$ 0.34       |
| Total declared for 2005 |                    |                     | \$ 1.30       |
| February 28, 2006       | March 24, 2006     | April 14, 2006      | \$ 0.36       |
| May 8, 2006             | June 15, 2006      | June 30, 2006       | \$ 0.38       |
| August 9, 2006          | September 15, 2006 | September 29, 2006  | \$ 0.40       |
| November 8, 2006        | December 15, 2006  | December 29, 2006   | \$ 0.40       |
| November 8, 2006        | December 15, 2006  | December 29, 2006   | \$ 0.10       |
| Total declared for 2006 |                    |                     | \$ 1.64       |
| March 8, 2007           | March 19, 2007     | March 30, 2007      | \$ 0.41       |
| May 10, 2007            | June 15, 2007      | June 29, 2007       | \$ 0.41       |
| August 9, 2007          | September 14, 2007 | September 28, 2007  | \$ 0.42       |
| November 8, 2007        | December 14, 2007  | December 31, 2007   | \$ 0.42       |
| Total declared for 2007 |                    |                     | \$ 1.66       |
| February 28, 2008       | March 17, 2008     | March 31, 2008      | \$ 0.42       |
| May 8, 2008             | June 16, 2008      | June 30, 2008       | \$ 0.42       |
| August 7, 2008          | September 15, 2008 | September 30, 2008  | \$ 0.42       |
| November 6, 2008        | December 15, 2008  | January 2, 2009     | \$ 0.42       |
| Total declared for 2008 |                    |                     | \$ 1.68       |
| March 2, 2009           | March 16, 2009     | March 31, 2009      | \$ 0.42       |
| May 7, 2009             | June 15, 2009      | June 30, 2009       | \$ 0.35       |
| August 6, 2009          | September 15, 2009 | September 30, 2009  | \$ 0.35       |
| November 5, 2009        | December 15, 2009  | December 31, 2009   | \$ 0.35       |
| Total declared for 2009 |                    |                     | \$ 1.47       |
| February 25, 2010       | March 15, 2010     | March 31, 2010      | \$ 0.35       |
| May 10, 2010            | June 15, 2010      | June 30, 2010       | \$ 0.35       |
| August 5, 2010          | September 15, 2010 | September 30, 2010  | \$ 0.35       |
| November 4, 2010        | December 15, 2010  | December 31, 2010   | \$ 0.35       |
| Total declared for 2010 |                    |                     | \$ 1.40       |
| March 1, 2011           | March 15, 2011     | March 31, 2011      | \$ 0.35       |
| May 3, 2011             | June 15, 2011      | June 30, 2011       | \$ 0.35       |
| Total declared for 2011 |                    |                     | \$ 0.70       |

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To maintain our RIC status, we must timely distribute an amount equal to at least 90% of our investment company taxable income (as defined by the Code, which generally includes net ordinary income and net short term capital gains) to our stockholders. In addition, the Company generally will be required to pay an excise tax equal to 4% of the amount by which 98% of the Company's (i) ordinary income recognized during a calendar year and (ii) capital gain net income (as defined by the Code) recognized for the one year period ending on October 31<sup>st</sup> of a calendar year exceeds the distributions for the year. For 2011 and beyond, 98.2% of capital gain net income must be distributed

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to avoid the excise tax. The taxable income on which excise tax is paid is generally distributed to stockholders in the next tax year. Depending on the level of taxable income earned in a tax year, we may choose to carry forward taxable income for distribution in the following year, and pay any applicable excise tax. For the three months ended March 31, 2011 we recorded a net excise tax expense of \$0.7 million. For the year ended December 31, 2010 we recorded a net excise tax expense of \$2.2 million. We cannot assure you that we will achieve results that will permit the payment of any cash distributions.

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

**RATIOS OF EARNINGS TO FIXED CHARGES**

For the three months ended March 31, 2011 and the years ended December 31, 2010, 2009, 2008, 2007 and 2006, the ratios of earnings to fixed charges of the Company, computed as set forth below, were as follows:

|                              | <b>For the<br/>Three<br/>Months<br/>Ended<br/>March 31,<br/>2011</b> | <b>For the<br/>Year<br/>Ended<br/>December 31,<br/>2010</b> | <b>For the<br/>Year<br/>Ended<br/>December 31,<br/>2009</b> | <b>For the<br/>Year<br/>Ended<br/>December 31,<br/>2008</b> | <b>For the<br/>Year<br/>Ended<br/>December 31,<br/>2007</b> | <b>For the<br/>Year<br/>Ended<br/>December 31,<br/>2006</b> |
|------------------------------|--|---|---|---|---|---|
| Earnings to Fixed Charges(1) | 5.2  | 9.8(2)  | 9.4(3)  | (2.8)   | 3.4   | 5.0   |

For purposes of computing the ratios of earnings to fixed charges, earnings represent net increase in stockholders' equity resulting from operations plus (or minus) income tax expense (benefit) including excise tax expense plus fixed charges. Fixed charges include interest and credit facility fees expense and amortization of debt issuance costs.

- (1) Earnings include net realized and unrealized gains or losses. Net realized and unrealized gains or losses can vary substantially from period to period.

Excluding the net unrealized gains or losses, the earnings to fixed charges ratio would be 4.4 for the three months ended March 31, 2011, 6.9 for the year ended December 31, 2010, 5.7 for the year ended December 31, 2009, 4.7 for the year ended December 31, 2008, 3.7 for the year ended December 31, 2007 and 5.8 for the year ended December 31, 2006.

Excluding the net realized and unrealized gains or losses, the earnings to fixed charges ratio would be 2.7 for the three months ended March 31, 2011, 3.8 for the year ended December 31, 2010, 6.5 for the year ended December 31, 2009, 4.5 for the year ended December 31, 2008, 3.6 for the year ended December 31, 2007 and 4.3 for the year ended December 31, 2006.

- (2) Earnings for year ended December 31, 2010, include a one-time gain on the Allied Acquisition of \$195.9 million, a net realized loss on the extinguishment of debt of \$2.0 million and net realized gain on sale of other assets of \$5.9 million.
- (3) Earnings for the year ended December 31, 2009, include a net realized gain on the extinguishment of debt of \$26.5 million.



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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 Condensed Consolidated Financial Data of Ares Capital," the "Unaudited Selected Pro Forma Condensed Consolidated Statement of Operations," the "Unaudited Pro Forma Condensed Consolidated Statement of Operations" and our and Allied Capital's financial statements and notes thereto appearing elsewhere in this prospectus or the accompanying prospectus supplement.*

**OVERVIEW**

We are a specialty finance company that is a closed-end, non-diversified management investment company incorporated in Maryland. We have elected to be regulated as a BDC under the Investment Company Act. We were founded on April 16, 2004, were initially funded on June 23, 2004 and on October 8, 2004 completed our initial public offering.

Our investment objective is to generate both current income and capital appreciation through debt and equity investments. We invest primarily in first and second lien senior loans and mezzanine debt, which in some cases includes an equity component like warrants.

To a lesser extent, we also make preferred and/or common equity investments, which have generally been non-control equity investments, of less than \$20 million (usually in conjunction with a concurrent debt investment). However, we may increase the size or change the nature of these investments. Also, as a result of the Allied Acquisition, Allied Capital's equity investments, which included equity investments larger than those we have historically made and controlled portfolio company equity investments, became part of our portfolio. We intend to actively seek opportunities over time to dispose of certain of the assets that were acquired in the Allied Acquisition, particularly non-yielding equity investments, as well as lower or non-yielding debt investments and investments that may not be core to our investment strategy, and generally rotate them into higher-yielding first and second lien senior loans and mezzanine debt investments. However, there can be no assurance that this strategy will be successful.

We are externally managed by Ares Capital Management, a wholly owned subsidiary of Ares Management, a global alternative asset manager and an SEC-registered investment adviser, pursuant to an investment advisory and management agreement. Ares Operations, a wholly owned subsidiary of Ares Management, provides the administrative services necessary for us to operate.

As a BDC, we are required to comply with certain regulatory requirements. For instance, we generally have to invest at least 70% of our total assets in "qualifying assets," including securities and indebtedness of private U.S. companies and certain public U.S. companies, cash, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less.

The Company has elected to be treated as a RIC under Subchapter M of the Code and operates in a manner so as to qualify for the tax treatment applicable to RICs. To qualify as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements and timely distribute to our stockholders generally at least 90% of our investment company taxable income, as defined by the Code, for each year. Pursuant to this election, we generally will not have to pay corporate level taxes on any income that we distribute to our stockholders provided that we satisfy those requirements.

***Allied Acquisition***

On April 1, 2010, we consummated the Allied Acquisition in an all stock merger whereby each existing share of common stock of Allied Capital was exchanged for 0.325 shares of our common stock. The Allied Acquisition was valued at approximately \$908 million as of April 1, 2010. In connection

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therewith, we issued approximately 58.5 million shares of our common stock to Allied Capital's then-existing stockholders, resulting in our then-existing stockholders owning approximately 69% of the combined company and the then-existing Allied Capital stockholders owning approximately 31% of the combined company.

Information presented herein as of and for the three months ended March 31, 2011 and the year ended December 31, 2010 includes the results of operations and financial condition of the combined company following the consummation of the Allied Acquisition on April 1, 2010 unless otherwise indicated in the footnotes. Information presented herein as of and for the three months ended March 31, 2010 and the years ended December 31, 2009 and 2008 relate solely to Ares Capital, as it existed before the Allied Acquisition.

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**PORTFOLIO AND INVESTMENT ACTIVITY**

The Company's investment activity for the three months ended March 31, 2011 and 2010 and the years ended December 31, 2010, 2009 and 2008 is presented below (information presented herein is at amortized cost unless otherwise indicated).

| (dollar amounts in millions)  | For the<br>three months ended |                | Year Ended December 31, |            |          |
|---|-------------------------------|----------------|-------------------------|------------|----------|
|   | March 31, 2011                | March 31, 2010 | 2010                    | 2009       | 2008     |
| <b>New investment commitments(1):</b>   |                               |                |                         |            |          |
| New portfolio companies(2)  | \$ 151.5                      | \$ 168.4       | \$ 774.3                | \$ 317.6   | \$ 600.5 |
| Existing portfolio companies(3)   | 350.8                         | 130.4          | 933.8                   | 162.2      | 305.0    |
| Total new investment commitments(4)   | 502.3                         | 298.8          | 1,708.1                 | 479.8      | 905.5    |
| Less:   |                               |                |                         |            |          |
| Investment commitments exited(5)  | 567.4                         | 308.6          | 1,644.5                 | 604.4      | 430.3    |
| Net investment commitments  | \$ (65.1)                     | \$ (9.8)       | \$ 63.6                 | \$ (124.6) | \$ 475.2 |
| <b>Principal amount of investments funded excluding investments acquired as part of the Allied Acquisition:</b>         |                               |                |                         |            |          |
| Senior term debt  | \$ 316.7                      | \$ 19.8        | \$ 715.3                | \$ 289.5   | \$ 529.2 |
| Senior subordinated debt  |                               | 170.4          | 308.7                   | 59.4       | 336.3    |
| Subordinated Notes of SSLP(6)   | 123.3                         | 11.6           | 391.6                   | 165.0      |          |
| Equity and other  | 28.3                          | 102.9          | 168.3                   | 61.1       | 60.4     |
| Total   | \$ 468.3                      | \$ 304.7       | \$ 1,583.9              | \$ 575.0   | \$ 925.9 |
| <b>Principal amount of investments sold or repaid excluding investments acquired as part of the Allied Acquisition:</b> |                               |                |                         |            |          |
| Senior term debt  | \$ 156.7                      | \$ 228.4       | \$ 779.7                | \$ 283.4   | \$ 448.8 |
| Senior subordinated debt  | 78.5                          | 73.0           | 234.0                   | 202.4      | 29.0     |
| Subordinated Notes of SSLP(6)   |                               | 8.6            | 15.4                    |            |          |
| Equity and other  | 31.0                          | 3.0            | 18.3                    | 29.4       | 7.4      |
| Total   | \$ 266.2                      | \$ 313.0       | \$ 1,047.4              | \$ 515.2   | \$ 485.2 |
| <b>Principal amount of investments acquired as part of the Allied Acquisition:</b>                                      |                               |                |                         |            |          |
| Senior term debt  | \$                            | \$             | \$ 661.1                | \$         | \$       |
| Senior subordinated debt  |                               |                | 746.6                   |            |          |
| Collateralized loan obligation  |                               |                | 114.3                   |            |          |
| Commercial real estate  |                               |                | 41.0                    |            |          |
| Equity and other  |                               |                | 270.8                   |            |          |
| Total   | \$                            | \$             | \$ 1,833.8              | \$         | \$       |
| <b>Principal amount of investments acquired as part of the Allied Acquisition sold or repaid:</b>                       |                               |                |                         |            |          |
| Senior term debt  | \$ 43.6                       | \$             | \$ 207.7                | \$         | \$       |
| Senior subordinated debt  | 115.7                         |                | 227.9                   |            |          |
| Collateralized loan obligation  | 114.4                         |                | 6.5                     |            |          |
| Equity and other  | 20.6                          |                | 66.4                    |            |          |
| Total   | \$ 294.3                      | \$             | \$ 508.5                | \$         | \$       |
| <b>Number of new investment commitments(4)(7)</b>   | 16                            | 16             | 63                      | 33         | 39       |
| <b>Average new investment commitment amount(4)</b>  | \$ 31.4                       | \$ 18.7        | \$ 27.1                 | \$ 14.5    | \$ 23.2  |
| <b>Weighted average term for new investment commitments (in months)(4)</b>  | 58                            | 67             | 61                      | 74         | 66       |
| <b>Percentage of new investment commitments at floating rates(4)</b>  | 87%                           | 39%            | 70.8%                   | 65.2%      | 27.0%    |
| <b>Percentage of new investment commitments at fixed rates(4)</b>   | 8%                            | 44%            | 23.0%                   | 22.2%      | 65.5%    |
| <b>Weighted average yield of debt and income producing securities(4)(8):</b>  |                               |                |                         |            |          |
| Funded during the period at fair value  | 12.0%                         | 13.6%          | 13.1%                   | 13.4%      | 12.6%    |

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|  |       |       |       |       |       |
|--|-------|-------|-------|-------|-------|
| Funded during the period at amortized cost   | 12.0% | 13.9% | 13.2% | 13.7% | 12.6% |
| Exited or repaid during the period at fair value(9)  | 10.9% | 12.6% | 12.9% | 13.4% | 9.5%  |
| Exited or repaid during the period at amortized cost   | 11.4% | 12.4% | 12.9% | 12.2% | 9.8%  |
| <b>Weighted average yield of debt and income producing securities acquired as part of the Allied Acquisition(8):</b> |       |       |       |       |       |
| Funded during the period at fair value   | 12.0% | 13.6% | 14.0% | %     | %     |
| Funded during the period at amortized cost   | 12.0% | 13.9% | 14.0% | %     | %     |
| Exited or repaid during the period at fair value(9)  | 16.9% | %     | 11.9% | %     | %     |
| Exited or repaid during the period at amortized cost   | 20.3% | %     | 13.2% | %     | %     |

- (1) New investment commitments include new agreements to fund revolving credit facilities or delayed draw loans.
- (2) Does not include investment commitments made by the SSLP.

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- (3) Includes investment commitments to the SSLP of \$123 million and \$12 million for the three months ended March 31, 2011 and 2010, respectively, as well as \$392 million for the year ended December 31, 2010.
- (4) Excludes investment commitments acquired as a part of the Allied Acquisition on April 1, 2010.
- (5) Investment commitments exited for the three months ended March 31, 2011 and the year ended December 31, 2010 include \$294 million and \$528 million, respectively, of investment commitments in connection with the Allied Acquisition.
- (6) See Note 4 to our consolidated financial statements for the three months ended March 31, 2011 for more detail on the SSLP.
- (7) Number of new investment commitments represents each commitment to a particular portfolio company.
- (8) When we refer to the "weighted average yield at fair value" in this report, we compute it with respect to particular securities by taking the (a) annual stated interest rate or yield earned plus the net annual amortization of original issue discount and market discount earned on accruing debt included in such securities, and dividing it by (b) total debt and income producing securities at fair value included in such securities. When we refer to the "weighted average yield at amortized cost" in this report, we compute it with respect to particular securities by taking the (a) annual stated interest rate or yield earned plus the net annual amortization of original issue discount and market discount earned on accruing debt included in such securities, and dividing it by (b) total debt and income producing securities at amortized cost included in such securities.
- (9) Represents fair value as of the most recent quarter end.

As of March 31, 2011 and December 31, 2010, investments consisted of the following:

| (in millions)                   | As of<br>March 31, 2011 |                   | As of<br>December 31, 2010 |                   |
|---------------------------------|-------------------------|-------------------|----------------------------|-------------------|
|                                 | Amortized Cost          | Fair Value        | Amortized Cost             | Fair Value        |
| Senior term debt                | \$ 1,835.5              | \$ 1,831.0        | \$ 1,722.1                 | \$ 1,695.5        |
| Senior subordinated debt        | 876.4                   | 822.8             | 1,055.5                    | 1,014.5           |
| Subordinated notes of SSLP      | 660.7                   | 681.2             | 537.5                      | 561.7             |
| Collateralized loan obligations | 107.4                   | 108.0             | 219.3                      | 261.2             |
| Equity securities               | 697.7                   | 787.9             | 716.6                      | 751.2             |
| Commercial real estate          | 37.1                    | 32.1              | 41.0                       | 33.9              |
| <b>Total</b>                    | <b>\$ 4,214.8</b>       | <b>\$ 4,263.0</b> | <b>\$ 4,292.0</b>          | <b>\$ 4,318.0</b> |

The weighted average yields at fair value and amortized cost of the following portions of our portfolio as of March 31, 2011 and December 31, 2010 were as follows:

|   | As of<br>March 31, 2011 |              | As of<br>December 31, 2010 |              |
|---|-------------------------|--------------|----------------------------|--------------|
|   | Amortized Cost          | Fair Value   | Amortized Cost             | Fair Value   |
| Debt and income producing securities  | 12.8%                   | 12.6%        | 13.2%                      | 12.9%        |
| Debt and income producing securities for investments acquired as part of the Allied Acquisition | 13.7%                   | 13.2%        | 15.2%                      | 14.0%        |
| <b>Total portfolio</b>  | <b>10.1%</b>            | <b>10.0%</b> | <b>10.6%</b>               | <b>10.5%</b> |
| Senior term debt  | 11.0%                   | 11.0%        | 10.6%                      | 10.8%        |
| First lien senior term debt   | 10.3%                   | 10.3%        | 10.3%                      | 10.2%        |
| Second lien senior term debt  | 12.1%                   | 12.3%        | 11.3%                      | 12.1%        |

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|  |       |       |       |       |
|--|-------|-------|-------|-------|
| Senior subordinated debt   | 11.8% | 12.6% | 13.1% | 13.6% |
| Subordinated notes of SSLP   | 16.5% | 16.0% | 16.5% | 15.8% |
| Collateralized loan obligations  | 8.9%  | 8.8%  | 18.7% | 15.7% |
| Income producing equity securities<br>(excluding collateralized loan<br>obligations) | 8.7%  | 7.9%  | 7.7%  | 7.7%  |

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Below is certain information regarding changes in the investments acquired in the Allied Acquisition since April 1, 2010 through March 31, 2011:

| (dollar amounts in millions)                                       | Investments at Fair Value as of |                        |                        |                   |                        |                        | Net Change in Fair Value |
|--|---------------------------------|------------------------|------------------------|-------------------|------------------------|------------------------|--------------------------|
|  | April 1, 2010                   |                        |                        | March 31, 2011    |                        |                        |                          |
|  | \$                              | % of Total Investments | Weighted Average Yield | \$                | % of Total Investments | Weighted Average Yield | \$                       |
| <b><i>Investments with yields less than 10%</i></b>                |                                 |                        |                        |                   |                        |                        |                          |
| Debt with yields less than 10%                                     | \$ 128.3                        | 7.0%                   | 6.5%                   | \$ 106.3          | 8.9%                   | 7.9%                   | \$ (22.0)                |
| Debt on non-accrual status   | 335.6                           | 18.3%                  | %                      | 63.8              | 5.4%                   | %                      | (271.8)                  |
| Equity securities  | 270.8                           | 14.8%                  | %                      | 267.7             | 22.5%                  | 0.1%                   | (3.1)                    |
| Commercial real estate and other                                   | 34.5                            | 1.9%                   | 3.3%                   | 11.1              | 0.9%                   | %                      | (23.4)                   |
| <b>Total</b>   | <b>\$ 769.2</b>                 | <b>42.0%</b>           | <b>1.2%</b>            | <b>\$ 448.9</b>   | <b>37.7%</b>           | <b>2.0%</b>            | <b>\$ (320.3)</b>        |
| <b><i>Investments with yields equal to or greater than 10%</i></b> |                                 |                        |                        |                   |                        |                        |                          |
| Debt with yields equal to or greater than 10%                      | \$ 950.2                        | 51.8%                  | 14.3%                  | \$ 740.6          | 62.3%                  | 13.6%                  | \$ (209.6)               |
| Collateralized loan obligations                                    | 114.4                           | 6.2%                   | 18.9%                  |                   | %                      | %                      | (114.4)                  |
| <b>Total</b>   | <b>\$ 1,064.6</b>               | <b>58.0%</b>           | <b>14.8%</b>           | <b>\$ 740.6</b>   | <b>62.3%</b>           | <b>13.6%</b>           | <b>\$ (324.0)</b>        |
| <b>Total</b>   | <b>\$ 1,833.8</b>               | <b>100.0%</b>          | <b>9.1%</b>            | <b>\$ 1,189.5</b> | <b>100.0%</b>          | <b>9.2%</b>            | <b>\$ (644.3)</b>        |

Since April 1, 2010 through March 31, 2011, we have decreased the assets comprising the legacy Allied Capital portfolio by approximately \$644 million, primarily as a result of exits and repayments of approximately \$803 million, offset by an increase in net unrealized appreciation in the portfolio of approximately \$26 million, and other increases of approximately \$133 million due to fundings of revolving and other commitments of \$95 million, PIK interest and accretion of purchase discounts. From April 1, 2010 through March 31, 2011, we also recognized \$124 million in net realized gains on the exits and repayments of investments acquired in the Allied Acquisition resulting in total proceeds received from exits and repayments of \$927 million. See "Prospectus Summary Recent Developments" and "Recent Developments" for more information on exits and repayments of investments in the legacy Allied Capital portfolio since March 31, 2011. Ares Capital intends to continue its strategy of rotating and repositioning a portion of the legacy Allied Capital portfolio, with a focus on reducing our holdings of lower and non-yielding investments, investments on non-accrual and investments that may not be core to our investment strategy. However, there can be no assurance that this strategy will be successful. For risks relating to our equity investments, see the "Risk Factors Risks Relating to Our Investments Investments in equity securities, many of which are illiquid with no readily available market, involve a substantial degree of risk."

Our investment adviser employs an investment rating system to categorize our investments. In addition to various risk management and monitoring tools, our investment adviser grades the credit risk of all investments on a scale of 1 to 4 no less frequently than quarterly. This system is intended primarily to reflect the underlying risk of a portfolio investment relative to our initial cost basis in respect of such portfolio investment (i.e., at the time of acquisition), although it may also take into account under certain circumstances the performance of the portfolio company's business, the collateral coverage of the investment and other relevant factors. Under this system, investments with a grade of 4 involve the least amount of risk to our initial cost basis. The trends and risk factors for this investment since origination or acquisition are generally favorable, which may include the performance of the portfolio company or a potential exit. Investments graded 3 involve a level of risk to our initial cost

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basis that is similar to the risk to our initial cost basis at the time of origination or acquisition. This portfolio company is generally performing as expected and the risk factors to our ability to ultimately recoup the cost of our investment are neutral to favorable. All investments or acquired investments in new portfolio companies are initially assessed a grade of 3. Investments graded 2 indicate that the risk to our ability to recoup the cost of such investment has increased materially since origination or acquisition, including as a result of factors such as declining performance and non-compliance with debt covenants; however, payments are generally not more than 120 days past due. An investment grade of 1 indicates that the risk to our ability to recoup the cost of such investment has substantially increased since origination or acquisition, and the portfolio company likely has materially declining performance. For debt investments with an investment grade of 1, most or all of the debt covenants are out of compliance and payments are substantially delinquent. For investments graded 1, it is not anticipated that we will be repaid in an amount equal to our full initial cost basis. For investments graded 1 or 2, our investment adviser enhances its level of scrutiny over the monitoring of such portfolio company.

Each investment acquired in the Allied Acquisition was initially assessed a grade of 3 (i.e., the grade we generally assign a portfolio company at origination or acquisition) on April 1, 2010, the date of initial acquisition, reflecting the relative risk to our initial cost basis of such investments. Our investment adviser grades the investments in our portfolio at least each quarter and it is possible that the grade of certain of these portfolio investments may be reduced or increased over time.

Set forth below is the grade distribution of our portfolio companies as of March 31, 2011 and December 31, 2010:

| (dollar amounts in millions) | As of          |        |                     |        |                   |        |                     |        |
|------------------------------|----------------|--------|---------------------|--------|-------------------|--------|---------------------|--------|
|                              | March 31, 2011 |        |                     |        | December 31, 2010 |        |                     |        |
|                              | Fair Value     | %      | Number of Companies | %      | Fair Value        | %      | Number of Companies | %      |
| Grade 1                      | \$ 10.3        | 0.2%   | 8                   | 5.2%   | \$ 13.5           | 0.3%   | 10                  | 5.9%   |
| Grade 2                      | 321.8          | 7.6%   | 17                  | 11.0%  | 153.9             | 3.6%   | 12                  | 7.1%   |
| Grade 3                      | 3,449.9        | 80.9%  | 118                 | 76.6%  | 3,503.4           | 81.1%  | 127                 | 74.7%  |
| Grade 4                      | 481.0          | 11.3%  | 11                  | 7.2%   | 647.2             | 15.0%  | 21                  | 12.3%  |
|                              | \$ 4,263.0     | 100.0% | 154                 | 100.0% | \$ 4,318.0        | 100.0% | 170                 | 100.0% |

As of March 31, 2011, the weighted average grade of the investments in our portfolio (excluding investments acquired in connection with the Allied Acquisition), the investments in our portfolio acquired in connection with the Allied Acquisition and the investments in our portfolio as a whole were 3.1, 2.9 and 3.0, respectively. As of December 31, 2010, the weighted average grade of the investments in our portfolio (excluding investments acquired in connection with the Allied Acquisition), the investments in our portfolio acquired in connection with the Allied Acquisition and the investments in our portfolio as a whole were each 3.1.



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Investments on non-accrual status as of March 31, 2011 and December 31, 2010, were as follows:

|   | As of                               |               |  |               |
|---|-------------------------------------|---------------|--|---------------|
|   | March 31, 2011<br>Amortized<br>Cost | Fair<br>Value | December 31, 2010<br>Amortized<br>Cost | Fair<br>Value |
| Investments, excluding investments acquired in connection with the Allied Acquisition | 2.6%                                | 1.1%          | 2.3%                                   | 0.3%          |
| Investments acquired in connection with the Allied Acquisition                        | 2.2%                                | 1.5%          | 1.5%                                   | 1.0%          |
|   | 4.8%                                | 2.6%          | 3.8%                                   | 1.3%          |

**RESULTS OF OPERATIONS***For the three months ended March 31, 2011 and 2010*

Operating results for the three months ended March 31, 2011 and 2010 are as follows:

| (in millions)  | For the three<br>months ended<br>March 31, |         |
|--|--|---------|
|  | 2011                                       | 2010    |
| Total investment income  | \$ 135.7                                   | \$ 66.5 |
| Total expenses   | 85.8                                       | 35.0    |
| Net investment income before income taxes                      | 49.9                                       | 31.5    |
| Income tax expense (benefit), including excise tax             | 2.0  | (0.2)   |
| Net investment income  | 47.9                                       | 31.7    |
| Net realized gains (losses)                                    | 53.7                                       | (4.9)   |
| Net unrealized gains (losses)                                  | 22.2                                       | 49.6    |
| Net increase in stockholders' equity resulting from operations | \$ 123.8                                   | \$ 76.4 |

Net income can vary substantially from period to period as a result of various factors, including the recognition of realized gains and losses and unrealized appreciation and depreciation. As a result, quarterly comparisons of net income may not be meaningful.

**Investment Income**

| (in millions)                    | For the three<br>months ended<br>March 31, |         |
|----------------------------------|--|---------|
|                                  | 2011                                       | 2010    |
| Interest                         | \$ 110.6                                   | \$ 61.5 |
| Capital structuring service fees | 11.0                                       | 2.1     |
| Management fees                  | 3.4  | 1.5     |
| Dividend income                  | 8.8  | 0.5     |
| Other income                     | 1.9  | 0.9     |
| Total investment income          | \$ 135.7                                   | \$ 66.5 |

The increase in interest income for the three months ended March 31, 2011 was primarily due to the increase in the size of the portfolio, which was largely due to the investments acquired as part of

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the Allied Acquisition. Interest income from investments acquired as part of the Allied Acquisition was approximately \$37 million for the three months ended March 31, 2011. The remainder of the increase in interest income was due to an increase in the size of Ares Capital's investment portfolio excluding investments acquired as part of the Allied Acquisition, which increased from an average of \$2.2 billion at amortized cost for the three months ended March 31, 2010 to an average of \$2.8 billion at amortized cost for the comparable period in 2011. The increase in capital structuring service fees for the three months ended March 31, 2011 was primarily due to the increase in new investment commitments, which increased from \$299 million for the three months ended March 31, 2010 to \$502 million for the comparable period in 2011, as well as an increase in the average capital structuring service fees received on new investments. The increase in management fees for the three months ended March 31, 2011 was primarily due to the management fees earned from the SSLP which increased from \$0.9 million for the three months ended March 31, 2010 to \$2.4 million for the comparable period in 2011 as the aggregate principal amount of investments in the SSLP increased from approximately \$0.9 billion at March 31, 2010 to approximately \$2.9 billion at March 31, 2011. Additionally, management fees earned related to investments and management contracts acquired in the Allied Acquisition were \$0.9 million for the three months ended March 31, 2011. The increase in dividend income for the three months ended March 31, 2011 was primarily attributable to dividend income from IHAM, which was \$4.8 million for the three months ended March 31, 2011 and \$0.4 million for the comparable period in 2010. Total dividend income for the three months ended March 31, 2011 also included \$3.6 million of dividends that are non-recurring in nature from non-income producing equity securities.

**Operating Expenses**

| (in millions)   | For the three months ended March 31, |         |
|---|--------------------------------------|---------|
|   | 2011                                 | 2010    |
| Interest and credit facility fees                                   | \$ 30.2                              | \$ 8.6  |
| Incentive management fees   | 30.9                                 | 8.1     |
| Base management fees  | 16.7                                 | 8.5     |
| Professional fees and other costs related to the Allied Acquisition | 0.2                                  | 3.8     |
| Professional fees   | 2.5                                  | 2.5     |
| Administrative fees   | 2.4                                  | 1.2     |
| Other general and administrative                                    | 2.9                                  | 2.3     |
| Total operating expenses  | \$ 85.8                              | \$ 35.0 |

Interest and credit facility fees for the three months ended March 31, 2011 and 2010, were comprised of the following:

| (in millions)   | For the three months ended March 31, |        |
|---|--------------------------------------|--------|
|   | 2011                                 | 2010   |
| Stated interest expense                                       | \$ 21.8                              | \$ 4.7 |
| Facility fees   | 2.0                                  | 1.4    |
| Amortization of debt issuance costs                           | 2.8                                  | 2.5    |
| Accretion of discount related to the Allied Unsecured Notes   | 2.3                                  |        |
| Accretion of original issue discount on the Convertible Notes | 1.3                                  |        |
| Total interest and credit facility fees expense               | \$ 30.2                              | \$ 8.6 |

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Stated interest expense for the three months ended March 31, 2011 increased due to the increase in our principal debt outstanding and an increase in our weighted average stated interest rate. The average principal debt outstanding for the three months ended March 31, 2011 was \$1.5 billion as compared to \$0.8 billion for the comparable period in 2010. The weighted average stated interest rate on our debt outstanding for the three months ended March 31, 2011 was 5.6% as compared to 2.2% for the comparable period in 2010. The increase in principal debt outstanding during this period was primarily due to the debt assumed as part of the Allied Acquisition and the issuance of the Convertible partially offset by decreases in amounts outstanding under the Facilities and the Debt Securitization. In connection with the Allied Acquisition, we assumed \$746 million in principal amount of debt on April 1, 2010, which had a weighted average stated interest rate of 6.6% and resulted in total interest expense for the three months ended March 31, 2011 of \$12.8 million, including \$2.3 million of purchased discount accretion.

Incentive and base management fees increased for the three months ended March 31, 2011 primarily due to the increase in the size of the portfolio and in the case of incentive fees, the related increase in net investment income as well as the net appreciation of the investment portfolio. Incentive management fees for the three months ended March 31, 2011 consisted of \$15.8 million of incentive management fees related to pre-incentive fee net investment income and \$15.1 million of the capital gains incentive fee accrual in accordance with GAAP as a result of the change in cumulative net realized and unrealized gains (see Note 3 to the Company's consolidated financial statements for the year ended December 31, 2010 and the three months ended March 31, 2011) bringing the total GAAP accrual in respect of these fees to \$30.7 million (included in management and incentive fees payable in the consolidated balance sheet) as of March 31, 2011. For the three months ended March 31, 2011 we did not incur the capital gains portion of the incentive fee under the investment advisory and management agreement (the "Capital Gains Fee") and therefore there are no amounts currently due under the agreement. There was no capital gains incentive fee accrual in accordance with GAAP, nor a Capital Gains Fee recorded for the three months ended March 31, 2010.

Professional fees include legal, accounting, valuation and other professional fees incurred related to the management of the Company. Administrative fees represent fees paid to Ares Operations for our allocable portion of overhead and other expenses incurred by Ares Operations in performing its obligations under the administration agreement, including our allocable portion of the cost of certain of our executive officers and their respective staffs. Other general and administrative expenses include rent, insurance, depreciation, directors fees and other costs. The decline in professional fees and other costs related to the Allied Acquisition primarily resulted from having substantially completed the integration process following the Allied Acquisition. The increases in professional fees, administrative fees and other general and administrative expenses were primarily due to the increase in the size of the company following the Allied Acquisition and the various associated costs of managing a larger portfolio.

**Income Tax Expense, Including Excise Tax**

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

Depending on the level of taxable income earned in a tax year, we may choose to carry forward taxable income in excess of current year dividend distributions from such current year taxable income into the next tax year and pay a 4% excise tax on such income, as required. To the extent that

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the Company determines that its estimated current year annual taxable income will be in excess of estimated current year dividend distributions from such income, the Company accrues excise tax on estimated excess taxable income. For the three months ended March 31, 2011, a net expense of \$0.7 million was recorded for U.S. federal excise tax. For the three months ended March 31, 2010, a net benefit of \$0.1 million was recorded for U.S. federal excise tax.

**Net Realized Gains/Losses**

During the three months ended March 31, 2011, the Company had \$623.0 million of sales, repayments or exits of investments resulting in \$62.6 million of net realized gains. These sales, repayments or exits included \$41.9 million of investments sold to certain funds managed by IHAM. Net realized gains on investments were comprised of \$108.3 million of gross realized gains and \$45.7 million of gross realized losses. The \$62.6 million of net realized gains included approximately \$95.2 million in net realized gains from investments acquired as part of the Allied Acquisition. The realized gains and losses on investments during the three months ended March 31, 2011 consisted of the following:

| (in millions)<br>Portfolio Company        | Net Realized<br>Gains (Losses) |
|---|--------------------------------|
| Callidus Debt Partners CLO Fund VI, Ltd.  | \$ 23.9                        |
| Dryden XVIII Leveraged Loan 2007 Limited  | 19.3                           |
| Callidus MAPS CLO Fund I LLC              | 15.0                           |
| Callidus Debt Partners CLO Fund VII, Ltd. | 10.8                           |
| Callidus MAPS CLO Fund II Ltd.            | 8.2                            |
| Callidus Debt Partners CLO Fund IV, Ltd.  | 8.0                            |
| Callidus Debt Partners CLO Fund V, Ltd.   | 5.7                            |
| Callidus Debt Partners CLO Fund III, Ltd. | 4.4                            |
| Direct Buy Holdings, Inc.                 | 3.6                            |
| Pangaea CLO 2007-1 Ltd.                   | 2.0                            |
| Coverall North America, Inc.              | (6.8)                          |
| Universal Trailer Corporation             | (7.9)                          |
| MPBP Holdings, Inc.                       | (27.7)                         |
| Other                                     | 4.1                            |
| <b>Total</b>                              | <b>\$ 62.6</b>                 |

During the three months ended March 31, 2010, the Company had \$307.5 million of sales and repayments resulting in \$4.9 million of net realized losses. These sales and repayments included \$94.5 million of investments sold to certain funds managed by IHAM. Net realized losses on investments were comprised of \$8.9 million of gross realized gains and \$13.8 million of gross realized losses. The realized gains and losses on investments for the three months ended March 31, 2010 consisted of the following:

| (in millions)<br>Portfolio Company | Net Realized<br>Gains (Losses) |
|------------------------------------|--------------------------------|
| Best Brands Corporation            | \$ 2.4                         |
| 3091779 Nova Scotia Inc.           | (3.7)                          |
| Growing Family, Inc.               | (7.7)                          |
| Other                              | 4.1                            |
| <b>Total</b>                       | <b>\$ (4.9)</b>                |

Table of Contents**Net Unrealized Gains/Losses**

We value our portfolio investments quarterly and any changes in value are recorded as unrealized gains or losses. See "Portfolio Valuation" below. Net unrealized gains and losses during the three months ended March 31, 2011 and 2010 for the Company's portfolio were comprised of the following:

| (in millions)   | For the three months ended |         |
|---|----------------------------|---------|
|   | 2011                       | 2010    |
| Unrealized appreciation   | \$ 88.8                    | \$ 57.5 |
| Unrealized depreciation   | (64.1)                     | (16.5)  |
| Net unrealized (appreciation) depreciation reversed related to net realized gains (losses)(1) | (2.5)                      | 8.6     |
| Total net unrealized gains (losses)   | \$ 22.2                    | \$ 49.6 |

- (1) The net unrealized (appreciation) depreciation reversed related to net realized gains (losses) represents the unrealized appreciation or depreciation recorded on the related asset at the end of the prior year.

Included in net unrealized gains and losses above were net unrealized gains and losses for the investments acquired as part of the Allied Acquisition as follows:

| (in millions)   | For the three months ended |
|---|----------------------------|
|   | March 31, 2011             |
| Unrealized appreciation   | \$ 25.1                    |
| Unrealized depreciation   | (38.7)                     |
| Net unrealized appreciation reversed related to net realized gains(1) | (42.9)                     |
| Total net unrealized losses   | \$ (56.5)                  |

- (1) The net unrealized appreciation reversed related to net realized gains represents the unrealized appreciation or depreciation recorded on the related asset at the end of the prior year.

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The changes in unrealized appreciation and depreciation during the three months ended March 31, 2011 consisted of the following:

| (in millions)<br>Portfolio Company        | Net unrealized<br>appreciation<br>(depreciation) |
|---|--|
| Ivy Hill Asset Management, L.P.           | \$ 24.8  |
| ADF Restaurant Group, LLC                 | 4.1  |
| Border Foods, Inc.                        | 4.0  |
| American Broadband<br>Communications, LLC | 3.7  |
| Penn Detroit Diesel Allison, LLC          | 3.5  |
| Bushnell Inc.                             | 3.5  |
| Knightsbridge CLO 2007-1 Ltd.             | 3.1  |
| Knightsbridge CLO 2008-1 Ltd.             | 2.8  |
| Firstlight Financial Corporation          | 2.5  |
| Allbridge Financial, LLC                  | 2.4  |
| DSI Renal, Inc.                           | 2.4  |
| Savers, Inc.                              | 2.3  |
| Passport Health Communications, Inc.      | (2.8)  |
| Cook Inlet Alternative Risk, LLC          | (3.5)  |
| Callidus Capital Corporation              | (3.6)  |
| Making Memories Wholesale, Inc.           | (3.6)  |
| Senior Secured Loan Fund LLC              | (3.7)  |
| eInstruction Corporation                  | (5.1)  |
| CitiPostal Inc.                           | (5.6)  |
| Ciena Capital LLC                         | (7.8)  |
| Direct Buy Holdings, Inc.                 | (8.8)  |
| Prommis Solutions, LLC                    | (9.0)  |
| Other                                     | 19.1   |
| <br>Total                                 | <br>\$ 24.7                                      |

The changes in unrealized appreciation and depreciation during the three months ended March 31, 2010 consisted of the following:

| (in millions)<br>Portfolio Company | Net unrealized<br>appreciation<br>(depreciation) |
|------------------------------------|--|
| R3 Education, Inc.                 | \$ 14.4  |
| Things Remembered, Inc.            | 4.6  |
| VOTC Acquisition Corp.             | 3.7  |
| Senior Secured Loan Fund LLC       | 3.6  |
| Campus Management Corp.            | 3.1  |
| Ivy Hill Asset Management, L.P.    | 2.6  |
| DSI Renal, Inc.                    | 2.4  |
| Trivergance Capital Partners, LP   | (2.2)  |
| ADF Restaurant Group, LLC          | (2.7)  |
| FirstLight Financial Corporation   | (3.7)  |
| MPBP Holdings, Inc.                | (4.5)  |
| Other                              | 19.7   |
| <br>Total                          | <br>\$ 41.0                                      |

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Since the Company's inception, the Company's liquidity and capital resources have been generated primarily from the net proceeds of public offerings of common stock, advances from the Revolving Funding Facility and the Revolving Credit Facility, net proceeds from the issuance of secured and unsecured notes as well as cash flows from operations. As part of the Allied Acquisition, the Company assumed all outstanding debt obligations of Allied Capital, including the Allied Unsecured Notes, which consisted of the 2011 Notes, the 2012 Notes and the 2047 Notes.

As of March 31, 2011, the Company had \$246.2 million in cash and cash equivalents and \$1.4 billion in total indebtedness outstanding at carrying value (\$1.5 billion at principal amount). Subject to leverage and borrowing base restrictions, the Company had approximately \$1.2 billion available for additional borrowings under the Revolving Funding Facility, the Revolving Credit Facility and the Debt Securitization as of March 31, 2011.

We may from time to time seek to retire or repurchase our common stock through cash purchases, as well as retire, cancel or purchase our outstanding debt through cash purchases and/or exchanges, in open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual and regulatory restrictions (including under the Investment Company Act) and other factors. The amounts involved may be material.

**Equity Issuances**

There were no sales of our equity securities during the three months ended March 31, 2011.

The following table summarizes the total shares issued and proceeds we received in an underwritten public offering of our common stock net of underwriter and offering costs for the three months ended March 31, 2010:

| (in millions, except per share data)            | Shares<br>issued | Offering<br>price per<br>share | Proceeds net of<br>underwriting and<br>offering costs |
|---|------------------|--------------------------------|---|
| February 2010 public offering                   | 23.0             | \$ 12.75                       | \$ 277.2  |
| Total for the three months ended March 31, 2010 | 23.0             | \$                             | 277.2   |

Part of the proceeds from the above public offering were used to repay outstanding indebtedness. The remaining unused portions of the proceeds were used to fund investments in portfolio companies in accordance with our investment objective.

As of March 31, 2011, the Company's total market capitalization was \$3.5 billion compared to \$3.4 billion as of December 31, 2010.

Table of Contents**Debt Capital Activities**

Our debt obligations consisted of the following as of March 31, 2011 and December 31, 2010. Note that the following table does not reflect the redemption of the 2012 Notes on April 27, 2011:

| (in millions)  | As of             |                    |                   |                    |
|--|-------------------|--------------------|-------------------|--------------------|
|  | March 31, 2011    |                    | December 31, 2010 |                    |
|  | Carrying Value(1) | Total Available(2) | Carrying Value    | Total Available(2) |
| Revolving Funding Facility   | \$                | \$ 400.0           | \$ 242.0          | \$ 400.0           |
| Revolving Credit Facility  |                   | 810.0(3)           | 146.0             | 810.0(3)           |
| Debt Securitization  | 138.6             | 170.2              | 155.3             | 183.2              |
| 2011 Notes (principal amount outstanding of \$0 and \$300.6, respectively) |                   |                    | 296.3(4)          | 300.6              |
| 2012 Notes (principal amount outstanding of \$161.2)                       | 158.7(4)          | 161.2              | 158.1(4)          | 161.2              |
| February 2016 Convertible Notes (principal amount outstanding of \$575.0)  | 536.0(5)          | 575.0              |                   |                    |
| June 2016 Convertible Notes (principal amount outstanding of \$230.0)      | 213.9(5)          | 230.0              |                   |                    |
| 2040 Notes (principal amount outstanding of \$200.0)                       | 200.0             | 200.0              | 200.0             | 200.0              |
| 2047 Notes (principal amount outstanding of \$230.0)                       | 180.8(4)          | 230.0              | 180.8(4)          | 230.0              |
|  | \$ 1,428.0(6)     | \$ 2,776.4         | \$ 1,378.5(6)     | \$ 2,285.0         |

(1) Except for the Allied Unsecured Notes and the Convertible Notes all carrying values are the same as the principal amounts outstanding.

(2) Subject to borrowing base and leverage restrictions.

(3) Includes an "accordion" feature that allows us, under certain circumstances, to increase the size of the facility to a maximum of \$1,050.0 million

(4) Represents the aggregate principal amount outstanding of the applicable series of notes less the unaccreted discount recorded as a part of the Allied Acquisition. The total unaccreted discount on the Allied Unsecured Notes was \$51.7 million and \$56.6 million at March 31, 2011 and December 31, 2010, respectively.

(5) Represents the aggregate principal amount outstanding of the Convertible Notes less the unaccreted discount initially recorded upon issuance of the Convertible Notes. The total unaccreted discount for the February 2016 Convertible Notes and the June 2016 Convertible Notes was \$39.0 million and \$16.1 million, respectively, at March 31, 2011.

(6) Total principal amount of debt outstanding totaled \$1,534.8 million and \$1,435.1 million at March 31, 2011 and December 31, 2010, respectively.

The weighted average stated interest rate and weighted average maturity, both on principal value, of all our principal debt outstanding as of March 31, 2011 were 5.7% and 12.7 years, respectively. The weighted average interest rate and weighted average maturity of all our outstanding borrowings as of December 31, 2010 were 5.2% and 11.8 years, respectively.

The ratio of total principal amount of indebtedness outstanding to stockholders' equity as of March 31, 2011 was 0.49:1.00 compared to 0.47:1.00 as of December 31, 2010.

The ratio of total carrying value of indebtedness outstanding to stockholders' equity as of March 31, 2011 was 0.45:1.00 compared to 0.45:1.00 as of December 31, 2010.





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In accordance with the Investment Company Act, with certain limited exceptions, we are only allowed to borrow amounts such that our asset coverage, as defined in the Investment Company Act, is at least 200% after such borrowing. As of March 31, 2011, our asset coverage for borrowed amounts was 321%.

***Revolving Funding Facility***

In October 2004, we formed Ares Capital CP, a wholly owned subsidiary of the Company, through which we established the Revolving Funding Facility. The Revolving Funding Facility allows Ares Capital CP to borrow up to \$400 million as part of a single revolving securitized facility. In connection with the January 22, 2010 amendment, we entered into an Amended and Restated Purchase and Sale Agreement with Ares Capital CP Funding Holdings LLC, our wholly owned subsidiary ("CP Holdings"), pursuant to which we may sell to CP Holdings certain loans that we have originated or acquired (the "Loans") from time to time, which CP Holdings will subsequently sell to Ares Capital CP, which is a wholly owned subsidiary of CP Holdings. The Revolving Funding Facility is secured by all of the assets held by, and the membership interest in, Ares Capital CP. The January 22, 2010 amendment to the Revolving Funding Facility, among other things, extended the maturity date of the facility to January 22, 2013.

On January 18, 2011, we and Ares Capital CP amended the Revolving Funding Facility to, among other things, provide for a three year reinvestment period until January 18, 2014 (with two one-year extension options, subject to our and our lenders' consent) and extend the stated maturity date to January 18, 2016 (with two one-year extension options, subject to our and our lenders' consent).

Subject to certain exceptions, the interest charged on the Revolving Funding Facility is based on LIBOR plus an applicable spread of between 2.25% and 3.75% or on a "base rate" (which is the higher of a prime rate, or the federal funds rate plus 0.50%) plus an applicable spread of between 1.25% to 2.75%, in each case based on a pricing grid depending upon our credit rating. Additionally, we are required to pay a commitment fee of between 0.50% and 2.00% depending on the usage level on any unused portion of the Revolving Funding Facility. As of March 31, 2011, the effective LIBOR spread under the Revolving Funding Facility was 2.75%.

As of March 31, 2011, there were no amounts outstanding under the Revolving Funding Facility and the Company and Ares Capital CP were in compliance in all material respects with the terms of the Revolving Funding Facility. See Note 5 to our consolidated financial statements for the year ended December 31, 2010 and the three months ended March 31, 2011 for more detail on the Revolving Funding Facility.

***Revolving Credit Facility***

In December 2005, we entered into the Revolving Credit Facility, under which, as amended, the lenders agreed to extend credit to the Company. The Revolving Credit Facility matures on January 22, 2013 and has commitments totaling \$810 million. The Revolving Credit Facility also includes an "accordion" feature that allows the Company under certain circumstances, to increase the size of the facility to a maximum of \$1.05 billion. As of March 31, 2011, there were no amounts outstanding under the Revolving Credit Facility and the Company was in compliance in all material respects with the terms of the Revolving Credit Facility. As of March 31, 2011, subject to borrowing base availability, there was \$805,276 available for borrowing (net of standby letters of credits issued).

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Subject to certain exceptions, pricing under the Revolving Credit Facility is based on LIBOR plus an applicable spread of between 2.50% and 4.00% or on the "alternate base rate" plus an applicable spread of between 1.50% and 3.00%, in each case, based on a pricing grid depending upon our credit rating. As of March 31, 2011, the effective LIBOR spread under the Revolving Credit Facility was 3.00%. See Note 5 to our consolidated financial statements for the year ended December 31, 2010 and the three months ended March 31, 2011 for more detail on the Revolving Credit Facility.

As of March 31, 2011, there were no amounts outstanding under the Revolving Credit Facility and the Company was in compliance in all material respects with the terms of the Revolving Credit Facility. See Note 5 to our consolidated financial statements for the year ended December 31, 2010 and the three months ended March 31, 2011 for more detail on the Revolving Credit Facility.

***Debt Securitization***

In July 2006, through ARCC Commercial Loan Trust 2006, a vehicle serviced by our wholly owned subsidiary ARCC CLO 2006 LLC, we completed the Debt Securitization and issued approximately \$314 million aggregate principal amount of asset-backed notes (including revolving notes in an aggregate amount of up to \$50 million, \$18.3 million of which were drawn down as of March 31, 2011) (the "CLO Notes") to third parties that were secured by a pool of middle-market loans purchased or originated by the Company. We initially retained approximately \$86 million of aggregate principal amount outstanding of certain "BBB" and non-rated securities in the Debt Securitization and have subsequently repurchased \$34.8 million of the CLO Notes, bringing our total holdings of CLO Notes to \$120.8 million (the "Retained Notes"). During the three months ended March 31, 2011, we repaid \$16.7 million of the CLO Notes as required by the indenture governing the CLO Notes. At March 31, 2011, \$138.6 million was outstanding under the CLO Notes (excluding the Retained Notes), which are included in the March 31, 2011 consolidated balance sheet. As of March 31, 2011, the Company was in compliance in all material respects with the terms of the Debt Securitization.

Because the reinvestment period expired on June 17, 2011, all principal collections received on the underlying collateral will be used to repay the CLO Notes. The CLO Notes have a stated maturity of December 20, 2019 and have a blended pricing of LIBOR plus 0.37% as of March 31, 2011. See Note 5 to our consolidated financial statements for the year ended December 31, 2010 and the three months ended March 31, 2011 for more detail on the Debt Securitization.

***Unsecured Notes***

*Allied Unsecured Notes*

As part of the Allied Acquisition, the Company assumed all outstanding debt obligations of Allied Capital, including the Allied Unsecured Notes, which consisted of the 2011 Notes, the 2012 Notes and the 2047 Notes. On March 16, 2011 we redeemed the remaining balance of the 2011 Notes for a total redemption price (including a redemption premium) of \$306.8 million, which resulted in a

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loss on the extinguishment of debt of \$8.9 million, in accordance with the terms of the indenture governing the 2011 Notes.

| (in millions)                               | Carrying<br>value as of<br>March 31, 2011(1) |
|---|--|
| 2012 Notes (principal amount<br>of \$161.2) | \$ 158.7                                     |
| 2047 Notes (principal amount<br>of \$230.0) | \$ 180.8                                     |
| <b>Total</b>                                | <b>\$ 339.5</b>                              |

(1) Represents the principal amount of the Allied Unsecured Notes less the unaccreted discount initially recorded as a part of the Allied Acquisition.

The 2012 Notes bear interest at a rate of 6.00% and mature on April 1, 2012. The 2012 Notes require payment of interest semi-annually, and all principal is due upon maturity. On April 27, 2011, we redeemed the \$161.2 million in outstanding aggregate principal amount of the 2012 Notes for a total redemption price (including a redemption premium) of \$169.3 million, which resulted in a loss on the extinguishment of debt of \$10.5 million, in accordance with the terms of the indenture governing the 2012 Notes. See "Prospectus Summary Recent Developments" and "Recent Developments".

The 2047 Notes bear interest at a rate of 6.875% and mature on April 15, 2047. The 2047 Notes require payment of interest quarterly, and all principal is due upon maturity. These notes are redeemable in whole or in part at any time or from time to time on or after April 15, 2012, at a par redemption price of \$25 per security plus accrued and unpaid interest and upon the occurrence of certain tax events as stipulated in the notes.

*2040 Notes*

On October 21, 2010, we issued \$200 million of the 2040 Notes that may be redeemed in whole or in part at our option at any time or from time to time on or after October 15, 2015 at a par redemption price of \$25 per security plus accrued and unpaid interest. The principal amount of the 2040 Notes will be payable at maturity. The 2040 Notes bear interest at a rate of 7.75% per year payable quarterly commencing on January 15, 2011.

As of March 31, 2011 the Company was in compliance in all material respects with the limitations and requirements of the Allied Unsecured Notes and the 2040 Notes.

See Note 5 to our consolidated financial statements for the year ended December 31, 2010 and the three months ended March 31, 2011 for more detail on the Allied Unsecured Notes and the 2040 Notes.

*Convertible Notes*

| (in millions)   | Carrying<br>value as of<br>March 31, 2011(1) |
|---|--|
| February 2016 Convertible<br>Notes (principal amount of<br>\$575.0) | \$ 536.0                                     |
| June 2016 Convertible Notes<br>(principal amount of \$230.0)        | \$ 213.9                                     |
| <b>Total</b>  | <b>\$ 749.9</b>                              |

- (1) Represents the aggregate principal amount outstanding of the Convertible Notes less the unaccreted discount initially recorded upon issuance of the Convertible Notes.

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*February 2016 Convertible Notes.* In January 2011, we issued \$575 million in aggregate principal amount of the February 2016 Convertible Notes. We do not have the right to redeem the February 2016 Convertible Notes prior to their stated maturity date of February 1, 2016. The February 2016 Convertible Notes bear interest at a rate of 5.75% per year, payable semi-annually. In certain circumstances, the February 2016 Convertible Notes will be convertible into cash, shares of our common stock or a combination of cash and shares of our common stock, at our election, at an initial conversion rate of 52.2766 shares of common stock per \$1,000 principal amount of the February 2016 Convertible Notes, which was equivalent to an initial conversion price of approximately \$19.13 per share of our common stock, subject to customary anti-dilution adjustments. The initial conversion price was approximately 17.5% above the \$16.28 per share closing price of our common stock on January 19, 2011.

Prior to the close of business on the business day immediately preceding August 15, 2015, holders may convert their February 2016 Convertible Notes only under certain circumstances set forth in the indenture governing the terms of the February 2016 Convertible Notes (the "February 2016 Indenture"). On or after August 15, 2015 until the close of business on the scheduled trading day immediately preceding February 1, 2016, holders may convert their February 2016 Convertible Notes at any time. Upon conversion, we will pay or deliver, as the case may be, at our election, cash, shares of our common stock or a combination of cash and shares of our common stock, subject to the requirements of the February 2016 Indenture.

*June 2016 Convertible Notes.* In March 2011, we issued \$230 million in aggregate principal amount of the June 2016 Convertible Notes. We do not have the right to redeem the June 2016 Convertible Notes prior to their stated maturity date of June 1, 2016. The June 2016 Convertible Notes bear interest at a rate of 5.125% per year, payable semi-annually. In certain circumstances, the June 2016 Convertible Notes will be convertible into cash, shares of Ares Capital's common stock or a combination of cash and shares of our common stock, at our election, at an initial conversion rate of 52.5348 shares of common stock per \$1,000 principal amount of the June 2016 Convertible Notes, which was equivalent to an initial conversion price of approximately \$19.04 per share of our common stock, subject to customary anti-dilution adjustments. The initial conversion price was approximately 17.5% above the \$16.20 per share closing price of our common stock on March 22, 2011.

Prior to the close of business on the business day immediately preceding December 15, 2015, holders may convert their June 2016 Convertible Notes only under certain circumstances set forth in the indenture governing the terms of the June 2016 Convertible Notes (the "June 2016 Indenture"). On or after December 15, 2015 until the close of business on the scheduled trading day immediately preceding June 1, 2016, holders may convert their June 2016 Convertible Notes at any time. Upon conversion, we will pay or deliver, as the case may be, at our election, cash, shares of our common stock or a combination of cash and shares of our common stock, subject to the requirements of the June 2016 Indenture.

The Convertible Notes are our senior unsecured obligations and rank senior in right of payment to our existing and future indebtedness that is expressly subordinated in right of payment to the Convertible Notes; equal in right of payment to our existing and future unsecured indebtedness that is not expressly subordinated; effectively junior in right of payment to any of our secured indebtedness (including existing unsecured indebtedness that we later secure) to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness (including trade payables) incurred by our subsidiaries, financing vehicles or similar facilities.

As of March 31, 2011, the Company was in compliance in all material respects with the terms of the indentures governing the Convertible Notes. See Note 5 to our consolidated financial statements for the three months ended March 31, 2011 for more detail on the Convertible Notes.

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**PORTFOLIO VALUATION**

Investment transactions are recorded on the trade date. Realized gains or losses are measured by the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment without regard to the unrealized gains or losses previously recognized, and include investments charged off during the period, net of recoveries. Unrealized gains or losses primarily reflect the change in investment values, including the reversal of previously recorded unrealized gains or losses when gains or losses are realized. Investments for which market quotations are readily available are typically valued at such market quotations. In order to validate market quotations, we look at a number of factors to determine if the quotations are representative of fair value, including the source and nature of the quotations. Debt and equity securities that are not publicly traded or whose market prices are not readily available (i.e., substantially all of our investments) are valued at fair value as determined in good faith by our board of directors, based on the input of our investment adviser, audit committee and independent third-party valuation firms that have been engaged at the direction of our board of directors to assist in the valuation of each portfolio investment without a readily available market quotation at least once during a trailing 12-month period, and under a valuation policy and a consistently applied valuation process. The valuation process is conducted at the end of each fiscal quarter, and a minimum of 50% of our portfolio at fair value is subject to review by an independent valuation firm each quarter.

As part of the valuation process, we may take into account the following types of factors, if relevant, in determining the fair value of our investments: the enterprise value of a portfolio company (an estimate of the total fair value of the portfolio company's debt and equity), 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, a comparison of the portfolio company's securities to any similar publicly traded securities, changes in the interest rate environment and the credit markets generally that may affect the price at which similar investments may be made in the future and other relevant factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we consider the pricing indicated by the external event to corroborate our valuation.

Because there is not a readily available market value for most of the investments in our portfolio, we value substantially all of our portfolio investments at fair value as determined in good faith by our board of directors as described herein. 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 fluctuate from period to period. Additionally, the fair value of our investments may differ significantly from the values that would have been used had a ready market existed for such investments and may differ materially from the values that we may ultimately realize. Further, such investments are generally subject to legal and other restrictions on resale or otherwise are less liquid than publicly traded securities. If we were required to liquidate a portfolio investment in a forced or liquidation sale, we could realize significantly less than the value at which we have recorded it.

In addition, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the gains or losses reflected in the valuations currently assigned. See "Risk Factors Risks Relating to Our Investments Declines in market prices and liquidity in the corporate debt markets can result in significant net unrealized depreciation of our portfolio, which in turn would reduce our net asset value."

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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 in conjunction with our portfolio management team.

Preliminary valuations are reviewed and discussed with our investment adviser's management and investment professionals, and then valuation recommendations are presented to our board of directors.

The audit committee of our board of directors reviews these valuations, as well as the input of independent third-party valuation firms with respect to the valuations of a minimum of 50% of our portfolio at fair value.

Our board of directors discusses valuations and determines the fair value of each investment in our portfolio without a readily available market quotation in good faith based on the input of our investment adviser, audit committee and where applicable, independent third-party valuation firms.

Effective January 1, 2008, the Company adopted ASC 820-10 (previously SFAS No. 157, Fair Value Measurements) ("ASC 820-10"), which expands the application of fair value accounting for investments (see Note 8 to our consolidated financial statements for the year ended December 31, 2010 and the three months ended March 31, 2011). Investments acquired as part of the Allied Acquisition were accounted for in accordance with ASC 805-10, which requires that all assets be recorded at fair value. As a result, the initial amortized cost basis and fair value for the acquired investments were the same at April 1, 2010 (see Note 17 to our consolidated financial statements for the year ended December 31, 2010 and Note 15 to our consolidated financial statements for the three months ended March 31, 2011).

**OFF BALANCE SHEET ARRANGEMENTS**

The Company has various commitments to fund investments in its portfolio, including commitments to fund revolving senior and subordinated loans, subordinated notes in the SSLP, and private equity investment partnerships.

As of March 31, 2011 and December 31, 2010, the Company had the following commitments to fund various revolving senior secured and subordinated loans:

| (in millions)  | March 31,<br>2011 | As of<br>December 31,<br>2010 |
|--|-------------------|-------------------------------|
| Total revolving commitments  | \$ 288.5          | \$ 260.7                      |
| Less: funded commitments   | (63.1)            | (60.0)                        |
| Total unfunded commitments   | 225.4             | 200.7                         |
| Less: commitments substantially at discretion of the Company                       | (16.7)            | (19.9)                        |
| Less: unavailable commitments due to borrowing base or other covenant restrictions | (5.1)             | (6.7)                         |
| Total net adjusted unfunded revolving commitments                                  | \$ 203.6          | \$ 174.1                      |

Of the total net adjusted unfunded commitments as of March 31, 2011 and December 31, 2010, \$31.5 million and \$33.8 million, respectively, are from commitments for investments acquired as part of the Allied Acquisition. Also, as of March 31, 2011, \$219.5 million of the total revolving commitments



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extend beyond the maturity date of our Revolving Credit Facility. Included within the total revolving commitments as of March 31, 2011 are commitments to issue up to \$2.7 million in standby letters of credit through a financial intermediary on behalf of certain portfolio companies. Under these arrangements, if the standby letters of credit were to be issued, the Company would be required to make payments to third parties if the portfolio companies were to default on their related payment obligations. As of March 31, 2011, the Company had \$2.05 million in standby letters of credit issued and outstanding on behalf of the portfolio companies, of which no amounts were recorded as a liability on our balance sheet as such letters of credit are considered in the valuation of the investments in the portfolio company. Of these letters of credit, \$0.05 million expire in February 2011, \$0.01 million expire in April 2011, \$1.66 million expire in September 2011, \$0.17 million expire in December 2011, and \$0.16 million expire in January 2012.

As of March 31, 2011 and December 31, 2010, we had funded the SSLP with \$671.4 million and \$548.2 million, respectively, which the SSLP used to fund loans to its underlying portfolio companies. As of these dates, we had also committed to make available to the SSLP an additional \$287.4 million and \$410.6 million, respectively, to fund additional loans. It is within our discretion to make these additional amounts available to the SSLP and within GE's discretion to make its additional amounts available to the SSLP. In addition, all portfolio decisions and generally all other decisions in respect of the SSLP must be approved by both GE and the Company.

See Note 14 to the consolidated financial statements for the year ended December 31, 2010 and Note 4 to the consolidated financial statements for the three months ended March 31, 2011 for more information on the Company's commitment to the SSLP.

As of March 31, 2011 and December 31, 2010, the Company was subject to subscription agreements to fund equity investments in private equity investment partnerships:

| (in millions)   | As of             |                      |
|---|-------------------|----------------------|
|   | March 31,<br>2011 | December 31,<br>2010 |
| Total private equity commitments  | \$ 514.9          | \$ 537.6             |
| Less: funded private equity commitments                                     | (90.4)            | (104.3)              |
| Total unfunded private equity commitments                                   | 424.5             | 433.3                |
| Less: private equity commitments substantially at discretion of the Company | (412.9)           | (400.4)              |
| Total net adjusted unfunded private equity commitments                      | \$ 11.6           | \$ 32.9              |

Of the total net adjusted unfunded private equity commitments as of March 31, 2011 and December 31, 2010, \$3.5 million and \$11.5 million, respectively, are for investments acquired as part of the Allied Acquisition.

In the ordinary course of business, Allied Capital had issued guarantees on behalf of certain portfolio companies. Under these arrangements, payments would be required to be made to third parties if the portfolio companies were to default on their related payment. As part of the Allied Acquisition, the Company assumed such outstanding guarantees or similar obligations. As a result, as of each of March 31, 2011 and December 31, 2010, the Company had outstanding guarantees or similar obligations totaling \$0.8 million.

Further, in the ordinary course of business, we may sell certain of our investments to third party purchasers. In particular, since the Allied Acquisition we have sold and currently continue to seek opportunities to sell certain of Allied Capital's equity investments larger than those we have historically made and controlled portfolio company equity investments. In connection with these sales (as well as certain other sales) we have, and may continue to do so in the future, agreed to indemnify such

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purchasers for future liabilities arising from the investments and the related sale transaction. Such indemnification provisions may give rise to future liabilities.

As of March 31, 2011, one of the Company's portfolio companies, Ciena Capital LLC ("Ciena"), had one non-recourse securitization Small Business Administration ("SBA") loan warehouse facility, which has reached its maturity date but remains outstanding. Ciena is working with the providers of the SBA loan warehouse facility with regard to the repayment of that facility. Allied Capital had previously issued a performance guaranty (which Ares Capital succeeded to as a result of the Allied Acquisition) whereby Ares Capital must indemnify the warehouse providers for any damages, losses, liabilities and related costs and expenses that they may incur as a result of Ciena's failure to perform any of its obligations as loan originator, loan seller or loan servicer under the warehouse facility. As of March 31, 2011, there are no known issues or claims with respect to this performance guaranty.

**RECENT DEVELOPMENTS**

On April 27, 2011, we redeemed the \$161.2 million in outstanding aggregate principal amount of the 2012 Notes for a total redemption price (including a redemption premium) of \$169.3 million, which resulted in a loss on the extinguishment of debt of \$10.5 million, in accordance with the terms of the indenture governing the 2012 Notes.

On June 6, 2011, we entered into a restated investment advisory and management agreement, referred to herein as our investment advisory and management agreement or our restated investment advisory and management agreement, with our investment adviser. The restated investment advisory and management agreement (i) lowered the quarterly income hurdle rate used in calculating the income portion of the incentive fee payable to our investment adviser from 2.0% (or 8.0% annually) to 1.75% (or 7.0% annually), adjusted the related quarterly "catch-up" hurdle rate from 2.5% to 2.1875% (or from 10.0% to 8.75% annually) and lowered the general hurdle rate for deferral of payment of incentive fees generally from 8.0% over the prior four full calendar quarters to 7.0% over the prior four full calendar quarters; and (ii) provided that the capital gains portion of the incentive fee will be calculated using the actual purchase price paid by the Company for an asset as the "cost" of such asset even when GAAP requires the Company to record cost at fair value, whether such purchase price is higher or lower than the fair value of such asset at the time of acquisition. As previously disclosed, we will be required to accrue an additional amount of capital gains incentive fees payable up to a maximum of approximately \$26 million under GAAP for the fiscal quarter ended June 30, 2011, even though no such fees would be payable to our investment adviser at the time of such accrual. See "Management Investment Advisory and Management Agreement Duration, Termination and Amendment."

As of June 30, 2011 we had made new investment commitments of approximately \$889 million, of which approximately \$728 million was funded, since March 31, 2011. Of these new commitments, 87% were made in first lien senior secured debt, 1% in second lien senior secured debt, 3% in senior subordinated debt, 7% in subordinated notes of the Senior Secured Loan Program to fund senior and unitranche loans made by the Senior Secured Loan Program and 2% were in equity securities. Of the approximately \$889 million of new investment commitments, 93% were floating rate with a weighted average spread at amortized cost of 8.1% and 5% were fixed rate with a weighted average yield at amortized cost of 12.3%.

As of June 30, 2011, we had exited approximately \$377 million of investments since March 31, 2011. Of these investments, 33% were in first lien senior secured debt, 24% were in second lien senior secured debt, 21% were in senior subordinated debt, 4% were in commercial real estate investments and 18% were in equity securities. Of the approximately \$377 million of investments, 30% were in floating rate investments with a weighted average spread at amortized cost of 7.4%. Of the remaining

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investments, 42% were fixed rate investments with a weighted average yield at amortized cost of 12.4%, 18% were non-interest bearing and 10% were in investments on non-accrual status. Also, of the approximately \$377 million of investments exited since March 31, 2011, approximately \$212 million were investments acquired as part of the Allied Acquisition. Additionally, we recognized net realized gains of approximately \$14 million on the investments exited that were acquired as part of the Allied Acquisition.

In addition, as of June 30, 2011, we had an investment backlog and pipeline of \$1.1 billion and \$500 million, respectively. We may syndicate a portion of these investments and commitments to third parties. The consummation of any of the investments in this backlog and pipeline depends upon, among other things: satisfactory completion of our due diligence investigation of the prospective portfolio company, our acceptance of the terms and structure of such investment and the execution and delivery of satisfactory transaction documents. We cannot assure you that we will make any of these investments or that we will syndicate any portion of such investments and commitments.

**CRITICAL ACCOUNTING POLICIES**

*Basis of Presentation*

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with GAAP, and include the accounts of the Company and its wholly owned subsidiaries. The consolidated financial statements reflect all adjustments and reclassifications that, in the opinion of management, are necessary for the fair presentation of the results of the operations and financial condition as of and for the periods presented. All significant intercompany balances and transactions have been eliminated.

*Cash and Cash Equivalents*

Cash and cash equivalents include funds from time to time deposited with financial institutions and short-term, liquid investments in a money market fund. Cash and cash equivalents are carried at cost which approximates fair value.

*Concentration of Credit Risk*

The Company places its cash and cash equivalents with financial institutions and, at times, cash held in money market accounts may exceed the Federal Deposit Insurance Corporation insured limit.

*Investments*

Investment transactions are recorded on the trade date. Realized gains or losses are measured by the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment without regard to unrealized gains or losses previously recognized, and include investments charged off during the period, net of recoveries. Unrealized gains or losses primarily reflect the change in investment values, including the reversal of previously recorded unrealized gains or losses when gains or losses are realized. Investments for which market quotations are readily available are typically valued at such market quotations. In order to validate market quotations, we look at a number of factors to determine if the quotations are representative of fair value, including the source and nature of the quotations. Debt and equity securities that are not publicly traded or whose market prices are not readily available (i.e., substantially all of our investments) are valued at fair value as determined in good faith by our board of directors, based on the input of our investment adviser, audit committee and independent third-party valuation firms that have been engaged at the direction of our board of directors to assist in the valuation of each portfolio investment without a readily available market quotation at least once during a trailing 12 month period, and under a valuation policy and a consistently applied valuation process. The valuation process is conducted at the end of each fiscal

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quarter, and a minimum of 50% of our portfolio at fair value is subject to review by an independent valuation firm each quarter.

As part of the valuation process, we may take into account the following types of factors, if relevant, in determining the fair value of our investments: the enterprise value of a portfolio company (an estimate of the total fair value of the portfolio company's debt and equity), 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 of the portfolio company's securities to any similar publicly traded securities, changes in the interest rate environment and the credit markets generally that may affect the price at which similar investments may be made in the future and other relevant factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we consider the pricing indicated by the external event to corroborate our valuation.

Because there is not a readily available market value for most of the investments in our portfolio, we value substantially all of our portfolio investments at fair value as determined in good faith by our board of directors, as described herein. 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 fluctuate from period to period. Additionally, the fair value of our investments may differ significantly from the values that would have been used had a ready market existed for such investments and may differ materially from the values that we may ultimately realize. Further, such investments are generally subject to legal and other restrictions on resale or otherwise are less liquid than publicly traded securities. If we were required to liquidate a portfolio investment in a forced or liquidation sale, we could realize significantly less than the value at which we have recorded it.

In addition, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the gains or losses reflected in the valuations currently assigned.

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 in conjunction with our portfolio management team.

Preliminary valuations are reviewed and discussed with our investment adviser's management and investment professionals, and then valuation recommendations are presented to our board of directors.

The audit committee of our board of directors reviews these valuations, as well as the input of independent third-party valuation firms with respect to the valuations of a minimum of 50% of our portfolio at fair value.

Our board of directors discusses valuations and determines the fair value of each investment in our portfolio without a readily available market quotation in good faith based on the input of our investment adviser, audit committee and, where applicable, independent third-party valuation firms.

Effective January 1, 2008, the Company adopted ASC 820-10, which expands the application of fair value accounting for investments (see Note 8 to our consolidated financial statements for the year ended December 31, 2010 and the three months ended March 31, 2011). Investments acquired as part of the Allied Acquisition were accounted for in accordance with ASC 805-10, which requires that all assets be recorded at fair value. As a result, the initial amortized cost basis and fair value for the acquired investments were the same at April 1, 2010 (see Note 17 to our consolidated financial

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statements for the year ended December 31, 2010 and Note 15 to our consolidated financial statements for the three months ended March 31, 2011).

***Interest and Dividend Income Recognition***

Interest income is recorded on an accrual basis and includes the accretion of discounts and amortization of premiums. Discounts from and premiums to par value on securities purchased are accreted/amortized into interest income over the life of the respective security using the effective yield method. The amortized cost of investments represents the original cost adjusted for the accretion of discounts and amortization of premiums, if any.

Loans are generally placed on non-accrual status when principal or interest payments are past due 30 days or more or when there is reasonable doubt that principal or interest will be collected in full. Accrued and unpaid interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment regarding collectability. Non-accrual loans are restored to accrual status when past due principal and interest is paid and, in management's judgment, are likely to remain current. The Company may make exceptions to this if the loan has sufficient collateral value and is in the process of collection.

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

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

The Company has loans in its portfolio that contain PIK provisions. The PIK interest, computed at the contractual rate specified in each loan agreement, is added to the principal balance of the loan and recorded as interest income. To maintain the Company's status as a RIC, this non-cash source of income must be paid out to stockholders in the form of dividends even though the Company has not yet collected the cash.

***Capital Structuring Service Fees and Other Income***

The Company's investment adviser seeks to provide assistance to our portfolio companies in connection with the Company's investments and in return the Company may receive fees for capital structuring services. These fees are generally only available to the Company as a result of the Company's underlying investments, are normally paid at the closing of the investments, are generally non-recurring and are recognized as revenue when earned upon closing of the investment. The services that the Company's investment adviser provides vary by investment, but generally include reviewing existing credit facilities, arranging bank financing, arranging equity financing, structuring financing from multiple lenders, structuring financing from multiple equity investors, restructuring existing loans, raising equity and debt capital, and providing general financial advice, which concludes upon closing of the investment. Any services of the above nature subsequent to the closing would generally generate a separate fee payable to the Company. In certain instances where the Company is invited to participate as a co-lender in a transaction and does not provide significant services in connection with the investment, a portion of loan fees paid to the Company in such situations will be deferred and amortized over the estimated life of the loan. The Company's investment adviser may also take a seat on the board of directors of a portfolio company, or observe the meetings of the board of directors without taking a formal seat.

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Other income includes fees for asset management, management and consulting services, loan guarantees, commitments, amendments and other services rendered by the Company to portfolio companies. Such fees are recognized as income when earned or the services are rendered.

***Foreign Currency Translation***

The Company's books and records are maintained in U.S. dollars. Any foreign currency amounts are translated into U.S. dollars on the following basis:

- (1) Fair value of investment securities, other assets and liabilities at the exchange rates prevailing at the end of the period.
- (2) Purchases and sales of investment securities, income and expenses at the exchange rates prevailing on the respective dates of such transactions, income or expenses.

Results of operations based on changes in foreign exchange rates are separately disclosed in the statement of operations. Foreign security and currency translations may involve certain considerations and risks not typically associated with investing in U.S. companies and U.S. government securities. These risks include, but are not limited to, currency fluctuation and revaluations and future adverse political, social and economic developments, which could cause investments in foreign markets to be less liquid and prices more volatile than those of comparable U.S. companies or U.S. government securities.

***Accounting for Derivative Instruments***

The Company does not utilize hedge accounting and marks its derivatives to market through unrealized gains (losses) in the accompanying statement of operations.

***Equity Offering Expenses***

The Company's offering costs, excluding underwriters' fees, are charged against the proceeds from equity offerings when received.

***Debt Issuance Costs***

Debt issuance costs are being amortized over the life of the related debt instrument using the straight line method, which closely approximates the effective yield method.

***U.S. Federal Income Taxes***

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

Depending on the level of taxable income earned in a tax year, we may choose to carry forward taxable income in excess of current year dividend distributions into the next tax year and pay a 4% excise tax on such income, as required. To the extent that the Company determines that its estimated current year annual taxable income will be in excess of estimated current year dividend distributions, the Company accrues excise tax, if any, on estimated excess taxable income as taxable income is earned.

Certain of our wholly owned subsidiaries are subject to U.S. federal and state income taxes.

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*Dividends to Common Stockholders*

Dividends and distributions to common stockholders are recorded on the record date. The amount to be paid out as a dividend is determined by our board of directors each quarter and is generally based upon the earnings estimated by management. Net realized capital gains, if any, are generally distributed at least annually, although we may decide to retain such capital gains for investment.

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

*Use of Estimates in the Preparation of Financial Statements*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of actual and contingent assets and liabilities at the date of the financial statements and the reported amounts of income or loss and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the valuation of investments.

**QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are subject to financial market risks, including changes in interest rates and the valuations of our investment portfolio.

*Interest Rate Risk*

Interest rate sensitivity refers to the change in earnings that may result from changes in the level of interest rates. Because we fund a portion of our investments with borrowings, our net investment income is affected by the difference between the rate at which we invest and the rate at which we borrow. As a result, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income. See "Risk Factors Risks Relating to Our Business We are exposed to risks associated with changes in interest rates."

As of March 31, 2011, approximately 29% of the investments at fair value in our portfolio were at fixed rates, approximately 50% were at variable rates, 18% were non-interest earning and 3% were on non-accrual status. Additionally, for the investments at variable rates, 53% of the investments contain interest rate floors (representing 27% of total investments at fair value). The Revolving Credit Facility, the Revolving Funding Facility and the Debt Securitization all bear interest at variable rates with no interest rate floors, while the Allied Unsecured Notes, the 2040 Notes and the Convertible Notes bear interest at fixed rates.

We regularly measure our exposure to interest rate risk. We assess interest rate risk and manage our interest rate exposure on an ongoing basis by comparing our interest rate sensitive assets to our interest rate sensitive liabilities. Based on that review, we determine whether or not any hedging transactions are necessary to mitigate exposure to changes in interest rates.

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While hedging activities may mitigate our exposure to adverse fluctuations in interest rates, certain hedging transactions that we may enter into in the future, such as interest rate swap agreements, may also limit our ability to participate in the benefits of lower interest rates with respect to our portfolio investments.

Based on our March 31, 2011 balance sheet, the following table shows the annual impact on net income of base rate changes in interest rates (considering interest rate floors for variable rate instruments) assuming no changes in our investment and borrowing structure:

(in millions)

| <b>Basis Point Change</b> | <b>Interest Income</b> | <b>Interest Expense(1)</b> | <b>Net Income</b> |
|---------------------------|------------------------|----------------------------|-------------------|
| Up 300 basis points       | \$ 26.5                | \$ 4.2                     | \$ 22.3           |
| Up 200 basis points       | \$ 14.1                | \$ 2.8                     | \$ 11.3           |
| Up 100 basis points       | \$ 4.3                 | \$ 1.4                     | \$ 2.9            |
| Down 100 basis points     | \$ (0.9)               | \$ (0.4)                   | \$ (0.5)          |
| Down 200 basis points     | \$ (1.1)               | \$ (0.4)                   | \$ (0.7)          |
| Down 300 basis points     | \$ (1.3)               | \$ (0.4)                   | \$ (0.9)          |

(1)

As of March 31, 2011, we had no amounts outstanding under the Revolving Funding Facility or the Revolving Credit Facility.

Based on our December 31, 2010 balance sheet, the following table shows the annual impact on net income of base rate changes in interest rates (considering interest rate floors for variable rate instruments) assuming no changes in our investment and borrowing structure:

(in millions)

| <b>Basis Point Change</b> | <b>Interest Income</b> | <b>Interest Expense</b> | <b>Net Income</b> |
|---------------------------|------------------------|-------------------------|-------------------|
| Up 300 basis points       | \$ 26.2                | \$ 16.3                 | \$ 9.9            |
| Up 200 basis points       | \$ 14.8                | \$ 10.9                 | \$ 3.9            |
| Up 100 basis points       | \$ 5.5                 | \$ 5.4                  | \$ 0.1            |
| Down 100 basis points     | \$ (1.5)               | \$ (1.6)                | \$ 0.1            |
| Down 200 basis points     | \$ (1.9)               | \$ (1.6)                | \$ (0.3)          |
| Down 300 basis points     | \$ (2.3)               | \$ (1.6)                | \$ (0.7)          |

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**SENIOR SECURITIES**  
(dollar amounts in thousands, except per share data)

Information about our senior securities (including preferred stock, debt securities and other indebtedness) is shown in the following tables as of the end of each fiscal year ended December 31 since we commenced operations and as of March 31, 2011. The report of our independent registered public accounting firm, KPMG LLP, on the senior securities table as of December 31, 2010, is attached as an exhibit to the registration statement of which this prospectus is a part. The " " indicates information that the SEC expressly does not require to be disclosed for certain types of senior securities.

| Class and Year                                | Total Amount<br>Outstanding<br>Exclusive of<br>Treasury<br>Securities(1) | Asset<br>Coverage<br>Per Unit(2) | Involuntary<br>Liquidating<br>Preference<br>Per Unit(3) | Average<br>Market Value<br>Per Unit(4) |
|---|--|----------------------------------|---|--|
| <b>Revolving Credit Facility</b>              |  |                                  |   |  |
| Fiscal 2011 (as of March 31, 2011, unaudited) | \$   | \$                               | \$  | N/A                                    |
| Fiscal 2010                                   | \$ 146,000   | \$ 3,212.92                      | \$  | N/A                                    |
| Fiscal 2009                                   | \$ 474,144   | \$ 2,297.51                      | \$  | N/A                                    |
| Fiscal 2008                                   | \$ 480,486   | \$ 2,204.77                      | \$  | N/A                                    |
| Fiscal 2007                                   | \$ 282,528   | \$ 2,650.04                      | \$  | N/A                                    |
| Fiscal 2006                                   | \$ 193,000   | \$ 2,637.83                      | \$  | N/A                                    |
| Fiscal 2005                                   | \$   | \$                               | \$  | N/A                                    |
| <b>Revolving Funding Facility</b>             |  |                                  |   |  |
| Fiscal 2011 (as of March 31, 2011, unaudited) | \$   | \$                               | \$  | N/A                                    |
| Fiscal 2010                                   | \$ 242,050   | \$ 3,212.92                      | \$  | N/A                                    |
| Fiscal 2009                                   | \$ 221,569   | \$ 2,297.51                      | \$  | N/A                                    |
| Fiscal 2008                                   | \$ 114,300   | \$ 2,204.77                      | \$  | N/A                                    |
| Fiscal 2007                                   | \$ 85,000  | \$ 2,650.04                      | \$  | N/A                                    |
| Fiscal 2006                                   | \$ 15,000  | \$ 2,637.83                      | \$  | N/A                                    |
| Fiscal 2005                                   | \$ 18,000  | \$ 32,645.11                     | \$  | N/A                                    |
| Fiscal 2004                                   | \$ 55,500  | \$ 3,877.62                      | \$  | N/A                                    |
| <b>Revolving Funding II Facility</b>          |  |                                  |   |  |
| Fiscal 2009                                   | \$   | \$                               | \$  | N/A                                    |
| <b>Debt Securitization</b>                    |  |                                  |   |  |
| Fiscal 2011 (as of March 31, 2011, unaudited) | \$ 138,595   | \$ 3,214.92                      | \$  | N/A                                    |
| Fiscal 2010                                   | \$ 155,297   | \$ 3,212.92                      | \$  | N/A                                    |
| Fiscal 2009                                   | \$ 273,752   | \$ 2,297.51                      | \$  | N/A                                    |
| Fiscal 2008                                   | \$ 314,000   | \$ 2,204.77                      | \$  | N/A                                    |
| Fiscal 2007                                   | \$ 314,000   | \$ 2,650.04                      | \$  | N/A                                    |
| Fiscal 2006                                   | \$ 274,000   | \$ 2,637.83                      | \$  | N/A                                    |
| <b>2011 Notes</b>                             |  |                                  |   |  |
| Fiscal 2010                                   | \$ 296,258   | \$ 3,212.92                      | \$  | \$ 1,018                               |
| <b>2012 Notes</b>                             |  |                                  |   |  |
| Fiscal 2011 (as of March 31, 2011, unaudited) | \$ 158,705   | \$ 3,214.92                      | \$  | \$ 1,031                               |
| Fiscal 2010                                   | \$ 158,108   | \$ 3,212.92                      | \$  | \$ 1,018                               |
| <b>2040 Notes</b>                             |  |                                  |   |  |
| Fiscal 2011 (as of March 31, 2011, unaudited) | \$ 200,000   | \$ 3,214.92                      | \$  | \$ 979                                 |
| Fiscal 2010                                   | \$ 200,000   | \$ 3,212.92                      | \$  | \$ 952                                 |
| <b>2047 Notes</b>                             |  |                                  |   |  |
| Fiscal 2011 (as of March 31, 2011, unaudited) | \$ 180,842   | \$ 3,214.92                      | \$  | \$ 913                                 |
| Fiscal 2010                                   | \$ 180,795   | \$ 3,212.92                      | \$  | \$ 847                                 |
| <b>February 2016 Convertible Notes</b>        |  |                                  |   |  |
| Fiscal 2011 (as of March 31, 2011, unaudited) | \$ 535,973   | \$ 3,214.92                      | \$  | \$ 1,054                               |
| <b>June 2016 Convertible Notes</b>            |  |                                  |   |  |
| Fiscal 2011 (as of March 31, 2011, unaudited) | \$ 213,929   | \$ 3,214.92                      | \$  | \$ 1,028                               |

(1)

Total amount of each class of senior securities outstanding at the end of the period presented. On April 27, 2011, we redeemed all of the remaining 2012 Notes for a total redemption price of approximately \$169.3 million, which

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resulted in a loss on the extinguishment of debt of \$10.5 million. See "Prospectus Summary Recent Developments" and "Management's Discussion and Analysis of Financial Condition and Results of Operations Recent Developments" in this prospectus.

- (2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by total senior securities representing indebtedness. This asset coverage ratio is multiplied by \$1,000 to determine the "Asset Coverage Per Unit" (including for the 2040 Notes and the 2047 Notes, which were issued in \$25 increments). The ratios depicted for each of the periods previously presented have been revised to reflect the current year methodology described above.
- (3) The amount to which such class of senior security would be entitled upon our involuntary liquidation in preference to any security junior to it.
- (4) Not applicable, except for with respect to the 2011 Notes, the 2012 Notes, the 2040 Notes, the 2047 Notes, the February 2016 Convertible Notes and the June 2016 Convertible Notes. The average market value per unit for each of the 2011 Notes, the 2012 Notes, the 2040 Notes, the 2047 Notes, the February 2016 Convertible Notes and the June 2016 Convertible Notes is based on the average daily quoted prices of such notes and is expressed per \$1,000 of indebtedness (including for the 2040 Notes and the 2047 Notes, which were issued in \$25 increments).

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**BUSINESS**

**GENERAL**

Ares Capital, a Maryland corporation, is a specialty finance company that is a closed-end, non-diversified management investment company. We have elected to be regulated as a BDC under the Investment Company Act. We were founded on April 16, 2004, were initially funded on June 23, 2004 and completed our initial public offering on October 8, 2004. We are one of the largest BDCs with approximately \$13 billion of total committed capital under management as of March 31, 2011, including available debt capacity (subject to leverage and borrowing base restrictions), funds directly or indirectly managed or co-managed by us or one of our wholly owned subsidiaries and funds managed or sub-managed by our wholly owned portfolio company IHAM.

We are externally managed by our investment adviser, Ares Capital Management, a wholly owned subsidiary of Ares Management, a global alternative asset manager and a SEC registered investment adviser with approximately \$40 billion of total committed capital under management as of March 31, 2011. Our administrator, a wholly owned subsidiary of Ares Management, provides the administrative services necessary for us to operate.

Our investment objective is to generate both current income and capital appreciation through debt and equity investments. We invest primarily in U.S. middle-market companies, where we believe the supply of primary capital is limited and the investment opportunities are most attractive. However, we may from time to time invest in larger companies. In this prospectus, we generally use the term "middle-market" to refer to companies with annual EBITDA between \$10 million and \$250 million. As used herein, EBITDA represents net income before net interest expense, income tax expense, depreciation and amortization.

On April 1, 2010, we consummated the Allied Acquisition in an all stock merger whereby each existing share of common stock of Allied Capital was exchanged for 0.325 shares of our common stock. The Allied Acquisition was valued at approximately \$908 million as of April 1, 2010. In connection therewith, we issued approximately 58.5 million shares of our common stock to Allied Capital's then-existing stockholders, thereby resulting in our then-existing stockholders owning approximately 69% of the combined company and the then-existing Allied Capital stockholders owning approximately 31% of the combined company.

We invest primarily in first and second lien senior loans and mezzanine debt, which in some cases includes an equity component. First and second lien senior loans generally are senior debt instruments that rank ahead of subordinated debt of a given portfolio company. These loans also have the benefit of security interests on the assets of the portfolio company, which may rank ahead of or be junior to other security interests. Mezzanine debt is subordinated to senior loans and is generally unsecured. Our investments have generally ranged between \$20 million and \$200 million each, although the investment size may be more or less than this range. Our investment sizes are expected to grow with our capital availability.

To a lesser extent, we also make preferred and/or common equity investments, which have generally been non-control equity investments of less than \$20 million (usually in conjunction with a concurrent debt investment). However, we may increase the size or change the nature of these investments. Also, as a result of the Allied Acquisition, Allied Capital's equity investments, which included equity investments larger than those we have historically made and controlled portfolio company equity investments, became part of our portfolio. We intend to actively seek opportunities over time to dispose of certain of the assets that were acquired in the Allied Acquisition, particularly non-yielding equity investments, as well as lower or non-yielding debt investments and investments that may not be core to our investment strategy, and generally rotate them into higher-yielding first and second lien senior loans and mezzanine debt investments. However, there can be no assurance that this

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strategy will be successful. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Portfolio and Investment Activity" for further information on the rotation of investments acquired as part of the Allied Acquisition.

The proportion of these types of investments will change over time given our views on, among other things, the economic and credit environment we are operating in. In connection with our investing activities, we may make commitments with respect to indebtedness or securities of a potential portfolio company substantially in excess of our final investment. In such situations, while we may initially agree to fund up to a certain dollar amount of an investment, we may subsequently syndicate a portion of such amount to third parties, such that we are left with a smaller investment than what was reflected in our original commitment. In addition to originating investments, we may also acquire investments in the secondary market.

The first and second lien senior loans in which we invest generally have stated terms of three to 10 years and the mezzanine debt investments in which we invest generally have stated terms of up to 10 years, but the expected average life of such first and second lien loans and mezzanine debt is generally between three and seven years. However, we may invest in loans and securities with any maturity or duration. The instruments in which we invest typically are not initially rated by any rating agency, but we believe that if such instruments were rated, they would be below investment grade (rated lower than "Baa3" by Moody's Investors Service, lower than "BBB-" by Fitch Ratings or lower than "BBB-" by Standard & Poor's Ratings Services). We may invest without limit in debt or other securities of any rating, as well as debt or other securities that have not been rated by any nationally recognized statistical rating organization.

We believe that our investment adviser, Ares Capital Management, is able to leverage the current investment platform, resources and existing relationships with financial sponsors, financial institutions, hedge funds and other investment firms of Ares to provide us with attractive investments. In addition to deal flow, the Ares investment platform assists our investment adviser in analyzing, structuring and monitoring investments. Ares has been in existence for more than 13 years and its senior principals have an average of over 21 years experience investing in senior loans, high yield bonds, mezzanine debt and private equity securities. The Company has access to the Ares staff of approximately 170 investment professionals and approximately 145 administrative professionals who provide assistance in accounting, finance, legal, compliance, operations, information technology and investor relations.

Since our initial public offering on October 8, 2004 through March 31, 2011, our realized gains have exceeded our realized losses by \$113.2 million (excluding the one-time gain on the Allied Acquisition and gains/losses from the extinguishment of debt and other assets). For this same time period, our portfolio exits have resulted in an aggregate cash flow realized internal rate of return to us of approximately 15% (based on original cash invested of \$3.5 billion and total proceeds from such exits of \$4.2 billion). Approximately 79% of the exits resulted in an aggregate cash flow internal rate of return to us of 10% or greater. Internal rate of return is the discount rate that makes the net present value of all cash flows related to a particular investment equal to zero. Internal rate of return is gross of expenses related to investments as these expenses are not allocable to specific investments. Investments are considered to be exited when the original investment objective has been achieved through the receipt of cash and/or non-cash consideration upon the repayment of our debt investment or sale of an investment or through the determination that no further consideration was collectible and, thus, a loss may have been realized. These internal rate of return results are historical results relating to our past performance and are not necessarily indicative of future results, the achievement of which cannot be assured.

While our primary focus is to generate current income and capital appreciation through investments in first and second lien senior loans and mezzanine debt and, to a lesser extent, equity

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securities of eligible portfolio companies, we also may invest up to 30% of our portfolio in opportunistic investments in non-qualifying assets, as permitted by the Investment Company Act. See "Regulation." Specifically, as part of this 30% basket, we may invest in debt of middle-market companies located outside of the United States, in investment funds that are operating pursuant to certain exceptions to the Investment Company Act, in advisers to similar investment funds and in debt and equity of public companies that are not considered "eligible portfolio companies" (as defined in the Investment Company Act) because their market capitalization of publicly traded equity securities exceeds the levels provided for in the Investment Company Act. We expect that these public companies generally will have debt that may be non-investment grade. From time to time we may also invest in high yield bonds, which, depending on the issuer, may or may not be included in this 30% basket.

We and GE also co-invest through the SSLP. The SSLP was initially formed in December 2007 to invest in "stretch senior" and "unitranche" loans (loans that combine both senior and subordinated debt, generally in a first lien position) of middle-market companies and currently has approximately \$5.1 billion of available capital, approximately \$2.9 billion in aggregate principal amount of which was funded as of March 31, 2011. At March 31, 2011, our total available capital provided to the SSLP was approximately \$1 billion, of which approximately \$300 million was unfunded. The SSLP is capitalized as transactions are completed and all portfolio decisions and generally all other decisions in respect of the SSLP must be approved by both GE and the Company.

We also manage an unconsolidated fund, the AGILE Fund, which had approximately \$67.9 million of total committed capital under management as of March 31, 2011.

In addition, our portfolio company IHAM manages (or sub-manages) the IHAM Funds, which are described in more detail under "Investments Managed Funds Portfolio" below. We have also made direct investments in securities of certain of these vehicles. As of March 31, 2011, IHAM had total committed capital under management of approximately \$3.4 billion, which includes approximately \$0.4 billion invested by Ares Capital in IHAM or securities issued by funds managed or sub-managed by IHAM.

**About Ares**

Founded in 1997, Ares is a global alternative asset manager and SEC registered investment adviser with approximately \$40 billion of total committed capital under management and over 380 employees as of March 31, 2011.

Ares specializes in originating and managing assets in both the leveraged finance and private equity markets. Ares' leveraged finance activities include the origination, acquisition and management of senior loans, high yield bonds, mezzanine debt and special situation investments. Ares' private equity activities focus on providing flexible, junior capital to middle-market companies. Ares has the ability to invest across a capital structure, from senior floating rate debt to common equity. This flexibility, combined with Ares' "buy and hold" philosophy, enables Ares to structure an investment to meet the specific needs of a company rather than the less flexible demands of the public markets.

Ares is comprised of the following groups:

**Global Private Debt Group.** The Ares Global Private Debt Group manages the assets of Ares Capital, the IHAM Funds, Ares Credit Strategies Fund II, L.P., Ares Credit Strategies Fund III, L.P. and Ares' private debt middle-market financing business in Europe, ACE, which together had approximately \$15 billion of total committed capital under management as of March 31, 2011, including capital which may be committed for investment both directly and through certain financial services portfolio companies of the Company. The Ares Global Private Debt Group focuses primarily on non-syndicated first and second lien senior loans and mezzanine debt, which in some cases may include an equity component. The Ares Global

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Private Debt Group also makes equity investments in private middle-market companies, usually in conjunction with a concurrent debt investment.

**Capital Markets Group.** The Ares Capital Markets Group had approximately \$19 billion of total committed capital under management as of March 31, 2011 through a variety of funds and investment vehicles, focusing primarily on syndicated senior secured loans, high yield bonds, distressed debt, other liquid fixed income investments and other publicly traded debt securities.

**Private Equity Group.** The Ares Private Equity Group had approximately \$6 billion of total committed capital under management as of March 31, 2011, primarily through ACOF. ACOF generally makes private equity investments in amounts substantially larger than the private equity investments anticipated to be made by Ares Capital. In particular, the Ares Private Equity Group generally focuses on control-oriented equity investments in under-capitalized companies or companies with capital structure issues.

Ares' senior principals have been working together as a group for many years and have an average of over 21 years of experience in leveraged finance, private equity, distressed debt, investment banking and capital markets. They are backed by a large team of highly disciplined professionals. Ares' rigorous investment approach is based upon an intensive, independent financial analysis, with a focus on preservation of capital, diversification and active portfolio management. These fundamentals underlie Ares' investment strategy and have resulted in large pension funds, banks, insurance companies, endowments and certain high net worth individuals investing in Ares' funds.

**Ares Capital Management**

Ares Capital Management, our investment adviser, is served by an origination, investment and portfolio management team of approximately 55 U.S.-based investment professionals led by the senior partners of the Ares Global Private Debt Group: Michael Arougheti, Eric Beckman, Kipp deVeer, Mitchell Goldstein, Michael Smith and Gordon Watters. Ares Capital Management leverages off of Ares' investment platform and benefits from the significant capital markets, trading and research expertise of Ares' investment professionals. Ares has approximately 170 investment professionals covering current investments in more than 1,100 companies across over 30 industries. Ares Capital Management's investment committee has nine members, including the senior partners of the Ares Global Private Debt Group and senior partners in the Ares Capital Markets Group and the Ares Private Equity Group.

**MARKET OPPORTUNITY**

We believe that current market conditions present attractive opportunities for us to invest in middle-market companies. Specifically:

We believe that many senior lenders have, in recent years, de-emphasized their service and product offerings to middle-market businesses in favor of lending to large corporate clients and managing capital markets transactions. In addition, commercial and investment banks are limited in their ability to underwrite and syndicate bank loans and high yield securities for middle-market issuers as they seek to build capital and reduce leverage, resulting in opportunities for alternative funding sources and therefore higher new-issue market opportunities.

We believe that there is a lack of market participants that are willing to not only underwrite but also hold loans. As a result, we believe our ability to minimize syndication risk for a company seeking financing by being able to hold our loans without syndicating them is a competitive advantage.

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We believe there is a large pool of uninvested private equity capital for middle-market businesses. We expect private equity firms will seek to leverage their investments by combining equity capital with senior secured loans and mezzanine debt from other sources, such as the Company.

A high volume of senior secured and high yield debt was originated in the calendar years 2004 through 2007 and will come due in the near term and, accordingly, we believe that new financing opportunities will increase as many companies seek to refinance this indebtedness.

**COMPETITIVE ADVANTAGES**

We believe that we have the following competitive advantages over other capital providers to middle-market companies:

**The Ares Platform**

As of March 31, 2011, Ares managed approximately \$40 billion of total committed capital under management in the related asset classes of non-syndicated first and second lien senior loans, syndicated loans, high yield bonds, mezzanine debt and private equity. We believe Ares' current investment platform provides a competitive advantage in terms of access to origination and marketing activities and diligence for Ares Capital. Specifically, the Ares platform provides the Company an advantage through its deal flow generation and investment evaluation process. Ares' asset management platform also provides additional market information, company knowledge and industry insight that benefit the investment and due diligence process. Ares' professionals maintain extensive financial sponsor and intermediary relationships, which provide valuable insight and access to transactions and information.

**Seasoned Management Team**

Ares' senior professionals have an average of more than 21 years of experience in leveraged finance, including substantial experience in investing in leveraged loans, high yield bonds, mezzanine debt, distressed debt and private equity securities. The investment professionals in the Ares Global Private Debt Group and members of our investment adviser's investment committee also have significant experience originating and investing across market cycles. As a result of Ares' extensive investment experience and the history of its seasoned management team, Ares has developed a strong reputation across U.S. and European capital markets. We believe that Ares' long history in the leveraged loan market and the extensive experience of its principals originating and investing across market cycles provides Ares Capital with a competitive advantage in identifying, originating, investing in and managing a portfolio of investments in middle-market companies.

**Experience and Focus on Middle-Market Companies**

Ares has historically focused on investments in middle-market companies and we benefit from this experience. In sourcing and analyzing deals, our investment adviser benefits from Ares' extensive network of relationships focused on middle-market companies, including management teams, members of the investment banking community, private equity groups and other investment firms with whom Ares has had long-term relationships. We believe this network enables us to identify well-positioned prospective portfolio company investments. The Ares Global Private Debt Group works closely with Ares' other investment professionals, who together currently oversee a portfolio of investments in over 1,100 companies across over 30 industries, and provide access to an extensive network of relationships and insights into industry trends and the state of the capital markets.



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**Disciplined Investment Philosophy**

In making its investment decisions, our investment adviser has adopted Ares' long-standing, consistent, credit-based investment approach that was developed over 21 years ago by its founders. Specifically, our investment adviser's investment philosophy, portfolio construction and portfolio management involve an assessment of the overall macroeconomic environment and financial markets and company-specific research and analysis. Its investment approach emphasizes capital preservation, low volatility and minimization of downside risk. In addition to engaging in extensive due diligence from the perspective of a long-term investor, our investment adviser's approach seeks to reduce risk in investments by focusing on:

businesses with strong franchises and sustainable competitive advantages;

industries with positive long-term dynamics that have performed through the credit cycle;

businesses and industries with cash flows that are dependable and predictable, including those that have strategic M&A value;

management teams with demonstrated track records and appropriate economic incentives;

rates of return commensurate with the perceived risks;

securities or investments that are structured with favorable terms and covenants; and

businesses backed by experienced private equity sponsors.

**Extensive Industry Focus**

We seek to concentrate our investing activities in industries with a history of predictable and dependable cash flows and in which the Ares investment professionals have had extensive investment experience. Ares investment professionals have developed long-term relationships with management teams and management consultants in over 30 industries, and have accumulated substantial information and identified potential trends within these industries. In turn, we benefit from these relationships, information and identification of potential trends in making investments.

**Flexible Transaction Structuring and Scale**

We believe that being one of the largest BDCs with approximately \$13 billion of total committed capital under management as of March 31, 2011, including available debt capacity (subject to leverage and borrowing base restrictions), funds directly or indirectly managed or co-managed by us or one of our wholly owned subsidiaries and funds managed or sub-managed by certain financial services portfolio companies makes us a more desirable capital provider, especially in competitive markets. We are flexible in structuring investments, including the types of investments and the terms associated with such investments. Ares has extensive experience investing in a wide variety of structures for companies with a diverse set of terms and conditions. We believe this approach and experience enables our investment adviser to identify attractive investment opportunities throughout economic cycles and across a company's capital structure so we can make investments consistent with our stated investment objective and preserve principal while seeking appropriate risk adjusted returns. In addition, we have the ability to provide "one stop" financing with the ability to invest capital across the balance sheet and syndicate and hold larger investments than many of our competitors. We believe that the ability to underwrite, syndicate and hold larger investments benefits our stockholders by (a) potentially increasing net income and earnings through syndication, (b) increasing originated deal flow flexibility, (c) broadening market relationships and deal flow, (d) allowing us to optimize our portfolio composition and (e) allowing us to provide capital to middle-market companies, which we believe currently have limited access to capital from traditional lending sources. In addition, we believe that the ability to provide capital at every level of the balance sheet provides a strong value proposition to



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middle-market borrowers and our senior debt capabilities provide superior deal origination and relative value analysis capabilities compared to traditional "mezzanine only" lenders.

**Broad Origination Strategy**

We focus on self-originating most of our investments by pursuing a broad array of investment opportunities in middle-market companies across multiple channels. We also leverage off of the extensive relationships of the broader Ares platform, including relationships with the companies in the funds managed by IHAM, to identify investment opportunities. We believe that this allows for asset selectivity and that there is a significant relationship between proprietary deal origination and credit performance. We believe that our focus on generating proprietary deal flow and lead investing also gives us greater control over capital structure, deal terms, pricing and documentation and enables us to actively manage our portfolio investments. Moreover, by leading the investment process, we are often able to secure controlling positions in credit tranches, thereby providing additional control in investment outcomes. We also have originated substantial proprietary deal flow from middle-market intermediaries, which often allows us to act as the sole or principal source of institutional capital to the borrower.

**OPERATING AND REGULATORY STRUCTURE**

Our investment activities are managed by Ares Capital Management, which is wholly owned by Ares, and supervised by our board of directors, a majority of whom are independent of Ares and its affiliates. Ares Capital Management is registered under the Advisers Act. Under our investment advisory and management agreement, we have agreed to pay Ares Capital Management an annual base management fee based on our total assets, as defined under the Investment Company Act (other than cash and cash equivalents but including assets purchased with borrowed funds), and an incentive fee based on our performance. See "Management Investment Advisory and Management Agreement."

As a BDC, we are required to comply with certain regulatory requirements. For example, we are not generally permitted to invest in any portfolio company in which funds managed by Ares or any of its downstream affiliates (including Ares Capital Management) (other than Ares Capital and its downstream affiliates) currently has an investment (although we may co-invest on a concurrent basis with funds managed by Ares or any of its downstream affiliates (including Ares Capital Management), subject to compliance with existing regulatory guidance, applicable regulations and our allocation procedures). Some of these co-investments would only be permitted pursuant to an exemptive order from the SEC. We have applied for an exemptive order from the SEC that would permit us to co-invest with funds managed by Ares or its downstream affiliates (including Ares Capital Management). Any such order will be subject to certain terms and conditions. There is no assurance that the application for exemptive relief will be granted by the SEC. Accordingly, we cannot assure you that we will be permitted to co-invest with funds managed by Ares or any of its downstream affiliates (including Ares Capital Management). See "Risk Factors Risks Relating to Our Business We may not replicate Ares' historical success and our ability to enter into transactions with Ares and our other affiliates is restricted."

Also, while we may borrow funds to make investments, our ability to use debt is limited in certain significant respects. As a BDC and a RIC for tax purposes, we are dependent on our ability to raise capital through the issuance of common stock. RICs generally must distribute substantially all of their earnings to stockholders as dividends in order to preserve their status as RICs and avoid corporate-level U.S. income tax. This requirement, in turn, prevents us from using earnings to support our operations including making new investments. Further, BDCs must have at least 200% asset coverage in order to incur debt or issue preferred stock (which we refer to collectively as "senior securities"), which requires us to finance our investments with at least as much equity as senior securities in the aggregate. Our Facilities also require that we maintain asset coverage of 200%.

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**INVESTMENTS**

**Ares Capital Corporation Portfolio**

We have built an investment portfolio of primarily first and second lien loans, mezzanine debt and, to a lesser extent, equity investments in private middle-market companies. Our portfolio is well diversified by industry sector and its concentration to any single issuer is limited. Our investments have generally ranged between \$20 million to \$200 million each, although the investment size may be more or less than this range depending on capital availability. To a lesser extent, we also make preferred and/or common equity investments, which have generally been non-control equity investments of less than \$20 million (usually in conjunction with a concurrent debt investment). However, we may increase the size or change the nature of these investments. Also, as a result of the Allied Acquisition, Allied Capital's equity investments, which included equity investments larger than those we have historically made and controlled portfolio company equity investments, became part of our portfolio. We intend to actively seek opportunities over time to dispose of certain of the assets that were acquired in the Allied Acquisition, particularly non-yielding equity investments, as well as lower or non-yielding debt investments and investments that may not be core to our investment strategy, and generally rotate them into higher-yielding first and second lien senior loans and mezzanine debt investments. However, there can be no assurance that this strategy will be successful. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Portfolio and Investment Activity" for further information on the rotation of investments acquired as part of the Allied Acquisition.

In addition, the proportion of these types of investments will change over time given our views on, among other things, the economic and credit environment we are operating in. In connection with our investing activities, we may make commitments with respect to indebtedness or securities of a potential portfolio company substantially in excess of our final investment. In such situations, while we may initially agree to fund up to a certain dollar amount of an investment, we may subsequently syndicate a portion of such amount to third parties prior to closing such investment, such that we are left with a smaller investment than what was reflected in our original commitment. In addition to originating investments, we may also acquire investments in the secondary market.

We make senior secured loans primarily in the form of first and/or second lien loans. Our first and second lien loans generally have terms of three to 10 years. Such first and second lien loans are granted a security interest in certain of the assets of the borrower and consequently such assets serve as collateral in support of the repayment of such senior secured loans. Senior secured loans are generally exposed to the least amount of credit risk because they typically hold a senior position with respect to scheduled interest and principal payments and security interests in assets of the borrower. However, unlike mezzanine debt, senior secured loans typically do not receive any stock, warrants to purchase stock or other yield enhancements. Senior secured loans may include revolving lines of credit, senior term loans, senior syndicated loans and senior last-out tranche loans.

Structurally, mezzanine debt usually ranks subordinate in priority of payment to senior loans and is often unsecured. However, mezzanine debt ranks senior to common and preferred equity in a borrowers' capital structure. Typically, mezzanine debt has elements of both debt and equity instruments, offering the fixed returns in the form of interest payments associated with senior loans, 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 an equity co-investment and/or warrants. Due to its higher risk profile and often less restrictive covenants as compared to senior loans, mezzanine debt generally yields a higher return than senior secured debt. The equity co-investment and warrants associated with mezzanine debt typically allow lenders to receive repayment of their principal on an agreed amortization schedule while retaining their equity interest in the borrower. Equity issued in connection with mezzanine debt also may include a "put" feature, which

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permits the holder to sell its equity interest back to the borrower at a price determined through an agreed formula.

In making an equity investment, in addition to considering the factors discussed below under " Investment Selection," we also consider the anticipated timing of a liquidity event, such as a public offering, sale of the company or redemption of our equity securities.

Our principal focus is investing in first and second lien senior loans and mezzanine debt and, to a lesser extent, equity capital, of private middle-market companies in a variety of industries. We generally seek to invest in companies in the industries in which Ares' investment professionals have direct expertise. The following is a representative list of the industries in which we have invested:

Business Services

Consumer Products

Education

Financial Services

Food and Beverage

Healthcare Services

Investment Funds

Manufacturing

Retail

Restaurants and Food Services

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

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The industrial and geographic compositions of our portfolio at fair value as of March 31, 2011 and December 31, 2010 were as follows:

| Industry                      | As of          |                   |
|-------------------------------|----------------|-------------------|
|                               | March 31, 2011 | December 31, 2010 |
| Investment Funds(1)           | 20.8%          | 21.4%             |
| Healthcare Services           | 16.5           | 15.6              |
| Business Services             | 10.8           | 12.2              |
| Restaurants and Food Services | 9.0            | 8.8               |
| Financial Services            | 7.5            | 6.7               |
| Consumer Products             | 6.2            | 8.3               |
| Education                     | 5.1            | 5.2               |
| Other Services                | 4.9            | 3.3               |
| Manufacturing                 | 4.3            | 4.2               |
| Food and Beverage             | 2.5            | 2.4               |
| Telecommunications            | 2.4            | 2.5               |
| Environmental Services        | 2.2            | 0.8               |
| Commercial Real Estate        | 1.5            | 1.5               |
| Retail                        | 1.4            | 2.4               |
| Wholesale Distribution        | 1.3            | 1.3               |
| Other                         | 3.6            | 3.4               |
| <b>Total</b>                  | <b>100.0%</b>  | <b>100.0%</b>     |

(1)

Includes our investment in the SSLP, which represented 16.0% and 13.0% of the Company's total portfolio at fair value as of March 31, 2011 and December 31, 2010, respectively. The SSLP had made loans to 22 and 20 different issuers as of March 31, 2011 and December 31, 2010, respectively. The portfolio companies in the SSLP are in industries similar to the companies in our portfolio.

| Geographic Region | As of          |                   |
|-------------------|----------------|-------------------|
|                   | March 31, 2011 | December 31, 2010 |
| West              | 40.3%          | 34.5%             |
| Mid-Atlantic      | 19.3           | 24.4              |
| Southeast         | 19.1           | 16.5              |
| Midwest           | 17.2           | 20.2              |
| International     | 3.0            | 3.0               |
| Northeast         | 1.1            | 1.4               |
| <b>Total</b>      | <b>100.0%</b>  | <b>100.0%</b>     |

As of March 31, 2011, 4.8% of total investments at amortized cost (or 2.6% of total investments at fair value), were on non-accrual status, including 2.2% of total investments at amortized cost (or 1.5% of total investments at fair value) of investments acquired as part of the Allied Acquisition. As of December 31, 2010, 3.8% of total investments at amortized cost (or 1.3% of total investments at fair value), were on non-accrual status, including 1.5% of total investments at amortized cost (or 1.0% of total investments at fair value) of investments acquired as part of the Allied Acquisition.

In addition to such investments, we may invest up to 30% of our portfolio in opportunistic investments of non-eligible portfolio companies. Specifically, as part of this 30% basket, we may invest in debt of middle-market companies located outside of the United States, in investment funds that are

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operating pursuant to certain exceptions to the Investment Company Act, in advisers to similar investment funds and in debt and equity of public companies that do not meet the definition of eligible portfolio companies because their market capitalization of publicly traded equity securities exceeds the levels provided for in the Investment Company Act. We expect that these public companies generally will have debt that may be non-investment grade. From time to time, we may also invest in high yield bonds, which, depending on the issuer, may or may not be included in the 30% basket.

**Managed Funds Portfolio**

We have made investments in our portfolio company, IHAM, which manages 10 unconsolidated senior debt funds: the Ivy Hill Funds, Knightsbridge CLO 2007-1, Ltd. and Knightsbridge CLO 2008-1, Ltd., Emporia Preferred Funding I, Ltd., Emporia Preferred Funding II, Ltd. and Emporia Preferred Funding III, Ltd. and Ares Private Debt Strategies Fund II, L.P. and Ares Private Debt Strategies Fund III, L.P. In addition, IHAM serves as the sub-adviser/sub-manager for four others: CoLTS 2005-1 Ltd., CoLTS 2005-2 Ltd. and CoLTS 2007-1 Ltd. and FirstLight Funding I, Ltd. As of March 31, 2011, IHAM had total committed capital under management of approximately \$3.4 billion, which includes approximately \$0.4 billion invested by Ares Capital in IHAM or funds managed by IHAM. We have also made direct investments in debt securities of certain of these vehicles.

Certain funds managed by IHAM have also purchased investments from us at fair value at the time of the transactions, including approximately \$2 million, \$113 million, \$46 million and \$68 million for the three months ending March 31, 2011 and the years ending December 31, 2010, 2009 and 2008, respectively.

IHAM is party to the IHAM administration agreement with our administrator, Ares Operations. Pursuant to the IHAM administration agreement, our administrator provides IHAM with office facilities, equipment, clerical, bookkeeping and record keeping services, and the services of certain personnel to perform research and related services, services of, and oversight of, custodians, depositories, accountants, attorneys, underwriters and such other persons in any other capacity deemed to be necessary. Under the IHAM administration agreement, IHAM reimburses our administrator for all of the actual costs associated with such services, including its allocable portion of our administrator's overhead and the cost of our administrator's officers and respective staff in performing its obligations under the IHAM administration agreement.

We also manage the AGILE Fund, an unconsolidated fund that had approximately \$67.9 million of total committed capital under management as of March 31, 2011. At March 31, 2011, our investment in the AGILE Fund was \$0.2 million at fair value, including an unrealized loss of \$0.1 million.

**Allied Acquisition**

On October 26, 2009, we entered into a definitive agreement to acquire Allied Capital in an all stock transaction. On April 1, 2010, we completed the Allied Acquisition by acquiring the outstanding shares of Allied Capital in exchange for shares of our common stock in a transaction valued at approximately \$908 million as of the closing date. Concurrently with the completion of the Allied Acquisition, we repaid in full the \$137 million of remaining principal amounts outstanding on Allied Capital's \$250 million senior secured term loan. We also assumed all of Allied Capital's other outstanding debt obligations, including approximately \$745 million in aggregate principal amount outstanding of Allied Capital's unsecured notes.

Under the terms of the Allied Acquisition, each Allied Capital stockholder received 0.325 shares of our common stock for each share of Allied Capital common stock then owned by such stockholder. In connection with the Allied Acquisition, approximately 58.5 million shares of our

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common stock (including the effect of outstanding in-the money Allied Capital stock options) were issued to Allied Capital's then-existing stockholders, resulting in our then-existing stockholders owning approximately 69% of the combined company and the then-existing Allied Capital stockholders owning approximately 31% of the combined company.

The Allied Acquisition was accounted for in accordance with the acquisition method of accounting as detailed in ASC 805-10. The acquisition method of accounting requires an acquirer to recognize the assets acquired, the liabilities assumed and any noncontrolling interest in the acquired entity based on their fair values as of the date of acquisition. As described in more detail in ASC 805-10, if the total acquisition date fair value of the identifiable net assets acquired exceeds the fair value of the consideration transferred, the excess will be recognized as a gain. Upon completion of our determination of the fair value of Allied Capital's identifiable net assets as of April 1, 2010, the fair value of such net assets exceeded the fair value of the consideration transferred, resulting in the recognition of a gain. The valuation of the investments acquired as part of the Allied Acquisition was done in accordance with Ares Capital's valuation policy.

Set forth below is the allocation of the purchase price to the assets acquired and liabilities assumed in connection with the Allied Acquisition:

|   |                 |
|---|-----------------|
| <b>(in millions)</b>  |                 |
| Common stock issued   | \$ 872.7        |
| Payments to holders of "in-the-money"<br>Allied Capital stock options | 35.0(1)         |
| <b>Total purchase price</b>   | <b>\$ 907.7</b> |
| Assets acquired:  |                 |
| Investments   | \$ 1,833.8      |
| Cash and cash equivalents   | 133.5           |
| Other assets  | 80.1            |
| <b>Total assets acquired</b>  | <b>2,047.4</b>  |
| <b>Debt and other liabilities assumed</b>                             | <b>(943.8)</b>  |
| <b>Net assets acquired</b>  | <b>1,103.6</b>  |
| <b>Gain on Allied Acquisition</b>                                     | <b>(195.9)</b>  |
|   | <b>\$ 907.7</b> |

(1) Represents cash payment for holders of any "in-the-money" Allied Capital stock options that elected to receive cash.

Prior to the completion of the Allied Acquisition we purchased \$340 million of assets from Allied Capital in arm's length transactions. Additionally, during the same period of time, IHAM purchased \$69 million of assets from Allied Capital, also in arm's length transactions.

We intend to actively seek opportunities over time to dispose of certain of the assets that were acquired in the Allied Acquisition, particularly non-yielding equity investments, as well as lower or non-yielding debt investments and investments that may not be core to our investment strategy, and generally rotate them into higher-yielding first and second lien senior loans and mezzanine debt investments. However, there can be no assurance that this strategy will be successful. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Portfolio and Investment Activity" for further information on the rotation of investments acquired as part of the Allied Acquisition.



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**INVESTMENT SELECTION**

Ares' investment philosophy was developed over the past 21 years and has remained consistent and relevant throughout a number of economic cycles. We are managed using a similar investment philosophy used by the investment professionals of Ares in Ares' private investment funds.

This investment philosophy involves, among other things:

an assessment of the overall macroeconomic environment and financial markets and how such assessment may impact industry and asset selection;

company-specific research and analysis; and

with respect to each individual company, an emphasis on capital preservation, low volatility and minimization of downside risk.

The foundation of Ares' investment philosophy is intensive credit investment analysis, a portfolio management discipline based on both market technicals and fundamental value-oriented research, and diversification strategy. We follow a rigorous investment process based on:

a comprehensive analysis of issuer creditworthiness, including a quantitative and qualitative assessment of the issuer's business;

an evaluation of management and its economic incentives;

an analysis of business strategy and industry trends; and

an in-depth examination of capital structure, financial results and projections.

We seek to identify those companies exhibiting superior fundamental risk-reward profiles and strong defensible business franchises while focusing on the relative value of the investment across the industry as well as for the specific company.

**Intensive Due Diligence**

The process through which an investment decision is made involves extensive research into the target company, its industry, its growth prospects and its ability to withstand adverse conditions. If the senior investment professional responsible for the transaction determines that an investment opportunity should be pursued, we will engage in an intensive due diligence process. Approximately 30-40% of the investments initially reviewed by us proceed to this phase. Though each transaction will involve a somewhat different approach, the regular due diligence steps generally undertaken include:

meeting with the target company's management to get an insider's view of the business, and to probe for potential weaknesses in business prospects;

checking management's backgrounds and references;

performing a detailed review of historical financial performance and the quality of earnings;

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visiting headquarters and company operations and meeting with top and middle-level executives;

contacting customers and vendors to assess both business prospects and standard practices;

conducting a competitive analysis, and comparing the issuer to its main competitors on an operating, financial, market share and valuation basis;

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researching the industry for historic growth trends and future prospects as well as to identify future exit alternatives (including Wall Street research, industry association literature and general news);

assessing asset value and the ability of physical infrastructure and information systems to handle anticipated growth; and

investigating legal risks and financial and accounting systems.

**Selective Investment Process**

After an investment has been identified and preliminary diligence has been completed, a credit research and analysis report is prepared. This report is reviewed by the senior investment professional in charge of the potential investment. If such senior and other investment professionals are in favor of the potential investment, then it is first presented to an underwriting committee, which is comprised of the senior partners of the Ares Global Private Debt Group. However, the portfolio managers of Ares Capital Management are responsible for the day-to-day management of our portfolio.

After the investment is approved by the underwriting committee, a more extensive due diligence process is employed by the transaction team. Additional due diligence with respect to any investment may be conducted on our behalf by attorneys, independent accountants, and other third party consultants and research firms prior to the closing of the investment, as appropriate on a case-by-case basis. Approximately 7-10% of all investments initially reviewed by us will be presented to the investment committee. Approval of an investment for funding requires the approval of the majority of the investment committee of Ares Capital Management, although unanimous consent is sought.

**Issuance of Formal Commitment**

Once we have determined that a prospective portfolio company is suitable for investment, we work with the management and/or sponsor of that company and its other capital providers, including senior, junior and equity capital providers, if any, to finalize the structure of the investment. Approximately 5-7% of the investments initially reviewed by us eventually result in the issuance of formal commitments.

***Debt Investments***

We invest in portfolio companies primarily in the form of first and second lien senior loans and mezzanine debt. The first and second lien senior loans generally have terms of three to 10 years. We obtain security interests in the assets of our portfolio companies that will serve as collateral in support of the repayment of the first and second lien senior loans. This collateral generally takes the form of first or second priority liens on the assets of a portfolio company.

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. The mezzanine debt investments generally have terms of up to 10 years. These loans typically have interest-only payments in the early years, with amortization of principal deferred to the later years of the mezzanine debt. In some cases, we may enter into loans that, by their terms, convert into equity or additional debt or defer payments of interest (or at least cash interest) for the first few years after our investment. Also, in some cases our mezzanine debt will be collateralized by a subordinated lien on some or all of the assets of the borrower.

In some cases, our debt investments may provide for a portion of the interest payable to be PIK interest. To the extent interest is PIK, it will be payable through the increase of the principal amount of the loan by the amount of interest due on the then-outstanding aggregate principal amount of such loan.

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In the case of our first and second lien senior loans and mezzanine debt, we tailor the terms of the investment to the facts and circumstances of the transaction and the prospective portfolio company, negotiating a structure that aims to protect our rights and manage 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, where appropriate, to limit the downside potential of our investments by:

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

incorporating "put" rights, call protection and LIBOR floors 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.

We generally require financial covenants and terms that require an issuer to reduce leverage, thereby enhancing credit quality. These methods include: (a) maintenance leverage covenants requiring a decreasing ratio of indebtedness to cash flow, (b) maintenance cash flow covenants requiring an increasing ratio of cash flow to the sum of interest expense and capital expenditures and (c) indebtedness incurrence prohibitions, limiting a company's ability to take on additional indebtedness. In addition, by including limitations on asset sales and capital expenditures we may be able to prevent a company from changing the nature of its business or capitalization without our consent.

Our debt investments may include equity features, such as warrants or options to buy a minority interest in the portfolio company. Warrants we receive with our debt investments may 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 portfolio company, upon the occurrence of specified events. In many cases, we also obtain registration rights in connection with these equity interests, which may include demand and "piggyback" registration rights.

***Equity Investments***

To a lesser extent, we also make preferred and/or common equity investments, which have generally been non-control equity investments of less than \$20 million (usually in conjunction with a concurrent debt investment). However, we may increase the size or change the nature of these investments. Also, as a result of the Allied Acquisition, Allied Capital's equity investments, which included equity investments larger than those we have historically made and controlled portfolio company equity investments, became part of our portfolio. We intend to actively seek opportunities over time to dispose of certain of the assets that were acquired in the Allied Acquisition, particularly non-yielding equity investments, as well as lower or non-yielding debt investments and investments that may not be core to our investment strategy, and generally rotate them into higher-yielding first and second lien senior loans and mezzanine debt investments. However, there can be no assurance that this strategy will be successful. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Portfolio and Investment Activity" for further information on the rotation of investments acquired as part of the Allied Acquisition.

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**ON-GOING RELATIONSHIPS WITH AND MONITORING OF PORTFOLIO COMPANIES**

We closely monitor each investment we make, maintain a regular dialogue with both the management team and other stakeholders and seek specifically tailored financial reporting. In addition, senior investment professionals may take board seats or obtain board observation rights for our portfolio companies. As of March 31, 2011, of our 154 portfolio companies, we were entitled to board seats or board observation rights on 59% of these companies.

We seek to exert significant influence post-investment, in addition to covenants and other contractual rights and through board participation, when appropriate, by actively working with management on strategic initiatives. We often introduce managers of companies in which we have invested to other portfolio companies to capitalize on complementary business activities and best practices.

Our investment adviser employs an investment rating system to categorize our investments. In addition to various risk management and monitoring tools, our investment adviser grades the credit risk of all investments on a scale of 1 to 4 no less frequently than quarterly. This system is intended primarily to reflect the underlying risk of a portfolio investment relative to our initial cost basis in respect of such portfolio investment (i.e., at the time of acquisition), although it may also take into account under certain circumstances the performance of the portfolio company's business, the collateral coverage of the investment and other relevant factors. Under this system, investments with a grade of 4 involve the least amount of risk to our initial cost basis. The trends and risk factors for this investment since origination or acquisition are generally favorable, which may include the performance of the portfolio company or a potential exit. Investments graded 3 involve a level of risk to our initial cost basis that is similar to the risk to our initial cost basis at the time of origination or acquisition. This portfolio company is generally performing as expected and the risk factors to our ability to ultimately recoup the cost of our investment are neutral to favorable. All investments or acquired investments in new portfolio companies are initially assessed a grade of 3. Investments graded 2 indicate that the risk to our ability to recoup the cost of such investment has increased materially since origination or acquisition, including as a result of factors such as declining performance and non-compliance with debt covenants; however, payments are generally not more than 120 days past due. An investment grade of 1 indicates that the risk to our ability to recoup the cost of such investment has substantially increased since origination or acquisition, and the portfolio company likely has materially declining performance. For debt investments with an investment grade of 1, most or all of the debt covenants are out of compliance and payments are substantially delinquent. For investments graded 1, it is not anticipated that we will be repaid in an amount equal to our full initial cost basis. For investments graded 1 or 2, our investment adviser enhances its level of scrutiny over the monitoring of such portfolio company.

Each investment acquired in the Allied Acquisition was initially assessed a grade of 3 (i.e., the grade we generally assign a portfolio company at origination or acquisition) on April 1, 2010, the date of initial acquisition, reflecting the relative risk to our initial cost basis of such investments. Our investment adviser grades the investments in our portfolio at least each quarter and it is possible that the grade of certain of these portfolio investments may be reduced or increased over time.

As of March 31, 2011, the weighted average grade of our portfolio was 3.0. For more information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations Portfolio and Investment Activity."

**MANAGERIAL ASSISTANCE**

As a BDC, we must offer, and must provide upon request, significant managerial assistance to certain of our portfolio companies. This assistance could involve, among other things, monitoring the operations of our portfolio companies, participating in board and management meetings, consulting

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with and advising officers of portfolio companies and providing other organizational and financial guidance. We may receive fees for these services.

**COMPETITION**

Our primary competitors include public and private funds, commercial and investment banks, commercial financing companies and private equity funds, each of which we compete with for financing opportunities. Many of our competitors are substantially larger and have considerably greater financial and marketing resources than we do. For example, some competitors may have 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 Ares Capital. Furthermore, many of our competitors are not subject to the regulatory restrictions that the Investment Company Act imposes on us as a BDC. For additional information concerning the competitive risks we face, see "Risk Factors Risks Relating to Our Business We operate in a highly competitive market for investment opportunities."

We believe that the relationships of the members of our investment adviser's investment committees and of the senior principals of Ares enable us to learn about, and compete effectively for, financing opportunities with attractive middle-market companies in the industries in which we seek to invest. We believe that Ares' professionals' deep and long-standing direct sponsor relationships and the resulting proprietary transaction opportunities that these relationships often present, provide valuable insight and access to transactions and information. We use the industry information of Ares' investment professionals to which we have access to assess investment risks and determine appropriate pricing for our investments in portfolio companies.

**MARKET CONDITIONS**

Due to the volatility in global markets, the availability of capital and access to capital markets has been limited over the last several years. As the global liquidity situation and market conditions evolve, we will continue to monitor and adjust our approach to funding accordingly. However, given the unprecedented nature of the recent volatility in the global markets and the uncertainty around the strength of the U.S. economic recovery, there can be no assurance that these activities will be successful. While levels of market disruption and volatility have improved, there can be no assurance that adverse market conditions will not repeat themselves. If they do, we could face materially higher financing costs. Consequently, our operating strategy could be materially and adversely affected. See "Risk Factors Risks Relating to Our Business Capital markets have recently been in a period of disruption and instability. These market conditions materially and adversely affected debt and equity capital markets in the United States, which had, and may in the future have, a negative impact on our business and operations."

In connection with the prior depressed market conditions of the general economy, the stocks of BDCs as an industry have in the past traded at near historic lows as a result of concerns over liquidity, credit quality, leverage restrictions and distribution requirements. In some cases, certain BDCs became "forced sellers" of assets, defaulted on their indebtedness, decreased their distributions to stockholders or announced share repurchase programs. We cannot assure you that the market pressures we face will not have a material adverse effect on our business, financial condition and results of operations.

**STAFFING**

We do not currently have any employees and do not expect to have any employees. Services necessary for our business are provided by individuals who are employees or affiliates of our investment adviser or our administrator, each of which is a wholly owned subsidiary of Ares Management, pursuant to the terms of our investment advisory and management agreement and administration

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agreement, respectively, each as described below. Each of our executive officers is an employee or affiliate of our investment adviser or our administrator. Our day-to-day investment activities are managed by our investment adviser. Most of the services necessary for the origination and administration of our investment portfolio are provided by investment professionals employed by our investment adviser or our administrator. Our investment adviser has approximately 55 investment professionals who focus on origination, transaction development, investment and the ongoing monitoring of our investments. See "Management Investment Advisory and Management Agreement." We reimburse both our investment adviser and our administrator for a certain portion of expenses incurred in connection with such staffing, as described in more detail below. Because we have no employees, Ares Capital does not have a formal employee relations policy.

**PROPERTIES**

We do not own any real estate or other physical properties materially important to our operation. Our headquarters are currently located at 245 Park Avenue, 44th Floor, New York, New York 10167. We rent the office space directly from a third party pursuant to a lease that expires in February 2026. We also entered into separate subleases with Ares Management and IHAM, pursuant to which Ares Management and IHAM will sublease approximately 15% and 20%, respectively, of the new office space, for a fixed rent equal to 15% and 20%, respectively, of the basic annual rent payable by us under the office lease, plus certain additional costs and expenses.

**LEGAL PROCEEDINGS**

We are party to certain lawsuits in the normal course of business. Allied Capital was also involved in various other legal proceedings, which we assumed in connection with the Allied Acquisition. Furthermore, third parties may try to seek to impose liability on us in connection with the activities of our portfolio companies. While the outcome of any such legal proceedings cannot at this time be predicted with certainty, we do not expect these matters will materially affect our business, financial condition or results of operations.

Table of Contents**PORTFOLIO COMPANIES**

The following table describes each of the businesses included in our portfolio and reflects data as of March 31, 2011. Percentages shown for class of investment securities held by us represent percentage of the class owned and do not necessarily represent voting ownership. Percentages shown for equity securities, other than warrants or options, represent the actual percentage of the class of security held before dilution. Percentages shown for warrants and options held represent the percentage of class of security we may own assuming we exercise our warrants or options before dilution.

We have indicated by footnote portfolio companies (a) where we directly or indirectly own more than 25% of the outstanding voting securities of such portfolio company and, therefore, are presumed to be "controlled" by us under the Investment Company Act and (b) where we directly or indirectly own 5% to 25% of the outstanding voting securities of such portfolio company or where we hold one or more seats on the portfolio company's board of directors and, therefore, are deemed to be an "affiliated person" under the Investment Company Act. We directly or indirectly own less than 5% of the outstanding voting securities of all other portfolio companies (or have no other affiliations with such portfolio companies) listed on the table. We offer to make significant managerial assistance to certain of our portfolio companies. We may also receive rights to observe the meetings of our portfolio companies' boards of directors.

**ARES CAPITAL AND SUBSIDIARIES**  
**PORTFOLIO COMPANIES**  
**As of March 31, 2011 (unaudited)**  
**(dollar amounts in thousands)**

| Company  | Industry  | Investment   | Interest(1)  | Maturity Date  | % of Class Held at 3-31-11 | Fair Value   |
|--|---|--|--|--|----------------------------|--|
| 10th Street, LLC(3)<br>5 North 11th Street<br>Brooklyn, NY 11211                                 | Real estate holding company                                 | Senior subordinated loan<br>Member interest<br>Option  | 8.93% Cash, 4.07% PIK  | 11/2/2014  | 10.00%                     | \$ 23,489<br>\$ 565<br>\$ 25                                 |
| ADF Capital, Inc. & ADF Restaurant Group, LLC<br>165 Passaic Avenue<br>Fairfield, NJ 07004       | Restaurant owner and operator                               | Senior secured revolving loan<br>Senior secured revolving loan<br>Senior secured loan<br>Promissory note<br>Warrants | 6.50% (Libor + 3.50%/Q)<br>6.50% (Base Rate + 2.50%/Q)<br>12.50% (Libor + 9.50%/Q) | 11/27/2012<br>11/27/2012<br>11/27/2013<br>11/27/2016 | 83.33%                     | \$ 2,010(5)<br>\$ 108(5)<br>\$ 23,102<br>\$ 15,069<br>\$ (2) |
| AGILE Fund I, LLC(4)<br>2000 Avenue of the Stars,<br>12th Floor<br>Los Angeles, CA 90067         | Investment partnership                                      | Member interest  |  |  | 0.50%                      | \$ 150   |
| AllBridgE Financial, LLC(4)<br>13760 Noel Road, Suite 1100<br>Dallas, TX 75240                   | Asset management services                                   | Equity interests   |  |  | 100.00%                    | \$ 15,552  |
| Allied Capital REIT, Inc.(4)<br>2000 Avenue of the Stars,<br>12th Floor<br>Los Angeles, CA 90067 | Real estate investment trust                                | Real estate equity interests<br>Real estate equity interests   |  |  | 80.00%<br>100.00%          | \$ 54<br>\$ 1,075  |
| American Academy Holdings, LLC<br>2480 South 3850 West, Suite B<br>Salt Lake City, UT 84120      | Provider of education, training, certification, networking, | Senior secured revolving loan<br>Senior secured revolving loan<br>Senior secured loan                                | 9.50% (Libor + 8.50%/Q)<br>10.75% (Base Rate + 7.50%/Q)<br>9.50% (Libor + 8.50%/Q) | 3/18/2016<br>3/18/2016<br>3/18/2016                  |                            | \$ 1,000(6)<br>\$ 400(6)<br>\$ 82,100                        |



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and  
consulting  
services to  
medical coders  
and other  
healthcare  
professionals

|   |                         |                          |                         |           |           |
|---|-------------------------|--------------------------|-------------------------|-----------|-----------|
| American Broadband Communications, LLC and American Broadband Holding Company<br>401 N. Tryon Street, 10th Floor<br>Charlotte, NC 28202 | Broadband               | Senior secured loan      | 7.50% (Libor + 5.50%/Q) | 9/1/2013  | \$ 27,238 |
|   | communication           | Senior subordinated loan | 12.00% Cash, 2.00% PIK  | 11/7/2014 | \$ 43,304 |
|   | services                | Senior subordinated loan | 10.00% Cash, 4.00% PIK  | 11/7/2014 | \$ 26,010 |
|   |                         | Warrants                 |                         |           | 17.00%    |
| American Commercial Coatings, Inc.<br>2008 Cypress Street<br>Paris, KY 40362  | Real estate<br>property | Commercial mortgage loan |                         | 12/1/2025 | \$ 1,822  |

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| Company  | Industry  | Investment                    | Interest(1)                 | Maturity Date | % of Class Held at 3-31-11 | Fair Value |
|--|---|-------------------------------|-----------------------------|---------------|----------------------------|------------|
| AP Global Holdings, Inc.<br>1043 North 47th Avenue<br>Phoenix, AZ 85043  | Safety and security equipment manufacturer  | Senior secured loan           | 4.02% (Libor + 3.75%/M)     | 10/26/2013    |                            | \$ 6,274   |
| Apple & Eve, LLC and US Juice Partners, LLC(3)<br>2 Seaview Blvd<br>Port Washington, NY 11050                      | Juice manufacturer  | Senior secured revolving loan |                             | 10/1/2013     |                            | \$ (7)     |
|  |   | Senior secured loan           | 12.00% (Libor + 9.00%/M)    | 10/1/2013     | 8.74%                      | \$ 27,580  |
|  |   | Senior units                  |                             |               |                            | \$ 4,984   |
| Aquila Binks Forest Development, LLC<br>15430 Endeavour Drive<br>Jupiter, FL 33478                                 | Real estate developer   | Commercial mortgage loan      |                             | 6/1/2011      |                            | \$ 4,913   |
|  |   | Real estate equity interests  |                             |               | 85.00%                     | \$         |
| Athletic Club Holdings, Inc.<br>5201 East Tudor Road<br>Anchorage, AL 99507  | Premier health club operator  | Senior secured loan           | 4.75% (Libor + 4.50%/M)     | 10/11/2013    |                            | \$ 17,250  |
| Augusta Sportswear, Inc.<br>PO Box 14939<br>Augusta, GA 30919  | Manufacturer of athletic apparel  | Senior secured loan           | 8.50% (Libor + 7.50%/Q)     | 7/30/2015     |                            | \$ 9,158   |
|  |   | Senior secured loan           | 9.50% (Base Rate + 6.25%/Q) | 7/30/2015     |                            | \$ 1       |
| Aviation Properties Corporation(4)<br>2000 Avenue of the Stars,<br>12th Floor<br>Los Angeles, CA 90067             | Aviation services   | Common stock                  |                             |               | 100.00%                    | \$         |
| AWTP, LLC<br>2080 Lunt Avenue<br>Elk Grove Village, IL 60007   | Water treatment services  | Junior secured loan           |                             | 12/23/2012    |                            | \$ 4,366   |
| Axiom Healthcare Pharmacy, Inc.<br>550 Technology Park<br>Lake Mary, FL 32746                                      | Specialty pharmacy provider   | Senior subordinated loan      | 8.00%                       | 3/31/2015     |                            | \$ 3,065   |
| BB&T Capital Partners/Windsor Mezzanine Fund, LLC(3)<br>101 N. Cherry Street, Suite 700<br>Winston-Salem, NC 27101 | Investment company  | Member interest               |                             |               | 32.59%                     | \$ 13,976  |
| BECO Holding Company, Inc.<br>10926 David Taylor Drive,<br>Suite 300<br>Charlotte, NC 28262                        | Wholesale distributor of first response fire protection equipment and related parts | Common stock                  |                             |               | 2.39%                      | \$ 2,561   |
| BenefitMall Holdings Inc.(4)<br>4851 LBJ Freeway, Suite 1100<br>Dallas, TX 75244                                   | Employee benefits broker services company   | Senior subordinated loan      | 18.00%                      | 6/30/2014     |                            | \$ 40,326  |
|  |   | Common stock                  |                             |               | 68.10%                     | \$ 51,321  |
|  |   | Warrants                      |                             |               | 100.00%                    | \$ (2)     |
| Border Foods, Inc.(4)<br>4065 J Street SE  | Green chile and   | Senior secured loan           | 13.50%                      | 3/19/2012     |                            | \$ 28,526  |
|  |   | Preferred stock               |                             |               | 100.00%                    | \$ 23,293  |

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|  |  |                     |                              |           |         |           |
|--|--|---------------------|------------------------------|-----------|---------|-----------|
| Deming, NM 88030   | jalapeno products manufacturer                       | Common stock        |                              |           | 100.00% | \$ 11,891 |
| Bundy Refrigeration International Holding B.V. (aka Tyde Group Worldwide)<br>Weena 340<br>3012 NJ Rotterdam, the Netherlands                           | Refrigeration and cooling systems parts manufacturer | Senior secured loan | 13.13% (Base Rate + 5.63%/M) | 4/27/2012 |         | \$ 8,756  |
|  |  | Senior secured loan | 15.38% (Base Rate + 7.88%/Q) | 4/27/2012 |         | \$ 15,651 |
| Bushnell Inc.<br>9200 Cody<br>Overland Park, KS 66214  | Sports optics manufacturer                           | Junior secured loan | 6.80% (Libor + 6.50%/Q)      | 2/24/2014 |         | \$ 35,126 |
| Callidus Capital Corporation(4)<br>2000 Avenue of the Stars,<br>12th Floor<br>Los Angeles, CA 90067  | Asset management services                            | Common stock        |                              |           | 100.00% | \$ 2,655  |
| Campus Management Corp. and Campus Management Acquisition Corp. c/o Leeds Equity Partners, LLC(3)<br>350 Park Avenue, 23rd Floor<br>New York, NY 10022 | Education software developer                         | Preferred stock     |                              |           | 16.75%  | \$ 14,516 |
| Carador PLC(3)<br>Georges Quay House<br>43 Townend Street<br>Dublin 2, Ireland   | Investment company                                   | Ordinary shares     |                              |           | 5.08%   | \$ 6,613  |
| Carlisle Wide Plank Floors, Inc.<br>1676 Route 9<br>Stoddard, NH 03464   | Hardwood floor manufacturer                          | Senior secured loan |                              | 6/16/2011 |         | \$ 773    |
|  |  | Common stock        |                              |           | 3.31%   | \$        |

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| Company  | Industry  | Investment  | Interest(1)  | Maturity Date  | % of Class Held at 3-31-11 | Fair Value  |
|--|---|---|--|--|----------------------------|---|
| CCS Group Holdings, LLC<br>3343 Perimeter Hill Drive,<br>Suite 300<br>Nashville, TN 37211  | Correctional facility healthcare operator                   | Class A units   |  |  | 1.41%                      | \$ 1,301  |
| Charter Baking Company, Inc.<br>3300 Walnut Street, Unit C<br>Boulder, CO 80301            | Baked goods manufacturer                                    | Senior subordinated loan Preferred stock  | 13.00% PIK   | 2/6/2013   | 3.05%                      | \$ 7,111<br>\$ 1,650                                      |
| CIC Flex, LP<br>60 South Sixth Street, Suite 3720<br>Minneapolis, MN 55402                 | Investment partnership                                      | Limited partnership units   |  |  | 14.28%                     | \$ 2,499  |
| Ciena Capital LLC(4)<br>1633 Broadway, 39th Floor<br>New York, NY 10019                    | Real estate and small business loan servicer                | Senior secured revolving loan<br>Senior secured loan<br>Equity interests  | 6.00%<br>12.00%  | 12/31/2013<br>12/31/2015                             | 100.00%                    | \$ 14,000(8)<br>\$ 32,000<br>\$ 39,312                    |
| CitiPostal Inc.(4)<br>5 North 11th Street<br>Brooklyn, NY 11211                            | Document storage and management services                    | Senior secured revolving loan<br>Senior secured revolving loan<br>Senior secured loan<br>Senior subordinated loan<br>Common stock | 6.50% (Libor + 4.50%/M)<br>6.75% (Base Rate + 3.25%/M)<br>11.00% Cash, 2.00% PIK | 12/21/2013<br>12/21/2013<br>12/21/2013<br>12/21/2015 |                            | \$ 1,591(9)<br>\$ 1,250(9)<br>\$ 49,565<br>\$ 6,971<br>\$ |
| Cleveland East Equity, LLC<br>26300 Harvard Road<br>Warrensville Heights, OH 44122         | Hotel operator  | Real estate equity interests  |  |  | 50.00%                     | \$ 2,158  |
| Commercial Credit Group, Inc.<br>121 West Trade Street, Suite 2100<br>Charlotte, NC 28202  | Commercial equipment finance and leasing company            | Senior subordinated loan  | 15.00%   | 6/30/2015  |                            | \$ 19,500   |
| Commons R-3, LLC<br>5555 Glenridge Connector,<br>Suite 700<br>Atlanta, GA 30342            | Real estate developer                                       | Real estate equity interests  |  |  |                            | \$  |
| Community Education Centers, Inc.<br>35 Fairfield Place<br>West Caldwell, NJ 07006         | Offender re-entry and in-prison treatment services provider | Senior secured loan<br>Junior secured loan<br>Junior secured loan<br>Warrants   | 6.25% (Libor + 5.25%/Q)<br>15.26%<br>15.31%<br>(Libor + 15.00%/M)                | 12/13/2014<br>12/13/2015<br>12/13/2015               |                            | \$ 20,000<br>\$ 31,084<br>\$ 9,297<br>\$ 1,863(2)         |
| Compass Group Diversified Holdings, LLC<br>61 Wilton Road, 2nd Floor<br>Westport, CT 06880 | Middle market business manager                              | Senior secured revolving loan   | 4.75% (Base Rate + 1.50%/M)  | 12/7/2012  |                            | \$ 515(10)  |
| Component Hardware Group, Inc.<br>1890 Swarthmore Avenue<br>Lakewood, NJ 08701             | Commercial equipment manufacturer                           | Junior secured loan<br>Senior subordinated loan<br>Warrants   | 7.00% Cash, 3.00% PIK<br>7.50% Cash, 5.00% PIK                                   | 12/31/2014<br>12/31/2014                             | 20.00%                     | \$ 3,037<br>\$ 10,206<br>\$ 1,932(2)                      |
| Cook Inlet Alternative Risk, LLC<br>10 British American Blvd.<br>Latham, NY 12110          | Risk management services                                    | Senior secured loan<br>Member interest  | 8.50%  | 4/3/2013   | 3.17%                      | \$ 51,500<br>\$   |
| Coverall North America, Inc.   | Commercial  | Senior subordinated loan  | 10.00% Cash, 2.00% PIK   | 2/22/2016  |                            | \$ 9,291  |

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|   |                                   |                              |        |           |         |          |
|---|-----------------------------------|------------------------------|--------|-----------|---------|----------|
| 5201 Congress Avenue, Suite 275<br>Boca Raton, FL 33487   | janitorial<br>service<br>provider |                              |        |           |         |          |
| Covestia Capital Partners, LP<br>11111 Santa Monica Blvd,<br>Suite 1620<br>Los Angeles, CA 90025                        | Investment<br>partnership         | Limited partnership interest |        |           | 47.00%  | \$ 1,041 |
| Crescent Hotels & Resorts, LLC<br>and affiliates(4)<br>2000 Avenue of the Stars,<br>12th Floor<br>Los Angeles, CA 90067 | Hotel operator                    | Senior secured loan          | 10.00% | 6/30/2010 |         | \$ 444   |
|   |                                   | Senior subordinated loan     |        | 1/11/2012 |         | \$ 596   |
|   |                                   | Senior subordinated loan     |        | 6/1/2017  |         | \$ 1,021 |
|   |                                   | Senior subordinated loan     |        | 9/19/2012 |         | \$ 863   |
|   |                                   | Senior subordinated loan     |        | 3/25/2013 |         | \$ 38    |
|   |                                   | Senior subordinated loan     |        | 9/8/2011  |         | \$       |
|   |                                   | Senior subordinated loan     |        | 1/11/2012 |         | \$       |
|   |                                   | Senior subordinated loan     |        | 6/1/2017  |         | \$       |
|   |                                   | Senior subordinated loan     |        | 9/19/2012 |         | \$       |
|   |                                   | Preferred equity interest    |        |           | 51.00%  | \$ 18    |
|   |                                   | Preferred equity interest    |        |           | 12.83%  | \$ 16    |
|   |                                   | Common equity interest       |        |           | 100.00% | \$       |
|   |                                   | Member interests             |        |           | 93.35%  | \$       |
|   |                                   | Member interests             |        |           | 85.40%  | \$       |
| Member interests  |                                   |                              | 90.00% | \$        |         |          |
| Member interests  |                                   |                              | 72.64% | \$        |         |          |
| Member interests  |                                   |                              | 84.60% | \$        |         |          |

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| Company  | Industry   | Investment   | Interest(1)   | Maturity Date                      | % of Class Held at 3-31-11 | Fair Value  |
|--|--|--|---|------------------------------------|----------------------------|---|
| CT Technologies Intermediate Holdings, Inc. and CT Technologies Holdings, LLC(3)   | Healthcare   | Senior secured loan  | 7.75% (Libor + 6.50%/Q)                                 | 3/15/2017                          |                            | \$ 4,967  |
| 8901 Farrow Rd<br>Columbia, SC 29203   | analysis services                                    | Senior secured loan  | 7.75% (Libor + 6.50%/S)                                 | 3/15/2017                          |                            | \$ 5,016  |
|  |  | Senior secured loan  | 7.75% (Libor + 6.50%/M)                                 | 3/15/2017                          |                            | \$ 5,016  |
|  |  | Common stock   |   |                                    | 4.49%                      | \$ 9,090  |
|  |  | Common stock   |   |                                    | 20.00%                     | \$ 1,452  |
| DI Safford, LLC<br>d/b/a Comfort Inn & Suites<br>420 East Hwy 70<br>Safford, AZ 85546  | Hotel operator                                       | Commercial mortgage loan   |   | 5/12/2032                          |                            | \$ 2,750  |
| Digital Videostream, LLC<br>2600 West Olive Avenue,<br>Suite 100<br>Burbank, CA 91505  | Media content supply chain services company          | Senior secured loan<br>Convertible subordinated loan   | 10.00% Cash, 1.00% PIK<br>10.00% PIK                    | 2/9/2012<br>2/9/2016               |                            | \$ 4,442<br>\$ 5,772  |
| Direct Buy Holdings, Inc. and Direct Buy Investors, LP(3)<br>8450 Broadway<br>Merrillville, IN 46410                             | Membership based buying club franchisor and operator | Junior secured note<br>Limited partnership interest<br>Partnership interests                     | 12.00%  | 2/1/2017                           |                            | \$ 24,640   |
|  |  |  |   |                                    | 4.58%                      | \$ 1,436  |
|  |  |  |   |                                    | 19.31%                     | \$ 1,794  |
| Distant Lands Trading Co.<br>801 Houser Way North<br>Renton, WA 98055  | Coffee manufacturer                                  | Common stock<br>Common stock   |   |                                    | 3.32%<br>8.27%             | \$ 850<br>\$  |
| Diversified Collections Services, Inc.<br>333 North Canyons Pkwy.<br>Livermore, CA 94551   | Collections services                                 | Senior secured loan<br>Senior secured loan<br>Preferred stock<br>Common stock<br>Common stock    | 7.50% (Libor + 5.50%/Q)<br>13.75%<br>(Libor + 11.75%/Q) | 3/31/2012<br>9/30/2012             |                            | \$ 6,921<br>\$ 36,000<br>0.68% \$ 294<br>2.23% \$ 1,537<br>0.56% \$ 426 |
| Diversified Mercury Communications, LLC<br>520 Broadway, Suite 400<br>Santa Monica, CA 90401                                     | Business media consulting services                   | Senior secured loan  | 8.00% (Base Rate + 4.50%/Q)                             | 3/28/2013                          |                            | \$ 1,431  |
| Driven Brands, Inc.(3)<br>128 S. Tryon St., Ste 900<br>Charlotte, NC 28202   | Automotive aftermarket car care franchisor           | Senior secured loan<br>Senior secured loan<br>Common stock                                       | 6.50% (Libor + 5.00%/Q)<br>7.00% (Base Rate + 3.75%/Q)  | 10/20/2014<br>10/20/2014           |                            | \$ 3,680<br>\$ 148<br>6.70% \$ 6,931                                    |
| DSI Renal Inc.(3)<br>511 Union Street Suite 1800<br>Nashville, TN 37219  | Dialysis provider                                    | Senior secured revolving loan<br>Senior secured loan<br>Senior subordinated loan<br>Common units |   | 3/31/2013<br>3/31/2013<br>4/7/2014 |                            | \$ (11)<br>\$ 9,333<br>\$ 69,011<br>37.54% \$ 43,125                    |
| Dynamic India Fund IV, LLC<br>International Financial Services Limited<br>IFS Court, Twenty Eight<br>Cybercity, Ebene, Mauritius | Investment company                                   | Member interest  |   |                                    | 5.44%                      | \$ 4,728  |
| EarthColor, Inc.(4)<br>249 Pomeroy Road<br>Parsippany, NJ 07054  | Printing management services                         | Common stock   |   |                                    | 86.30%                     | \$  |

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|  |   |  |   |  |   |
|--|---|--|---|--|---|
| eInstruction Corporation<br>308 N. Carroll Blvd.<br>Denton, TX 76201   | Developer,<br>manufacturer<br>and<br>retailer of<br>educational<br>products | Junior secured loan<br>Senior subordinated loan<br><br>Common stock                      | 7.81% (Libor + 7.50%/Q)<br>16.00% PIK<br><br>2.40%  | 7/2/2014<br>1/2/2015<br><br>                         | \$ 13,600<br>\$ 20,104<br><br>\$ 547        |
| ELC Acquisition Corporation<br>2 Lower Ragsdale Drive<br>Monterey, CA 93940                                  | Developer,<br>manufacturer<br>and<br>retailer of<br>educational<br>products | Senior secured loan<br>Junior secured loan   | 3.50% (Libor + 3.25%/M)<br>7.25% (Libor + 7.00%/M)  | 11/29/2012<br>11/29/2013                             | \$ 160<br>\$ 8,333                          |
| Emerald Performance<br>Materials, LLC<br>2020 Front Street, Suite 100<br>Cuyahoga Falls, OH 44221            | Polymers and<br>performance<br>materials<br>manufacturer                    | Senior secured loan<br>Senior secured loan<br>Senior secured loan<br>Senior secured loan | 8.25% (Libor + 4.25%/M)<br>8.50% (Base<br>Rate + 1.75%/Q)<br>10.00% (Libor + 6.00%/M)<br>13.00% Cash, 3.00% PIK | 11/22/2013<br>11/22/2013<br>11/22/2013<br>11/22/2013 | \$ 13,935<br>\$ 805<br>\$ 5,385<br>\$ 8,713 |
| Encanto Restaurants, Inc.<br>c/o Harvest Partners, Inc.<br>280 Park Avenue, 33rd Floor<br>New York, NY 10017 | Restaurant<br>owner<br>and operator   | Junior secured loan  | 11.00%  | 8/2/2013   | \$ 24,996                                   |
| Financial Pacific Company<br>3455 South 344th Way, Suite 300<br>Federal Way, WA 98001                        | Commercial<br>finance leasing   | Preferred stock<br>Common stock  | 8.00% PIK   |  | 14.84% \$ 7,292<br>14.84% \$                |
| Firstlight Financial Corporation(3)<br>1700 E. Putnum Ave.<br>Old Greenwich, CT 06870                        | Investment<br>company   | Senior subordinated loan<br>Common stock<br>Common stock                                 | 1.00% PIK   | 12/31/2016   | \$ 56,670<br>20.00% \$<br>100.00% \$        |

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| Company   | Industry                                | Investment   | Interest(1)   | Maturity Date                       | % of Class Held at 3-31-11 | Fair Value   |
|---|---|--|---|-------------------------------------|----------------------------|--|
| Fulton Holdings Corp.<br>5950 Fulton Industrial Blvd<br>Atlanta, GA 30336   | Airport restaurant operator             | Senior secured loan<br>Common stock  | 12.50%  | 5/28/2016                           |                            | \$ 40,000<br>2.16% \$ 2,076  |
| Geotrace Technologies, Inc.<br>1011 Highway 6 South, Suite 220<br>Houston, TX 77077                                       | Reservoir processing, development       | Warrants<br>Warrants   |   |                                     | 7.82%<br>7.03%             | \$ (2)<br>\$ 466(2)  |
| GG Merger Sub I, Inc.<br>4130 Parklake Avenue, Suite 400<br>Raleigh, NC 27612   | Drug testing services                   | Senior secured loan  | 4.31%<br>(Libor + 4.00%/Q)  | 12/13/2014                          |                            | \$ 22,863  |
| Gilchrist & Soames, Inc.<br>1535 E. Naomi Street<br>PO Box 33806<br>Indianapolis, IN 46203                                | Personal care manufacturer              | Senior secured revolving loan<br>Senior secured revolving loan<br>Senior secured loan  | 4.04%<br>(Libor + 3.75%/S)<br>4.03%<br>(Libor + 3.75%/S)<br>13.44%  | 10/5/2013<br>10/5/2013<br>10/5/2013 |                            | \$ 1,000(12)<br>\$ 750(12)<br>\$ 22,902  |
| Growing Family, Inc. and GFH Holdings, LLC(3)<br>3613 Mueller Road<br>Saint Charles, MO 63301                             | Photography services                    | Senior secured revolving loan<br>Senior secured revolving loan<br>Senior secured loan<br>Preferred stock<br>Common stock<br>Warrants | 9.00%<br>(Libor + 2.00% Cash,<br>4.00% PIK/M)<br>9.00% (Base Rate + 1.75% Cash,<br>4.00% PIK/M)<br>9.00%<br>(Libor + 2.00% Cash, 4.00% PIK/M) | 8/23/2011<br>8/23/2011<br>3/31/2013 |                            | \$ 112(13)<br>\$ 1,220(13)<br>\$ 3,842<br>38.89% \$<br>1.77% \$<br>50.00% \$ (2) |
| HB&G Building Products, Inc.<br>P.O. Box 589<br>Troy, AL 36081  | Synthetic and wood product manufacturer | Senior subordinated loan<br>Common stock<br>Warrants   |   | 3/31/2013                           |                            | \$ 179<br>5.76% \$<br>3.89% \$ (2)   |
| HCI Equity, LLC(4)<br>2000 Avenue of the Stars, 12th Floor<br>Los Angeles, CA 90067                                       | Investment company                      | Member interest  |   |                                     | 100.00%                    | \$ 943   |
| HCP Acquisition Holdings, LLC(4)<br>c/o Halyard Capital Fund II, LP<br>600 Fifth Avenue, 17th Floor<br>New York, NY 10020 | Healthcare compliance advisory services | Class A units  |   |                                     | 26.19%                     | \$ 4,687   |
| Hot Light Brands, Inc.(4)<br>11780 Manchester Road, Suite 207<br>St. Louis, MO 63131                                      | Real estate holding company             | Senior secured loan<br>Common stock  |   | 2/1/2011                            |                            | \$ 4,543<br>100.00% \$   |
| Huddle House, Inc.(4)<br>5901-B Peachtree-Dunwoody Road, Suite 450<br>Atlanta, GA 30328                                   | Restaurant owner and operator           | Senior subordinated loan<br>Common stock   | 12.00% Cash,<br>3.00% PIK   | 12/21/2015                          |                            | \$ 16,325<br>84.04% \$   |
| Ideal Snacks Corporation<br>89 Mill Street<br>Liberty, NY 12754   | Snacks manufacturer                     | Senior secured revolving loan  | 8.50% (Base Rate + 4.00%/M)   | 6/30/2011                           |                            | \$ 910(15)   |



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|   |   |                               |   |           |        |    |           |
|---|---|-------------------------------|---|-----------|--------|----|-----------|
| Impact Innovations Group, LLC<br>2500 Northwinds Parkway, Suite 200<br>Alpharetta, GA 30004   | IT consulting<br>and<br>outsourcing<br>services                           | Member interest               |   |           | 50.00% | \$ |           |
| Imperial Capital Group, LLC(3)<br>2000 Avenue of the Stars, 9th Floor S<br>Los Angeles, CA 90067  | Investment<br>services  | Common units                  |   |           | 5.00%  | \$ | 4,824     |
|   |   | Common units                  |   |           | 5.00%  | \$ | 602       |
|   |   | Common units                  |   |           | 5.00%  | \$ | 14,724    |
| Imperial Capital Private Opportunities, LP<br>2000 Avenue of the Stars, 9th Floor S<br>Los Angeles, CA 90067                            | Investment<br>partnership   | Limited partnership interest  |   |           | 80.00% | \$ | 5,300     |
| INC Research, Inc.<br>3201 Beechleaf Court, Suite 600<br>Raleigh, NC 27604  | Pharmaceutical<br>and<br>biotechnology<br>consulting<br>services          | Senior subordinated loan      | 13.50%  | 9/28/2017 |        | \$ | 10,076    |
|   |   | Common stock                  |   |           | 18.18% | \$ | 628       |
| Industrial Air Tool, LP and Affiliates d/b/a Industrial<br>Air Tool(4)<br>2000 Avenue of the Stars, 12th Floor<br>Los Angeles, CA 90067 | Industrial<br>products  | Class B common units          |   |           | 35.60% | \$ | 16,216    |
|   |   | Member interest               |   |           | 50.00% | \$ | 164       |
| Industrial Container Services, LLC(3)<br>1540 Greenwood Avenue<br>Montebello, CA 90640  | Industrial<br>container<br>manufacturer,<br>reconditioner<br>and servicer | Senior secured revolving loan | 5.75% (Base<br>Rate + 2.50%/Q)                      | 9/30/2011 |        | \$ | 1,033(16) |
|   |   | Senior secured loan           | 4.25%   | 9/30/2011 |        | \$ | 2,514     |
|   |   | Senior secured loan           | (Libor + 4.00%/Q)<br>5.75% (Base<br>Rate + 2.50%/Q) | 9/30/2011 |        | \$ | 392       |
|   |   | Common units                  |   |           | 8.88%  | \$ | 17,138    |

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| Company  | Industry   | Investment   | Interest(1)   | Maturity Date                       | % of Class Held at 3-31-11                 | Fair Value                                 |
|--|--|--|---|-------------------------------------|--|--|
| Insight Pharmaceuticals Corporation(3)<br>1170 Wheeler Way, Suite 150<br>Langhorne, PA 19047                     | OTC drug<br>products<br>manufacturer                         | Senior subordinated loan<br>Common stock   | 13.00% Cash, 2.00% PIK  | 12/31/2017                          |  | \$ 25,704<br>21.07% \$ 14,675              |
| Instituto de Banca y Comercio, Inc. & Leeds IV Advisors, Inc.<br>Calle Santa Ana 1660<br>Santurce, PR 00909-2309 | Private school<br>operator                                   | Series B preferred stock<br>Series C preferred stock<br>Common stock<br>Common stock |   |                                     | 19.59%<br>0.80%<br>0.83%<br>0.80%<br>0.83% | \$ 5,498<br>\$ 1,799<br>\$ 467<br>\$<br>\$ |
| Interactive Technology Solutions, LLC<br>8757 Georgia Avenue, Suite #500<br>Silver Spring, MD 20910              | IT services<br>provider                                      | Senior secured loan  | 9.50% (Libor + 5.50%/Q)   | 6/30/2015                           |  | \$ 16,717                                  |
| Investor Group Services, LLC.(3)<br>2020 Front Street, Suite 100<br>Boston, MA 02116                             | Business consulting for private equity and corporate clients | Senior secured revolving loan<br>Limited liability company membership interest       |   | 6/22/2011                           |  | \$ (17)<br>10.00% \$ 558                   |
| Ivy Hill Asset Management, L.P.(4)<br>2000 Avenue of the Stars, 12th Floor<br>Los Angeles, CA 90067              | Asset<br>management<br>services                              | Member interest  |   |                                     | 100.00%                                    | \$ 170,462                                 |
| Ivy Hill Middle Market Credit Fund, Ltd.(4)<br>2000 Avenue of the Stars, 12th Floor<br>Los Angeles, CA 90067     | Investment<br>company  | Class B deferrable interest<br>notes<br>Subordinated notes                           | 6.25% (Libor + 6.00%/Q)<br>15.50%   | 11/20/2018<br>11/20/2018            |  | \$ 37,600<br>\$ 16,000                     |
| JTC Education Holdings, Inc.<br>100 Fillmore Place, Suite 300<br>Denver, CO 80206                                | Postsecondary<br>school<br>operator                          | Senior secured revolving loan<br>Senior secured loan                                 | 12.75% (Base Rate + 9.50%/Q)<br>12.50% (Libor + 9.50%/M)                      | 12/23/2014<br>12/23/2014            |  | \$ 1,250(18)<br>\$ 28,664                  |
| Knightsbridge CLO 2007-1 Ltd.(4)<br>315 Holmwood Drive<br>Newport Beach, CA 92663                                | Investment<br>company  | Class E notes  | 9.30% (Libor + 9.00%/Q)   | 1/11/2022                           |  | \$ 17,324                                  |
| Knightsbridge CLO 2008-1 Ltd.(4)<br>315 Holmwood Drive<br>Newport Beach, CA 92663                                | Investment<br>company  | Class C notes<br>Class D notes<br>Class E notes                                      | 7.81% (Libor + 7.50%/Q)<br>8.81% (Libor + 8.50%/Q)<br>5.31% (Libor + 5.00%/Q) | 6/18/2018<br>6/18/2018<br>6/18/2018 |  | \$ 14,400<br>\$ 9,000<br>\$ 13,634         |
| Kodiak Funding, LP<br>2107 Wilson Blvd, Suite 400<br>Arlington, VA 22201   | Investment<br>partnership                                    | Limited partnership interest   |   |                                     | 1.52%                                      | \$ 788                                     |
| LVCg Holdings LLC(4)<br>c/o The Decatur Group LLC<br>600 Seventeenth Street, Suite 2800<br>Denver, CO 80202      | Commercial<br>printer  | Membership interests   |   |                                     | 56.53%                                     | \$   |
| Mactec, Inc.<br>1105 Sanctuary Parkway, Suite 300<br>Alpharetta, GA 30004  | Engineering and environmental<br>services                    | Class B-4 stock<br>Class C stock   |   |                                     | 1.00%<br>38.60%                            | \$<br>\$ 165                               |

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|   |   |                               |                                |           |        |           |
|---|---|-------------------------------|--------------------------------|-----------|--------|-----------|
| Magnacare Holdings, Inc.,<br>Magnacare Administrative<br>Services, LLC,<br>and Magnacare, LLC<br>825 East Gate Blvd.<br>Garden City, NY 11530 | Healthcare<br>professional<br>provider              | Senior secured revolving loan |                                | 9/15/2016 | \$     | (19)      |
|   |   | Senior secured loan           | 9.75% (Libor + 8.75%/Q)        | 9/15/2016 | \$     | 107,824   |
| Making Memories<br>Wholesale, Inc.(4)<br>1168 West 500 North<br>Centerville, UT 84014   | Scrapbooking<br>branded<br>products<br>manufacturer | Senior secured revolving loan | 10.00% (Libor + 6.50%/S)       | 8/21/2014 | \$     | 1,750(20) |
|   |   | Senior secured loan           |                                | 8/21/2014 | \$     | 2,090     |
|   |   | Common stock                  |                                |           | 92.00% | \$        |
| MGP Park Place Equity, LLC<br>6901 Rockledge Drive, Suite 230<br>Bethesda, MD 20817   | Office<br>building<br>operator                      | Senior secured revolving loan |                                | 5/30/2011 | \$     | (21)      |
|   |   | Commercial mortgage loan      |                                | 5/30/2011 | \$     |           |
| Multi-Ad Services, Inc.(3)<br>1720 W. Detweiller Drive<br>Peoria, IL 61615  | Marketing<br>services and<br>software<br>provider   | Preferred stock               |                                |           | 14.40% | \$ 2,159  |
|   |   | Common stock                  |                                |           | 8.85%  | \$        |
| MVL Group, Inc.(4)<br>1061 E. Indiantown Road,<br>Suite 300<br>Jupiter, FL 33477  | Marketing<br>research<br>provider                   | Senior secured loan           | 12.00%                         | 7/8/2012  | \$     | 22,772    |
|   |   | Senior subordinated loan      | 12.00% Cash, 2.50% PIK         | 7/8/2012  | \$     | 35,180    |
|   |   | Junior subordinated loan      | 8.00%                          | 7/8/2012  | \$     | 105       |
|   |   | Common stock                  |                                |           | 56.10% | \$        |
| MWD Acquisition Sub, Inc.<br>680 Hehli Way<br>PO Box 69<br>Mondovi, WI 54755  | Dental<br>services                                  | Junior secured loan           | 8.50% (Base<br>Rate + 5.25%/Q) | 5/3/2013  | \$     | 5,000     |

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| Company  | Industry   | Investment                           | Interest(1)                                  | Maturity Date | % of Class Held at 3-31-11 | Fair Value   |
|--|--|--------------------------------------|--|---------------|----------------------------|--------------|
| National Print Group, Inc.<br>2464 Amicola Highway<br>Chattanooga, TN 37406                                      | Printing management services                       | Senior secured revolving loan        | 9.00% (Libor + 6.00%/Q)                      | 10/31/2012    |                            | \$ 1,027(22) |
|  |  | Senior secured revolving loan        | 9.00% (Base Rate + 5.00%/Q)                  | 10/31/2012    |                            | \$ 1,732(22) |
| Chattanooga, TN 37406  | services   | Senior secured loan                  | 14.00% (Libor + 6.00% Cash, 5.00% PIK/Q)     | 10/31/2012    |                            | \$ 7,631     |
|  |  | Senior secured loan                  | 14.00% (Base Rate + 5.00% Cash, 5.00% PIK/Q) | 10/31/2012    |                            | \$ 31        |
|  |  | Preferred stock                      |  |               | 5.17%                      | \$           |
| NetShape Technologies, Inc.<br>8751 Old State Road 60<br>Sellersburg, IN 47172                                   | Metal precision engineered components manufacturer | Senior secured revolving loan        | 4.00% (Libor + 3.75%/M)                      | 2/2/2013      |                            | \$ 602(23)   |
|  |  | Common units                         |  |               | 66.67%                     | \$           |
| Network Hardware Resale, Inc.<br>26 Castilian Drive, Suite A<br>Santa Barbara, CA 93117                          | Networking equipment resale provider               | Senior secured loan                  | 12% (Base Rate + 6.00%/Q)                    | 12/9/2011     |                            | \$ 12,024    |
|  |  | Convertible junior subordinated loan | 9.75% PIK                                    | 12/9/2015     |                            | \$ 21,063    |
| Novak Biddle Venture Partners III, L.P.<br>7501 Wisconsin Avenue<br>East Tower, Suite 1380<br>Bethesda, MD 20814 | Investment partnership                             | Limited partnership interest         |  |               | 2.47%                      | \$ 265       |
| NPH, Inc.<br>c/o Transportation Resources Partners, L.P.<br>13175 Gregg Street<br>Poway, CA 92064                | Hotel property                                     | Real estate equity interests         |  |               | 100.00%                    | \$ 7,838     |
| NS Merger Sub. Inc. and NS Holdings, Inc.<br>3500 Sunrise Highway, Suite D122<br>Great River, NY 11739           | Healthcare technology provider                     | Senior subordinated loan             | 13.50%                                       | 6/21/2017     |                            | \$ 50,579    |
|  |  | Common stock                         |  |               | 1.70%                      | \$ 2,525     |
| OnCURE Medical Corp.<br>610 Newport Center Drive,<br>Suite 650<br>Newport Beach, CA 92660                        | Radiation oncology care provider                   | Common stock                         |  |               |                            | \$ 2,680     |
| Orion Foods, LLC (fka Hot Stuff Foods, LLC)(4)<br>2930 W. Maple Street<br>Sioux Falls, SD 57118                  | Convenience food service retailer                  | Senior secured revolving loan        | 10.75% (Base Rate + 7.50%/M)                 | 9/30/2014     |                            | \$ 2,000(24) |
|  |  | Senior secured loan                  | 10.00% (Libor + 8.50%/Q)                     | 9/30/2014     |                            | \$ 34,247    |
|  |  | Junior secured loan                  | 14.00%                                       | 9/30/2014     |                            | \$ 35,864    |
|  |  | Preferred units                      |  |               | 100.00%                    | \$           |
|  |  | Class A common units                 |  |               | 25.00%                     | \$           |
|  |  | Class B common units                 |  |               | 93.53%                     | \$           |
| OTG Management, Inc.<br>One International Plaza, Suite 130<br>Philadelphia, PA 19113                             | Airport restaurant operator                        | Junior secured loan                  | 16.00% (Libor + 11.00% Cash, 2.00% PIK/M)    | 6/18/2013     |                            | \$ 17,678    |
|  |  | Junior secured loan                  | 18.00% (Libor + 11.00% Cash, 4.00% PIK/M)    | 6/18/2013     |                            | \$ 42,452    |
|  |  | Common stock                         |  |               | 2.22%                      | \$ 1,523     |
|  |  | Warrants                             |  |               | 7.73%                      | \$ 5,303(2)  |
|  |  | Warrants                             |  |               | 5.97%                      | \$ (2)       |
| Partnership Capital Growth Fund I, LP  | Investment   | Limited partnership interest         |  |               | 25.00%                     | \$ 2,697     |

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|--|--|---|-------------------------|---|--|--|
| One Embarcadero, Suite 3810<br>San Francisco, CA 94111   | partnership  |   |                         |   |  |  |
| Passport Health<br>Communications, Inc., Passport<br>Holding Corp. and Prism Holding<br>Corp.<br>720 Cool Springs Blvd., Suite 450<br>Franklin, TN 37067 | Healthcare<br><br>technology<br><br>provider   | Senior secured loan<br><br>Series A preferred stock<br><br>Common stock                         | 8.25% (Libor + 7.00%/Q) | 5/9/2014                                  | \$ 21,399<br><br>5.23% \$ 8,191<br><br>5.23% \$          |  |
| PC Helps Support, LLC<br>One Bala Plaza, Suite 434<br>Bala Cynwyd, PA 19004  | Technology<br>support<br>provider  | Senior secured revolving loan<br>Senior secured loan<br>Senior subordinated loan                | 3.56% (Libor + 3.25%/Q) | 12/14/2013<br>12/14/2013<br>12/14/2013    | \$ (25)<br>\$ 6,106<br>\$ 19,956                         |  |
| Penn Detroit Diesel<br>Allison, LLC(4)<br>8330 State Road<br>Philadelphia, PA 19136  | Diesel engine<br><br>manufacturer  | Member interest   |                         |   | 87.60% \$ 25,553   |  |
| PG Mergersub, Inc.<br>c/o Vestar Capital Partners V, LP<br><br>245 Park Avenue, 41st Floor<br>New York, NY 10167   | Provider of<br>patient<br>surveys,<br>management<br>reports and<br>national<br>databases for<br>integrated<br>healthcare<br>delivery<br>system | Senior secured loan<br>Senior subordinated loan<br><br>Preferred stock<br>Common stock          | 6.75% (Libor + 5.00%/Q) | 11/3/2015<br>3/12/2016                    | \$ 10,274<br>\$ 4,000<br><br>0.94% \$ 12<br>0.94% \$ 601 |  |
| Pillar Processing LLC and PHL<br>Holding Co.(3)<br>220 Northpointe Parkway, Suite G<br>Buffalo, NY 14228   | Mortgage<br><br>services   | Senior secured revolving loan<br><br>Senior secured loan<br>Senior secured loan<br>Common stock |                         | 11/20/2013<br><br>5/20/2014<br>11/20/2013 | \$ (26)<br><br>\$ 7,375<br>\$ 15,804<br>8.48% \$ 4,256   |  |

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| Company  | Industry   | Investment   | Interest(1)  | Maturity Date                          | % of Class Held at 3-31-11 | Fair Value   |
|--|--|--|--|--|----------------------------|--|
| PMI Holdings, Inc.<br>8000 NE Parkway Dr. #350<br>Vancouver, WA 98662  | Restaurant owner and operator                            | Senior secured revolving loan<br>Senior secured loan<br>Senior secured loan  | 10.00% (Libor + 8.00%/M)<br>10.25% (Base Rate + 7.00%/M) | 5/5/2015<br>5/5/2015<br>5/5/2015       |                            | \$ (27)<br>\$ 18,940<br>\$ 176   |
| PODS Funding Corp.<br>5585 Rio Vista Drive<br>Clearwater, FL 33760   | Storage and warehousing                                  | Senior subordinated loan<br>Senior subordinated loan   | 15.00%<br>16.64%   | 6/23/2015<br>12/23/2015                |                            | \$ 25,125<br>\$ 7,582  |
| Primis Marketing Group, Inc. and Primis Holdings, LLC(3)<br>c/o Pcap Managers, LLC<br>75 State Street, 26 <sup>th</sup> Floor<br>Boston, MA 02109  | Database marketing services                              | Senior subordinated loan<br>Preferred units<br>Common units  |  | 2/15/2013                              |                            | \$ 102<br>8.02% \$<br>7.38% \$   |
| Prommis Solutions, LLC,<br>E-Default Services, LLC,<br>Statewide Tax and Title Services, LLC &<br>Statewide Publishing Services, LLC (formerly known as MR Processing Holding Corp.)<br>1544 Old Alabama Road<br>Roswell, GA 30076 | Bankruptcy and foreclosure processing services           | Senior subordinated loan<br>Preferred units  |  | 2/8/2014                               |                            | \$ 39,437<br>3.17% \$  |
| Promo Works, LLC<br>300 Martingale Road<br>Schaumburg, IL 60173  | Marketing services                                       | Senior secured loan  |  | 12/23/2013                             |                            | \$ 4,630   |
| R2 Acquisition Corp.<br>207 NW Park Ave<br>Portland, OR 97209  | Marketing services                                       | Common stock   |  |  | 0.33%                      | \$ 281   |
| R3 Education, Inc. (formerly known as Equinox EICPartners, LLC and MUA Management Company) and EIC Acquisitions Corp.<br>1750 W. Broadway St. #222<br>Oviedo, FL 32765   | Medical school operator                                  | Senior secured revolving loan<br>Senior secured loan<br>Senior secured loan<br>Preferred stock<br>Common membership interest<br>Warrants | 9.00% (Libor + 6.00%/Q)<br>13.00% PIK                    | 4/30/2013<br>4/30/2013<br>4/30/2013    |                            | \$ (28)<br>\$ 31,049<br>\$ 9,231<br>16.12% \$ 1,100<br>26.27% \$ 19,875<br>10.00% \$ (2) |
| RE Community Holdings II, Inc. and Pegasus Community Energy, LLC.<br>809 West Hill Street<br>Charlotte, NC 28208   | Operator of municipal recycling facilities               | Senior secured revolving loan<br>Senior secured loan<br>Senior secured loan<br>Preferred stock   | 11.50% (Libor + 9.75%/M)<br>11.50% (Libor + 9.75%/Q)     | 3/1/2016<br>3/1/2016<br>3/1/2016       |                            | \$ (14)<br>\$ 45,000<br>\$ 5,000<br>21.42% \$ 7,500                                      |
| Reed Group, Ltd.<br>10155 Westmoor Drive, Suite 210<br>Westminster, CO 80021   | Medical disability management services provider          | Senior secured revolving loan<br>Senior secured loan<br>Senior subordinated loan<br>Equity interests                                     |  | 12/19/2013<br>12/19/2013<br>12/19/2013 |                            | \$ 1,063(29)<br>\$ 9,142<br>\$ 10,725<br>4.00% \$  |
| Reflexite Corporation(4)<br>120 Darling Drive<br>Avon, CT 06001  | Developer and manufacturer of high-visibility reflective | Senior subordinated loan<br>Common stock   | 12.50% Cash, 5.50% PIK                                   | 11/1/2014                              |                            | \$ 9,281<br>39.49% \$ 30,523   |

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products

|   |  |  |                              |            |                 |                      |
|---|--|--|------------------------------|------------|-----------------|----------------------|
| Regency Healthcare Group, LLC(3)<br>2151 Highland Avenue, Suite 350<br>Birmingham, AL 35205         | Hospice provider                           | Preferred member interest                        |                              |            | 6.10%           | \$ 2,310             |
| S.B. Restaurant Company<br>14241 Firestone Blvd, Suite 315<br>La Mirada, CA 90638                   | Restaurant owner and operator              | Senior secured loan                              | 13.00%<br>(Libor + 11.00%/Q) | 7/16/2012  |                 | \$ 35,203            |
| Savers, Inc. and SAI Acquisition Corporation<br>11400 SE 6th St. Suite 220<br>Bellevue, WA 98004    | For-profit thrift retailer                 | Preferred stock Warrants                         |                              |            | 2.15%<br>11.30% | \$ 148<br>\$ (2)     |
| Senior Secured Loan Fund LLC(4)<br>2000 Avenue of the Stars,<br>12th Floor<br>Los Angeles, CA 90067 | Investment company                         | Subordinated certificates                        | 8.30% (Libor + 8.00%/Q)      |            |                 | 87.50% \$ 681,255    |
| Sigma International Group, Inc.<br>700 Goldman Drive<br>Cream Ridge, NJ 08514                       | Water treatment parts manufacturer         | Junior secured loan                              | 16.00% (Libor + 8.00%/Q)     | 10/10/2013 |                 | \$ 4,069             |
|   |  | Junior secured loan                              | 16.00% (Base Rate + 6.50%/M) | 10/10/2013 |                 | \$ 8,289             |
| Soteria Imaging Services, LLC(3)<br>9200 Leesgate Road, Suite 800<br>Fairfax, VA 22030              | Outpatient medical imaging provider        | Junior secured loan<br>Preferred member interest |                              | 11/10/2010 |                 | \$ 2,375<br>6.31% \$ |
| Stag-Parkway, Inc.(4)<br>7095 Tradewater Parkway<br>Atlanta, GA 30336                               | Automotive aftermarket components supplier | Senior secured loan                              | 12.50%<br>(Libor + 11.00%/Q) | 12/1/2014  |                 | \$ 34,500            |
|   |  | Preferred stock                                  | 16.5% PIK                    |            | 100.00%         | \$ 4,200             |
|   |  | Common stock                                     |                              |            | 100.00%         | \$ 15,336            |

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| Company  | Industry   | Investment  | Interest(1)   | Maturity Date          | % of Class Held at 3-31-11 | Fair Value   |
|--|--|---|---|------------------------|----------------------------|--|
| Startec Equity, LLC(4)<br>2000 Avenue of the Stars, 12th Floor<br>Los Angeles, CA 90067  | Communication services   | Member interest   |   |                        | 100.00%                    | \$   |
| STS Operating, Inc.<br>2301 Windsor Court<br>Addison, IL 60101   | Hydraulic systems equipment and supplies provider  | Senior subordinated loan  | 11.00%  | 1/2/2013               |                            | \$ 30,386  |
| Summit Business Media, LLC<br>375 Park Avenue<br>New York, NY 10152-0002   | Business media consulting services   | Junior secured loan   |   | 7/6/2014               |                            | \$ 239   |
| Summit Energy Services, Inc.<br>10350 Ormsby Park Place, Suite 400<br>Louisville, KY 40223                                       | Energy management consulting services  | Common stock  |   |                        | 2.00%                      | \$ 3,985   |
| Sunquest Information Systems, Inc.<br>250 South Williams Blvd<br>Tucson, AZ 85711  | Laboratory software solutions provider   | Junior secured loan<br>Junior secured loan  | 9.75% (Libor + 8.50%/Q)<br>9.75%<br>(Libor + 8.50%/M) | 6/16/2017<br>6/16/2017 |                            | \$ 38,000<br>\$ 107,000  |
| The Dwyer Group(3)<br>7 Times Square, Suite 4307<br>New York, NY 10036   | Operator of multiple franchise concepts primarily related to home maintenance or repairs | Senior subordinated loan<br>Series A preferred units                                  | 14.50%<br>8.00% PIK                                   | 12/23/2016             |                            | \$ 27,100<br>18.26% \$ 13,292  |
| The Step2 Company, LLC<br>10010 Aurora-Hudson Road<br>Streetsboro, Ohio 44241  | Toy manufacturer   | Junior secured loan<br>Junior secured loan<br>Common units<br>Warrants                | 10.00%<br>15.00%                                      | 4/13/2015<br>4/13/2015 |                            | \$ 27,000<br>\$ 30,000<br>2.12% \$ 237<br>100.00% \$ 676(2)                |
| The Teaching Company, LLC and The Teaching Company Holdings, Inc.<br>4151 Lafayette Center Drive, No. 100<br>Chantilly, VA 20151 | Education publications provider  | Preferred stock<br>Common stock   |   |                        | 3.64%<br>3.64%             | \$ 3,659<br>\$ 9   |
| The Thymes, LLC(4)<br>629 9th Street SE<br>Minneapolis, MN 55414   | Cosmetic products manufacturer   | Preferred units<br>Common units   | 8.00% PIK   |                        | 78.53%<br>55.45%           | \$ 6,636<br>\$ 383   |
| Things Remembered, Inc. and TRM Holdings Corporation<br>5500 Avion Park Drive<br>Highland Heights, OH 44143                      | Personalized gifts retailer  | Senior secured loan<br>Preferred stock<br>Preferred stock<br>Common stock<br>Warrants | 9.00%<br>(Libor + 7.00%/M)                            | 3/1/2014               |                            | \$ 44,659<br>31.93% \$ 2,042<br>3.50% \$ 2,234<br>2.98% \$<br>0.00% \$ (2) |
| Tradesmen International, Inc.<br>9760 Shepard Road<br>Macedonia, OH 44056  | Construction labor support   | Junior secured loan<br>Warrants   | 10.00%  | 5/25/2014              |                            | \$ 20,000<br>10.00% \$ 2,818(2)  |



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|   |   |   |  |  |         |   |
|---|---|---|--|--|---------|---|
| Trivergance Capital Partners, LP<br>2200 Fletcher Avenue, 4th Floor<br>Fort Lee, NJ 07024 | Investment<br>partnership                         | Limited partnership<br>interest   |  |  | 100.00% | \$  |
| TZ Merger Sub, Inc.<br>567 San Nicolas Drive, Suite 360<br>Newport Beach, CA 92660        | Healthcare<br>enterprise<br>software<br>developer | Senior secured loan   | 6.75% (Base<br>Rate + 3.50%/Q)                 | 8/4/2015                               |         | \$ 4,678  |
| U.S. Renal Care, Inc.<br>2400 Dallas Parkway, Suite 350<br>Plano, TX 75093                | Dialysis<br>provider                              | Senior subordinated<br>loan   | 11.25% Cash, 2.00% PIK                         | 5/24/2017                              |         | \$ 20,336   |
| UL Holding Co., LLC<br>2824 N Ohio<br>Wichita, KS 67201                                   | Petroleum<br>product<br>manufacturer              | Junior secured loan<br>Junior secured loan<br>Junior secured loan<br>Common units<br>Common units | 15.00%<br>9.69% (Libor + 9.38%/Q)<br>14.50%    | 12/24/2012<br>12/24/2012<br>12/24/2012 |         | \$ 5,000<br>\$ 13,722<br>\$ 6,897<br>0.85% \$ 109<br>0.86% \$ 452 |
| United Road Towing, Inc.<br>9550 Bornet Drive, Suite 301<br>Mokena, IL 60448              | Towing<br>company                                 | Junior secured loan<br>Warrants   | 14.75% (Libor + 11.25<br>Cash,<br>1.00% PIK/Q) | 1/22/2014                              |         | \$ 18,889<br>3.00% \$ 20(2)                                       |

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| Company  | Industry   | Investment   | Interest(1)   | Maturity Date          | % of Class Held at 3-31-11 | Fair Value             |
|--|--|--|---|------------------------|----------------------------|------------------------|
| Univita Health Inc.<br>8601 N. Scottsdale Rd., Suite #335<br>Scottsdale, AZ 85253  | Outsourced services provider   | Senior subordinated loan   | 12.00% Cash, 3.00% PIK                                  | 12/31/2014             |                            | \$ 21,252              |
| Van Ness Hotel, Inc.<br>1050 Van Ness Avenue<br>San Francisco, CA 94109  | Hotel operator   | Commercial mortgage loan<br>Commercial mortgage loan<br>Real estate equity interests |   | 8/1/2013<br>12/31/2011 | 100.00%                    | \$ 11,513              |
| Vantage Oncology, Inc.<br>1500 Rosecrans Ave, Suite 400<br>Manhattan Beach, CA 90266   | Radiation oncology care provider                                       | Common stock   |   |                        | 3.24%                      | \$ 6,218               |
| Venturehouse-Cibernet Investors, LLC<br>509 Seventh Street, N.W.<br>Washington, DC 20004                                       | Financial settlement services for intercarrier wireless roaming        | Equity interest  |   |                        | 3.30%                      | \$                     |
| Vistar Corporation and Wellspring Distribution Corp.<br>12650 East Arapahoe Road<br>Centennial, CO 80112                       | Food service distributor   | Senior subordinated loan<br>Class A non-voting common stock                          | 13.50%<br>33.33%  | 5/23/2015<br>\$6,184   |                            | \$ 61,625              |
| VSC Investors LLC<br>401 Vance Street<br>Los Angeles, CA   | Investment company   | Membership interest  |   |                        | 1.95%                      | \$ 975                 |
| VSS-Tranzact Holdings, LLC(3)<br>350 Park Avenue<br>New York, NY 10022   | Management consulting services   | Common membership interest   |   |                        | 8.51%                      | \$ 6,650               |
| Wash Multifamily Laundry Systems, LLC<br>(fka Web Services Company, LLC)<br>3690 Redondo Beach Ave.<br>Redondo Beach, CA 90278 | Laundry service and equipment provider                                 | Senior secured loan<br>Junior secured loan   | 7.00% (Base Rate + 3.75%/Q)<br>10.88% (Libor + 9.38%/Q) | 8/28/2014<br>8/28/2015 |                            | \$ 4,875<br>\$ 105,000 |
| Waste Pro USA, Inc<br>2101 West State Road 434, Suite 315<br>Longwood, FL 32779  | Waste management services  | Preferred Class A Common Equity  |   |                        | 2.61%                      | \$ 17,781              |
| Wastequip, Inc.<br>25800 Science Park Drive, Suite 140<br>Beachwood, OH 44122  | Waste management equipment manufacturer                                | Senior subordinated loan<br>Common stock   |   | 2/5/2015               | 5.34%                      | \$ 760                 |
| Woodstream Corporation<br>69 N. Locust Street<br>Lititz, PA 17543-1714   | Pet products manufacturer  | Senior subordinated loan<br>Common stock   | 12.00%  | 2/27/2015              |                            | \$ 53,350<br>\$ 2,685  |
| Wyle Laboratories, Inc. and Wyle Holdings, Inc.<br>1960 E. Grand Ave., Suite 900<br>El Segundo, CA 90245-5023                  | Provider of specialized engineering, scientific and technical services | Senior preferred stock<br>Common stock   | 8.00% PIK   |                        | 0.00%<br>4.11%             | \$ 89<br>\$ 1,984      |

(1)

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All interest is payable in cash unless otherwise indicated. A majority of the variable rate loans to our portfolio companies bear interest at a rate that may be determined by reference to either LIBOR or an alternate Base Rate (commonly based on the Federal Funds Rate or the Prime Rate), at the borrower's option, which resets daily (D), monthly (M), bimonthly (B), quarterly (Q) or semiannually (S). For each such loan, we have provided the current interest rate in effect as of March 31, 2011.

- (2) Percentages shown for warrants or convertible preferred stock held represents the percentages of common stock we may own on a fully diluted basis, assuming we exercise our warrants or convert our preferred stock to common stock.
- (3) As defined in the Investment Company Act, we are an "Affiliate" of this portfolio company because we own 5% or more of the portfolio company's outstanding voting securities.
- (4) As defined in the Investment Company Act, we are an "Affiliate" of this portfolio company because we own 5% or more of the portfolio company's outstanding voting securities or we have the power to exercise control over the management or policies of such portfolio company (including through a management agreement). In addition, as defined in the Investment Company Act, we "Control" this portfolio company because we own more than 25% of the portfolio company's outstanding voting securities or we have the power to exercise control over the management or policies of such portfolio company (including through a management agreement).
- (5) \$0 of total commitment of \$5,000 remains unfunded as of March 31, 2011.
- (6) \$3,000 of total commitment of \$4,400 remains unfunded as of March 31, 2011.
- (7) Total commitment of \$10,000 remains unfunded as of March 31, 2011.
- (8) \$0 of total commitment of \$20,000 remains unfunded as of March 31, 2011.
- (9) \$0 of total commitment of \$3,200 remains unfunded as of March 31, 2011.
- (10) \$19,509 of total commitment of \$25,000 remains unfunded as of March 31, 2011.

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- (11) Total commitment of \$2,400 remains unfunded as of March 31, 2011.
- (12) \$3,250 of total commitment of \$5,000 remains unfunded as of March 31, 2011.
- (13) \$0 of total commitment of \$2,458 remains unfunded as of March 31, 2011.
- (14) Total commitment of \$7,500 remains unfunded as of March 31, 2011.
- (15) \$14 of total commitment of \$1,084 remains unfunded as of March 31, 2011.
- (16) \$3,065 of total commitment of \$5,783 remains unfunded as of March 31, 2011.
- (17) Total commitment of \$2,000 remains unfunded as of March 31, 2011.
- (18) \$12,543 of total commitment of \$14,000 remains unfunded as of March 31, 2011.
- (19) Total commitment of \$10,000 remains unfunded as of March 31, 2011.
- (20) \$0 of total commitment of \$2,500 remains unfunded as of March 31, 2011.
- (21) \$0 of total commitment of \$5,500 remains unfunded as of March 31, 2011.
- (22) \$1,043 of total commitment of \$4,109 remains unfunded as of March 31, 2011.
- (23) \$0 of total commitment of \$972 remains unfunded as of March 31, 2011.
- (24) \$3,000 of total commitment of \$5,000 remains unfunded as of March 31, 2011.
- (25) Total commitment of \$1,000 remains unfunded as of March 31, 2011.
- (26) \$3,597 of total commitment of \$3,750 remains unfunded as of March 31, 2011.
- (27) Total commitment of \$3,500 remains unfunded as of March 31, 2011.
- (28) Total commitment of \$9,000 remains unfunded as of March 31, 2011.
- (29) \$0 of total commitment of \$3,000 remains unfunded as of March 31, 2011.
- (30) Together with GE, we serve as co-managers of the SSLP. Investments and portfolio decisions made by the SSLP, as well as decisions relating to the operations of the SSLP, must generally be approved by both the Company and GE; therefore, although the Company owns more than 25% of the voting securities of the SSLP, the Company does not believe that it has control over the SSLP (for purposes of the Investment Company Act or otherwise). In the first quarter of 2011, the staff of the SEC (the "Staff") informally communicated to certain BDCs the Staff's belief that certain entities, which would be classified as an "investment company" under the Investment Company Act but for the exemption from the definition of "investment company" set forth in Rule 3a-7 promulgated under the Investment Company Act, could not be treated as eligible portfolio companies (as defined in Section 2(a)(46) of the Investment Company Act). Ares Capital believes that it can treat as an eligible portfolio company any entity that relies on the 3a-7 exemption. However, given the current uncertainty in this area, Ares Capital has, solely for purposes of calculating the composition of its portfolio pursuant to Section 55(a) of the Investment Company Act, identified these entities in our schedule of investments as "non-qualifying assets" should the Staff

ultimately disagree with Ares Capital's position.

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Our business and affairs are managed under the direction of our board of directors. The responsibilities of the board of directors include, among other things, the quarterly valuation of our assets. The board of directors currently consists of nine members, five of whom are not "interested persons" of Ares Capital as defined in Section 2(a)(19) of the Investment Company Act. We refer to these individuals as our "independent directors." We refer to our directors who are "interested persons" of Ares Capital as defined in Section 2(a)(19) of the Investment Company Act as our "interested directors." Our board of directors elects our officers, who serve at the discretion of the board of directors. The board of directors maintains an audit committee and nominating and governance committee, and may establish additional committees from time to time as necessary.

**EXECUTIVE OFFICERS AND BOARD OF DIRECTORS**

Under our charter and bylaws, our directors are divided into three classes. Directors are elected for staggered terms of three years each, with the term of office of only one of these three classes of directors expiring each year. Each director will hold office for the term to which he or she is elected and until his or her successor is duly elected and qualifies.

**Directors**

Information regarding the board of directors is as follows:

| <b>Name</b>                  | <b>Age</b> | <b>Position</b>        | <b>Director Since</b> | <b>Expiration of Term</b> |
|------------------------------|------------|------------------------|-----------------------|---------------------------|
| <b>Independent Directors</b> |            |                        |                       |                           |
| Ann Torre Bates              | 53         | Director               | 2010                  | 2014                      |
| Kenneth R. Heitz             | 64         | Director               | 2011                  | 2014                      |
| Frank E. O'Bryan             | 77         | Director               | 2005                  | 2013                      |
| Gregory W. Penske            | 49         | Director               | 2009                  | 2012                      |
| Eric B. Siegel               | 53         | Director               | 2004                  | 2013                      |
| <b>Interested Directors</b>  |            |                        |                       |                           |
| Michael J. Arougheti         | 38         | President and Director | 2009                  | 2014                      |
| Antony P. Ressler            | 50         | Director               | 2010                  | 2013                      |
| Robert L. Rosen              | 64         | Director               | 2004                  | 2012                      |
| Bennett Rosenthal            | 47         | Chairman and Director  | 2004                  | 2012                      |

The address for Mr. Arougheti and Mr. Rosen is c/o Ares Capital Corporation, 245 Park Avenue, 44<sup>th</sup> Floor, New York, New York 10167. The address for each other director is c/o Ares Capital Corporation, 2000 Avenue of the Stars, 12<sup>th</sup> Floor, Los Angeles, California 90067.

**Executive Officers Who Are Not Directors**

Information regarding our executive officers who are not directors is as follows:

| <b>Name</b>          | <b>Age</b> | <b>Position</b>                               |
|----------------------|------------|---|
| Joshua M. Bloomstein | 37         | Vice President, General Counsel and Secretary |
| Richard S. Davis     | 52         | Treasurer                                     |
| Miriam Krieger       | 35         | Chief Compliance Officer                      |
| Scott C. Lem         | 33         | Assistant Treasurer                           |
| Daniel F. Nguyen     | 39         | Vice President                                |
| Penni F. Roll        | 45         | Chief Financial Officer                       |
| Michael D. Weiner    | 58         | Vice President                                |

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The address for Mr. Bloomstein and Ms. Roll is c/o Ares Capital Corporation, 245 Park Avenue, 44<sup>th</sup> Floor, New York, New York 10167. The address for each other executive officer is c/o Ares Capital Corporation, 2000 Avenue of the Stars, 12th Floor, Los Angeles, California 90067.

**Biographical Information and Discussion of Experience and Qualifications, etc.**

***Directors***

We divide our directors into two groups interested directors and independent directors. Interested directors are "interested persons" as defined in Section 2(a)(19) of the Investment Company Act and independent directors are not "interested persons" as defined in Section 2(a)(19) of the Investment Company Act.

As described below under "Committees of the Board of Directors Nominating and Governance Committee," the board of directors has identified certain desired attributes for director nominees. Each of our directors has demonstrated high character and integrity, superior credentials and recognition in his or her respective field and the relevant expertise and experience upon which to be able to offer advice and guidance to our management. Each of our directors also has sufficient time available to devote to the affairs of the Company, is able to work with the other members of the board of directors and contribute to the success of the Company and can represent the long-term interests of the Company's stockholders as a whole. Our directors have been selected such that the board of directors represents a range of backgrounds and experience. Set forth below is biographical information of each director and in the paragraph immediately following such director's biographical information, a paragraph discussing such director's particular experience, qualifications, attributes or skills that lead us to conclude, as of the date of this prospectus, that such individual should serve as a director, in light of the Company's business and structure.

**Independent Directors**

**Ann Torre Bates**, 53, has served as a director of the Company since 2010. Ms. Bates has been a strategic and financial consultant since 1997, principally with respect to corporate finance matters. From 1995 to 1997, Ms. Bates served as Executive Vice President, Chief Financial Officer and Treasurer of NHP, Inc., a national real estate services firm. From 1991 to 1995, Ms. Bates was Vice President and Treasurer of US Airways, and held various finance positions from 1988 to 1991. Ms. Bates holds a BBA in Accountancy from the University of Notre Dame and an MBA in Finance and Economics from Cornell University. She currently serves on the board of directors of the Franklin Mutual Series and Recovery Funds, the Franklin Templeton Funds and SLM Corporation (Sallie Mae). She served as a director of Allied Capital Corporation from 2003 to 2010.

Ms. Bates' experience as a previous director of Allied Capital Corporation provides the board of directors with important knowledge and continuity in dealing with matters related to the integration of Allied Capital Corporation's business into that of the Company. In addition, Ms. Bates' experience serving as a director of other public companies in the financial sector, as well as her past experience as a chief financial officer, provides the board of directors and, specifically, the audit committee of the board of directors with valuable knowledge and insight in the financial services sector as well as experience in financial and accounting matters.

**Kenneth R. Heitz**, 64, has been a Partner of the law firm of Irell & Manella, LLP since 1991. Mr. Heitz previously served as a Partner of Irell & Manella from 1979 to 1988. Mr. Heitz joined Irell & Manella in 1972. Prior to rejoining Irell & Manella in 1991, Mr. Heitz served as Acting President and Chief Executive Officer of Columbia Savings and Loan Association from January 1990 to March 1990 and served as its Executive Vice President and General Counsel from 1988 to 1990. Mr. Heitz has served as a director of El Paso Electric Company since 1996, and as Chairman of its

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board of directors since May 2008, where he also serves on its External Affairs and Energy Resources and Environmental Oversight Committees.

Mr. Heitz's experience as chairman of the board of directors of a highly regulated public company, his prior experience as a senior executive of a regulated financial company, and his substantial experience in providing advice and counsel on corporate governance and securities law matters to numerous public company clients in a wide variety of industries will provide the Board with unique insight on its duties and responsibilities.

**Frank E. O'Bryan**, 77, has served as a director of the Company since 2005. Mr. O'Bryan served as Chairman of the Board of WMC Mortgage Company from 1997 to 2003 and as a Vice Chairman until 2004, when the company was sold to General Electric Corporation. Mr. O'Bryan served as Vice Chairman of Shearson/American Express Mortgage Corp. (formerly Western Pacific Financial) and as a Director of Shearson American Express from 1981 to 1985 and prior to that served as a Director and senior executive of Shearson Hayden Stone from 1979 to 1981. Mr. O'Bryan holds a BS in Business from the University of Arizona. Mr. O'Bryan has been a Director of The First American Corporation since 1994. Mr. O'Bryan is a past member of the boards of directors of Damon Corporation, Grubb & Ellis, Standard Pacific Corporation and Farmers & Merchants Bank.

Mr. O'Bryan's long and varied business career, including his service as a director of numerous public and private companies, allows him to provide key experience and insight, especially with respect to issues specific to boards of directors of public companies and companies in the financial services industry. Mr. O'Bryan also provides valuable knowledge and expertise in financial and accounting matters to the board of directors from his service on the audit committees of The First American Corporation and Standard Pacific Corporation.

**Gregory W. Penske**, 49, has served as a director of the Company since 2009. Mr. Penske has served as President and CEO of Penske Motor Group, Inc., an automotive group that owns and operates Toyota, Lexus and Scion dealerships in California, since 1993. Mr. Penske was the former President and CEO of Penske Motorsports, Inc., which operated racetracks across the country. Penske Motorsports, Inc. was publicly traded on the NASDAQ exchange and was thereafter sold to International Speedway Corporation in 1999. Mr. Penske serves as a member of the boards of directors for Penske Corporation, the Los Angeles Sports Council and Friends of Golf, Inc. He is a member of the Toyota Parts and Service Advisory Council, the Toyota President's Cabinet and the Toyota Board of Governors. Mr. Penske is also a former member of the boards of directors of the Alltel Corporation, International Speedway Corporation and the Southern California Committee for the Olympic Games and the Board of Trustees of the John Thomas Dye School. Mr. Penske holds a BS in Business from Cornell University.

Because of Mr. Penske's experience as the chief executive officer of both public and private companies, as well as his previous service as director of several other publicly traded companies, he is able to provide the board of directors with the perspective of an experienced executive officer and is able to give insight related to the management and operations of a publicly traded company.

**Eric B. Siegel**, 53, has served as a director of the Company since 2004 and has been the lead independent director of the board of directors since 2010. Since 1995, Mr. Siegel has been an independent business consultant providing advice through a limited liability company owned by Mr. Siegel, principally with respect to acquisition strategy and structuring, and the subsequent management of acquired entities. Mr. Siegel is currently a member of the Advisory Board of and consultant to the Milwaukee Brewers Baseball Club and a Director and Chairman of the Executive Committee of El Paso Electric Company, a NYSE publicly traded utility company. Mr. Siegel is also a past member of the boards of directors of a number of public and private companies, including Kerzner International Ltd. until it went private in 2006. Mr. Siegel rejoined the board of Kerzner International Ltd., currently a private company, in 2008. Mr. Siegel is a retired limited partner of



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Apollo Advisors, L.P. and Lion Advisors, L.P., private investment management firms. Mr. Siegel is also a member of the Board of Trustees of the Marlborough School, a member of the board of directors of the Friends of the Los Angeles Saban Free Clinic and a board member of Reprise Theatre Company, a non-profit theatre organization. Mr. Siegel holds his BA *summa cum laude* and Phi Beta Kappa and JD Order of the Coif from the University of California at Los Angeles.

Mr. Siegel's experience practicing as a corporate lawyer provides valuable insight to the board of directors on regulatory and risk management issues. In addition, Mr. Siegel's experience as a partner in investment firms and approximately 20 years of experience serving as a director for both public and private companies provide industry-specific knowledge and expertise to the board of directors.

**Interested Directors**

**Michael J. Arougheti**, 38, has served as President of the Company since May 2004 and as a director of the Company since 2009. Mr. Arougheti joined Ares Management in May 2004 and is a founding member of Ares, where he serves as a member of the Executive Committee of Ares Partners Management Company LLC, which indirectly controls Ares Management LLC, and a Senior Partner in the Ares Global Private Debt Group. Mr. Arougheti also serves as a member of the Investment Committee of Ares Capital Management, the Ares Global Private Debt Investment Committee and the Investment Committee of Ares Capital Europe, Ares' European Private Debt business, and may from time to time serve as an officer, director or principal of entities affiliated with Ares Management or of investment funds managed by Ares Management and its affiliates. From 2001 to 2004, Mr. Arougheti was employed by Royal Bank of Canada, where he was a Managing Partner of the Principal Finance Group of RBC Capital Partners and a member of the firm's Mezzanine Investment Committee. At RBC Capital Partners, Mr. Arougheti oversaw an investment team that originated, managed and monitored a diverse portfolio of middle market leveraged loans, senior and junior subordinated debt, preferred equity and common stock and warrants on behalf of RBC and other third-party institutional investors. Mr. Arougheti joined Royal Bank of Canada in October 2001 from Indosuez Capital, where he was a Principal, responsible for originating, structuring and executing leveraged transactions across a broad range of products and asset classes. Mr. Arougheti sat on the firm's Investment Committee and was also active in the firm's private equity fund investment and its fund of funds program. Prior to joining Indosuez in 1994, Mr. Arougheti worked at Kidder, Peabody & Co., where he was a member of the firm's Mergers and Acquisitions Group. Mr. Arougheti also serves on the boards of directors of Reflexite Corporation, Investor Group Services and Riverspace Arts, a not-for-profit arts organization. Mr. Arougheti received a BA in Ethics, Politics and Economics, *cum laude*, from Yale University. Mr. Arougheti is an interested director because he is the President of the Company, is on the Investment Committee of Ares Capital Management, the Company's investment adviser, and is a member and serves on the Executive Committee of Ares Partners Management Company LLC, which indirectly controls Ares Management, the managing member of the investment adviser.

Mr. Arougheti's depth of experience in investment management, leveraged finance and financial services, as well as his intimate knowledge of the Company's business and operations, gives the board of directors valuable industry-specific knowledge and expertise on these and other matters.

**Antony P. Ressler**, 50, has served as a director of the Company since April 2010. Mr. Ressler co-founded Ares Management in 1997 and is a founding partner of Ares, where he serves on the Executive Committee of Ares Partners Management Company LLC and is a Senior Partner in the Ares Private Equity Group. Mr. Ressler is a Senior Advisor to the Ares Capital Markets Group and also serves on the Investment Committees of funds managed by the Ares Private Equity Group and certain funds managed by the Ares Capital Markets Group. Mr. Ressler may also from time to time serve as an officer, director or principal of entities affiliated with Ares Management or of investment funds managed by Ares Management and its affiliates. Prior to Ares, Mr. Ressler was a co-founder of Apollo Management, L.P. in 1990 and was a member of the original six-member management team.

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Mr. Ressler oversaw and led the capital markets activities of Apollo Management, L.P. and Lion Advisors, L.P. from 1990 until 1997, particularly focusing on high yield bonds, leveraged loans and other fixed income assets. Prior to 1990, Mr. Ressler served as a Senior Vice President in the High Yield Bond Department of Drexel Burnham Lambert Inc., with responsibility for the New Issue/Syndicate Desk. Mr. Ressler currently serves on the board of directors of Air Lease Corporation. Mr. Ressler is also a member of the Executive Committee of the Board of Trustees of the Cedars-Sinai Medical Center, is Finance Chair and a member of the Executive Committee of the Los Angeles County Museum of Art (LACMA), and is Founder and Co-Chairman of the Alliance for College-Ready Public Schools, a high performing group of eighteen charter high schools and middle schools based in Los Angeles. Mr. Ressler is also one of the founding members of the board and Finance Chair of the Painted Turtle Camp, a southern California based organization (affiliated with Paul Newman's Hole in the Wall Association), which was created to serve children dealing with chronic and life threatening illnesses by creating memorable, old-fashioned camping experiences. Mr. Ressler is also a former member of the boards of directors of Allied Waste Industries, Inc. and WCA Waste Corporation. Mr. Ressler received his BSFS from Georgetown University's School of Foreign Service and received his MBA from Columbia University's Graduate School of Business. Mr. Ressler is an interested director because he is a member and serves on the Executive Committee of Ares Partners Management Company LLC.

Mr. Ressler's intimate knowledge of the business and operations of Ares Management and the Company, his extensive experience in the financial industry and as a partner in investment firms and his service as a director of other public companies provides industry-specific knowledge and expertise to the board of directors.

**Robert L. Rosen**, 64, has served as a director of the Company since 2004. Mr. Rosen is managing partner of RLR Capital Partners, which invests principally in the securities of publicly traded North American companies. From 1987 to present, Mr. Rosen has been CEO of RLR Partners, LLC, a private investment firm with interests in financial services, healthcare media and multi-industry companies. Mr. Rosen served from 2003 until 2005 as co-Managing Partner of Dolphin Domestic Fund II. In 1998, Mr. Rosen founded National Financial Partners ("NFP"), an independent distributor of financial services to high net worth individuals and small to medium-sized corporations. He served as NFP's CEO from 1998 to 2000 and as its Chairman until January 2002. From 1989 to 1993, Mr. Rosen was Chairman and CEO of Damon Corporation, a leading healthcare and laboratory testing company that was ultimately sold to Quest Diagnostics. From 1983 to 1987, Mr. Rosen was Vice Chairman of Maxxam Group. Prior to that, Mr. Rosen spent twelve years at Shearson American Express in positions in research, investment banking and senior management, and for two years was Assistant to Sanford Weill, the then Chairman and CEO of Shearson. Mr. Rosen holds an MBA in finance from NYU's Stern School. Mr. Rosen is an interested director because he has entered into a strategic advisory relationship with Ares.

Mr. Rosen's 31 years of experience as a senior executive of financial services, healthcare services and private equity funds brings broad financial industry and specific investment management insight and experience to the board of directors. Mr. Rosen's expertise in finance, which served as the basis for his appointment as an Adjunct Professor of Finance at Fordham University Graduate School of Business, provides valuable knowledge to the board of directors.

**Bennett Rosenthal**, 47, has served as Chairman of our board of directors since 2004. Mr. Rosenthal joined Ares Management in 1998 and is a founding member of Ares, where he serves on the Executive Committee of Ares Partners Management Company LLC and is a Senior Partner in and the co-head of the Ares Private Equity Group. Mr. Rosenthal also serves on the Investment Committee of Ares Capital Management, and may from time to time serve as an officer, director or principal of entities affiliated with Ares Management or of investment funds managed by Ares Management and its affiliates. Prior to joining Ares in 1998, Mr. Rosenthal was Managing Director in

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the Global Leveraged Finance Group of Merrill Lynch where he was a senior member of Merrill Lynch's Leveraged Transaction Commitment Committee. Mr. Rosenthal also serves on the board of directors of several other companies, including: AmeriQual Group, LLC, Aspen Dental Management, Inc., City Ventures, LLC, Hanger Orthopedic Group, Inc., Jacuzzi Brands Corporation, Nortek, Inc., Serta, Inc. and Simmons Bedding Company. Mr. Rosenthal is also a former member of the board of directors of Maidenform Brands, Inc. Mr. Rosenthal graduated *summa cum laude* with a BS in Economics from the University of Pennsylvania's Wharton School of Business where he also received his M.B.A. with distinction. Mr. Rosenthal is an interested director because he is on the Investment Committee of Ares Capital Management, the Company's investment adviser, and is a member and serves on the Executive Committee of Ares Partners Management Company LLC.

Mr. Rosenthal's intimate knowledge of the business and operations of Ares Management, extensive experience in the financial industry as well as the management of private equity and debt investments in particular and experience as a director of other public and private companies not only give the board of directors valuable insight but also position him well to continue to serve as the chairman of our board of directors.

**Executive Officers Who Are Not Directors**

**Joshua M. Bloomstein**, 37, serves as the General Counsel, Vice President and Secretary of the Company. He joined Ares Management in November 2006 and currently serves as the Deputy General Counsel of Ares Management. Mr. Bloomstein may also from time to time serve as an officer, director or principal of entities affiliated with Ares Management or of investment funds managed by Ares Management and its affiliates. From January 2005 to October 2006, Mr. Bloomstein was an associate with Latham & Watkins LLP specializing in leveraged buyouts and private equity investments as well as general partnership and corporate matters. Mr. Bloomstein graduated *magna cum laude* with a BA in Political Science from the State University of New York at Albany and received a JD degree, *magna cum laude*, from the University of Miami School of Law.

**Richard S. Davis**, 52, serves as Treasurer of the Company. He joined Ares Management in June 2006 and currently serves as Chief Operating Officer of Ares Management, and may from time to time serve as an officer, director or principal of entities affiliated with Ares Management or of investment funds managed by Ares Management and its affiliates. From March 2007 to December 2010, Mr. Davis served as the Company's Chief Financial Officer. From December 1997 to May 2006, Mr. Davis was with Arden Realty, Inc., a real estate investment trust and formerly the largest publicly traded owner in Southern California, serving as its Executive Vice President and Chief Financial Officer since July 2000. From 1996 to 1997, Mr. Davis was with Catellus Development Corporation, where he was responsible for accounting and finance for the asset management and development divisions. From 1985 to 1996, Mr. Davis served as a member of the audit staff of both KPMG LLP and Price Waterhouse LLP. Mr. Davis is a Certified Public Accountant (Inactive). Mr. Davis received a BS in Accounting from the University of Missouri at Kansas City.

**Miriam Krieger**, 35, serves as Chief Compliance Officer of the Company. She joined Ares Management in April 2010 and currently serves as Ares Management's Deputy Chief Compliance Officer Private Debt, and may from time to time, service as an officer, director or principal of entities affiliated with Ares Management or of investment funds managed by Ares Management and its affiliates. From August 2008 until joining Ares, Ms. Krieger was Executive Vice President, Chief Compliance Officer and Corporate Secretary of Allied Capital Corporation, a business development company. From March 2008 to August 2008, Ms. Krieger was Senior Vice President of Allied Capital Corporation. Ms. Krieger also served as Senior Vice President and Chief Compliance Officer at MCG Capital Corporation, a business development company, from 2006 to 2008 and Vice President and Assistant General Counsel from 2004 to 2006. From 2001 to 2004, Ms. Krieger was an associate in the Financial Services Group of the law firm of Sutherland Asbill & Brennan LLP. Ms. Krieger graduated

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with a BA in Economics and Political Science from Wellesley College and received a JD and an MA in Economics from Duke University.

**Scott C. Lem**, 33, serves as Assistant Treasurer of the Company. He joined Ares Management in July 2003 and currently serves as Chief Accounting Officer of Ares Capital Management, and may from time to time serve as an officer, director or principal of entities affiliated with Ares Management or of investment funds managed by Ares Management and its affiliates. From July 2003 to December 2008, Mr. Lem served as Controller of Ares Management. Previously, Mr. Lem was with Ernst & Young LLP and Arthur Andersen LLP, most recently as a Senior Associate conducting audits for clients across several industries including entertainment, hospitality and real estate. Mr. Lem graduated *summa cum laude* with a BS in Accounting from the University of Southern California's Leventhal School of Accounting and *summa cum laude* with a BS in Business Administration from the University of Southern California's Marshall School of Business. Mr. Lem has also received an MBA in Finance from UCLA's Anderson School of Management. Mr. Lem is a Certified Public Accountant (Inactive).

**Daniel F. Nguyen**, 39, serves as a Vice President of the Company. He joined Ares Management in August 2000 and currently serves as an Executive Vice President and the Chief Financial Officer of Ares Management. Mr. Nguyen may also from time to time serve as an officer, director or principal of entities affiliated with Ares Management or of investment funds managed by Ares Management and its affiliates. From March 2007 to December 2010, Mr. Nguyen served as Treasurer of the Company and from August 2004 to March 2007, as Chief Financial Officer of the Company. From 1996 to 2000, Mr. Nguyen was with Arthur Andersen LLP, where he was in charge of conducting business audits on numerous financial clients, performing due diligence investigation of potential mergers and acquisitions, and analyzing changes in accounting guidelines for derivatives. At Arthur Andersen LLP, Mr. Nguyen also focused on treasury risk management and on mortgage backed securities and other types of structured financing. Mr. Nguyen graduated with a BS in Accounting from the University of Southern California's Leventhal School of Accounting and received an MBA in Global Business from Pepperdine University's Graziadio School of Business and Management. Mr. Nguyen also studied European Business at Oxford University as part of the MBA curriculum. Mr. Nguyen is a Chartered Financial Analyst and a Certified Public Accountant.

**Penni F. Roll**, 45, serves as the Chief Financial Officer of the Company. She joined Ares Management in April 2010 as Executive Vice President-Finance of Ares Capital Management LLC and may from time to time serve as an officer, director or principal of entities affiliated with Ares Management or of investment funds managed by Ares Management and its affiliates. Ms. Roll served as Chief Financial Officer of Allied Capital Corporation from 1998 until April 2010, when Allied Capital Corporation was acquired by the Company. Ms. Roll joined Allied Capital Corporation in 1995 as its Controller after serving as a Manager in KPMG's financial services practice. Ms. Roll graduated *magna cum laude* with a BSBA in Accounting from West Virginia University.

**Michael D. Weiner**, 58, serves as Vice President of the Company. Mr. Weiner is also Vice President, General Counsel and Secretary of Ares Management, and may from time to time serve as an officer, director or principal of entities affiliated with Ares Management or of investment funds managed by Ares Management and its affiliates. From September 2006 to January 2010, Mr. Weiner served as General Counsel of the Company and from April 2011 to July 2011 Mr. Weiner served as the Company's Chief Compliance Officer on an interim basis. Mr. Weiner joined Ares Management in September 2006. Previously, Mr. Weiner served as General Counsel to Apollo Management L.P. and had been an officer of the corporate general partners of Apollo since 1992. Prior to joining Apollo, Mr. Weiner was a partner in the law firm of Morgan, Lewis & Bockius specializing in corporate and alternative financing transactions, securities law as well as general partnership, corporate and regulatory matters. Mr. Weiner has served and continues to serve on the boards of directors of several corporations, including Hughes Communications, Inc. Mr. Weiner also serves on the Board of Governors of the Cedars Sinai Medical Center in Los Angeles. Mr. Weiner graduated with a BS in Business and Finance from the University of California at Berkeley and a JD from the University of Santa Clara.

Table of Contents**INVESTMENT COMMITTEE**

Information regarding the members of Ares Capital Management's investment committee is as follows:

| <b>Name</b>            | <b>Age</b> | <b>Position</b>  |
|------------------------|------------|--|
| Michael J. Arougheti   | 38         | President and Director of the Company,<br>Member of Investment Committee |
| Eric B. Beckman        | 45         | Member of Investment Committee,<br>Portfolio Manager                     |
| R. Kipp deVeer         | 38         | Member of Investment Committee,<br>Portfolio Manager                     |
| Mitchell Goldstein     | 44         | Member of Investment Committee,<br>Portfolio Manager                     |
| John Kissick           | 69         | Member of Investment Committee   |
| Bennett Rosenthal      | 47         | Chairman and Director of the Company,<br>Member of Investment Committee  |
| David Sachs            | 51         | Member of Investment Committee,<br>Portfolio Manager                     |
| Michael L. Smith       | 40         | Member of Investment Committee,<br>Portfolio Manager                     |
| Kenneth Gordon Watters | 47         | Member of Investment Committee   |

The principal business address for Messrs. Arougheti, de Veer, Goldstein and Smith is c/o Ares Management LLC, 245 Park Avenue, 44<sup>th</sup> Floor, New York, New York 10167. The principal business address for Messrs. Beckman, Kissick, Rosenthal and Sachs is c/o Ares Management LLC, 2000 Avenue of the Stars, 12<sup>th</sup> Floor, Los Angeles, California 90067. The principal business address for Mr. Watters is c/o Ares Management LLC, 1 Finsbury Square, 7<sup>th</sup> Floor, London EC2A 1AE.

**Members of Ares Capital Management's Investment Committee Who Are Not Directors or Officers of the Company**

**Eric B. Beckman** Mr. Beckman joined Ares Management in 1998 and serves as a Senior Partner in the Ares Global Private Debt Group of Ares Management LLC. He is a member of the Investment Committee of Ares Capital Management, the Ares Global Private Debt Group Investment Committee and the Investment Committee of ACE, Ares' European Private Debt business. Before joining the Ares Global Private Debt Group, he served as a Partner in the Ares Private Equity Group and a Principal in Ares' mezzanine and special situations effort. While at Ares Management, he has been responsible for originating, structuring and managing investments in senior loans, mezzanine debt, private equity and distressed securities across a number of industries. Mr. Beckman joined Ares from Goldman, Sachs & Co. where he specialized in leveraged loan and high yield bond financings. While at Goldman Sachs, he was also involved in raising and managing the West Street Bridge Loan Fund, and in certain restructuring advisory and distressed lending activities. Earlier in his career he worked in the Office of the Mayor and for the City Council of New York. Mr. Beckman is the chair of the Los Angeles Advisory Committee and a member of the national board of directors of the Posse Foundation, a college access program for inner city youth. He graduated *summa cum laude* with a BA in Political Theory and Economics from Cornell University, and received his JD from the Yale Law School where he was a senior editor of the *Yale Law Journal*.

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**R. Kipp deVeer** Mr. deVeer joined Ares Management in May 2004 and serves as a Senior Partner in the Global Private Debt Group of Ares Management LLC. He is a member of the Investment Committee of Ares Capital Management and the Ares Global Private Debt Group and is a director and member of the Investment Committee of ACE, Ares' European Private Debt business. Prior to joining Ares Management, Mr. deVeer was a partner at RBC Capital Partners, a division of Royal Bank of Canada, which led the firm's middle-market financing and principal investment business. Mr. deVeer joined RBC in October 2001 from Indosuez Capital, where he was Vice President in the Merchant Banking Group. Mr. deVeer has also worked at J.P. Morgan and Co., both in the Special Investment Group of J.P. Morgan Investment Management, Inc. and the Investment Banking Division of J.P. Morgan Securities Inc. Mr. deVeer received a BA from Yale University and an MBA from Stanford University's Graduate School of Business.

**Mitchell Goldstein** Mr. Goldstein joined Ares Management in May 2005 and serves as a Senior Partner in the Ares Global Private Debt Group. He is a member of the Investment Committee of Ares Capital Management, the Ares Global Private Debt Group Investment Committee and the Investment Committee of ACE, Ares' European Private Debt business. Prior to joining Ares Management, Mr. Goldstein worked at Credit Suisse First Boston, where he was a Managing Director in the Financial Sponsors Group. At CSFB, Mr. Goldstein was responsible for providing investment banking services to private equity funds and hedge funds with a focus on M&A and restructurings as well as capital raisings, including high yield, bank debt, mezzanine debt, and IPOs. Mr. Goldstein joined CSFB in 2000 at the completion of the merger with Donaldson, Lufkin & Jenrette. From 1998 to 2000, Mr. Goldstein was at Indosuez Capital, where he was a member of the Investment Committee and a Principal, responsible for originating, structuring and executing leveraged transactions across a broad range of products and asset classes. From 1993 to 1998, Mr. Goldstein worked at Bankers Trust. Mr. Goldstein graduated *summa cum laude* from the State University of New York at Binghamton with a BS in Accounting, received an MBA from Columbia University's Graduate School of Business and is a Certified Public Accountant.

**John Kissick** Mr. Kissick is a Senior Partner in the Ares Private Equity Group. Mr. Kissick is a Senior Advisor to the Ares Capital Markets Group and also serves on the Investment Committee for all Ares funds. Prior to Ares, Mr. Kissick was a co-founder of Apollo Management, L.P. in 1990 and a member of the original six-member management team. Together with Mr. Ressler, Mr. Kissick oversaw and led the capital markets activities of Apollo Management, L.P. and Lion Advisors, L.P. from 1990 until 1997, particularly focusing on high yield bonds, leveraged loans and other fixed income assets. Prior to 1990, Mr. Kissick served as a Senior Executive Vice President of Drexel Burnham Lambert Inc., where he began in 1975, eventually heading its Corporate Finance Department. Mr. Kissick serves on the boards of the Cedars-Sinai Medical Center in Los Angeles, the Stanford University Athletic Department and its Initiative for Improving K-12 Education, and MLA Partner Schools, which helps economically disadvantaged children graduate from high school through a variety of mentoring and other programs. Mr. Kissick graduated from Yale University with a BA in Economics and with highest honors from the Stanford Business School with an MBA in Finance.

**David Sachs** Mr. Sachs is a Senior Advisor in the Ares Capital Markets Group. Mr. Sachs serves as an Investment Committee member on all Ares Management funds. From 1994 to 1997, Mr. Sachs was a principal of Onyx Partners, Inc. specializing in merchant banking and related capital raising activities in the private equity and mezzanine debt markets. From 1990 to 1994, Mr. Sachs was employed by Taylor & Co., an investment manager providing investment advisory and consulting services to members of the Bass Family of Fort Worth, Texas. From 1984 to 1990, Mr. Sachs was with Columbia Savings and Loan Association, most recently as Executive Vice President, responsible for all asset-liability management as well as running the Investment Management Department. Mr. Sachs serves on the Board of Directors of Terex Corporation. Mr. Sachs serves on the McCormick Advisory

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Council at Northwestern University. Mr. Sachs graduated from Northwestern University with a BS in Industrial Engineering and Management Science.

**Michael L. Smith** Mr. Smith joined Ares Management in May 2004 and serves as a Senior Partner in the Global Private Debt Group of Ares Management LLC. He is a member of the Investment Committee of Ares Capital Management, the Ares Global Private Debt Group Investment Committee and the Investment Committee of ACE, Ares' European Private Debt business. Prior to joining Ares Management, Mr. Smith was a Partner at RBC Capital Partners, a division of Royal Bank of Canada, which led the firm's middle-market financing and principal investment business. Mr. Smith joined RBC in October 2001 from Indosuez Capital, where he was a Vice President in the Merchant Banking Group. Previously, Mr. Smith worked at Kenter, Glasstris & Company, and at Salomon Brothers Inc., in their Debt Capital Markets Group and Financial Institutions Group. Mr. Smith received a BS in Business Administration, *cum laude*, from the University of Notre Dame and a Masters in Management from Northwestern University's Kellogg Graduate School of Management.

**Kenneth Gordon Watters** Mr. Watters joined Ares in June 2007 to establish Ares Capital Europe and presently leads the European operations of the Ares Global Private Debt Group. In 2008, Mr. Watters assumed responsibility for Ares Management Limited, the European arm of the Ares Capital Markets Group with a focus on the broadly syndicated loan market. In addition, Mr. Watters serves as an Investment Committee member on all Ares European Credit Funds. From 1999 to 2007, Mr. Watters served as the Head of the middle-market Financial Sponsors Group at Barclays. During this period Mr. Watters created a full UK and European office network with a diversified product portfolio growing from an initial team of 5 to culminate in a team with more than 100 members. Mr. Watters also oversaw the bank's regional investment programme and was Director of a number of Barclays' investee companies. Prior to joining Barclays in 1999, Mr. Watters was a Director at Credit Lyonnais investment banking division with a specific focus on UK and Iberia. Mr. Watters joined Credit Lyonnais from Bank of Scotland, where he commenced his career in Corporate Banking and Structured Finance. Mr. Watters has extensive corporate banking experience with over 25 years in the industry. A Chartered Banker and Fellow of the Institute Bankers, he is also a Fellow of the Institute of Directors, and graduated with a B.A. (Hons) in Financial Management at Edinburgh Napier University.

#### **BOARD LEADERSHIP STRUCTURE**

Our board of directors monitors and performs an oversight role with respect to the business and affairs of the Company, including with respect to investment practices and performance, compliance with regulatory requirements and the services, expenses and performance of service providers to the Company. Among other things, our board of directors approves the appointment of our investment adviser, administrator and officers, reviews and monitors the services and activities performed by our investment adviser, administrator and officers and approves the engagement, and reviews the performance of, our independent registered public accounting firm.

Under the Company's bylaws, our board of directors may designate a chairman to preside over the meetings of the board of directors and meetings of the stockholders and to perform such other duties as may be assigned to him by the board of directors. We do not have a fixed policy as to whether the chairman of the board of directors should be an independent director and believe that our flexibility to select our chairman and reorganize our leadership structure from time to time is in the best interests of the Company and its stockholders.

Presently, Mr. Rosenthal serves as the chairman of our board of directors. Mr. Rosenthal is an interested director because he is on the investment committee of our investment adviser and is a member of and serves on the Executive Committee of Ares Partners Management Company LLC ("APMC"), the indirect parent of Ares Management, the managing member of our investment adviser. We believe that Mr. Rosenthal's history with the Company, familiarity with the Ares investment

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platform and extensive experience in the management of private equity and debt investments qualifies him to serve as the chairman of our board of directors. Moreover, we believe that we are best served through our existing leadership structure with Mr. Rosenthal as chairman of our board of directors, as Mr. Rosenthal's relationship with our investment adviser provides an effective bridge between our board of directors and our investment adviser, thus ensuring an open dialogue between our board of directors and our investment adviser and that both groups act with a common purpose.

The independent directors have designated a lead independent director whose duties include, among other things, chairing executive sessions of the independent directors, acting as a liaison between the independent directors and the chairman of the board of directors and between the independent directors and management, facilitating communication among the independent directors and the Company's counsel, reviewing and commenting on board and committee meeting agendas and calling additional meetings of the independent directors as appropriate. In August 2010, the board of directors designated and appointed Mr. Siegel as the lead independent director and Mr. Siegel has served as lead independent director since that time.

We believe that board leadership structures must be evaluated on a case by case basis and that our existing board leadership structure is appropriate. However, we re-examine our corporate governance policies on an ongoing basis to ensure that they continue to meet the Company's needs.

**BOARD'S ROLE IN RISK OVERSIGHT**

Our board of directors performs its risk oversight function primarily through (a) its two standing committees, which report to the entire board of directors and are comprised solely of independent directors and (b) monitoring by our Chief Compliance Officer in accordance with our compliance policies and procedures.

As described below in more detail under "Committees of the Board of Directors," the audit committee and the nominating and governance committee assist the board of directors in fulfilling its risk oversight responsibilities. The audit committee's risk oversight responsibilities include overseeing the Company's accounting and financial reporting processes, the Company's systems of internal controls regarding finance and accounting and audits of the Company's financial statements and discussing with management the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies. The nominating and governance committee's risk oversight responsibilities include selecting, researching and nominating directors for election by our stockholders, developing and recommending to our board of directors a set of corporate governance principles and overseeing the evaluation of our board of directors and its committees. Both the audit committee and the nominating and governance committee consist solely of independent directors.

Our board of directors also performs its risk oversight responsibilities with the assistance of the Chief Compliance Officer. Our Chief Compliance Officer prepares a written report annually discussing the adequacy and effectiveness of the compliance policies and procedures of the Company and certain of its service providers. The Chief Compliance Officer's report, which is reviewed by our board of directors, addresses at a minimum (a) the operation of the compliance policies and procedures of the Company and certain of its service providers since the last report; (b) any material changes to such policies and procedures since the last report; (c) any recommendations for material changes to such policies and procedures as a result of the Chief Compliance Officer's annual review; and (d) any compliance matter that has occurred since the date of the last report about which our board of directors would reasonably need to know to oversee the Company's compliance activities and risks. In addition, the Chief Compliance Officer meets separately in executive session with the independent directors periodically, but in no event less than once each year.



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We believe that our board of directors' role in risk oversight is effective and appropriate given the extensive regulation to which we are already subject as a BDC. Specifically, as a BDC we must comply with certain regulatory requirements that control the levels of risk in our business and operations. For example, our ability to incur indebtedness is limited such that our asset coverage must equal at least 200% immediately after each time we incur indebtedness, we generally have to invest at least 70% of our total assets in "qualifying assets" and, subject to certain exceptions, we are not generally permitted to invest in any portfolio company in which Ares or any of its affiliates currently has an investment. See "Regulation." In addition, we have elected to be treated as a RIC under Subchapter M of the Code. As a RIC we must, among other things, meet certain income source and asset diversification requirements. See "Certain Material U.S. Federal Income Tax Considerations."

We believe that the extent of our board of directors' (and its committees') role in risk oversight complements our board of directors' leadership structure because it allows our independent directors, through the two fully independent board committees, a lead independent director, executive sessions with the Chief Compliance Officer, auditor and independent valuation providers and otherwise, to exercise oversight of risk without any conflict that might discourage critical review.

We believe that our board of directors' role in risk oversight must be evaluated on a case by case basis and that our existing board of directors' role in risk oversight is appropriate. However, we re-examine the manner in which the board of directors administers its oversight function on an ongoing basis to ensure that it continues to meet the Company's needs.

## **COMMITTEES OF THE BOARD OF DIRECTORS**

Our board of directors has established an audit committee and a nominating and governance committee. We do not have a compensation committee because our executive officers do not receive any direct compensation from us. During 2010, the board of directors held 18 formal meetings, the audit committee held six formal meetings and the nominating and governance committee held three formal meetings. We encourage, but do not require, the directors to attend our annual meeting of stockholders.

### **Audit Committee**

The members of the audit committee are Ms. Bates and Messrs. O'Bryan and Siegel, each of whom is independent for purposes of the Investment Company Act and The NASDAQ Global Select Market's corporate governance regulations. Ms. Bates currently serves as chairperson of the audit committee. The board of directors has adopted a charter for the audit committee, which is available on our website at [www.arescapitalcorp.com](http://www.arescapitalcorp.com). The contents of our website are not intended to be incorporated by reference into this prospectus or in any other report or document we file with the SEC, and any references to our website are intended to be inactive textual references only.

The audit committee is responsible for approving our independent accountants and recommending them to our board of directors (including a majority of the independent directors) for approval and submission to our stockholders for ratification, reviewing with our independent accountants the plans and results of the audit engagement, approving professional services provided by our independent accountants, reviewing the independence of our independent accountants and reviewing the adequacy of our internal accounting controls.

The audit committee is also responsible for aiding our board of directors in determining the fair value of debt and equity securities that are not publicly traded or for which current market values are not readily available. The audit committee also currently receives input from independent valuation firms that have been engaged at the direction of the board of directors to value certain portfolio investments. In addition, the audit committee is responsible for discussing with management the

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Company's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies.

Our board of directors has determined that Ms. Bates and Mr. O'Bryan are each an "audit committee financial expert" within the meaning of the rules of the SEC.

**Nominating and Governance Committee**

The members of the nominating and governance committee are Messrs. O'Bryan, Penske and Siegel, each of whom is independent for purposes of the Investment Company Act and The NASDAQ Global Select Market's corporate governance regulations. Mr. Penske currently serves as chairman of the nominating and governance committee. Mr. Siegel served as chairman of the nominating and governance committee until August 2010. Our board of directors has adopted a charter for the nominating and governance committee, which is available on our website at [www.arescapitalcorp.com](http://www.arescapitalcorp.com). The nominating and governance committee is responsible for selecting, researching and nominating directors for election by our stockholders, selecting nominees to fill vacancies on the board or a committee of the board, developing and recommending to the board a set of corporate governance principles and overseeing the evaluation of the board and its committees.

In considering possible candidates for election as a director, the nominating and governance committee takes into account, in addition to such other factors as it deems relevant, the desirability of selecting directors who:

are of high character and integrity;

are accomplished in their respective fields, with superior credentials and recognition;

have relevant expertise and experience upon which to be able to offer advice and guidance to management;

have sufficient time available to devote to the affairs of the Company;

are able to work with the other members of the board of directors and contribute to the success of the Company;

can represent the long-term interests of the Company's stockholders as a whole; and

are selected such that the board of directors represents a range of backgrounds and experience.

The nominating and governance committee may consider recommendations for nomination of directors from our stockholders. Nominations made by stockholders must be delivered to or mailed (setting forth the information required by our bylaws) and received at our principal executive offices not earlier than 150 days nor fewer than 120 days in advance of the first anniversary of the date on which we first mailed our proxy materials for the previous year's annual meeting of stockholders; *provided, however*, that if the date of the annual meeting has changed by more than 30 days from the prior year, the nomination must be received not earlier than the 150th day prior to the date of such annual meeting nor later than the later of (1) the 120th day prior to the date of such annual meeting or (2) the 10th day following the day on which public announcement of such meeting date is first made.

**Compensation Committee**

We do not have a compensation committee because our executive officers do not receive any direct compensation from us. However, the compensation payable to our investment adviser pursuant to the investment advisory and management agreement is separately approved by a majority of our independent directors in accordance with NASDAQ Marketplace Rule 5605(d).



Table of Contents**BENEFICIAL OWNERSHIP OF OUR DIRECTORS**

The following table sets forth the dollar range of our equity securities based on the closing price of our common stock on July 18, 2011 and the number of shares beneficially owned by each of our directors as of December 31, 2010. We are not part of a "family of investment companies," as that term is defined in the Investment Company Act.

| Name of Director                | Aggregate Dollar Range<br>of Equity Securities<br>in Ares Capital(1)(2) |
|---------------------------------|---|
| <b>Independent Directors(3)</b> |   |
| Ann Torre Bates                 | Over \$100,000  |
| Kenneth R. Heitz                | None  |
| Frank E. O'Bryan                | Over \$100,000  |
| Gregory W. Penske               | None  |
| Eric B. Siegel                  | Over \$100,000  |
| <b>Interested Directors</b>     |   |
| Michael J. Arougheti(4)         | Over \$100,000  |
| Antony P. Ressler(4)            | Over \$100,000  |
| Robert L. Rosen                 | Over \$100,000  |
| Bennett Rosenthal(4)            | None  |

- (1) The dollar ranges are as follows: none, \$1-\$10,000, \$10,001-\$50,000, \$50,001-\$100,000 or over \$100,000. The dollar range of our equity securities beneficially owned is calculated based on the closing sales price of our common stock as reported on The NASDAQ Global Select Market as of July 18, 2011.
- (2) Beneficial ownership determined in accordance with Rule 16a-1(a)(2) under the Exchange Act.
- (3) As of December 31, 2010, to the best of our knowledge, except as listed above, none of the independent directors, nor any of their immediate family members, had any interest in us, our investment adviser or any person or entity directly or indirectly controlling, controlled by or under common control with us or our investment adviser.
- (4) Ares Investments Holding LLC ("Ares Investments"), whose indirect parent is APMC, owned 2,859,882 shares of our common stock as of December 31, 2010. APMC is managed by an executive committee comprised of Messrs. Arougheti, David Kaplan, Gregory Margolies, Ressler and Rosenthal. Each of the members of the executive committee disclaims beneficial ownership of all shares of our common stock owned by Ares Investments, except to the extent of any indirect pecuniary interest therein. The shares of our common stock held by Ares Investments have been pledged in the ordinary course to secure indebtedness under a credit facility under which Ares Investments is a co-borrower with Ares Management.

Table of Contents**COMPENSATION TABLE**

The following table shows information regarding the compensation received by our directors, none of whom is our employee, for the fiscal year ended December 31, 2010. No compensation is paid by us to interested directors. No information has been provided with respect to our executive officers who are not directors, since our executive officers do not receive any direct compensation from us.

| <b>Name</b>                  | <b>Fees Earned or<br/>Paid in Cash(1)</b> | <b>Total</b> |
|------------------------------|---|--------------|
| <b>Independent Directors</b> |   |              |
| Ann Torre Bates              | \$ 72,000                                 | \$ 72,000    |
| Frank E. O'Bryan             | \$ 135,000                                | \$ 135,000   |
| Kenneth R. Heitz(2)          | None                                      | None         |
| Gregory W. Penske            | \$ 130,000                                | \$ 130,000   |
| Eric B. Siegel               | \$ 145,000                                | \$ 145,000   |
| <b>Interested Directors</b>  |   |              |
| Michael J. Arougheti         | None                                      | None         |
| Antony P. Ressler            | None                                      | None         |
| Robert L. Rosen(3)           | None                                      | None         |
| Bennett Rosenthal            | None                                      | None         |

(1) For a discussion of the independent directors' compensation, see below.

(2) Mr. Heitz became a director in June 2011.

(3) While Mr. Rosen did not receive any compensation from us for the fiscal year ended December 31, 2010, he did receive \$126,000 from Ares Management for such period in connection with his service as our director.

The independent directors receive an annual fee of \$100,000. They also receive \$2,500 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each board meeting and receive \$1,000 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each committee meeting. In addition, the chairperson of the audit committee receives an additional annual fee of \$5,000, the lead independent director receives an additional annual fee of \$10,000, and each chairperson of any other committee receives an additional annual fee of \$2,000 for his or her additional services in these capacities. In addition, we purchase directors' and officers' liability insurance on behalf of our directors and officers.

Table of Contents**PORTFOLIO MANAGERS**

The following individuals function as portfolio managers primarily responsible for the day-to-day management of our portfolio. The portfolio managers are comprised of (a) the underwriting committee, whose primary responsibility is to recommend investments for approval to the Investment Committee of Ares Capital Management and (b) members of the Investment Committee of Ares Capital Management who are not otherwise on the underwriting committee.

| <b>Name</b>          | <b>Position</b>                                  | <b>Length of Service with Ares (years)</b> | <b>Principal Occupation(s) During Past 5 Years</b>   |
|----------------------|--|--|--|
| Michael J. Arougheti | President and Director of the Company            | 7  | Mr. Arougheti has served as President of the Company since May 2004 and a director of the Company since February 2009. He is a founding member of Ares, where he serves as a member of the Executive Committee of APMC, and a Senior Partner in the Ares Global Private Debt Group. Mr. Arougheti also serves as a member of the Investment Committee of Ares Capital Management, the Ares Global Private Debt Group Investment Committee and the Investment Committee of ACE, Ares' European Private Debt business. |
| Eric B. Beckman      | Senior Partner in Ares Global Private Debt Group | 13   | Mr. Beckman joined Ares Management in 1998 and serves as a Senior Partner in the Ares Global Private Debt Group. He is a member of the Investment Committee of Ares Capital Management, the Ares Global Private Debt Group Investment Committee and the Investment Committee of ACE. Before joining the Ares Global Private Debt Group, Mr. Beckman served as a Senior Partner of the Ares Private Equity Group and Principal in Ares' mezzanine and special situations efforts.                                     |
| R. Kipp deVeer       | Senior Partner in Ares Global Private Debt Group | 7  | Mr. deVeer joined Ares Management in May 2004 and serves as a Senior Partner in the Ares Global Private Debt Group. He is a member of the Investment Committee of Ares Capital Management, the Ares Global Private Debt Group Investment Committee and the Investment Committee of ACE.  |

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| <b>Name</b>        | <b>Position</b>  | <b>Length of Service with Ares (years)</b> | <b>Principal Occupation(s) During Past 5 Years</b>  |
|--------------------|--|--|---|
| Mitchell Goldstein | Senior Partner in Ares Global Private Debt Group   | 6  | Mr. Goldstein joined Ares Management in May 2005 and serves as a Senior Partner in the Ares Global Private Debt Group. He is a member of the Investment Committee of Ares Capital Management and the Ares Global Private Debt Group and is a director and member of the Investment Committee of ACE. Prior to joining Ares Management, Mr. Goldstein worked at Credit Suisse ("CS"), where he was a Managing Director in the Financial Sponsors Group. Mr. Goldstein joined CS in 2000 at the completion of the merger with Donaldson, Lufkin & Jenrette. |
| John Kissick       | Senior Partner in Ares Private Equity Group  | 14   | Mr. Kissick serves as a Senior Partner in the Ares Private Equity Group of Ares Management. Mr. Kissick is a Senior Advisor to the Ares Capital Markets Group of Ares Management and serves on the Investment Committee for all Ares funds.   |
| Bennett Rosenthal  | Chairman of the board of directors of the Company; Senior Partner in Ares Private Equity Group | 14   | Mr. Rosenthal has served as Chairman of the Company's board of directors since 2004. He joined Ares in 1998 and is a founding member of Ares, where he serves on the Executive Committee of APMC, and is a Senior Partner in and the co-head of the Ares Private Equity Group. Mr. Rosenthal also serves on the Investment Committee of Ares Capital Management.  |
| David Sachs        | Senior Advisor to Ares Capital Markets Group   | 14   | Mr. Sachs serves as a Senior Advisor to the Ares Capital Markets Group of Ares. Mr. Sachs serves on the Investment Committee of Ares Capital Management and all Ares funds.   |
| Michael L. Smith   | Senior Partner in Ares Global Private Debt Group   | 7  | Mr. Smith joined Ares Management in May 2004 and serves as a Senior Partner in the Global Private Debt Group of Ares Management. He is a member of the Investment Committee of Ares Capital Management, the Ares Global Private Debt Group Investment Committee and the Investment Committee of ACE.  |

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| Name                   | Position   | Length of Service with Ares (years) | Principal Occupation(s) During Past 5 Years  |
|------------------------|--|-------------------------------------|--|
| Kenneth Gordon Watters | Senior Partner in Ares Global Private Debt Group | 4                                   | Mr. Watters joined Ares Management in 2007 and serves as a Senior Partner in the Ares Global Private Debt Group and a member of the Investment Committee of all Ares European Credit Funds. Mr. Watters is also a member of the Investment Committee of Ares Capital Management, the Ares Global Private Debt Group Investment Committee and the Investment Committee of ACE. Previously, Mr. Watters was with Barclays where he served as the Head of the middle-market Financial Sponsors Group over which he had responsibility for a one hundred person staff across various teams within the U.K. and Europe. |

None of the individuals listed above is primarily responsible for the day-to-day management of the portfolio of any other account, except that:

Messrs. Kissick and Rosenthal are each Senior Partners of Ares with significant responsibilities for other Ares managed funds, which as of March 31, 2011 had approximately \$40 billion (including the Company) of committed capital under management, a portion of which is used to calculate Ares' advisory fees related to such funds; and

Messrs. Arougheti, Beckman, deVeer, Goldstein, Smith and Watters are each Senior Partners of Ares Global Private Debt Group. Mr. Watters has primary responsibility for management of ACE and all such individuals have responsibilities with respect to certain managed accounts, which as of March 31, 2011 had approximately \$15 billion (including the Company) of committed capital under management, a portion of which is used to calculate advisory fees related to the investment services provided by the group.

See "Risk Factors Risks Relating to Our Business There are significant potential conflicts of interest that could impact our investment returns."

Each of Messrs. Arougheti, Beckman, deVeer, Goldstein and Smith is equally responsible for deal origination, execution and portfolio management. Mr. Arougheti, as our President, however, spends a greater amount of his time on corporate and administrative activities in his role as an officer. Each of Messrs. Arougheti, Beckman, deVeer, Goldstein and Smith is a senior partner in Ares Global Private Debt Group and receives a compensation package that includes some combination of fixed draw and variable incentive compensation based primarily on our performance for services provided. None of the portfolio managers receives any direct compensation from us.



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The following table sets forth the dollar range of our equity securities based on the closing price of our common stock on July 18, 2011 and the number of shares beneficially owned by each of the portfolio managers described above as of December 31, 2010 unless otherwise indicated below.

| Name                   | Aggregate Dollar Range of Equity Securities<br>in Ares Capital(1) |
|------------------------|---|
| Michael J. Arougheti   | Over \$1,000,000(2)   |
| Eric B. Beckman        | Over \$1,000,000  |
| R. Kipp deVeer         | \$100,001-\$500,000   |
| Mitchell Goldstein     | \$500,001-\$1,000,000   |
| John Kissick           | None  |
| Bennett Rosenthal      | None(2)   |
| David Sachs            | \$100,001-\$500,000   |
| Michael L. Smith       | Over \$1,000,000  |
| Kenneth Gordon Watters | None  |

(1) Dollar ranges are as follows: none, \$1-\$10,000, \$10,001-\$50,000, \$50,001-\$100,000, \$100,001-\$500,000, \$500,001-\$1,000,000 or over \$1,000,000.

(2) Ares Investments, whose indirect parent is APMC, owned 2,859,882 shares of our common stock as of December 31, 2010. APMC is managed by an executive committee comprised of Messrs. Arougheti, Kaplan, Margolies, Ressler and Rosenthal. Each of the members of the executive committee disclaims beneficial ownership of all shares of our common stock owned by Ares Investments, except to the extent of any indirect pecuniary interest therein. The shares of our common stock held by Ares Investments have been pledged in the ordinary course to secure indebtedness under a credit facility under which Ares Investments is a co-borrower with Ares Management.

### **INVESTMENT ADVISORY AND MANAGEMENT AGREEMENT**

#### **Management Services**

Ares Capital Management serves as our investment adviser and is registered as an investment adviser under the Advisers Act. Subject to the overall supervision of our board of directors, our investment adviser manages the day-to-day operations of, and provides investment advisory and management services to, Ares Capital. Under the terms of the investment advisory and management agreement, Ares Capital Management:

determines the composition of our portfolio, the nature and timing of the changes to our portfolio and the manner of implementing such changes;

identifies, evaluates and negotiates the structure of the investments we make (including performing due diligence on our prospective portfolio companies);

closes and monitors the investments we make;

determines the investments and other assets that we purchase, retain or sell; and

provides us with such other investment advisory and research and related services as we may from time to time reasonably require.

Our investment adviser's services to us under the investment advisory and management agreement are not exclusive, and it is free to furnish similar services to other entities. Similarly, affiliates of our investment adviser may directly or indirectly manage funds or other

investment vehicles with investment objectives similar to ours. Accordingly, we may compete with these Ares funds or other investment vehicles managed by our investment adviser and its affiliates for capital and investment

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opportunities. Ares Capital Management endeavors to allocate investment opportunities in a fair and equitable manner, and in any event consistent with any fiduciary duties owed to Ares Capital. Nevertheless, it is possible that we may not be given the opportunity to participate in certain investments made by investment funds or other investment vehicles managed by Ares Capital Management or its affiliates.

The sole member of Ares Capital Management is Ares Management, a global alternative asset manager and SEC registered investment adviser. Ares funds, including funds managed by Ares, had, as of March 31, 2011, approximately \$40 billion of total committed capital under management.

**Management Fee**

Pursuant to the investment advisory and management agreement and subject to the overall supervision of our board of directors, our investment adviser provides investment advisory and management services to us. For providing these services, our investment adviser receives a fee from us consisting of two components a base management fee and an incentive fee. Ares Capital Management has committed to defer up to \$15 million in base management and incentive fees for each of the fiscal years ending December 31, 2010 and 2011 if certain earnings targets are not met.

The base management fee is calculated at an annual rate of 1.5% based on the average value of our total assets (other than cash or cash equivalents but including assets purchased with borrowed funds) at the end of the two most recently completed calendar quarters. The base management fee is payable quarterly in arrears.

**Incentive Fee**

The incentive fee has two parts. The first part is calculated and payable quarterly in arrears based on our pre-incentive fee net investment income for the quarter. Pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees such as commitment, origination, structuring, diligence and consulting fees or other fees that we receive from portfolio companies but excluding fees for providing managerial assistance) accrued during the calendar quarter, minus operating expenses for the quarter (including the base management fee, any expenses payable under the administration agreement, and any interest expense and dividends paid on any outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature such as market discount, debt instruments with PIK interest, preferred stock with PIK dividends and zero coupon securities, accrued income that we have not yet received in cash. Our investment adviser is not under any obligation to reimburse us for any part of the incentive fee it received that was based on accrued interest that we never actually receive. See "Risk Factors Risks Relating to Our Business There are significant potential conflicts of interest that could impact our investment returns" and "Risk Factors Risks Relating to Our Business We may be obligated to pay our investment adviser incentive compensation even if we incur a loss."

Pre-incentive fee net investment income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Because of the structure of the incentive fee, it is possible that we may pay an incentive fee in a quarter where we incur a loss. For example, if we receive pre-incentive fee net investment income in excess of the hurdle rate (as defined below) for a quarter, we will pay the applicable incentive fee even if we have incurred a loss in that quarter due to realized and/or unrealized capital losses.

Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets (defined as total assets less indebtedness and before taking into account any incentive fees payable during the period) at the end of the immediately preceding calendar quarter, is compared to a fixed "hurdle rate" of 1.75% per quarter. If market credit spreads rise, we may be able to invest our

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funds in debt instruments that provide for a higher return, which may increase our pre-incentive fee net investment income and make it easier for our investment adviser to surpass the fixed hurdle rate and receive an incentive fee based on such net investment income. To the extent we have retained pre-incentive fee net investment income that has been used to calculate this part of the incentive fee, it is also included in the amount of our total assets (other than cash and cash equivalents but including assets purchased with borrowed funds) used to calculate the 1.5% base management fee.

We pay our investment adviser an incentive fee with respect to our pre-incentive fee net investment income in each calendar quarter as follows:

no incentive fee in any calendar quarter in which our pre-incentive fee net investment income does not exceed the hurdle rate;

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 rate but is less than 2.1875% in any calendar quarter. We refer to this portion of our pre-incentive fee net investment income (which exceeds the hurdle rate but is less than 2.1875%) as the "catch-up" provision. The catch-up is meant to provide our investment adviser with 20% of the pre-incentive fee net investment income as if a hurdle rate did not apply if this net investment income exceeded 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.

These calculations are adjusted for any share issuances or repurchases during the quarter.

The following is a graphical representation of the calculation of the income-related portion of the incentive fee:

**Quarterly Incentive Fee Based on Net Investment Income**

**Pre-incentive fee net investment income  
(expressed as a percentage of the value of net assets)**

**Percentage of pre-incentive fee net investment income  
allocated to income-related portion of incentive fee**

These calculations will be appropriately pro rated for any period of less than three months and adjusted for any share issuances or repurchases during the current quarter.

The Capital Gains Fee is determined and payable in arrears as of the end of each calendar year (or, upon termination of our investment advisory and management agreement, as of the termination date) and is calculated at the end of each applicable year by subtracting (a) the sum of our cumulative aggregate realized capital losses and aggregate unrealized capital depreciation from (b) our cumulative aggregate realized capital gains, in each case calculated from October 8, 2004. Realized capital gains and losses include gains and losses on investments and foreign currencies, as well as gains and losses on extinguishment of debt and other assets. If such amount is positive at the end of such year, then the Capital Gains Fee for such year is equal to 20% of such amount, less the aggregate amount of Capital Gains Fees paid in all prior years. If such amount is negative, then there is no Capital Gains Fee for such year.

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The cumulative aggregate realized capital gains are calculated as the sum of the differences, if positive, between (a) the net sales price of each investment in our portfolio when sold and (b) the accreted or amortized cost basis of such investment.

The cumulative aggregate realized capital losses are calculated as the sum of the amounts by which (a) the net sales price of each investment in our portfolio when sold is less than (b) the accreted or amortized cost basis of such investment.

The aggregate unrealized capital depreciation is calculated as the sum of the differences, if negative, between (a) the valuation of each investment in our portfolio as of the applicable Capital Gains Fee calculation date and (b) the accreted or amortized cost basis of such investment.

If we are required by GAAP to record an investment at its fair value as of the time of acquisition instead of at the actual amount paid for such investment by us (including, for example, as a result of the application of the acquisition method of accounting), then solely for the purposes of calculating the Capital Gains Fee, the "accreted or amortized cost basis" of an investment shall be an amount (the "Contractual Cost Basis") equal to (1)(x) the actual amount paid by us for such investment plus (y) any amounts recorded in our financial statements as required by GAAP that are attributable to the accretion of such investment plus (z) any other adjustments made to the cost basis included in our financial statements, including payment-in-kind interest or additional amounts funded (net of repayments) minus (2) any amounts recorded in our financial statements as required by GAAP that are attributable to the amortization of such investment, whether such calculated Contractual Cost Basis is higher or lower than the fair value of such investment (as determined in accordance with GAAP) at the time of acquisition.

We defer cash payment of any incentive fee otherwise earned by our investment adviser if, during the most recent four full calendar quarter period ending on or prior to the date such payment is to be made, the sum of (a) the aggregate distributions to our stockholders and (b) the change in net assets (defined as total assets less indebtedness and before taking into account any incentive fees payable during the period) is less than 7.0% of our net assets (defined as total assets less indebtedness) at the beginning of such period. These calculations are adjusted for any share issuances or repurchases. Any deferred incentive fees are carried over for payment in subsequent calculation periods to the extent such payment is payable under our investment advisory and management agreement.

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**Examples of Quarterly Incentive Fee Calculation**

**Example 1 Income Related Portion of Incentive Fee(1):**

*Assumptions*

Hurdle rate(2) = 1.75%

Management fee(3) = 0.375%

Other expenses (legal, accounting, custodian, transfer agent, etc.)(4) = 0.20%

**Alternative 1**

*Additional Assumptions*

Investment income (including interest, dividends, fees, etc.) = 1.25%

Pre-incentive fee net investment income (investment income - (management fee + other expenses)) = 0.675%

Pre-incentive fee net investment income does not exceed the hurdle rate, therefore there is no incentive fee.

- (1) The hypothetical amount of pre-incentive fee net investment income shown is based on a percentage of total net assets. In addition, the example assumes that during the most recent four full calendar quarter period ending on or prior to the date the payment set forth in the example is to be made, the sum of (a) our aggregate distributions to our stockholders and (b) our change in net assets (defined as total assets less indebtedness and before taking into account any incentive fees payable during the period) is at least 7% of our net assets (defined as total assets less indebtedness) at the beginning of such period (as adjusted for any share issuances or repurchases).
- (2) Represents a quarter of the 7.0% annualized hurdle rate.
- (3) Represents a quarter of the 1.5% annualized management fee.
- (4) Excludes offering expenses.

**Alternative 2**

*Additional Assumptions*

Investment income (including interest, dividends, fees, etc.) = 2.70%

Pre-incentive fee net investment income (investment income - (management fee + other expenses)) = 2.125%  
 Pre-incentive fee net investment income exceeds hurdle rate, therefore there is an incentive fee.

Incentive Fee =  $100\% \times \text{"Catch-Up"}$  + the greater of 0% **AND**  $(20\% \times (\text{pre-incentive fee net investment income} - 2.1875\%))$

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$$\begin{aligned} &= (100\% \times (2.125\% - 1.75\%)) + 0\% \\ &= 100\% \times 0.375\% \\ &= 0.375\% \end{aligned}$$

**Alternative 3**

*Additional Assumptions*

Investment income (including interest, dividends, fees, etc.) = 3.50%

Pre-incentive fee net investment income (investment income - (management fee + other expenses)) = 2.925%

Pre-incentive fee net investment income exceeds hurdle rate, therefore there is an incentive fee.

$$\begin{aligned} \text{Incentive Fee} &= 100\% \times \text{"Catch-Up"} + \text{the greater of } 0\% \text{ AND } (20\% \times (\text{pre-incentive fee net investment income} \\ &\quad - 2.1875\%)) \\ &= (100\% \times (2.1875\% - 1.75\%)) + (20\% \times (2.925\% - 2.1875\%)) \\ &= 0.4375\% + (20\% \times 0.7375\%) \\ &= 0.4375\% + 0.1475\% \\ &= 0.585\% \end{aligned}$$

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**Example 2 Capital Gains Portion of Incentive Fee:**

**Alternative 1:**

*Assumptions*

Year 1: \$20 million investment made in Company A ("Investment A"), and \$30 million investment made in Company B ("Investment B")

Year 2: Investment A is sold for \$50 million and fair value ("FV") of Investment B determined to be \$32 million

Year 3: FV of Investment B determined to be \$25 million

Year 4: Investment B sold for \$31 million

The capital gains portion of the incentive fee, if any, would be:

Year 1: None (No sales transactions)

Year 2: \$6 million (20% multiplied by \$30 million realized capital gains on sale of Investment A)

Year 3: None; \$5 million (20% multiplied by (\$30 million realized cumulative capital gains less \$5 million cumulative capital depreciation)) less \$6 million (previous Capital Gains Fee paid in Year 2)

Year 4: \$200,000; \$6.2 million (20% multiplied by \$31 million cumulative realized capital gains) less \$6 million (Capital Gains Fee paid in Year 2)

**Alternative 2**

*Assumptions*

Year 1: \$20 million investment made in Company A ("Investment A"), \$30 million investment made in Company B ("Investment B") and \$25 million investment made in Company C ("Investment C")

Year 2: Investment A sold for \$50 million, FV of Investment B determined to be \$25 million and FV of Investment C determined to be \$25 million

Year 3: FV of Investment B determined to be \$27 million and Investment C sold for \$30 million

Year 4: FV of Investment B determined to be \$35 million

Year 5: Investment B sold for \$20 million

The capital gains portion of the incentive fee, if any, would be:

Year 1: None (No sales transactions)

Year 2: \$5 million (20% multiplied by \$25 million (\$30 million realized capital gains on Investment A less \$5 million unrealized capital depreciation on Investment B))

Year 3: \$1.4 million (\$6.4 million (20% multiplied by \$32 million (\$35 million cumulative realized capital gains less \$3 million unrealized capital depreciation)) less \$5 million (Capital Gains Fee paid in Year 2))

Year 4: None (No sales transactions)



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Year 5: None (\$5 million (20% multiplied by \$25 million (cumulative realized capital gains of \$35 million less realized capital losses of \$10 million)) less \$6.4 million (cumulative Capital Gains Fee paid in Year 2 and Year 3))

For the three months ended March 31, 2011, we incurred \$16.7 million in base management fees and \$15.8 million in incentive management fees related to pre-incentive fee net investment income. The incentive management fees related to realized capital gains as calculated under the investment advisory and management agreement for the three months ended March 31, 2011 was \$0. In accordance with GAAP, the Company accrued a capital gains incentive fee of \$15.1 million for the three months ended March 31, 2011. GAAP requires that the capital gains incentive fee accrual consider the cumulative aggregate unrealized capital appreciation in the calculation, as a capital gains incentive fee would be payable if such unrealized capital appreciation were realized, even though such unrealized capital appreciation is not permitted to be considered in calculating the fee actually payable under the investment advisory and management agreement. The GAAP accrual is calculated using the

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aggregate cumulative realized capital gains and losses and aggregate cumulative unrealized capital depreciation included in the calculation of the Capital Gains Fee plus the aggregate cumulative unrealized capital appreciation. If such amount is positive at the end of a period, then GAAP requires us to record a capital gains incentive fee equal to 20% of such amount, less the aggregate amount of actual Capital Gains Fees paid in all prior years. If such amount is negative, then there is no accrual for such year. There can be no assurance that such unrealized capital appreciation will be realized in the future.

For the year ended December 31, 2010, we incurred \$52.0 million in base management fees, \$61.3 million in incentive management fees related to pre-incentive fee net investment income and no incentive management fees related to realized capital gains under the investment advisory and management agreement. In accordance with GAAP, the Company accrued a capital gains incentive fee of \$15.6 million for the year ended December 31, 2010.

For the year ended December 31, 2009, we incurred \$30.4 million in base management fees, \$33.3 million in incentive management fees related to pre-incentive fee net investment income and no incentive management fees related to realized capital gains under the investment advisory and management agreement.

For the year ended December 31, 2008, we incurred \$30.5 million in base management fees, \$31.7 million in incentive management fees related to pre-incentive fee net investment income and no incentive management fees related to realized capital gains under the investment advisory and management agreement.

**Payment of Our Expenses**

The services of all investment professionals and staff of our investment adviser, when and to the extent engaged in providing investment advisory and management services to us and routine overhead expenses of such personnel allocable to such services, are provided and paid for by our investment adviser. We bear all other costs and expenses of our operations and transactions, including, but not limited to, those relating to: rent; organization; calculation of our net asset value (including, but not limited to, the cost and expenses of any independent valuation firm); expenses incurred by our investment adviser payable to third parties, including agents, consultants or other advisers, in monitoring our financial and legal affairs and in monitoring our investments and performing due diligence on our prospective portfolio companies; interest payable on indebtedness, if any, incurred to finance our investments; offerings of our common stock and other securities; investment advisory and management fees; administration fees; fees payable to third parties, including agents, consultants or other advisers, relating to, or associated with, evaluating and making investments; transfer agent and custodial fees; registration fees; listing fees; taxes; independent directors' fees and expenses; costs of preparing and filing reports or other documents with the SEC; the costs of any reports, proxy statements or other notices to stockholders, including printing costs; to the extent we are covered by any joint insurance policies, our allocable portion of the insurance premiums for such policies; direct costs and expenses of administration, including auditor and legal costs; and all other expenses incurred by us or our administrator in connection with administering our business as described in more detail under "Administration Agreement" below.

**Duration, Termination and Amendment**

*General*

At an in-person meeting of our board of directors on February 24, 2006, an investment advisory and management agreement was approved by our board of directors with the recommendation that stockholders of the Company vote to approve the agreement. A discussion regarding the basis for our board of directors' approval is available in our proxy statement for our 2006 annual meeting of

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stockholders. Our stockholders approved such investment advisory and management agreement on May 30, 2006, which was entered into on June 1, 2006. On March 16, 2011 our board of directors, including a majority of the independent directors, approved (i) the continuation of the investment advisory and management agreement through June 1, 2012 and (ii) certain amendments to the investment advisory and management agreement with the recommendation that the stockholders of the Company vote to approve the amendments. In reaching a decision to approve the continuation of the investment advisory and management agreement and the amendments thereto, our board of directors reviewed a wide variety of factors including the nature, extent and quality of services, investment performance, costs of services and our investment adviser's estimated pro forma profitability and concluded that the terms of the investment advisory and management agreement, including the fee rates thereunder, are fair and reasonable in relation to the services provided and as being in the best interests of the Company and its stockholders. A discussion regarding the basis for our board of directors' approval of the continuation of the investment advisory and management agreement through June 2012 and the amendments thereto is available in our Definitive Proxy filed with the SEC on April 28, 2011. Our stockholders approved the amendments to the investment advisory and management agreement on June 6, 2011 and we entered into a restated investment advisory and management agreement reflecting such amendments on June 6, 2011.

Unless terminated earlier, the investment advisory and management agreement will automatically renew for successive annual periods if approved annually by our board of directors or by the affirmative vote of the holders of a majority of our outstanding voting securities, including, in either case, approval by a majority of our independent directors. The investment advisory and management agreement will automatically terminate in the event of its assignment. The investment advisory and management agreement may be terminated by either party without penalty upon 60 days' written notice to the other party. Material amendments to our investment advisory and management agreement must be approved by the affirmative vote of the holders of a majority of our outstanding voting securities and by a majority of our independent directors.

Conflicts of interest may arise if our investment adviser seeks to change the terms of our investment advisory and management agreement, including, for example, the amount of the management fee, the incentive fee or other compensation terms. Any material change to the investment advisory and management agreement must be submitted to stockholders for approval under the Investment Company Act and we may from time to time decide it is appropriate to seek stockholder approval to change the terms of the agreement. See "Risk Factors Risks Relating to Our Business We are dependent upon certain key personnel of Ares for our future success and upon their access to other Ares investment professionals."

**Indemnification**

The investment advisory and management agreement provides that, absent willful misfeasance, bad faith or gross negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations, our investment adviser, its members and their respective officers, managers, partners, agents, employees, controlling persons and members and any other person or entity affiliated with it are entitled to indemnification from us for any damages, liabilities, costs and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) arising from the rendering of our investment adviser's services under the investment advisory and management agreement or otherwise as our investment adviser.

**Organization of the Investment Adviser**

Our investment adviser is a Delaware limited liability company that is registered as an investment adviser under the Advisers Act. The principal executive offices of Ares Capital Management are located at 2000 Avenue of the Stars, 12th Floor, Los Angeles, California 90067.

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**Administration Agreement**

We are also party to an amended and restated administration agreement, referred to herein as our "administration agreement," with Ares Operations, an affiliate of our investment adviser and a wholly owned subsidiary of Ares Management. Our board of directors approved the continuation of our administration agreement on March 16, 2011, which extended the term of the agreement until June 1, 2012. Pursuant to the administration agreement, Ares Operations furnishes us with office equipment and clerical, bookkeeping and record keeping services at our office facilities. Under the administration agreement, Ares Operations also performs, or oversees the performance of, our required administrative services, which include, among other things, providing assistance in accounting, legal, compliance, operations, technology, and investor relations, being responsible for the financial records that we are required to maintain and preparing reports to our stockholders and reports filed with the SEC. In addition, Ares Operations assists us in determining and publishing our net asset value, oversees the preparation and filing of our tax returns and the printing and dissemination of reports to our stockholders, and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. Payments under the administration agreement are equal to an amount based upon our allocable portion of Ares Operations' overhead and other expenses (including travel expenses) incurred by Ares Operations in performing its obligations under the administration agreement, including our allocable portion of the cost of certain of our officers (including our chief compliance officer, chief financial officer, general counsel, secretary and treasurer) and their respective staffs. The administration agreement may be terminated by either party without penalty upon 60 days' written notice to the other party.

For the three months ended March 31, 2011, we incurred \$2.4 million in administrative fees. As of March 31, 2011, \$2.4 million was unpaid and included in "accounts payable and accrued expenses" in the accompanying consolidated balance sheet. For the years ended December 31, 2010, 2009 and 2008, we incurred administrative fees of \$8.7 million, \$4.0 million and \$2.7 million, respectively.

**Indemnification**

The administration agreement provides that, absent willful misfeasance, bad faith or negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations, Ares Operations, its members and their respective officers, managers, partners, agents, employees, controlling persons and members and any other person or entity affiliated with it are entitled to indemnification from us for any damages, liabilities, costs and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) arising from the rendering of Ares Operations' services under the administration agreement or otherwise as our administrator.

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**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

We are party to an investment advisory and management agreement with Ares Capital Management, whose sole member is Ares Management, an entity in which certain of our directors, officers and members of the investment committee of our investment adviser have indirect ownership and financial interests. Certain of our directors, officers and members of the investment committee of our investment adviser also serve as principals of other investment managers affiliated with Ares Management that currently, and may in the future, manage investment funds with investment objectives similar to our investment objective. In addition, certain of our officers and directors and the members of the investment committee of our investment adviser serve or may serve as officers, directors or principals of entities that operate in the same or related line of business as we do or of investment funds managed by our affiliates. Accordingly, we may not be given the opportunity to participate in certain investments made by investment funds managed by advisers affiliated with Ares Management. However, our investment adviser and other members of Ares intend to allocate investment opportunities in a fair and equitable manner that meets our investment objective and strategies so that we are not disadvantaged in relation to any other client. See "Risk Factors Risks Relating to Our Business There are significant potential conflicts of interest that could impact our investment returns."

Ares Capital Management has committed to defer up to \$15 million in base management and incentive fees under the investment advisory and management agreement for each of the fiscal years ending December 31, 2010 and 2011 if certain earnings targets are not met.

Pursuant to the terms of the administration agreement Ares Operations currently provides us with the administrative services necessary to conduct our day-to-day operations, and we pay Ares Operations at cost our allocable portion of overhead and other expenses (including travel expenses) incurred by Ares Operations in performing its obligations under our administration agreement, including our allocable portion of the cost of certain of our officers (including our chief compliance officer, chief financial officer, general counsel, secretary and treasurer) and their respective staffs.

Our portfolio company IHAM, is party to the IHAM administration agreement with Ares Operations, pursuant to which Ares Operations provides IHAM with the facilities and administrative services necessary for the operations of IHAM. Under the IHAM administration agreement, IHAM reimburses Ares Operations for the costs associated with such services, including Ares Operations' allocable portion of overhead and the cost of its officers and respective staff in performing its obligations under the IHAM administration agreement. Prior to entering into the IHAM administration agreement, IHAM was party to a services agreement with Ares Capital Management, pursuant to which Ares Capital Management provided similar services.

We rent office space directly from a third party pursuant to a lease that expires in February 2026. We also entered into separate subleases with Ares Management and IHAM, pursuant to which Ares Management and IHAM sublease approximately 15% and 20%, respectively, of the office space, for a fixed rent equal to 15% and 20%, respectively, of this basic annual rent payable by us under the office lease, plus certain additional costs and expenses. Under our previous lease, which expired on February 27, 2011, we were party to a sublease agreement with Ares Management whereby Ares Management subleased approximately 25% of certain office space for a fixed rent equal to 25% of the basic annual rent payable by us under this lease, plus certain additional costs and expenses. For the years ended December 31, 2010, 2009 and 2008, such amounts payable to us totaled \$0.3 million, \$0.7 million and \$0.3 million, respectively.

We have also entered into a license agreement with Ares Management pursuant to which Ares Management has agreed to grant us a non-exclusive, royalty-free license to use the name "Ares." Under this agreement, we will have a right to use the Ares name for so long as Ares Capital Management remains our investment adviser. Other than with respect to this limited license, we have no legal right to the "Ares" name. This license agreement will remain in effect for so long as the investment advisory and management agreement with Ares Capital Management is in effect and Ares Capital Management remains our investment adviser. Like the investment advisory and management agreement, the license agreement may also be terminated by either party without penalty upon 60 days' written notice to the other.

Table of Contents**CONTROL PERSONS AND PRINCIPAL STOCKHOLDERS**

To our knowledge, as of July 18, 2011, there were no persons that owned 25% or more of our outstanding voting securities and no person would be deemed to control us, as such term is defined in the Investment Company Act.

The following table sets forth, as of July 18, 2011 (unless otherwise noted), the number of shares of our common stock beneficially owned by each of our current directors and executive officers, all directors and executive officers as a group and certain beneficial owners, according to information furnished to us by such persons or publicly available filings.

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the securities. Ownership information for those persons who beneficially own 5% or more of our shares of common stock is based upon Schedule 13D, Schedule 13G, Form 13F or other filings by such persons with the SEC and other information obtained from such persons. To our knowledge, as of July 18, 2011, there were no persons that owned 5% or more of our shares of common stock. Except as otherwise noted below, each person named in the following table has sole voting and investment power with respect to all shares of our common stock that he or she beneficially owns.

The address for Mr. Arougheti, Mr. Rosen and Ms. Roll is c/o Ares Capital Corporation, 245 Park Avenue, 44<sup>th</sup> Floor, New York, New York 10167. The address for each of the other directors and executive officers is c/o Ares Capital Corporation, 2000 Avenue of the Stars, 12<sup>th</sup> Floor, Los Angeles, California 90067.

| Name of Beneficial Owner                                     | Amount and<br>Nature of<br>Beneficial<br>Ownership | Percent of<br>Class(1) |
|--|--|------------------------|
| <i>Directors and Executive Officers:</i>                     |  |                        |
| <b>Interested Directors</b>                                  |  |                        |
| Michael J. Arougheti   | 153,679(2)   | *                      |
| Antony P. Ressler  | 1,150,707(2)(3)                                    | *                      |
| Robert L. Rosen  | 7,500  | *                      |
| Bennett Rosenthal  | None(2)  |                        |
| <b>Independent Directors</b>                                 |  |                        |
| Ann Torre Bates  | 6,617(4)   | *                      |
| Kenneth R. Heitz   | None   | *                      |
| Frank E. O'Bryan   | 12,400(5)  | *                      |
| Gregory W. Penske  | None   |                        |
| Eric B. Siegel   | 24,149(6)  | *                      |
| <b>Named Executive Officers Who Are Not Directors</b>        |  |                        |
| Penni F. Roll  | 46,952   | *                      |
| Richard S. Davis   | None   |                        |
| All Directors and Executive Officers as a Group (16 persons) | 1,416,160(2)(7)                                    | *                      |

\*

Represents less than 1%.

(1)

Based on 205,129,966 shares of common stock outstanding as of July 18, 2011.

(2)

Ares Investments, whose indirect parent is APMC, owned 2,859,882 shares of our common stock as of July 18, 2011. APMC is managed by an executive committee comprised of Messrs. Arougheti, Kaplan, Margolies, Ressler and Rosenthal. Each of the members of the executive committee disclaims beneficial ownership of all shares of our common stock owned by Ares Investments, except to the extent of any indirect pecuniary interest therein. The shares of our common stock

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held by Ares Investments have been pledged in the ordinary course to secure indebtedness under a credit facility under which Ares Investments is a co-borrower with Ares Management.

- (3) Consists of (i) 650,000 shares of common stock indirectly beneficially owned by Mr. Ressler through Greek Associates of which Mr. Ressler is the general partner and (ii) 500,707 shares of common stock indirectly beneficially owned by Mr. Ressler through a family foundation of which Mr. Ressler is the trustee.
- (4) Consists of (i) 2,874 shares of common stock owned individually; (ii) 2,275 shares of common stock indirectly beneficially owned by Ms. Bates through her spouse; (iii) 487 shares of common stock indirectly beneficially owned by Ms. Bates as trustee of her father's estate and (iv) 981 shares of common stock indirectly beneficially owned by Ms. Bates as trustee of a trust left by her mother.
- (5) Consists of (i) 400 shares of common stock owned individually and (ii) 12,000 shares of common stock indirectly beneficially owned by Mr. O'Bryan through a family trust of which Mr. O'Bryan is the trustee and beneficiary.
- (6) Consists of (i) 13,528 shares of common stock owned individually; (ii) 8,166 shares of common stock indirectly beneficially owned by Mr. Siegel through his spouse and (iii) 2,161 shares of common stock indirectly beneficially owned by Mr. Siegel as a custodian for the accounts of his children. Mr. Siegel has shared voting and investment authority with respect to shares held by his spouse.
- (7) Includes shares owned by officers of the Company that are not "Named Executive Officers" as defined in Item 402 of Regulation S-K, as promulgated under the Securities Act.

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**DETERMINATION OF NET ASSET VALUE**

The net asset value per share of our outstanding shares of common stock is determined quarterly by dividing the value of total assets minus liabilities by the total number of shares outstanding.

Investments for which market quotations are readily available are typically valued at such market quotations. In order to validate market quotations, we look at a number of factors to determine if the quotations are representative of fair value, including the source and nature of the quotations. Debt and equity securities that are not publicly traded or whose market price is not readily available (*i.e.*, substantially all of our investments) are valued at fair value as determined in good faith by our board of directors, based on the input of our management and audit committee and independent valuation firms that have been engaged at the direction of the board to assist in the valuation of each portfolio investment without a readily available market quotation at least once during a trailing 12-month period. Effective January 1, 2008, the Company adopted ASC 820-10, which expands the application of fair value accounting for investments (see Note 8 to the consolidated financial statements for the period ended December 31, 2010 and Note 2 to the consolidated financial statements for the period ended March 31, 2011). ASC 820-10 determines fair value to be the price that would be received for an investment in a current sale, which assumes an orderly transaction between market participants on the measurement date.

The valuation process is conducted at the end of each fiscal quarter, with approximately 50% (based on value) of our valuations of portfolio companies without readily available market quotations subject to review by an independent valuation firm each quarter.

As part of the valuation process, we may take into account the following types of factors, if relevant, in determining the fair value of our investments: the enterprise value of a portfolio company (an estimate of the total fair value of the portfolio company's debt and equity), 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, a comparison of the portfolio company's securities to publicly traded securities, changes in the interest rate environment and the credit markets generally that may affect the price at which similar investments may be made in the future and other relevant factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we use the pricing indicated by the external event to corroborate our valuation.

Because there is not a readily available market value for most of the investments in our portfolio, we value substantially all of our portfolio investments at fair value as determined in good faith by our board of directors, based on the input of our management and audit committee and independent valuation firms under a valuation policy and a consistently applied valuation process. 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 fluctuate from period to period. Additionally, the fair value of our investments may differ significantly from the values that would have been used had a ready market existed for such investments and may differ materially from the values that we may ultimately realize. Further, such investments are generally subject to legal and other restrictions on resale or otherwise are less liquid than publicly traded securities. If we were required to liquidate a portfolio investment in a forced or liquidation sale, we may realize significantly less than the value at which we have previously recorded it.

In addition, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than would be realized based on the valuations currently assigned. For example, during 2008 and much of 2009, the state of the economy in the U.S. and abroad had deteriorated. See "Risk Factors Risks Relating to Our Investments Declines in market prices and liquidity in the corporate



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debt markets can result in significant net unrealized depreciation of our portfolio, which in turn would reduce our net asset value."

With respect to investments for which market quotations are not readily available, 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 in conjunction with our portfolio management team.

Preliminary valuations are reviewed and discussed with the entire investment professional and management team, and then valuation recommendations are presented to the board of directors.

The audit committee of our board of directors reviews these preliminary valuations, as well as the input of independent valuation firms with respect to the valuations of approximately 50% (based on value) of our portfolio companies without readily available market quotations.

The board of directors discusses valuations and determines the fair value of each investment in our portfolio without a readily available market quotation in good faith based on the input of our management and audit committee and independent valuation firms.

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**DIVIDEND REINVESTMENT PLAN**

We have adopted a dividend reinvestment plan that provides for reinvestment of any distributions we declare in cash on behalf of our stockholders, unless a stockholder elects to receive cash as provided below. As a result, if our board of directors authorizes, and we declare, a cash dividend, then our stockholders who have not "opted out" of our dividend reinvestment plan will have their cash dividends automatically reinvested in additional shares of our common stock, rather than receiving the cash dividends.

No action is required on the part of a registered stockholder to have their cash dividend reinvested in shares of our common stock. A registered stockholder may elect to receive an entire cash dividend in cash by notifying The Bank of New York Mellon ("BNY Mellon"), the plan administrator and an affiliate of our transfer agent and registrar, in writing so that such notice is received by the plan administrator no later than the record date fixed by the board of directors for dividends to stockholders. The plan administrator will set up an account for shares acquired through the dividend reinvestment plan for each stockholder who has not elected to receive dividends in cash and hold such shares in non-certificated form. Upon request by a stockholder participating in the dividend reinvestment plan, received in writing no later than 10 days prior to the record date, the plan administrator will, instead of crediting fractional shares to the participant's account, issue a check for any fractional share.

Those stockholders whose shares are held by a broker or other financial intermediary may receive dividends in cash by notifying their broker or other financial intermediary of their election.

While we generally use primarily newly issued shares to implement the dividend reinvestment plan (especially if our shares are trading at a premium to net asset value), we may purchase shares in the open market in connection with our obligations under the dividend reinvestment plan. In particular, if our shares are trading at a significant enough discount to net asset value and we are otherwise permitted under applicable law to purchase such shares, we intend to purchase shares in the open market in connection with our obligations under our dividend reinvestment plan. The number of shares to be issued to a stockholder is determined by dividing the total dollar amount of the dividend payable to such stockholder by the market price per share of our common stock at the close of regular trading on The NASDAQ Global Select Market on the valuation date fixed by the board of directors for such dividend. Market price per share on that date will be the closing price for such shares on The NASDAQ Global Select Market or, if no sale is reported for such day, at the average of their reported bid and asked prices. The number of shares of our common stock to be outstanding after giving effect to payment of the dividend cannot be established until the value per share at which additional shares will be issued has been determined and elections of our stockholders have been tabulated.

There are no brokerage charges or other charges to stockholders who participate in the dividend reinvestment plan. The plan administrator's fees under the plan are paid by us. If a participant elects by notice to the plan administrator in advance of termination to have the plan administrator sell part or all of the shares held by the plan administrator in the participant's account and remit the proceeds to the participant, the plan administrator is authorized to deduct a transaction fee of up to \$15 plus a \$0.12 per share fee from the proceeds.

Stockholders whose cash dividends are reinvested in shares of our common stock are subject to the same U.S. federal, state and local tax consequences as are stockholders who elect to receive their dividends in cash. A stockholder's initial basis for determining gain or loss upon the sale of stock received in a dividend from us will be equal to the total dollar amount of the dividend payable to the stockholder. Any stock received on reinvestment of a cash dividend will have a new holding period for tax purposes commencing on the day following the day on which the shares are credited to the U.S. stockholder's account. Please see "Certain Material U.S. Federal Income Tax Considerations."

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Participants may terminate their accounts under the dividend reinvestment plan by notifying the plan administrator via its website at [www.bnymellon.com/shareowner/equityaccess](http://www.bnymellon.com/shareowner/equityaccess), by filling out the transaction request form located at bottom of their statement and sending it to the plan administrator at P.O. Box 358035, Pittsburgh, PA 15252-8035 or by calling the plan administrator's hotline at 1-866-365-2497.

The dividend reinvestment plan may be terminated by us upon notice in writing mailed to each participant at least 30 days prior to any record date for the payment of any dividend by us. All correspondence concerning the dividend reinvestment plan should be directed to the plan administrator via the Internet at [www.bnymellon.com/shareowner/equityaccess](http://www.bnymellon.com/shareowner/equityaccess), by mail at P.O. Box 358035, Pittsburgh, PA 15252-8035 or by telephone at 1-866-365-2497.

Additional information about the dividend reinvestment plan may be obtained by contacting the plan administrator via the Internet at [www.bnymellon.com/shareowner/equityaccess](http://www.bnymellon.com/shareowner/equityaccess), by mail at P.O. Box 358035, Pittsburgh, PA 15252-8035 or by telephone at 1-866-365-2497.

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**CERTAIN MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS**

The following discussion is a general summary of certain material U.S. federal income tax considerations applicable to us and to an investment in shares of our preferred stock or our common stock. This summary does not purport to be a complete description of the income tax considerations applicable to such an investment. For example, we have not described tax consequences that we assume to be generally known by investors or certain considerations that may be relevant to certain types of holders subject to special treatment under U.S. federal income tax laws, including stockholders subject to the alternative minimum tax, tax-exempt organizations, insurance companies, dealers in securities, pension plans and trusts, financial institutions, persons who hold our preferred stock and our common stock as part of an integrated financial transaction and persons with a functional currency that is not the U.S. dollar. This summary assumes that investors hold our preferred stock or common stock as capital assets (within the meaning of the Code). The discussion is based upon the Code, temporary and final U.S. Treasury regulations, and administrative and judicial interpretations, each as of the date of this prospectus and all of which are subject to change, possibly retroactively, which could affect the continuing accuracy of this discussion. We have not sought and will not seek any ruling from the Internal Revenue Service (the "IRS") regarding the offerings pursuant to this prospectus or pursuant to any accompanying prospectus supplement unless expressly stated therein. This summary does not discuss any aspects of U.S. estate or gift tax or foreign, state or local tax. It does not discuss the special treatment under U.S. federal income tax laws that could result if we invested in tax-exempt securities or certain other investment assets. It also does not discuss the tax aspects of common or preferred stock sold in units with the other securities being registered.

This summary does not discuss the consequences of an investment in our subscription rights, debt securities or warrants representing rights to purchase shares of our preferred stock, common stock or debt securities or as units in combination with such securities. The U.S. federal income tax consequences of such an investment will be discussed in the relevant prospectus supplement. In addition, we may issue preferred stock with terms resulting in U.S. federal income taxation of holders with respect to such preferred stock in a manner different from as set forth in this summary. In such instances, such differences will be discussed in a relevant prospectus supplement.

A "U.S. stockholder" is a beneficial owner of shares of our preferred stock or common stock that is for U.S. federal income tax purposes:

a citizen or individual resident of the United States;

a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or any state thereof or the District of Columbia;

a trust, if a court within the United States has primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions, or the trust has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person; or

an estate, the income of which is subject to U.S. federal income taxation regardless of its source.

A "non-U.S. stockholder" is a beneficial owner of shares of our preferred stock or common stock that is not a U.S. stockholder, nor an entity treated as a partnership for U.S. federal income tax purposes.

If a partnership (including an entity treated as a partnership for U.S. federal income tax purposes) holds shares of our preferred stock or common stock, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. A

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prospective stockholder that is a partnership holding shares of our preferred stock or common stock or a partner of such a partnership should consult his, her or its tax advisers with respect to the purchase, ownership and disposition of shares of our preferred stock or common stock.

Tax matters are very complicated and the tax consequences to an investor of an investment in our shares will depend on the facts of his, her or its particular situation. We encourage investors to consult their own tax advisers regarding the specific consequences of such an investment, including tax reporting requirements, the applicability of U.S. federal, state, local and foreign tax laws, eligibility for the benefits of any applicable tax treaty and the effect of any possible changes in the tax laws.

**ELECTION TO BE TAXED AS A RIC**

As a BDC, we have elected to be treated as a RIC under Subchapter M of the Code. As a RIC, we generally will not pay corporate-level U.S. federal income taxes on any ordinary income or capital gains that we distribute to our stockholders as dividends. To qualify as a RIC, we must, among other things, meet certain income source and asset diversification requirements (as described below). In addition, we must distribute to our stockholders, for each taxable year, generally an amount equal to at least 90% of our "investment company taxable income," as defined by the Code (the "Annual Distribution Requirement"). See "Risk Factors Risks Relating to Our Business We may be subject to certain corporate-level taxes regardless of whether we continue to qualify as a RIC."

**TAXATION AS A RIC**

If we:

qualify as a RIC; and

satisfy the Annual Distribution Requirement;

then we will not be subject to U.S. federal income tax on the portion of our investment company taxable income and net capital gain (generally, net long-term capital gain in excess of net short-term capital loss) we distribute (or are deemed to distribute) to stockholders. We will be subject to U.S. federal income tax at the regular corporate rates on any income or capital gain not distributed (or deemed distributed) to our stockholders.

We will be subject to a 4% nondeductible U.S. federal excise tax on certain undistributed income unless we distribute in a timely manner an amount at least equal to the sum of (1) 98% of our ordinary income for each calendar year, (2) 98.2% of our capital gain net income for the one-year period ending October 31 in that calendar year and (3) any income recognized, but not distributed, in preceding years (collectively, the "Excise Tax Requirement"). We have paid in the past, and can be expected to pay in the future, such excise tax on a portion of our income.

Moreover, our ability to dispose of assets to meet our distribution requirements may be limited by (1) the illiquid nature of our portfolio and (2) other requirements relating to our status as a RIC, including the Diversification Tests (as defined below). If we dispose of assets to meet the Annual Distribution Requirement, the Diversification Tests, or the Excise Tax Requirement, we may make such dispositions at times that, from an investment standpoint, are not advantageous.

To qualify as a RIC for U.S. federal income tax purposes, we generally must, among other things:

qualify to be treated as a BDC at all times during each taxable year;

derive in each taxable year at least 90% of our gross income from (a) dividends, interest, payments with respect to certain securities loans, gains from the sale of stock or other securities or other income derived with respect to our business of investing in such stock or



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securities or (b) net income derived from an interest in a "qualified publicly traded partnership, or "QPTP" (collectively, the "90% Income Test"); and

diversify our holdings so that at the end of each quarter of the taxable year:

at least 50% of the value of our assets consists of cash, cash equivalents, U.S. Government securities, securities of other RICs and other securities that, with respect to any issuer, do not represent more than 5% of the value of our assets or more than 10% of the outstanding voting securities of that issuer; and

no more than 25% of the value of our assets is invested in the securities, other than U.S. Government securities or securities of other RICs, of (i) one issuer, (ii) two or more issuers that are controlled, as determined under applicable tax rules, by us and that are engaged in the same or similar or related trades or businesses or (iii) securities of one or more QPTPs (collectively, the "Diversification Tests").

We may be required to recognize taxable income in circumstances in which we do not receive cash, such as income from hedging or foreign currency transactions. For example, if we hold debt obligations that are treated under applicable tax rules as having original issue discount (such as debt instruments with PIK interest or, in certain cases, that have increasing interest rates or that are issued with warrants), we must include in income each year a portion of the original issue discount that accrues over the life of the obligation, regardless of whether cash representing such income is received by us in the same taxable year. Because any original issue discount or other amounts accrued will be included in our investment company taxable income for the year of accrual, we may be required to make a distribution to our stockholders in order to satisfy the Annual Distribution Requirement and/or the Excise Tax Requirement, even though we will not have received any corresponding cash amount.

Furthermore, a portfolio company in which we invest may face financial difficulty that requires us to work-out, modify or otherwise restructure our investment in the portfolio company. Any such restructuring could, depending on the specific terms of the restructuring, result in unusable capital losses and future non-cash income. Any such restructuring may also result in our recognition of non-qualifying income for purposes of the 90% Income Test or receiving assets that would not count toward satisfying the Diversification Requirements.

In addition, certain of our investment practices may be subject to special and complex U.S. federal income tax provisions that may, among other things, (a) disallow, suspend or otherwise limit the allowance of certain losses or deductions, (b) convert lower taxed long-term capital gain into higher taxed short-term capital gain or ordinary income, (c) convert an ordinary loss or a deduction into a capital loss (the deductibility of which is more limited), (d) adversely affect the time when a purchase or sale of stock or securities is deemed to occur or (e) adversely alter the characterization of certain complex financial transactions. We will monitor our transactions and may make certain tax elections in order to mitigate the effects of these provisions; however, no assurance can be given that we will be eligible for any such tax elections or that any elections we make will fully mitigate the effects of these provisions.

Gain or loss recognized by us from warrants acquired by us as well as any loss attributable to the lapse of such warrants generally will be treated as capital gain or loss. Such gain or loss generally will be long-term or short-term, depending on how long we held a particular warrant.

Our investment in non-U.S. securities may be subject to non-U.S. income, withholding and other taxes. In that case, our yield on those securities would be decreased. Stockholders will generally not be entitled to claim a U.S. foreign tax credit or deduction with respect to non-U.S. taxes paid by us.

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If we purchase shares in a "passive foreign investment company" (a "PFIC"), we may be subject to U.S. federal income tax on a portion of any "excess distribution" or gain from the disposition of such shares, even if such income is distributed as a taxable dividend by us to our stockholders. Additional charges in the nature of interest may be imposed on us in respect of deferred taxes arising from such distributions or gains. If we invest in a PFIC and elect to treat the PFIC as a "qualified electing fund" under the Code (a "QEF"), in lieu of the foregoing requirements, we will be required to include in income each year a portion of the ordinary earnings and net capital gain of the QEF, even if such income is not distributed to us. Alternatively, we may elect to mark-to-market at the end of each taxable year our shares in such PFIC; in this case, we will recognize as ordinary income any increase in the value of such shares, and as ordinary loss any decrease in such value to the extent it does not exceed prior increases included in income. Our ability to make either election will depend on factors beyond our control, and are subject to limitations which may limit the availability of benefit of these elections. Under either election, we may be required to recognize in any year income in excess of our distributions from PFICs and our proceeds from dispositions of PFIC stock during that year, and such income will nevertheless be subject to the Annual Distribution Requirement and will be taken into account for purposes of determining whether we satisfy the Excise Tax Requirement.

Our functional currency is the U.S. dollar for U.S. federal income tax purposes. Under Section 988 of the Code, gains or losses attributable to fluctuations in exchange rates between the time we accrue income, expenses or other liabilities denominated in a foreign currency and the time we actually collect such income or pay such expenses or liabilities may be treated as ordinary income or loss. Similarly, gains or losses on foreign currency forward contracts, the disposition of debt denominated in a foreign currency and other financial transactions denominated in foreign currency, to the extent attributable to fluctuations in exchange rates between the acquisition and disposition dates, may also be treated as ordinary income or loss.

If we borrow money, we may be prevented by loan covenants from declaring and paying dividends in certain circumstances. Even if we are authorized to borrow funds and to sell assets in order to satisfy distribution requirements, under the Investment Company Act, we are generally not permitted to make distributions to our stockholders while our debt obligations and senior securities are outstanding unless certain "asset coverage" tests or other financial covenants are met. Limits on our payment of dividends may prevent us from meeting the Annual Distribution Requirement, and may, therefore, jeopardize our qualification for taxation as a RIC, or subject us to the 4% excise tax on undistributed income.

Some of the income and fees that we recognize, such as management fees or income recognized in a work-out or restructuring of a portfolio investment, may not satisfy the 90% Income Test. In order to ensure that such income and fees do not disqualify us as a RIC for a failure to satisfy the 90% Income Test, we may be required to recognize such income and fees through one or more entities treated as U.S. corporations for U.S. federal income tax purposes. While we expect that recognizing such income through such corporations will assist us in satisfying the 90% Income Test, no assurance can be given that this structure will be respected for U.S. federal income tax purposes, which could result in such income not being counted towards satisfying the 90% Income Test. If the amount of such income were too great and we were otherwise unable to mitigate this effect, it could result in our disqualification as a RIC. If, as we expect, the structure is respected, such corporations will be required to pay U.S. corporate income tax on their earnings, which ultimately will reduce the yield on such income and fees.

If we fail to satisfy the 90% Income Test or the Diversification Tests in any taxable year, we may be eligible for relief provisions if the failures are due to reasonable cause and not willful neglect and if a penalty tax is paid with respect to each failure to satisfy the applicable requirements. Additionally, relief is provided for certain *de minimis* failures of the diversification requirements where we correct the failure within a specified period. If the applicable relief provisions are not available or



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cannot be met, all of our income would be subject to corporate-level U.S. federal income tax as described below. We cannot provide assurance that we would qualify for any such relief should we fail the 90% Income Test or the Diversification Test.

If we fail to satisfy the Annual Distribution Requirement or otherwise fail to qualify as a RIC in any taxable year, and are not eligible for relief as described above, we will be subject to tax in that year on all of our taxable income, regardless of whether we make any distributions to our stockholders. In that case, all of our income will be subject to corporate-level U.S. federal income tax, reducing the amount available to be distributed to our stockholders. In contrast, assuming we qualify as a RIC, our corporate-level U.S. federal income tax should be substantially reduced or eliminated. See "Election to Be Taxed as a RIC" above and "Risk Factors Risks Relating to Our Business We may be subject to certain corporate-level taxes regardless of whether we continue to qualify as a RIC."

**Capital Loss Carryforwards and Unrealized Losses**

As a RIC, we are permitted to carry forward a net capital loss realized in a taxable year beginning on or before January 1, 2011 to offset our capital gain, if any, realized during the eight years following the year of the loss. A capital loss carryforward realized in a taxable year beginning before January 1, 2011 is treated as a short-term capital loss in the year to which it is carried. We are permitted to carry forward a net capital loss realized in taxable years beginning on or after January 1, 2011 to offset capital gain indefinitely. For net capital losses realized in taxable years beginning on or after January 1, 2011, the excess of our net short-term capital loss over our net long-term capital gain is treated as a short-term capital loss arising on the first day of our next taxable year and the excess of our net long-term capital loss over our net short-term capital gain is treated as a long-term capital loss arising on the first day of our next taxable year. If future capital gain is offset by carried-forward capital losses, such future capital gain is not subject to fund-level U.S. federal income tax, regardless of whether distributed to stockholders. A RIC cannot carry back or carry forward any net operating losses.

It is believed that transactions we have undertaken, including the Allied Acquisition, have resulted in a limitation on our ability to use both our own and Allied Capital's capital loss carryforwards and, potentially, to use unrealized capital losses inherent in the tax basis of our own pre-acquisition assets and Allied Capital's assets we acquired. These limitations, imposed by Section 382 of the Code, are imposed on an annual basis. Losses in excess of the limitation may be carried forward, subject to the overall eight-year limitation. The Section 382 limitation applied to our and Allied Capital's losses generally will equal the product of the net asset value of each corporation immediately prior to the Allied Acquisition, respectively, and the "long-term tax-exempt rate," published by the IRS, in effect at such time. As of April 2010, the month during which the Allied Acquisition was consummated, the long-term tax-exempt rate was 4.03%. Additionally, under Section 384 of the Code, we may also be prohibited from using Allied Capital's loss carryforwards and unrealized losses against any of our unrealized gains at the time of the Allied Acquisition, to the extent such gains are realized within five years following the Allied Acquisition. While our ability to utilize losses in the future depends upon a variety of factors that cannot be known in advance, because capital loss carryforwards realized in taxable years beginning before January 1, 2011 generally expire eight taxable years following recognition, substantially all of our and Allied Capital's losses may become permanently unavailable. Future transactions we enter into may further limit our ability to utilize losses.

As of December 31, 2010, for U.S. federal income tax purposes, we had capital loss carryforwards of approximately \$148.0 million and net unrealized losses of approximately \$1.4 billion.

Finally, in addition to the other limitations on the use of losses, pursuant to Section 381 of the Code, only a portion of our capital gain net income for the taxable year of the Allied Acquisition (disregarding capital loss carryforwards) can be reduced by Allied Capital's capital loss carryforwards (as otherwise limited under Sections 382 and 384 of the Code, as described above), with such portion

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equal to the total capital gain net income for such taxable year multiplied by the fraction of the taxable year that remains following the Allied Acquisition.

**TAXATION OF U.S. STOCKHOLDERS**

Whether an investment in the shares of our preferred stock or common stock is appropriate for a U.S. stockholder will depend upon that person's particular circumstances. An investment in the shares of our preferred stock or common stock by a U.S. stockholder may have adverse tax consequences. The following summary generally describes certain U.S. federal income tax consequences of an investment in shares of our preferred stock and common stock by taxable U.S. stockholders and not by U.S. stockholders that are generally exempt from U.S. federal income taxation. U.S. stockholders should consult their own tax advisors before investing in shares of our preferred stock or common stock.

*Distributions on Our Preferred Stock and Common Stock*

Distributions by us generally are taxable to U.S. stockholders as ordinary income or long-term capital gain. Distributions of our investment company taxable income (which is, generally, our ordinary income excluding net capital gain) will be taxable as ordinary income to U.S. stockholders to the extent of our current and accumulated earnings and profits, whether paid in cash or reinvested in additional shares of our common stock. Distributions of our net capital gain (which is generally the excess of our net long-term capital gain over our net short-term capital loss) properly reported by us as "capital gain dividends" will be taxable to a U.S. stockholder as long-term capital gains (which, under current law, are taxed at preferential rates for taxable years beginning before January 1, 2013) in the case of individuals, trusts or estates. This is true regardless of the U.S. stockholder's holding period for his, her or its preferred stock or common stock and regardless of whether the dividend is paid in cash or reinvested in additional common stock. Distributions in excess of our earnings and profits first will reduce a U.S. stockholder's adjusted tax basis in such stockholder's preferred stock or common stock and, after the adjusted basis is reduced to zero, will constitute capital gain to such U.S. stockholder. We have made distributions in excess of our earnings and profits and expect to continue to do so in the future. As a result, a U.S. stockholder will need to consider the effect of our distributions on such U.S. stockholder's adjusted tax basis in our preferred stock or common stock in their individual circumstances.

A portion of our ordinary income dividends, but not capital gain dividends, paid to corporate U.S. stockholders may, if certain conditions are met, qualify for the 70% dividends-received deduction to the extent that we have received dividends from certain corporations during the taxable year, but only to the extent such ordinary income dividends are treated as paid out of our earnings and profits. We expect only a small portion of our dividends to qualify for this deduction.

In general, for taxable years beginning before January 1, 2013, "qualified dividend income" realized by non-corporate U.S. stockholders is taxable at the same rate as net capital gain. Generally, qualified dividend income is dividend income attributable to certain U.S. and foreign corporations, as long as certain holding period requirements are met. As long as certain requirements are met, our dividends paid to non-corporate U.S. stockholders attributable to qualified dividend income may be treated by such U.S. stockholders as qualified dividend income, but only to the extent such ordinary income dividends are treated as paid out of our earnings and profits. We expect only a small portion of our dividends to qualify as qualified dividend income.

Although we currently intend to distribute any of our net capital gain at least annually, we may in the future decide to retain some or all of our net capital gain, but designate the retained amount as a "deemed distribution." In that case, among other consequences, we will pay tax on the retained amount, each U.S. stockholder will be required to include his, her or its share of the deemed

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distribution in income as if it had been actually distributed to the U.S. stockholder, and the U.S. stockholder will be entitled to claim a credit equal to his, her or its allocable share of the tax paid thereon by us. The amount of the deemed distribution net of such tax will be added to the U.S. stockholder's tax basis for his, her or its preferred stock or common stock.

Because we expect to pay tax on any retained net capital gain at our regular corporate tax rate, and because that rate currently is in excess of the maximum rate currently payable by individuals on net capital gain, the amount of tax that individual stockholders will be treated as having paid and for which they will receive a credit would exceed the tax they owe on the retained net capital gain. Such excess generally may be claimed as a credit against the U.S. stockholder's other U.S. federal income tax obligations or may be refunded to the extent it exceeds the stockholder's liability for U.S. federal income tax. A U.S. stockholder that is not subject to U.S. federal income tax or otherwise is not required to file a U.S. federal income tax return would be required to file a U.S. federal income tax return on the appropriate form in order to claim a refund for the taxes we paid. In order to utilize the deemed distribution approach, we must provide a written statement to our stockholders reporting the deemed distribution after the close of the relevant taxable year. We cannot treat any of our investment company taxable income as a "deemed distribution."

We will be subject to the alternative minimum tax, also referred to as the "AMT," but any items that are treated differently for AMT purposes must be apportioned between us and our stockholders and this may affect U.S. stockholders' AMT liabilities. Although regulations explaining the precise method of apportionment have not yet been issued, such items will generally be apportioned in the same proportion that dividends paid to each stockholder bear to our taxable income (determined without regard to the dividends paid deduction), unless a different method for a particular item is warranted under the circumstances.

For purposes of determining (1) whether the Annual Distribution Requirement is satisfied for any year and (2) the amount of dividends paid for that year, we may, under certain circumstances, elect to treat a dividend that is paid during the following taxable year as if it had been paid during the taxable year in question. If we make such an election, the U.S. stockholder will still be treated as receiving the dividend in the taxable year in which the distribution is made. However, any dividend declared by us in October, November or December of any calendar year, payable to stockholders of record on a specified date in such a month and actually paid during January of the following year, will be treated as if it had been received by our U.S. stockholders on December 31 of the year in which the dividend was declared.

We have the ability to declare a large portion of a dividend in shares of our stock. As long as a portion of such dividend is paid in cash (which portion, under current law, can be as low as 10% for our taxable years ending on or before December 31, 2011) and certain requirements are met, the entire distribution will be treated as a dividend for U.S. federal income tax purposes. As a result, our stockholders will be taxed on 100% of the dividend in the same manner as a cash dividend, even though most of the dividend was paid in shares of our stock. In general, any dividend on shares of our preferred stock will be taxable as a dividend, regardless of whether any portion is paid in stock.

If an investor purchases shares of our preferred stock or common stock shortly before the record date of a distribution, the price of the shares will include the value of the distribution and the investor will be subject to tax on the distribution even though it represents a return of his, her or its investment. We have built-up or have the potential to build up large amounts of unrealized gain which, when realized and distributed, could have the effect of a taxable return of capital to stockholders.

*Sale or Other Disposition of Our Preferred Stock or Common Stock*

A U.S. stockholder generally will recognize taxable gain or loss if the U.S. stockholder sells or otherwise disposes of his, her or its shares of our preferred stock or common stock. The amount of

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gain or loss will be measured by the difference between such stockholder's adjusted tax basis in the stock sold and the amount of the proceeds received in exchange. Any gain arising from such sale or disposition generally will be treated as long-term capital gain or loss if the stockholder has held his, her or its shares for more than one year. Otherwise, it will be classified as short-term capital gain or loss. However, any capital loss arising from the sale or disposition of shares of our preferred stock or common stock held for six months or less will be treated as long-term capital loss to the extent of the amount of capital gain dividends received, or undistributed capital gain deemed received, with respect to such shares. In addition, all or a portion of any loss recognized upon a disposition of shares of our preferred stock or common stock may be disallowed if substantially identical stock or securities are purchased (whether through reinvestment of distributions or otherwise) within 30 days before or after the disposition.

For taxable years beginning before January 1, 2013, in general, U.S. stockholders that are individuals, trusts or estates are taxed at preferential rates on their net capital gain (generally, the excess of net long-term capital gain over net short-term capital loss for a taxable year, including long-term capital gain derived from an investment in our shares). Such rate is lower than the maximum rate on ordinary income currently payable by individuals. Corporate U.S. stockholders currently are subject to U.S. federal income tax on net capital gain at the maximum rate that also applies to ordinary income. Non-corporate U.S. stockholders with net capital losses for a year (i.e., capital loss in excess of capital gain) generally may deduct up to \$3,000 of such losses against their ordinary income each year; any net capital losses of a non-corporate U.S. stockholder in excess of \$3,000 generally may be carried forward and used in subsequent years as provided in the Code. Corporate U.S. stockholders generally may not deduct any net capital losses for a year, but may carry back such losses for three years or carry forward such losses for five years.

*Information Reporting and Backup Withholding*

We will send to each of our U.S. stockholders, after the end of each calendar year, a notice providing, on a per share and per distribution basis, the amounts includible in such U.S. stockholder's taxable income for such year as ordinary income and as long-term capital gain. In addition, the U.S. federal tax status of each year's distributions generally will be reported to the IRS. Distributions may also be subject to additional state, local and foreign taxes depending on a U.S. stockholder's particular situation.

We may be required to withhold U.S. federal income tax ("backup withholding") from all taxable distributions to any non-corporate U.S. stockholder (1) who fails to furnish us with a correct taxpayer identification number or a certificate that such stockholder is exempt from backup withholding or (2) with respect to whom the IRS notifies us that such stockholder has failed to properly report certain interest and dividend income to the IRS and to respond to notices to that effect. An individual's taxpayer identification number is his or her social security number. Backup withholding is not an additional tax. Any amount withheld under backup withholding is allowed as a credit against the U.S. stockholder's U.S. federal income tax liability and may entitle such stockholder to a refund, provided that proper information is timely provided to the IRS.

*Medicare Tax on Net Investment Income*

For taxable years beginning after December 31, 2012, non-corporate U.S. stockholders generally will be subject to a Medicare tax on their "net investment income," which ordinarily includes taxable distributions or deemed distributions on stock, such as our preferred stock and our common stock, as well as taxable gain on the disposition of stock, including our preferred stock or common stock. It is also very likely that "net investment income" would include, for this purpose any taxable income or gain on any other securities we may offer.

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*Withholding and Information Reporting on Foreign Financial Accounts*

For taxable years beginning after December 31, 2012, U.S. withholding tax will be imposed on dividends and proceeds of sale in respect of our preferred stock and common stock received by U.S. stockholders who own their stock through foreign accounts or foreign intermediaries if certain disclosure requirements related to U.S. accounts or ownership are not satisfied. We will not pay any additional amounts in respect to any amounts withheld.

Under U.S. Treasury regulations, if a stockholder recognizes a loss with respect to shares of \$2 million or more for a non-corporate stockholder or \$10 million or more for a corporate stockholder in any single taxable year (or a greater loss over a combination of years), the stockholder must file with the IRS a disclosure statement on Form 8886. Direct stockholders of portfolio securities in many cases are excepted from this reporting requirement, but under current guidance, stockholders of a RIC are not excepted. Future guidance may extend the current exception from this reporting requirement to stockholders of most or all RICs. The fact that a loss is reportable under these regulations does not affect the legal determination of whether the taxpayer's treatment of the loss is proper. Significant monetary penalties apply to a failure to comply with this reporting requirement. States may also have a similar reporting requirement. Stockholders should consult their own tax advisors to determine the applicability of these regulations in light of their individual circumstances.

**TAXATION OF NON-U.S. STOCKHOLDERS**

Whether an investment in shares of our preferred stock or common stock is appropriate for a non-U.S. stockholder will depend upon that person's particular circumstances. An investment in shares of our preferred stock or common stock by a non-U.S. stockholder may have adverse tax consequences and, accordingly, may not be appropriate for a non-U.S. stockholder. Non-U.S. stockholders should consult their own tax advisors before investing in our preferred stock or common stock.

*Distributions on our Preferred Stock or Common Stock*

Distributions of our investment company taxable income to non-U.S. stockholders will be subject to U.S. withholding tax (unless lowered or eliminated by an applicable income tax treaty) to the extent payable from our current and accumulated earnings and profits unless an exception applies. However, with respect to certain distributions made to non-U.S. stockholders in taxable years beginning before January 1, 2013, no withholding will be required and the distributions generally will not be subject to U.S. federal income tax if (i) the distributions are reported as "interest-related dividends" or "short term capital gain dividends" in a written statement furnished to stockholders, (ii) the distributions are derived from sources specified in the Code for such dividends and (iii) certain other requirements are satisfied. No assurance can be given that we would designate any of our distributions as interest-related dividends or short term capital gain dividends, even if we are permitted to do so. In the case of preferred or common stock held through an intermediary, even if we make a designation with respect to a payment, no assurance can be made that the intermediary will respect such a designation.

If a non-U.S. stockholder receives distributions and such distributions are effectively connected with a U.S. trade or business of the non-U.S. stockholder and, if an income tax treaty applies, attributable to a permanent establishment in the United States of such non-U.S. stockholder, such distributions generally will be subject to U.S. federal income tax at the rates applicable to U.S. persons. In that case, we will not be required to withhold U.S. federal income tax if the non-U.S. stockholder complies with applicable certification and disclosure requirements. Special certification requirements apply to a non-U.S. stockholder that is a foreign trust and such entities are urged to consult their own tax advisors.

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Actual or deemed distributions of our net capital gain (which is generally the excess of our net long-term capital gain over our net short-term capital loss) to a non-U.S. stockholder, and gains recognized by a non-U.S. stockholder upon the sale of our preferred stock or common stock, will not be subject to withholding of U.S. federal income tax and generally will not be subject to U.S. federal income tax unless (a) the distributions or gains, as the case may be, are effectively connected with a U.S. trade or business of the non-U.S. stockholder and, if an income tax treaty applies, are attributable to a permanent establishment maintained by the non-U.S. stockholder in the United States or (b) the non-U.S. stockholder is an individual, has been present in the United States for 183 days or more during the taxable year, and certain other conditions are satisfied. For a corporate non-U.S. stockholder, distributions (both actual and deemed), and gains recognized upon the sale of our preferred stock or common stock that are effectively connected with a U.S. trade or business may, under certain circumstances, be subject to an additional "branch profits tax" (unless lowered or eliminated by an applicable income tax treaty).

If we distribute our net capital gain in the form of deemed rather than actual distributions (which we may do in the future), a non-U.S. stockholder will be entitled to a U.S. federal income tax credit or tax refund equal to the non-U.S. stockholder's allocable share of the tax we pay on the capital gain deemed to have been distributed. In order to obtain the refund, the non-U.S. stockholder must obtain a U.S. taxpayer identification number (if one has not been previously obtained) and file a U.S. federal income tax return even if the non-U.S. stockholder would not otherwise be required to obtain a U.S. taxpayer identification number or file a U.S. federal income tax return.

We have the ability to declare a large portion of a dividend in shares of our stock. As long as a portion of such dividend is paid in cash (which portion can be as low as 10% for our taxable years ending on or before December 31, 2011) and certain requirements are met, the entire distribution will be treated as a dividend for U.S. federal income tax purposes. As a result, our non-U.S. stockholders will be taxed on 100% of the dividend in the same manner as a cash dividend (including the application of withholding tax rules described above), even though most of the dividend was paid in shares of our stock. In such a circumstance, we may be required to withhold all or substantially all of the cash we would otherwise distribute to a non-U.S. stockholder. In general, any dividend on shares of our preferred stock will be taxable as a dividend, regardless of whether any portion is paid in stock.

A non-U.S. stockholder who is otherwise subject to withholding of U.S. federal income tax, may be subject to information reporting and backup withholding of U.S. federal income tax on dividends unless the non-U.S. stockholder provides us or the dividend paying agent with an IRS Form W-8BEN (or an acceptable substitute form) or otherwise meets documentary evidence requirements for establishing that it is a non-U.S. stockholder or otherwise establishes an exemption from backup withholding.

Recent legislation generally imposes a withholding tax on payments to certain foreign entities (including financial intermediaries), after December 31, 2012, of dividends on and the gross proceeds of dispositions of preferred or common stock, unless various U.S. information reporting and due diligence requirements (generally relating to ownership by U.S. persons of interests in or accounts with those entities) have been satisfied. Non-U.S. stockholders are encouraged to consult their tax advisors regarding the implications of this legislation on their investment in our preferred or common stock.

**FAILURE TO QUALIFY AS A RIC**

If we were unable to qualify for treatment as a RIC, and relief were not available as discussed above, we would be subject to tax on all of our taxable income at regular corporate rates. We would not be able to deduct distributions to stockholders and would not be required to make distributions for tax purposes. Distributions would generally be taxable to our stockholders as ordinary dividend income to the extent of our current and accumulated earnings and profits. Subject to certain limitations under

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the Code, corporate U.S. stockholders would be eligible for the dividends-received deduction. Distributions in excess of our current and accumulated earnings and profits would be treated first as a return of capital to the extent of the stockholder's tax basis, and any remaining distributions would be treated as a capital gain. If we were to fail to meet the RIC requirements for more than two consecutive years and then sought to requalify as a RIC, we would be required to recognize gain to the extent of any unrealized appreciation in our assets unless we made a special election to pay corporate-level tax on any such unrealized appreciation recognized during the succeeding 10-year period.

**POSSIBLE LEGISLATIVE OR OTHER ACTIONS AFFECTING TAX CONSIDERATIONS**

Prospective investors should recognize that the present U.S. federal income tax treatment of an investment in us may be modified by legislative, judicial or administrative action at any time, and that any such action may affect investments and commitments previously made. The rules dealing with U.S. federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Treasury Department, resulting in revisions of regulations and revised interpretations of established concepts as well as statutory changes. Revisions in U.S. federal tax laws and interpretations thereof could adversely affect the tax consequences of an investment in us.

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**DESCRIPTION OF SECURITIES**

This prospectus contains a summary of the common stock, preferred stock, subscription rights, debt securities, warrants and units. These summaries are not meant to be a complete description of each security. However, this prospectus and the accompanying prospectus supplement will contain the material terms and conditions for each security.

**DESCRIPTION OF OUR CAPITAL STOCK**

*The following description is based on relevant portions of the Maryland General Corporation Law and on our charter and bylaws. This summary is not necessarily complete, and we refer you to the Maryland General Corporation Law and our charter and bylaws for a more detailed description of the provisions summarized below.*

**STOCK**

Our authorized stock consists of 400,000,000 shares of stock, par value \$0.001 per share, all of which are currently designated as common stock. Our common stock trades on The NASDAQ Global Select Market under the symbol "ARCC." On July 18, 2011, the last reported sales price of our common stock on The NASDAQ Global Select Market was \$15.16 per share. There are no outstanding options or warrants to purchase our stock. No stock has been authorized for issuance under any equity compensation plans. Under Maryland law, our stockholders generally are not personally liable for our indebtedness or obligations.

Under our charter, our board of directors is authorized to classify and reclassify any unissued shares of stock into other classes or series of stock and authorize the issuance of shares of stock without obtaining stockholder approval. As permitted by the Maryland General Corporation Law, our charter provides that the board of directors, without any action by our stockholders, may amend the charter from time to time to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that we have authority to issue.

**Common Stock**

All shares of our common stock have equal rights as to earnings, assets, dividends and voting and, when they are issued, will be duly authorized, validly issued, fully paid and nonassessable. Distributions may be paid to the holders of our common stock if, as and when authorized by our board of directors and declared by us out of funds legally available therefor. Shares of our common stock have no preemptive, exchange, conversion or redemption rights and are freely transferable, except where their transfer is restricted by federal and state securities laws or by contract.

In the event of a liquidation, dissolution or winding up of the Company, each share of our common stock would be entitled to share ratably in all of our assets that are legally available for distribution after we pay off all indebtedness and other liabilities and subject to any preferential rights of holders of our preferred stock, if any preferred stock is outstanding at such time.

Each share of our common stock is entitled to one vote on all matters submitted to a vote of stockholders, including the election of directors. Except as provided with respect to any other class or series of stock, the holders of our common stock will possess exclusive voting power. There is no cumulative voting in the election of directors, which means that holders of a majority of the outstanding shares of common stock can elect all of our directors, and holders of less than a majority of such shares will be unable to elect any director.



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The following are our outstanding classes of capital stock as of July 18, 2011:

| (1)<br>Title of Class  | (2)<br>Amount Authorized | (3)<br>Amount Held by<br>Registrant<br>or for its<br>Account | (4)<br>Amount Outstanding<br>Exclusive of Amount<br>Shown Under<br>Column (3) |
|------------------------|--------------------------|--|---|
| Common Stock           | 400,000,000              |  | 205,129,966   |
| <b>Preferred Stock</b> |                          |  |   |

Our charter authorizes our board of directors to classify and reclassify any unissued shares of stock into other classes or series of stock, including preferred stock. Prior to issuance of shares of each class or series, the board of directors is required by Maryland law and by our charter to set the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each class or series. Thus, our board of directors could authorize the issuance of shares of our preferred stock with terms and conditions that could have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for holders of our common stock or otherwise be in their best interest.

You should note, however, that any issuance of preferred stock must comply with the requirements of the Investment Company Act. The Investment Company Act requires, among other things, that (a) immediately after issuance and before any dividend or other distribution is made with respect to our common stock and before any purchase of common stock is made, such preferred stock together with all other indebtedness and senior securities must not exceed an amount equal to 50% of our total assets after deducting the amount of such dividend, distribution or purchase price, as the case may be and (b) the holders of shares of preferred stock, if any are issued, must be entitled as a class to elect two directors at all times and to elect a majority of the directors if dividends on such preferred stock are in arrears by two years or more. Certain matters under the Investment Company Act require the separate vote of the holders of any issued and outstanding preferred stock. For example, holders of preferred stock would vote separately from the holders of common stock on a proposal to cease operations as a BDC. We believe that the availability for issuance of preferred stock may provide us with increased flexibility in structuring future financings and acquisitions.

#### **LIMITATION ON LIABILITY OF DIRECTORS AND OFFICERS; INDEMNIFICATION AND ADVANCE OF EXPENSES**

Maryland law permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages except for liability resulting from (a) actual receipt of an improper benefit or profit in money, property or services or (b) active and deliberate dishonesty established by a final judgment as being material to the cause of action. Our charter contains such a provision, which eliminates directors' and officers' liability to the maximum extent permitted by Maryland law, subject to the requirements of the Investment Company Act.

Our charter authorizes us to obligate ourselves, and our bylaws obligate us, to the maximum extent permitted by Maryland law and subject to the requirements of the Investment Company Act, to indemnify any present or former director or officer or any individual who, while a director or officer and at our request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee, from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her service in that capacity and to pay or reimburse their reasonable expenses in advance of final disposition of a proceeding. The charter and bylaws also permit us to

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indemnify and advance expenses to any person who served a predecessor of us in any of the capacities described above and any of our employees or agents or any employees or agents of our predecessor. In accordance with the Investment Company Act, we will not indemnify any person for any liability to that such person would be subject by reason of such person's willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office.

In addition to the indemnification provided for in our bylaws, we have entered into indemnification agreements with each of our current directors and certain of our officers and with members of our investment adviser's investment committee and we intend to enter into indemnification agreements with each of our future directors, members of our investment committee and certain of our officers. The indemnification agreements attempt to provide these directors, officers and other persons the maximum indemnification permitted under Maryland law and the Investment Company Act. The agreements provide, among other things, for the advancement of expenses and indemnification for liabilities which such person may incur by reason of his or her status as a present or former director or officer or member of our investment adviser's investment committee in any action or proceeding arising out of the performance of such person's services as a present or former director or officer or member of our investment adviser's investment committee.

Maryland law requires a corporation (unless its charter provides otherwise, which our charter does not) to indemnify a director or officer who has been successful, on the merits or otherwise, in the defense of any proceeding to which he or she is made or threatened to be made a party by reason of his or her service in that capacity. Maryland law permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made or are threatened to be made a party by reason of their service in those or other capacities unless it is established that (a) the act or omission of the director or officer was material to the matter giving rise to the proceeding and (i) was committed in bad faith or (ii) was the result of active and deliberate dishonesty, (b) the director or officer actually received an improper personal benefit in money, property or services or (c) in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. However, under Maryland law, a Maryland corporation may not indemnify for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis that a personal benefit was improperly received, unless in either case a court orders indemnification, and then only for expenses. In addition, Maryland law permits a corporation to advance reasonable expenses to a director or officer upon the corporation's receipt of (x) a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation and (y) a written undertaking by him or her or on his or her behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the standard of conduct was not met.

**PROVISIONS OF THE MARYLAND GENERAL CORPORATION LAW AND OUR CHARTER AND BYLAWS**

The Maryland General Corporation Law and our charter and bylaws contain provisions that could make it more difficult for a potential acquiror to acquire us by means of a tender offer, proxy contest or otherwise. These provisions are expected to discourage certain coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of us to negotiate first with our board of directors. We believe that the benefits of these provisions outweigh the potential disadvantages of discouraging any such acquisition proposals because, among other things, the negotiation of such proposals may improve their terms.

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**Classified Board of Directors**

Our board of directors is divided into three classes of directors serving staggered three-year terms, with the term of office of only one of the three classes expiring each year. A classified board may render a change in control of us or removal of our incumbent management more difficult. We believe, however, that the longer time required to elect a majority of a classified board of directors helps to ensure the continuity and stability of our management and policies.

**Election of Directors**

Our charter and bylaws provide that the affirmative vote of the holders of a majority of the outstanding shares of stock entitled to vote in the election of directors will be required to elect a director. Pursuant to the charter, our board of directors may amend the bylaws to alter the vote required to elect directors.

**Number of Directors; Vacancies; Removal**

Our charter provides that the number of directors will be set only by the board of directors in accordance with our bylaws. Our bylaws provide that a majority of our entire board of directors may at any time increase or decrease the number of directors. However, unless our bylaws are amended, the number of directors may never be less than four or more than eleven. Our charter sets forth our election, subject to certain requirements, to be subject to the provision of Subtitle 8 of Title 3 of the Maryland General Corporation Law regarding the filling of vacancies on the board of directors. Accordingly, except as may be provided by the board of directors in setting the terms of any class or series of preferred stock, any and all vacancies on the board of directors may be filled only by the affirmative vote of a majority of the remaining directors in office, even if the remaining directors do not constitute a quorum, and any director elected to fill a vacancy will serve for the remainder of the full term of the directorship in which the vacancy occurred and until a successor is elected and qualifies, subject to any applicable requirements of the Investment Company Act.

Our charter provides that a director may be removed only for cause, as defined in our charter, and then only by the affirmative vote of at least two-thirds of the votes entitled to be cast generally in the election of directors.

**Action by Stockholders**

Under the Maryland General Corporation Law and our charter, stockholder action can be taken only at an annual or special meeting of stockholders or by unanimous written or electronically transmitted consent instead of a meeting. These provisions, combined with the requirements of our bylaws regarding the calling of a stockholder-requested special meeting of stockholders discussed below, may have the effect of delaying consideration of a stockholder proposal until the next annual meeting.

**Advance Notice Provisions for Stockholder Nominations and Stockholder Proposals**

Our bylaws provide that with respect to an annual meeting of stockholders, nominations of individuals for election to the board of directors and the proposal of business to be considered by stockholders may be made only (a) pursuant to our notice of the meeting, (b) by or at the direction of the board of directors or (c) by a stockholder who is a stockholder of record both at the time of giving the advance notice required by the bylaws and at the time of the meeting, who is entitled to vote at the meeting in the election of each individual so nominated or on any such other business and who has complied with the advance notice procedures of the bylaws. With respect to special meetings of stockholders, only the business specified in our notice of the meeting may be brought before the meeting. Nominations of individuals for election to the board of directors at a special meeting may be made only (a) by or at the direction of the board of directors or (b) provided that the special meeting

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has been called in accordance with the bylaws for the purpose of electing directors, by a stockholder who is a stockholder of record both at the time of giving the advance notice required by the bylaws and at the time of the meeting, who is entitled to vote at the meeting in the election of each individual so nominated and who has complied with the advance notice provisions of the bylaws.

The purpose of requiring stockholders to give us advance notice of nominations and other business is to afford our board of directors a meaningful opportunity to consider the qualifications of the proposed nominees and the advisability of any other proposed business and, to the extent deemed necessary or desirable by our board of directors, to inform stockholders and make recommendations about such qualifications or business, as well as to provide a more orderly procedure for conducting meetings of stockholders. Although our bylaws do not give our board of directors any power to disapprove stockholder nominations for the election of directors or proposals recommending certain action, they may have the effect of precluding a contest for the election of directors or the consideration of stockholder proposals if proper procedures are not followed and of discouraging or deterring a third party from conducting a solicitation of proxies to elect its own slate of directors or to approve its own proposal without regard to whether consideration of such nominees or proposals might be harmful or beneficial to us and our stockholders.

**Calling of Special Meetings of Stockholders**

Our bylaws provide that special meetings of stockholders may be called by our board of directors and certain of our officers. Additionally, our bylaws provide that, subject to the satisfaction of certain procedural and informational requirements by the stockholders requesting the meeting, a special meeting of stockholders will be called by the secretary of the corporation to act on any matter that may properly be considered at a meeting of stockholders upon the written request of stockholders entitled to cast not less than a majority of all the votes entitled to be cast at such meeting.

**Approval of Extraordinary Corporate Action; Amendment of Charter and Bylaws**

Under Maryland law, a Maryland corporation generally cannot dissolve, amend its charter, merge, sell all or substantially all of its assets, engage in a share exchange or engage in similar transactions outside the ordinary course of business, unless approved by the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter. See "Risk Factors Risks Relating to Offerings Pursuant to this Prospectus 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." However, a Maryland corporation may provide in its charter for approval of these matters by a lesser percentage, but not less than a majority of all of the votes entitled to be cast on the matter. Our charter generally provides for approval of charter amendments and extraordinary transactions by the stockholders entitled to cast at least a majority of the votes entitled to be cast on the matter. Our charter also provides that certain charter amendments and any proposal for our conversion, whether by merger or otherwise, from a closed-end company to an open-end company or any proposal for our liquidation or dissolution requires the approval of the stockholders entitled to cast at least 80 percent of the votes entitled to be cast on such matter. However, if such amendment or proposal is approved by at least two-thirds of our continuing directors (as defined below) (in addition to approval by our board of directors), such amendment or proposal may be approved by a majority of the votes entitled to be cast on such a matter. The "continuing directors" are defined in our charter as our current directors as well as those directors whose nomination for election by the stockholders or whose election by the directors to fill vacancies is approved by a majority of the continuing directors then on the board of directors.

Our charter and bylaws provide that the board of directors will have the exclusive power to adopt, alter or repeal any provision of our bylaws and to make new bylaws.

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**No Appraisal Rights**

Except with respect to appraisal rights arising in connection with the Control Share Acquisition Act discussed below, as permitted by the Maryland General Corporation Law, our charter provides that stockholders will not be entitled to exercise appraisal rights unless a majority of our board of directors determines that such rights will apply, with respect to all or any classes or series of stock, to one or more transactions occurring after the date of such determination in connection with which stockholders would otherwise be entitled to exercise appraisal rights.

**Control Share Acquisitions**

The Control Share Acquisition Act provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter. Shares owned by the acquiror, by officers or by employees who are directors of the corporation are excluded from shares entitled to vote on the matter. Control shares are voting shares of stock which, if aggregated with all other shares of stock owned by the acquiror or in respect of which the acquiror is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquiror to exercise voting power in electing directors within one of the following ranges of voting power:

one-tenth or more but less than one-third;

one-third or more but less than a majority; or

a majority or more of all voting power.

The requisite stockholder approval must be obtained each time an acquiror crosses one of the thresholds of voting power set forth above. Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A control share acquisition means the acquisition of issued and outstanding control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition may compel the board of directors of the corporation to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the shares. The right to compel the calling of a special meeting is subject to the satisfaction of certain conditions, including an undertaking to pay the expenses of the meeting. If no request for a meeting is made, the corporation may itself present the question at any stockholders meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the statute, then the corporation may repurchase for fair value any or all of the control shares, except those for which voting rights have previously been approved. The right of the corporation to repurchase control shares is subject to certain conditions and limitations, including, as provided in our bylaws, compliance with the Investment Company Act, which will prohibit any such repurchase other than in limited circumstances. Fair value is determined, without regard to the absence of voting rights for the control shares, as of the date of the last control share acquisition by the acquiror or of any meeting of stockholders at which the voting rights of the shares are considered and not approved. If voting rights for control shares are approved at a stockholders meeting and the acquiror becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of appraisal rights may not be less than the highest price per share paid by the acquiror in the control share acquisition.

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The Control Share Acquisition Act does not apply (a) to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction or (b) to acquisitions approved or exempted by the charter or bylaws of the corporation.

Our bylaws contain a provision exempting from the Control Share Acquisition Act any and all acquisitions by any person of our shares of stock and, as a result, any control shares of the Company will have the same voting rights as all of the other shares of the Company common stock. Such provision could be amended or eliminated at any time in the future. However, we will amend our bylaws to be subject to the Control Share Acquisition Act only if the board of directors determines that it would be in our best interests and we determine (after consultation with the SEC staff) that our being subject to the Control Share Acquisition Act does not conflict with the Investment Company Act.

**Business Combinations**

Under Maryland law, "business combinations" between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested stockholder is defined as:

any person who beneficially owns 10% or more of the voting power of the corporation's outstanding voting stock; or

an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding stock of the corporation.

A person is not an interested stockholder under this statute if the board of directors approved in advance the transaction by which such person otherwise would have become an interested stockholder. However, in approving a transaction, the board of directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board.

After the five-year prohibition, any business combination between the corporation and an interested stockholder generally must be recommended by the board of directors of the corporation and approved by the affirmative vote of at least:

80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation; and

two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder.

These super-majority vote requirements do not apply if the corporation's common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares.

The statute permits various exemptions from its provisions, including business combinations that are exempted by the board of directors before the time that the interested stockholder becomes an interested stockholder. Our board of directors has adopted a resolution that any business combination between us and any other person is exempted from the provisions of the Business Combination Act, provided that the business combination is first approved by the board of directors, including a majority of the independent directors. This resolution, however, may be altered or repealed in whole or in part

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at any time. If this resolution is repealed, or the board of directors does not otherwise approve a business combination, the statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer.

**Conflict with the Investment Company Act**

Our bylaws provide that, if and to the extent that any provision of the Maryland General Corporation Law, including the Control Share Acquisition Act (if we amend our bylaws to be subject to such act) and the Business Combination Act, or any provision of our charter or bylaws conflicts with any provision of the Investment Company Act, the applicable provision of the Investment Company Act will control.

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**DESCRIPTION OF OUR PREFERRED STOCK**

In addition to shares of common stock, our charter authorizes the issuance of preferred stock. If we offer preferred stock under this prospectus, we will issue an appropriate prospectus supplement. We may issue preferred stock from time to time in one or more classes or series, without stockholder approval. Prior to issuance of shares of each class or series, our board of directors is required by Maryland law and by our charter to set the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each class or series. Any such an issuance must adhere to the requirements of the Investment Company Act, Maryland law and any other limitations imposed by law.

The Investment Company Act currently requires, among other things, that (a) immediately after issuance and before any distribution is made with respect to common stock, the liquidation preference of the preferred stock, together with all other senior securities, must not exceed an amount equal to 50% of our total assets (taking into account such distribution), (b) the holders of shares of preferred stock, if any are issued, must be entitled as a class to elect two directors at all times and to elect a majority of the directors if dividends on the preferred stock are in arrears by two years or more and (c) such class of stock have complete priority over any other class of stock as to distribution of assets and payment of dividends, which dividends shall be cumulative.

For any series of preferred stock that we may issue, our board of directors will determine and the articles supplementary and the prospectus supplement relating to such series will describe:

the designation and number of shares of such series;

the rate and time at which, and the preferences and conditions under which, any dividends will be paid on shares of such series, as well as whether such dividends are participating or non-participating;

any provisions relating to convertibility or exchangeability of the shares of such series, including adjustments to the conversion price of such series;

the rights and preferences, if any, of holders of shares of such series upon our liquidation, dissolution or winding up of our affairs;

the voting powers, if any, of the holders of shares of such series;

any provisions relating to the redemption of the shares of such series;

any limitations on our ability to pay dividends or make distributions on, or acquire or redeem, other securities while shares of such series are outstanding;

any conditions or restrictions on our ability to issue additional shares of such series or other securities;

if applicable, a discussion of certain U.S. federal income tax considerations; and



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any other relative powers, preferences and participating, optional or special rights of shares of such series, and the qualifications, limitations or restrictions thereof.

All shares of preferred stock that we may issue will be identical and of equal rank except as to the particular terms thereof that may be fixed by our board of directors, and all shares of each series of preferred stock will be identical and of equal rank except as to the dates from which dividends, if any, thereon will be cumulative.

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**DESCRIPTION OF OUR SUBSCRIPTION RIGHTS**

**GENERAL**

We may issue subscription rights to our stockholders to purchase common stock. Subscription rights may be issued independently or together with any other offered security and may or may not be transferable by the person purchasing or receiving the subscription rights. In connection with a subscription rights offering to our stockholders, we would distribute certificates evidencing the subscription rights and a prospectus supplement to our stockholders on the record date that we set for receiving subscription rights in such subscription rights offering.

The applicable prospectus supplement would describe the following terms of subscription rights in respect of which this prospectus is being delivered:

the period of time the offering would remain open (which shall be open a minimum number of days such that all record holders would be eligible to participate in the offering and shall not be open longer than 120 days);

the title of such subscription rights;

the exercise price for such subscription rights (or method of calculation thereof);

the ratio of the offering (which, in the case of transferable rights, will require a minimum of three shares to be held of record before a person is entitled to purchase an additional share);

the number of such subscription rights issued to each stockholder;

the extent to which such subscription rights are transferable and the market on which they may be traded if they are transferable;

if applicable, a discussion of certain U.S. federal income tax considerations applicable to the issuance or exercise of such subscription rights;

the date on which the right to exercise such subscription rights shall commence, and the date on which such right shall expire (subject to any extension);

the extent to which such subscription rights include an over-subscription privilege with respect to unsubscribed securities and the terms of such over-subscription privilege;

any termination right we may have in connection with such subscription rights offering; and

any other terms of such subscription rights, including exercise, settlement and other procedures and limitations relating to the transfer and exercise of such subscription rights.

**EXERCISE OF SUBSCRIPTION RIGHTS**

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Each subscription right would entitle the holder of the subscription right to purchase for cash such amount of shares of common stock at such exercise price as shall in each case be set forth in, or be determinable as set forth in, the prospectus supplement relating to the subscription rights offered thereby. Subscription rights may be exercised at any time up to the close of business on the expiration date for such subscription rights set forth in the prospectus supplement. After the close of business on the expiration date, all unexercised subscription rights would become void.

Subscription rights may be exercised as set forth in the prospectus supplement relating to the subscription rights offered thereby. Upon receipt of payment and the subscription rights certificate properly completed and duly executed at the corporate trust office of the subscription rights agent or any other office indicated in the prospectus supplement we will forward, as soon as practicable, the shares of common stock purchasable upon such exercise. To the extent permissible under applicable law, we may determine to offer any unsubscribed offered securities directly to persons other than stockholders, to or through agents, underwriters or dealers or through a combination of such methods, as set forth in the applicable prospectus supplement.

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**DESCRIPTION OF OUR WARRANTS**

The following is a general description of the terms of the warrants we may issue from time to time. Particular terms of any warrants we offer will be described in the prospectus supplement relating to such warrants.

We may issue warrants to purchase shares of our common stock, preferred stock or debt securities. Such warrants may be issued independently or together with shares of common stock, preferred stock or debt securities and may be attached or separate from such securities. We will issue each series of warrants under a separate warrant agreement to be entered into between us and a warrant agent. The warrant agent will act solely as our agent and will not assume any obligation or relationship of agency for or with holders or beneficial owners of warrants.

A prospectus supplement will describe the particular terms of any series of warrants we may issue, including the following:

the title of such warrants;

the aggregate number of such warrants;

the price or prices at which such warrants will be issued;

the currency or currencies, including composite currencies, in which the price of such warrants may be payable;

if applicable, the designation and terms of the securities with which the warrants are issued and the number of warrants issued with each such security or each principal amount of such security;

in the case of warrants to purchase debt securities, the principal amount of debt securities purchasable upon exercise of one warrant and the price at which and the currency or currencies, including composite currencies, in which this principal amount of debt securities may be purchased upon such exercise;

in the case of warrants to purchase common stock or preferred stock, the number of shares of common stock or preferred stock, as the case may be, purchasable upon exercise of one warrant and the price at which and the currency or currencies, including composite currencies, in which these shares may be purchased upon such exercise;

the date on which the right to exercise such warrants shall commence and the date on which such right will expire;

whether such warrants will be issued in registered form or bearer form;

if applicable, the minimum or maximum amount of such warrants which may be exercised at any one time;

if applicable, the date on and after which such warrants and the related securities will be separately transferable;

information with respect to book-entry procedures, if any;

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the terms of the securities issuable upon exercise of the warrants;

if applicable, a discussion of certain U.S. federal income tax considerations; and

any other terms of such warrants, including terms, procedures and limitations relating to the exchange and exercise of such warrants.

We and the warrant agent may amend or supplement the warrant agreement for a series of warrants without the consent of the holders of the warrants issued thereunder to effect changes that

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are not inconsistent with the provisions of the warrants and that do not materially and adversely affect the interests of the holders of the warrants.

Prior to exercising their warrants, holders of warrants will not have any of the rights of holders of the securities purchasable upon such exercise, including, in the case of warrants to purchase debt securities, the right to receive principal, premium, if any, or interest payments, on the debt securities purchasable upon exercise or to enforce covenants in the applicable indenture or, in the case of warrants to purchase common stock or preferred stock, the right to receive dividends, if any, or payments upon our liquidation, dissolution or winding up or to exercise any voting rights.

Under the Investment Company Act, we may generally only offer warrants provided that (a) the warrants expire by their terms within ten years, (b) the exercise or conversion price is not less than the current market value at the date of issuance, (c) our stockholders authorize the proposal to issue such warrants, and our board of directors approves such issuance on the basis that the issuance is in the best interests of Ares Capital and its stockholders and (d) if the warrants are accompanied by other securities, the warrants are not separately transferable unless no class of such warrants and the securities accompanying them has been publicly distributed. The Investment Company Act also provides that the amount of our voting securities that would result from the exercise of all outstanding warrants, as well as options and rights, at the time of issuance may not exceed 25% of our outstanding voting securities.

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**DESCRIPTION OF OUR DEBT SECURITIES**

We may issue debt securities in one or more series. The specific terms of each series of debt securities will be described in the particular prospectus supplement relating to that series. The prospectus supplement may or may not modify the general terms found in this prospectus and will be filed with the SEC. For a complete description of the terms of a particular series of debt securities, you should read both this prospectus and the prospectus supplement relating to that particular series.

As required by federal law for all bonds and notes of companies that are publicly offered, the debt securities are governed by a document called an "indenture." An indenture is a contract between us and U.S. Bank National Association, a financial institution acting as trustee on your behalf, and is subject to and governed by the Trust Indenture Act of 1939, as amended. The trustee has two main roles. First, the trustee can enforce your rights against us if we default. There are some limitations on the extent to which the trustee acts on your behalf, described in the second paragraph under "Events of Default Remedies if an Event of Default Occurs." Second, the trustee performs certain administrative duties for us.

Because this section is a summary, it does not describe every aspect of the debt securities and the indenture. We urge you to read the indenture because it, and not this description, defines your rights as a holder of debt securities. For example, in this section, we use capitalized words to signify terms that are specifically defined in the indenture. Some of the definitions are repeated in this prospectus, but for the rest you will need to read the indenture. We have filed the form of the indenture with the SEC. See "Available Information" for information on how to obtain a copy of the indenture.

The prospectus supplement, which will accompany this prospectus, will describe the particular series of debt securities being offered, including, among other things:

the designation or title of the series of debt securities;

the total principal amount of the series of debt securities;

the percentage of the principal amount at which the series of debt securities will be offered;

the date or dates on which principal will be payable;

the rate or rates (which may be either fixed or variable) and/or the method of determining such rate or rates of interest, if any;

the date or dates from which any interest will accrue, or the method of determining such date or dates, and the date or dates on which any interest will be payable;

the terms for redemption, extension or early repayment, if any;

the currencies in which the series of debt securities are issued and payable;

whether the amount of payments of principal, premium or interest, if any, on a series of debt securities will be determined with reference to an index, formula or other method (which could be based on one or more currencies, commodities, equity indices or other indices) and how these amounts will be determined;

the place or places, if any, other than or in addition to the City of New York, of payment, transfer, conversion and/or exchange of the debt securities;

the denominations in which the offered debt securities will be issued;

the provision for any sinking fund;

any restrictive covenants;



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any Events of Default;

whether the series of debt securities are issuable in certificated form;

any provisions for defeasance or covenant defeasance;

if applicable, U.S. federal income tax considerations relating to original issue discount;

whether and under what circumstances we will pay additional amounts in respect of any tax, assessment or governmental charge and, if so, whether we will have the option to redeem the debt securities rather than pay the additional amounts (and the terms of this option);

any provisions for convertibility or exchangeability of the debt securities into or for any other securities;

whether the debt securities are subject to subordination and the terms of such subordination;

the listing, if any, on a securities exchange; and

any other terms.

The debt securities may be secured or unsecured obligations. Unless the prospectus supplement states otherwise, principal (and premium, if any) and interest, if any, will be paid by us in immediately available funds.

We are permitted, under specified conditions, to issue multiple classes of indebtedness if our asset coverage, as defined in the Investment Company Act, is at least equal to 200% immediately after each such issuance. In addition, while any indebtedness and senior securities remain outstanding, we must make provisions to prohibit the distribution to our stockholders or the repurchase of such securities or shares unless we meet the applicable asset coverage ratios at the time of the distribution or repurchase. Specifically, we may be precluded from declaring dividends or repurchasing shares of our common stock unless our asset coverage is at least 200%. We may also borrow amounts up to 5% of the value of our total assets for temporary or emergency purposes without regard to asset coverage. For a discussion of the risks associated with leverage, see "Risk Factors Risks Relating to Our Business Regulations governing our operation as a BDC affect our ability to, and the way in which we, raise additional capital."

**GENERAL**

The indenture provides that any debt securities proposed to be sold under this prospectus and the attached prospectus supplement ("offered debt securities") and any debt securities issuable upon the exercise of warrants or upon conversion or exchange of other offered securities ("underlying debt securities"), may be issued under the indenture in one or more series.

For purposes of this prospectus, any reference to the payment of principal of or premium or interest, if any, on debt securities will include additional amounts if required by the terms of the debt securities.

The indenture does not limit the amount of debt securities that may be issued thereunder from time to time. Debt securities issued under the indenture, when a single trustee is acting for all debt securities issued under the indenture, are called the "indenture securities." The indenture also provides that there may be more than one trustee thereunder, each with respect to one or more different series of indenture securities. See "Resignation of Trustee" below. At a time when two or more trustees are acting under the indenture, each with respect to only certain series, the term "indenture securities" means the one or more series of debt securities with respect to which each respective trustee is acting. In the event that there is more than one trustee under the indenture, the powers and trust obligations



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of each trustee described in this prospectus will extend only to the one or more series of indenture securities for which it is trustee. If two or more trustees are acting under the indenture, then the indenture securities for which each trustee is acting would be treated as if issued under separate indentures.

The indenture does not contain any provisions that give you protection in the event we issue a large amount of debt or we are acquired by another entity.

We refer you to the prospectus supplement for information with respect to any deletions from, modifications of or additions to the Events of Default or our covenants that are described below, including any addition of a covenant or other provision providing event risk or similar protection.

We have the ability to issue indenture securities with terms different from those of indenture securities previously issued and, without the consent of the holders thereof, to reopen a previous issue of a series of indenture securities and issue additional indenture securities of that series unless the reopening was restricted when that series was created.

We expect that we will usually issue debt securities in book entry only form represented by global securities.

## **CONVERSION AND EXCHANGE**

If any debt securities are convertible into or exchangeable for other securities, the prospectus supplement will explain the terms and conditions of the conversion or exchange, including the conversion price or exchange ratio (or the calculation method), the conversion or exchange period (or how the period will be determined), if conversion or exchange will be mandatory or at the option of the holder or us, provisions for adjusting the conversion price or the exchange ratio and provisions affecting conversion or exchange in the event of the redemption of the underlying debt securities. These terms may also include provisions under which the number or amount of other securities to be received by the holders of the debt securities upon conversion or exchange would be calculated according to the market price of the other securities as of a time stated in the prospectus supplement.

## **PAYMENT AND PAYING AGENTS**

We will pay interest to the person listed in the applicable trustee's records as the owner of the debt security at the close of business on a particular day in advance of each due date for interest, even if that person no longer owns the debt security on the interest due date. That day, usually about two weeks in advance of the interest due date, is called the "record date." Because we will pay all the interest for an interest period to the holders on the record date, holders buying and selling debt securities must work out between themselves the appropriate purchase price. The most common manner is to adjust the sales price of the debt securities to prorate interest fairly between buyer and seller based on their respective ownership periods within the particular interest period. This prorated interest amount is called "accrued interest."

### **Payments on Global Securities**

We will make payments on a global security in accordance with the applicable policies of the depository as in effect from time to time. Under those policies, we will make payments directly to the depository, or its nominee, and not to any indirect holders who own beneficial interests in the global security. An indirect holder's right to those payments will be governed by the rules and practices of the depository and its participants.

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**Payments on Certificated Securities**

We will make payments on a certificated debt security as follows. We will pay interest that is due on an interest payment date by check mailed on the interest payment date to the holder at his or her address shown on the trustee's records as of the close of business on the regular record date. We will make all payments of principal and premium, if any, by check at the office of the applicable trustee in New York, NY and/or at other offices that may be specified in the prospectus supplement or in a notice to holders against surrender of the debt security.

Alternatively, if the holder asks us to do so, we will pay any amount that becomes due on the debt security by wire transfer of immediately available funds to an account at a bank in New York City, on the due date. To request payment by wire, the holder must give the applicable trustee or other paying agent appropriate transfer instructions at least 15 business days before the requested wire payment is due. In the case of any interest payment due on an interest payment date, the instructions must be given by the person who is the holder on the relevant regular record date. Any wire instructions, once properly given, will remain in effect unless and until new instructions are given in the manner described above.

**Payment When Offices Are Closed**

If any payment is due on a debt security on a day that is not a business day, we will make the payment on the next day that is a business day. Payments made on the next business day in this situation will be treated under the indenture as if they were made on the original due date, except as otherwise indicated in the attached prospectus supplement. Such payment will not result in a default under any debt security or the indenture, and no interest will accrue on the payment amount from the original due date to the next day that is a business day.

**Book-entry and other indirect holders should consult their banks or brokers for information on how they will receive payments on their debt securities.**

**EVENTS OF DEFAULT**

You will have rights if an Event of Default occurs in respect of the debt securities of your series and is not cured, as described later in this subsection.

The term "Event of Default" in respect of the debt securities of your series means any of the following (unless the prospectus supplement relating to such debt securities states otherwise):

We do not pay the principal of, or any premium on, a debt security of the series on its due date, and do not cure this default within 5 days.

We do not pay interest on a debt security of the series when due, and such default is not cured within 30 days.

We do not deposit any sinking fund payment in respect of debt securities of the series on its due date, and do not cure this default within 5 days.

We remain in breach of a covenant in respect of debt securities of the series for 60 days after we receive a written notice of default stating we are in breach. The notice must be sent by either the trustee or holders of at least 25% of the principal amount of debt securities of the series.

We file for bankruptcy or certain other events of bankruptcy, insolvency or reorganization occur and remain undischarged or unstayed for a period of 60 days.

On the last business day of each of twenty-four consecutive calendar months, we have an asset coverage of less than 100%.



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Any other Event of Default in respect of debt securities of the series described in the applicable prospectus supplement occurs.

An Event of Default for a particular series of debt securities does not necessarily constitute an Event of Default for any other series of debt securities issued under the same or any other indenture. The trustee may withhold notice to the holders of debt securities of any default, except in the payment of principal, premium or interest, if it considers the withholding of notice to be in the best interests of the holders.

**Remedies if an Event of Default Occurs**

If an Event of Default has occurred and has not been cured, the trustee or the holders of at least 25% in principal amount of the debt securities of the affected series may declare the entire principal amount of all the debt securities of that series to be due and immediately payable. This is called a declaration of acceleration of maturity. In certain circumstances, a declaration of acceleration of maturity may be canceled by the holders of a majority in principal amount of the debt securities of the affected series.

The trustee is not required to take any action under the indenture at the request of any holders unless the holders offer the trustee reasonable protection from expenses and liability (called an "indemnity") (Section 315 of the Trust Indenture Act of 1939). If reasonable indemnity is provided, the holders of a majority in principal amount of the outstanding debt securities of the relevant series may direct the time, method and place of conducting any lawsuit or other formal legal action seeking any remedy available to the trustee. The trustee may refuse to follow those directions in certain circumstances. No delay or omission in exercising any right or remedy will be treated as a waiver of that right, remedy or Event of Default.

Before you are allowed to bypass your trustee and bring your own lawsuit or other formal legal action or take other steps to enforce your rights or protect your interests relating to the debt securities, the following must occur:

You must give your trustee written notice that an Event of Default has occurred and remains uncured.

The holders of at least 25% in principal amount of all outstanding debt securities of the relevant series must make a written request that the trustee take action because of the default and must offer reasonable indemnity to the trustee against the cost and other liabilities of taking that action.

The trustee must not have taken action for 60 days after receipt of the above notice and offer of indemnity.

The holders of a majority in principal amount of the debt securities must not have given the trustee a direction inconsistent with the above notice during that 60 day period.

However, you are entitled at any time to bring a lawsuit for the payment of money due on your debt securities on or after the due date.

Holders of a majority in principal amount of the debt securities of the affected series may waive any past defaults other than:

the payment of principal, any premium or interest; or

in respect of a covenant that cannot be modified or amended without the consent of each holder.

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**Book-entry and other indirect holders should consult their banks or brokers for information on how to give notice or direction to or make a request of the trustee and how to declare or cancel an acceleration of maturity.**

Each year, we will furnish to each trustee a written statement of certain of our officers certifying that to their knowledge we are in compliance with the indenture and the debt securities, or else specifying any default.

**MERGER OR CONSOLIDATION**

Under the terms of the indenture, we are generally permitted to consolidate or merge with another entity. We are also permitted to sell all or substantially all of our assets to another entity. However, unless the prospectus supplement relating to certain debt securities states otherwise, we may not take any of these actions unless all the following conditions are met:

Where we merge out of existence or sell our assets, the resulting entity must agree to be legally responsible for our obligations under the debt securities.

Immediately after giving effect to such transaction, no Default or Event of Default shall have happened and be continuing.

Under the indenture, no merger or sale of assets may be made if as a result any of our property or assets or any property or assets of one of our subsidiaries, if any, would become subject to any mortgage, lien or other encumbrance unless either (a) the mortgage, lien or other encumbrance could be created pursuant to the limitation on liens covenant in the indenture without equally and ratably securing the indenture securities or (b) the indenture securities are secured equally and ratably with or prior to the debt secured by the mortgage, lien or other encumbrance.

We must deliver certain certificates and documents to the trustee.

We must satisfy any other requirements specified in the prospectus supplement relating to a particular series of debt securities.

**MODIFICATION OR WAIVER**

There are three types of changes we can make to the indenture and the debt securities issued thereunder.

**Changes Requiring Your Approval**

First, there are changes that we cannot make to your debt securities without your specific approval. The following is a list of those types of changes:

change the stated maturity of the principal of or interest on a debt security;

reduce any amounts due on a debt security;

reduce the amount of principal payable upon acceleration of the maturity of a security following a default;

adversely affect any right of repayment at the holder's option;

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change the place (except as otherwise described in the prospectus or prospectus supplement) or currency of payment on a debt security;

impair your right to sue for payment;



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adversely affect any right to convert or exchange a debt security in accordance with its terms;

modify the subordination provisions in the indenture in a manner that is adverse to holders of the debt securities;

reduce the percentage of holders of debt securities whose consent is needed to modify or amend the indenture;

reduce the percentage of holders of debt securities whose consent is needed to waive compliance with certain provisions of the indenture or to waive certain defaults;

modify any other aspect of the provisions of the indenture dealing with supplemental indentures, modification and waiver of past defaults, changes to the quorum or voting requirements or the waiver of certain covenants; and

change any obligation we have to pay additional amounts.

**Changes Not Requiring Approval**

The second type of change does not require any vote by the holders of the debt securities. This type is limited to clarifications and certain other changes that would not adversely affect holders of the outstanding debt securities in any material respect. We also do not need any approval to make any change that affects only debt securities to be issued under the indenture after the change takes effect.

**Changes Requiring Majority Approval**

Any other change to the indenture and the debt securities would require the following approval:

If the change affects only one series of debt securities, it must be approved by the holders of a majority in principal amount of that series.

If the change affects more than one series of debt securities issued under the same indenture, it must be approved by the holders of a majority in principal amount of all of the series affected by the change, with all affected series voting together as one class for this purpose.

The holders of a majority in principal amount of all of the series of debt securities issued under an indenture, voting together as one class for this purpose, may waive our compliance with some of our covenants in that indenture. However, we cannot obtain a waiver of a payment default or of any of the matters covered by the bullet points included above under " Changes Requiring Your Approval."

**Further Details Concerning Voting**

When taking a vote, we will use the following rules to decide how much principal to attribute to a debt security:

For original issue discount securities, we will use the principal amount that would be due and payable on the voting date if the maturity of these debt securities were accelerated to that date because of a default.

For debt securities whose principal amount is not known (for example, because it is based on an index), we will use a special rule for that debt security described in the prospectus supplement.



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For debt securities denominated in one or more foreign currencies, we will use the U.S. dollar equivalent.

Debt securities will not be considered outstanding, and therefore not eligible to vote, if we have deposited or set aside in trust money for their payment or redemption. Debt securities will also not be eligible to vote if they have been fully defeased as described later under "Defeasance Full Defeasance."

We will generally be entitled to set any day as a record date for the purpose of determining the holders of outstanding indenture securities that are entitled to vote or take other action under the indenture. If we set a record date for a vote or other action to be taken by holders of one or more series, that vote or action may be taken only by persons who are holders of outstanding indenture securities of those series on the record date and must be taken within eleven months following the record date.

**Book-entry and other indirect holders should consult their banks or brokers for information on how approval may be granted or denied if we seek to change the indenture or the debt securities or request a waiver.**

**DEFEASANCE**

The following provisions will be applicable to each series of debt securities unless we state in the applicable prospectus supplement that the provisions of covenant defeasance and full defeasance will not be applicable to that series.

**Covenant Defeasance**

Under current United States federal tax law, we can make the deposit described below and be released from some of the restrictive covenants in the indenture under which the particular series was issued. This is called "covenant defeasance." In that event, you would lose the protection of those restrictive covenants but would gain the protection of having money and government securities set aside in trust to repay your debt securities. If applicable, you also would be released from the subordination provisions described under "Indenture Provisions Subordination" below. In order to achieve covenant defeasance, we must do the following:

If the debt securities of the particular series are denominated in U.S. dollars, we must deposit in trust for the benefit of all holders of such debt securities a combination of money and United States government or United States government agency notes or bonds that will generate enough cash to make interest, principal and any other payments on the debt securities on their various due dates.

We must deliver to the trustee a legal opinion of our counsel confirming that, under current U.S. federal income tax law, we may make the above deposit without causing you to be taxed on the debt securities any differently than if we did not make the deposit and just repaid the debt securities ourselves at maturity.

We must deliver to the trustee a legal opinion of our counsel stating that the above deposit does not require registration by us under the Investment Company Act and a legal opinion and officers' certificate stating that all conditions precedent to covenant defeasance have been complied with.

If we accomplish covenant defeasance, you can still look to us for repayment of the debt securities if there were a shortfall in the trust deposit or the trustee is prevented from making payment. For example, if one of the remaining Events of Default occurred (such as our bankruptcy) and the debt securities became immediately due and payable, there might be a shortfall. Depending on the event causing the default, you may not be able to obtain payment of the shortfall.

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**Full Defeasance**

If there is a change in U.S. federal tax law, as described below, we can legally release ourselves from all payment and other obligations on the debt securities of a particular series (called "full defeasance") if we put in place the following other arrangements for you to be repaid:

If the debt securities of the particular series are denominated in U.S. dollars, we must deposit in trust for the benefit of all holders of such debt securities a combination of money and United States government or United States government agency notes or bonds that will generate enough cash to make interest, principal and any other payments on the debt securities on their various due dates.

We must deliver to the trustee a legal opinion confirming that there has been a change in current U.S. federal tax law or an IRS ruling that allows us to make the above deposit without causing you to be taxed on the debt securities any differently than if we did not make the deposit and just repaid the debt securities ourselves at maturity. Under current U.S. federal tax law, the deposit and our legal release from the debt securities would be treated as though we paid you your share of the cash and notes or bonds at the time the cash and notes or bonds were deposited in trust in exchange for your debt securities and you would recognize gain or loss on the debt securities at the time of the deposit.

We must deliver to the trustee a legal opinion of our counsel stating that the above deposit does not require registration by us under the Investment Company Act and a legal opinion and officers' certificate stating that all conditions precedent to defeasance have been complied with.

If we ever did accomplish full defeasance, as described above, you would have to rely solely on the trust deposit for repayment of the debt securities. You could not look to us for repayment in the unlikely event of any shortfall. Conversely, the trust deposit would most likely be protected from claims of our lenders and other creditors if we ever became bankrupt or insolvent. If applicable, you would also be released from the subordination provisions described later under "Indenture Provisions Subordination."

**FORM, EXCHANGE AND TRANSFER OF CERTIFICATED REGISTERED SECURITIES**

Holders may exchange their certificated securities, if any, for debt securities of smaller denominations or combined into fewer debt securities of larger denominations, as long as the total principal amount is not changed.

Holders may exchange or transfer their certificated securities, if any, at the office of their trustee. We have appointed the trustee to act as our agent for registering debt securities in the names of holders transferring debt securities. We may appoint another entity to perform these functions or perform them ourselves.

Holders will not be required to pay a service charge to transfer or exchange their certificated securities, if any, but they may be required to pay any tax or other governmental charge associated with the transfer or exchange. The transfer or exchange will be made only if our transfer agent is satisfied with the holder's proof of legal ownership.

If we have designated additional transfer agents for your debt security, they will be named in your prospectus supplement. We may appoint additional transfer agents or cancel the appointment of any particular transfer agent. We may also approve a change in the office through which any transfer agent acts.

If any certificated securities of a particular series are redeemable and we redeem less than all the debt securities of that series, we may block the transfer or exchange of those debt securities during

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the period beginning 15 days before the day we mail the notice of redemption and ending on the day of that mailing, in order to freeze the list of holders to prepare the mailing. We may also refuse to register transfers or exchanges of any certificated securities selected for redemption, except that we will continue to permit transfers and exchanges of the unredeemed portion of any debt security that will be partially redeemed.

**RESIGNATION OF TRUSTEE**

Each trustee may resign or be removed with respect to one or more series of indenture securities provided that a successor trustee is appointed to act with respect to these series. In the event that two or more persons are acting as trustee with respect to different series of indenture securities under the indenture, each of the trustees will be a trustee of a trust separate and apart from the trust administered by any other trustee.

**INDENTURE PROVISIONS SUBORDINATION**

Upon any distribution of our assets upon our dissolution, winding up, liquidation or reorganization, the payment of the principal of (and premium, if any) and interest, if any, on any indenture securities denominated as subordinated debt securities is to be subordinated to the extent provided in the indenture in right of payment to the prior payment in full of all Senior Indebtedness (as defined below), but our obligation to you to make payment of the principal of (and premium, if any) and interest, if any, on such subordinated debt securities will not otherwise be affected. In addition, no payment on account of principal (or premium, if any), sinking fund or interest, if any, may be made on such subordinated debt securities at any time unless full payment of all amounts due in respect of the principal (and premium, if any), sinking fund and interest on Senior Indebtedness has been made or duly provided for in money or money's worth.

In the event that, notwithstanding the foregoing, any payment by us is received by the trustee in respect of subordinated debt securities or by the holders of any of such subordinated debt securities before all Senior Indebtedness is paid in full, the payment or distribution must be paid over to the holders of the Senior Indebtedness or on their behalf for application to the payment of all the Senior Indebtedness remaining unpaid until all the Senior Indebtedness has been paid in full, after giving effect to any concurrent payment or distribution to the holders of the Senior Indebtedness. Subject to the payment in full of all Senior Indebtedness upon this distribution by us, the holders of such subordinated debt securities will be subrogated to the rights of the holders of the Senior Indebtedness to the extent of payments made to the holders of the Senior Indebtedness out of the distributive share of such subordinated debt securities.

By reason of this subordination, in the event of a distribution of our assets upon our insolvency, certain of our senior creditors may recover more, ratably, than holders of any subordinated debt securities. The indenture provides that these subordination provisions will not apply to money and securities held in trust under the defeasance provisions of the indenture.

"Senior Indebtedness" is defined in the indenture as the principal of (and premium, if any) and unpaid interest on:

our indebtedness (including indebtedness of others guaranteed by us), whenever created, incurred, assumed or guaranteed, for money borrowed (other than indenture securities issued under the indenture and denominated as subordinated debt securities), unless in the instrument creating or evidencing the same or under which the same is outstanding it is provided that this indebtedness is not senior or prior in right of payment to the subordinated debt securities, and

renewals, extensions, modifications and refinancings of any of this indebtedness.

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If this prospectus is being delivered in connection with the offering of a series of indenture securities denominated as subordinated debt securities, the accompanying prospectus supplement will set forth the approximate amount of our Senior Indebtedness outstanding as of a recent date.

**THE TRUSTEE UNDER THE INDENTURE**

U.S. Bank National Association will serve as the trustee under the indenture.

**CERTAIN CONSIDERATIONS RELATING TO FOREIGN CURRENCIES**

Debt securities denominated or payable in foreign currencies may entail significant risks. These risks include the possibility of significant fluctuations in the foreign currency markets, the imposition or modification of foreign exchange controls and potential illiquidity in the secondary market. These risks will vary depending upon the currency or currencies involved and will be more fully described in the applicable prospectus supplement.

**BOOK-ENTRY DEBT SECURITIES**

The Depository Trust Company ("DTC") will act as securities depository for the debt securities. The debt securities will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for the debt securities, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC").

DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's Ratings Services' highest rating: AAA. The DTC Rules applicable to its participants are on file with the SEC. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of debt securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the debt securities on DTC's records. The ownership interest of each actual purchaser of each security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of

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ownership interests in the debt securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in debt securities, except in the event that use of the book-entry system for the debt securities is discontinued.

To facilitate subsequent transfers, all debt securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of debt securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the debt securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such debt securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the debt securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the debt securities unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to us as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the debt securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the debt securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from us or the trustee on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the trustee, or us, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of us or the trustee, but disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the debt securities at any time by giving reasonable notice to us or to the trustee. Under such circumstances, in the event that a successor securities depository is not obtained, certificates are required to be printed and delivered. We may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that we believe to be reliable, but we take no responsibility for the accuracy thereof.

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**DESCRIPTION OF OUR UNITS**

The following is a general description of the terms of the units we may issue from time to time. Particular terms of any units we offer will be described in the prospectus supplement relating to such units. For a complete description of the terms of particular units, you should read both this prospectus and the prospectus supplement relating to those particular units.

We may issue units comprised of one or more of the other securities described in this prospectus in any combination. Each unit may also include debt obligations of third parties, such as U.S. Treasury securities. Each unit will be issued so that the holder of the unit is also the holder of each security included in the unit. Thus, the holder of a unit will have the rights and obligations of a holder of each included security.

A prospectus supplement will describe the particular terms of any series of units we may issue, including the following:

the designation and terms of the units and of the securities comprising the units, including whether and under what circumstances the securities comprising the units may be held or transferred separately;

a description of the terms of any unit agreement governing the units;

a description of the provisions for the payment, settlement, transfer or exchange of the units; and

whether the units will be issued in fully registered or global form.



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**SALES OF COMMON STOCK BELOW NET ASSET VALUE**

At our 2011 annual stockholders meeting, subject to certain determinations required to be made by our board of directors, our stockholders approved our ability to sell or otherwise issue shares of our common stock, not exceeding 25% of our then outstanding common stock, at a price below the then current net asset value per share during a period beginning on June 6, 2011 and expiring on the earlier of June 6, 2012 and the date of our 2012 annual stockholders meeting.

In order to sell shares of common stock pursuant to this authorization, no further authorization from our stockholders has to be solicited, but a majority of our directors who have no financial interest in the sale and a majority of our independent directors must (a) find that the sale is in our best interests and in the best interests of our stockholders and (b) in consultation with any underwriter or underwriters of the offering, make a good faith determination as of a time either immediately prior to the first solicitation by us or on our behalf of firm commitments to purchase such shares of common stock, or immediately prior to the issuance of such common stock, that the price at which such shares of common stock are to be sold is not less than a price which closely approximates the market value of those shares of common stock, less any distributing commission or discount.

Any offering of common stock below its net asset value per share will be designed to raise capital for investment in accordance with our investment objective.

In making a determination that an offering of common stock below its net asset value per share is in our and our stockholders' best interests, our board of directors will consider a variety of factors including:

the effect that an offering below net asset value per share would have on our stockholders, including the potential dilution to the net asset value per share of our common stock our stockholders would experience as a result of the offering;

the amount per share by which the offering price per share and the net proceeds per share are less than our most recently determined net asset value per share;

the relationship of recent market prices of par common stock to net asset value per share and the potential impact of the offering on the market price per share of our common stock;

whether the estimated offering price would closely approximate the market value of shares of our common stock;

the potential market impact of being able to raise capital during the current financial market difficulties;

the nature of any new investors anticipated to acquire shares of our common stock in the offering;

the anticipated rate of return on and quality, type and availability of investments; and

the leverage available to us.

Our board of directors will also consider the fact that sales of shares of common stock at a discount will benefit our investment adviser as the investment adviser will earn additional investment management fees on the proceeds of such offerings, as it would from the offering of any other of our securities or from the offering of common stock at premium to net asset value per share.

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We will not sell shares of our common stock pursuant to stockholder approval (or any rights, warrants or units to purchase shares of our common stock) under this prospectus or an accompanying prospectus supplement without first filing a new post-effective amendment to the registration statement if the cumulative dilution to our net asset value per share from offerings under the registration

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statement, as amended by such post-effective amendment, exceeds 15%. This would be measured separately for each offering pursuant to the registration statement, as amended by this post-effective amendment, by calculating the percentage dilution or accretion to aggregate net asset value from that offering and then summing the percentage from each offering. For example, if our most recently determined net asset value per share at the time of the first offering is \$15.00 and we have 30 million shares of common stock outstanding, the sale of 6 million shares of common stock at net proceeds to us of \$7.50 per share (a 50% discount) would produce dilution of 8.33%. If we subsequently determined that our net asset value per share increased to \$15.75 on the then 36 million shares of common stock outstanding and then made an additional offering, we could, for example, sell approximately an additional 7.2 million shares of common stock at net proceeds to us of \$9.45 per share, which would produce dilution of 6.67%, before we would reach the aggregate 15% limit.

Sales by us of our common stock at a discount from net asset value per share pose potential risks for our existing stockholders whether or not they participate in the offering, as well as for new investors who participate in the offering. Any sale of common stock at a price below net asset value per share would result in an immediate dilution to existing common stockholders who do not participate in such sale on at least a pro-rata basis. See "Risk Factors Risks Relating to Offerings Pursuant to this Prospectus The net asset value per share of our common stock may be diluted if we sell shares of our common stock in one or more offerings at prices below the then current net asset value per share of our common stock or securities to subscribe for or convertible into shares of our common stock."

The following three headings and accompanying tables explain and provide hypothetical examples on the impact of an offering of our common stock at a price less than net asset value per share on three different types of investors:

existing stockholders who do not purchase any shares in the offering;

existing stockholders who purchase a relatively small amount of shares in the offering or a relatively large amount of shares in the offering; and

new investors who become stockholders by purchasing shares in the offering.

**Impact On Existing Stockholders Who Do Not Participate in the Offering**

Our existing stockholders who do not participate in an offering below net asset value per share or who do not buy additional shares in the secondary market at the same or lower price as we obtain in the offering (after expenses and commissions) face the greatest potential risks. These stockholders will experience an immediate dilution in the net asset value of the shares of common stock they hold and their net asset value per share. These stockholders will also experience a disproportionately greater decrease in their participation in our earnings and assets and their voting power than the increase we will experience in our assets, potential earning power and voting interests due to such offering. These stockholders may also experience a decline in the market price of their shares, which often reflects to some degree announced or potential increases and decreases in net asset value per share. This decrease could be more pronounced as the size of the offering and level of discounts increases. Further, if current stockholders do not purchase any shares to maintain their percentage interest, regardless of whether such offering is above or below the then current net asset value, their voting power will be diluted.

The following chart illustrates the level of net asset value dilution that would be experienced by a nonparticipating stockholder in three different hypothetical offerings of different sizes and levels of discount from net asset value per share. It is not possible to predict the level of market price decline that may occur.

The examples assume that the issuer has 30 million shares outstanding, \$600 million in total assets and \$150 million in total liabilities. The current net asset value and net asset value per share are

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thus \$450 million and \$15.00. The chart illustrates the dilutive effect on Stockholder A of (a) an offering of 1.5 million shares of common stock (5% of the outstanding shares) at \$14.25 per share after offering expenses and commissions (a 5% discount from net asset value), (b) an offering of 3 million shares of common stock (10% of the outstanding shares) at \$13.50 per share after offering expenses and commissions (a 10% discount from net asset value) and (c) an offering of 6 million shares of common stock (20% of the outstanding shares) at \$12.00 per share after offering expenses and commissions (a 20% discount from net asset value). The prospectus supplement pursuant to which any discounted offering is made will include a chart based on the actual number of shares of common stock in such offering and the actual discount to the most recently determined net asset value. It is not possible to predict the level of market price decline that may occur.

|   | Prior to<br>Sale<br>Below NAV | Example 1<br>5% Offering at<br>5% Discount<br>Following<br>Sale | %<br>Change | Example 2<br>10% Offering at<br>10% Discount<br>Following<br>Sale | %<br>Change | Example 3<br>20% Offering at<br>20% Discount<br>Following<br>Sale | %<br>Change |
|---|-------------------------------|---|-------------|---|-------------|---|-------------|
| <b>Offering Price</b>   |                               |   |             |   |             |   |             |
| Price per Share to Public   |                               | \$15.00   |             | \$14.21   |             | \$12.63   |             |
| Net Proceeds per Share to Issuer  |                               | \$14.25   |             | \$13.50   |             | \$12.00   |             |
| <b>Decrease to Net Asset Value</b>  |                               |   |             |   |             |   |             |
| Total Shares Outstanding  | 30,000,000                    | 31,500,000  | 5.00%       | 33,000,000  | 10.00%      | 36,000,000  | 20.00%      |
| Net Asset Value per Share   | \$15.00                       | \$14.96   | (0.24)%     | \$14.86   | (0.91)%     | \$14.50   | (3.33)%     |
| <b>Dilution to Nonparticipating Stockholder</b>   |                               |   |             |   |             |   |             |
| Shares Held by Stockholder A  | 30,000                        | 30,000  | 0.00%       | 30,000  | 0.00%       | 30,000  | 0.00%       |
| Percentage Held by Stockholder A  | 0.10%                         | 0.10%(1)  | (4.76)%     | 0.09%   | (9.09)%     | 0.08%   | (16.67)%    |
| Total Net Asset Value Held by Stockholder A   | \$450,000                     | \$448,929   | (0.24)%     | \$445,909   | (0.91)%     | \$435,000   | (3.33)%     |
| Total Investment by Stockholder A (Assumed to Be \$15.00 per Share)                                       | \$450,000                     | \$450,000   |             | \$450,000   |             | \$450,000   |             |
| Total Dilution to Stockholder A (Total Net Asset Value Less Total Investment)                             |                               | \$(1,071)   |             | \$(4,091)   |             | \$(15,000)  |             |
| Investment per Share Held by Stockholder A (Assumed to be \$15.00 per Share on Shares Held Prior to Sale) | \$15.00                       | \$15.00   | 0.00%       | \$15.00   | 0.00%       | \$15.00   | 0.00%       |
| Net Asset Value per Share Held by Stockholder A   |                               | \$14.96   |             | \$14.86   |             | \$14.50   |             |
| Dilution per Share Held by Stockholder A (Net Asset Value per Share Less Investment per Share)            |                               | \$(0.04)  |             | \$(0.14)  |             | \$(0.50)  |             |
| Percentage Dilution to Stockholder A (Dilution per Share Divided by Investment per Share)                 |                               |   | (0.24)%     |   | (0.91)%     |   | (3.33)%     |

(1) To be carried out to the third decimal place.

**Impact On Existing Stockholders Who Do Participate in the Offering**

Our existing stockholders who participate in an offering below net asset value per share or who buy additional shares in the secondary market at the same or lower price as we obtain in the offering (after expenses and commissions) will experience the same types of net asset value dilution as the nonparticipating stockholders, although at a lower level, to the extent they purchase less than the same percentage of the discounted offering as their interest in shares of our common stock immediately prior to the offering. The level of net asset value dilution will decrease as the number of shares such stockholders purchase increases. Existing stockholders who buy more than such percentage will experience net asset value dilution but will, in contrast to existing stockholders who purchase less than their proportionate share of the offering, experience accretion in net asset value per share over their investment per share and will also experience a disproportionately greater increase in their participation in our earnings and assets and their voting power than our increase in assets, potential earning power

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and voting interests due to such offering. The level of accretion will increase as the excess number of shares such stockholder purchases increases. Even a stockholder who over-participates will, however, be subject to the risk that we may make additional discounted offerings in which such stockholder does not participate, in which case such a stockholder will experience net asset value dilution as described above in such subsequent offerings. These stockholders may also experience a decline in the market price of their shares, which often reflects to some degree announced or potential increases and decreases in net asset value per share. This decrease could be more pronounced as the size of the offering and level of discounts increases.

The following chart illustrates the level of dilution and accretion in the hypothetical 20% discount offering from the prior chart (Example 3) for a stockholder that acquires shares equal to (a) 50% of its proportionate share of the offering (*i.e.*, 3,000 shares, which is 0.05% of an offering of 6 million shares) rather than its 0.10% proportionate share and (b) 150% of such percentage (*i.e.* 9,000 shares, which is 0.15% of an offering of 6 million shares rather than its 0.10% proportionate share). The prospectus supplement pursuant to which any discounted offering is made will include a chart for these examples based on the actual number of shares in such offering and the actual discount from the most recently determined net asset value per share. It is not possible to predict the level of market price decline that may occur.

|  | Prior to Sale<br>Below NAV | 50% Participation<br>Following<br>Sale | %<br>Change | 150% Participation<br>Following<br>Sale | %<br>Change |
|--|----------------------------|--|-------------|---|-------------|
| <b>Offering Price</b>  |                            |  |             |   |             |
| Price per Share to Public  |                            | \$12.63                                |             | \$12.63                                 |             |
| Net Proceeds per Share to Issuer   |                            | \$12.00                                |             | \$12.00                                 |             |
| <b>Decrease/Increase to Net Asset Value</b>  |                            |  |             |   |             |
| Total Shares Outstanding   | 30,000,000                 | 36,000,000                             | 20%         | 36,000,000                              | 20%         |
| Net Asset Value per Share  | \$15.00                    | \$14.50                                | (3.33)%     | \$14.50                                 | (3.33)%     |
| <b>Dilution/Accretion to Participating Stockholder Shares<br/>Held by Stockholder A</b>                  |                            |  |             |   |             |
| Percentage Held by Stockholder A   | 0.10%                      | 0.09%                                  | (8.33)%     | 0.11%                                   | 8.33%       |
| Total Net Asset Value Held by Stockholder A  | \$450,000                  | \$478,500                              | 6.33%       | \$565,500                               | 25.67%      |
| Total Investment by Stockholder A (Assumed to be \$15.00 per Share on Shares Held Prior to Sale)         |                            | \$487,895                              |             | \$563,684                               |             |
| Total Dilution/Accretion to Stockholder A (Total Net Asset Value Less Total Investment)                  |                            | \$(9,395)                              |             | \$1,816                                 |             |
| Investment per Share Held by Stockholder A (Assumed to Be \$15.00 on Shares Held Prior to Sale)          | \$15.00                    | \$14.78                                | (1.44)%     | \$14.45                                 | (3.64)%     |
| Net Asset Value per Share Held by Stockholder A  |                            | \$14.50                                |             | \$14.50                                 |             |
| Dilution/Accretion per Share Held by Stockholder A (Net Asset Value per Share Less Investment per Share) |                            | \$(0.28)                               |             | \$0.05                                  | 0.40%       |
| Percentage Dilution/Accretion to Stockholder A (Dilution per Share Divided by Investment per Share)      |                            |  | (1.96)%     |   | 0.32%       |

**Impact On New Investors**

Investors who are not currently stockholders and who participate in an offering of shares of our common stock below net asset value, but whose investment per share is greater than the resulting net asset value per share due to selling compensation and expenses paid by the Company, will experience an immediate decrease, although small, in the net asset value of their shares and their net asset value per share compared to the price they pay for their shares. Investors who are not currently stockholders and who participate in an offering of shares of our common stock below net asset value per share and whose investment per share is also less than the resulting net asset value per share due to selling compensation and expenses paid by the Company being significantly less than the discount per share, will experience an immediate increase in the net asset value of their shares and their net asset value per share compared to the price they pay for their shares. These investors will experience a

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disproportionately greater participation in our earnings and assets and their voting power than our increase in assets, potential earning power and voting interests due to such offering. These investors will, however, be subject to the risk that we may make additional discounted offerings in which such new stockholder does not participate, in which case such new stockholder will experience dilution as described above in such subsequent offerings. These investors may also experience a decline in the market price of their shares, which often reflects to some degree announced or potential increases and decreases in net asset value per share. This decrease could be more pronounced as the size of the offering and level of discounts increases.

The following chart illustrates the level of dilution or accretion for new investors that would be experienced by a new investor in the same hypothetical 5%, 10% and 20% discounted offerings as described in the first chart above. The illustration is for a new investor who purchases the same percentage (0.10%) of the shares in the offering as Stockholder A in the prior examples held immediately prior to the offering. The prospectus supplement pursuant to which any discounted offering is made will include a chart for these examples based on the actual number of shares in such offering and the actual discount from the most recently determined net asset value per share. It is not possible to predict the level of market price decline that may occur.

|   | Prior to<br>Sale<br>Below NAV | Example 1<br>5% Offering at<br>5% Discount |             | Example 2<br>10% Offering at<br>10% Discount |             | Example 3<br>20% Offering at<br>20% Discount |             |
|---|-------------------------------|--|-------------|--|-------------|--|-------------|
|   |                               | Following<br>Sale                          | %<br>Change | Following<br>Sale                            | %<br>Change | Following<br>Sale                            | %<br>Change |
| <b>Offering Price</b>   |                               |  |             |  |             |  |             |
| Price per Share to Public   |                               | \$15.00                                    |             | \$14.21                                      |             | \$12.63                                      |             |
| Net Proceeds per Share to Issuer  |                               | \$14.25                                    |             | \$13.50                                      |             | \$12.00                                      |             |
| <b>Decrease/Increase to Net Asset Value</b>   |                               |  |             |  |             |  |             |
| Total Shares Outstanding  | 30,000,000                    | 31,500,000                                 | 5%          | 33,000,000                                   | 10%         | 36,000,000                                   | 20%         |
| Net Asset Value per Share   | \$15.00                       | \$14.96                                    | (0.24)%     | \$14.86                                      | (0.91)%     | \$14.50                                      | (3.33)%     |
| <b>Dilution/Accretion to New Investor A</b>   |                               |  |             |  |             |  |             |
| Shares Held by Investor A   | 0                             | 1,500                                      |             | 3,000  |             | 6,000  |             |
| Percentage Held by Investor A   | 0.00%                         | 0.00%                                      |             | 0.01%  |             | 0.02%  |             |
| Total Net Asset Value Held by Investor A  | \$0                           | \$22,446                                   |             | \$44,591                                     |             | \$87,000                                     |             |
| Total Investment by Investor A (At Price to Public)   |                               | \$22,500                                   |             | \$42,632                                     |             | \$75,789                                     |             |
| Total Dilution/Accretion to Investor A (Total Net Asset Value Less Total Investment)                  |                               | \$(54)                                     |             | \$1,959                                      |             | \$11,211                                     |             |
| Investment per Share Held by Investor A   | \$0                           | \$15.00                                    |             | \$14.21                                      |             | \$12.63                                      |             |
| Net Asset Value per Share Held by Investor A  |                               | \$14.96                                    |             | \$14.86                                      |             | \$14.50                                      |             |
| Dilution/Accretion per Share Held by Investor A (Net Asset Value per Share Less Investment per Share) |                               | \$(0.04)                                   |             | \$0.65                                       |             | \$1.87                                       |             |
| Percentage Dilution/Accretion to Investor A (Dilution per Share Divided by Investment per Share)      |                               |  | (0.24)%     |  | 4.60%       |  | 14.79%      |

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**ISSUANCE OF WARRANTS OR SECURITIES TO SUBSCRIBE  
FOR OR CONVERTIBLE INTO SHARES OF OUR COMMON STOCK**

At our 2008 annual stockholders meeting, our stockholders approved our ability to sell or otherwise issue warrants or securities to subscribe for or convertible into shares of our common stock, not exceeding 25% of our then outstanding common stock, at an exercise or conversion price that, at the date of issuance, will not be less than the greater of the market value per share of our common stock and the net asset value per share of our common stock. The authorization granted to sell or authorize issue warrants or securities to subscribe for or convertible into shares of our common stock has no expiration. Any exercise of warrants or securities to subscribe for or convertible into shares of our common stock at an exercise or conversion price that is below net asset value at the time of such exercise or conversion would result in an immediate dilution to existing common stockholders. This dilution would include reduction in net asset value as a result of the proportionately greater decrease in the stockholders' interest in our earnings and assets and their voting interest than the increase in our assets resulting from such offering.

As a result of obtaining this authorization, in order to sell or otherwise issue such securities, (a) the exercise, conversion or subscription rights in such securities must expire by their terms within 10 years, (b) with respect to any warrants, options or rights to subscribe or convert to our common stock that are issued along with other securities, such warrants, options or rights must not be separately transferable, (c) the exercise or conversion price of such securities must not be less than the greater of the market value per share of our common stock and the net asset value per share of our common stock at the date of issuance of such securities, (d) the issuance of such securities must be approved by a majority of the board of directors who have no financial interest in the transaction and a majority of the independent directors on the basis that such issuance is in the best interests of the Company and its stockholders and (e) the number of shares of our common stock that would result from the exercise or conversion of such securities and all other securities convertible, exercisable or exchangeable into shares of our common stock outstanding at the time of issuance of such securities must not exceed 25% of our outstanding common stock at such time.

We could also sell shares of common stock below net asset value per share in certain other circumstances, including through subscription rights issued in rights offerings. See "Description of Our Subscription Rights" and "Risk Factors Risks Relating to Offerings Pursuant to this Prospectus Your interest in us may be diluted if you do not fully exercise your subscription rights in any rights offering. In addition, if the subscription price is less than our net asset value per share, then you will experience an immediate dilution of the aggregate net asset value of your shares."

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**REGULATION**

We have elected to be regulated as a BDC under the Investment Company Act and have elected to be treated as a RIC under Subchapter M of the Code. As with other companies regulated by the Investment Company Act, a BDC must adhere to certain substantive regulatory requirements. The Investment Company Act contains prohibitions and restrictions relating to transactions between BDCs and certain affiliates (including any investment advisers or sub-advisers), principal underwriters and certain affiliates of those affiliates or underwriters. Among other things, we generally cannot invest in any portfolio company in which funds managed by Ares or any of its downstream affiliates (including Ares Capital Management) (other than Ares Capital and its downstream affiliates) currently has an investment (although we may co-invest on a concurrent basis with other funds managed by Ares or any of its downstream affiliates (including Ares Capital Management), subject to compliance with existing regulatory guidance, applicable regulations and our allocation procedures). Some of these co-investments would only be permitted pursuant to an exemptive order from the SEC. We have applied for an exemptive order from the SEC that would permit us to co-invest with funds managed by Ares or its downstream affiliates (including Ares Capital Management). Any such order will be subject to certain terms and conditions. There is no assurance that the application for exemptive relief will be granted by the SEC. Accordingly, we cannot assure you that we will be permitted to co-invest with funds managed by Ares or any of its downstream affiliates (including Ares Capital Management). See "Risk Factors Risks Relating to Our Business We may not replicate Ares' historical success and our ability to enter into transactions with Ares and our other affiliates is restricted."

The Investment Company Act also requires that a majority of our directors be persons other than "interested persons," as that term is defined in Section 2(a)(19) of the Investment Company Act, referred to herein as "independent directors." In addition, the Investment Company Act provides that we may not change the nature of our business so as to cease to be, or to withdraw our election as, a BDC unless that change is approved by holders of at least a majority of our outstanding voting securities. Under the Investment Company Act, the vote of holders of at least a "majority of the outstanding voting securities" means the vote of the holders of the lesser of: (a) 67% or more of the outstanding shares of our common stock present at a meeting or represented by proxy if holders of more than 50% of the shares of our common stock are present or represented by proxy or (b) more than 50% of the outstanding shares of our common stock.

We may invest up to 100% of our assets in securities acquired directly from issuers in privately negotiated transactions. With respect to such securities, we may, for the purpose of public resale, be deemed an "underwriter" as that term is defined in the Securities Act. Our intention is to not write (sell) or buy put or call options to manage risks associated with the publicly traded securities of our portfolio companies. We may enter into hedging transactions to manage the risks associated with interest rate and currency fluctuations. We may purchase or otherwise receive warrants or options to purchase the common stock of our portfolio companies in connection with acquisition financings or other investments. In connection with such an acquisition, we may acquire rights to require the issuers of acquired securities or their affiliates to repurchase them under certain circumstances. We also do not intend to acquire securities issued by any investment company that exceed the limits imposed by the Investment Company Act. Under these limits, we generally cannot acquire more than 3% of the voting stock of any investment company (as defined in the Investment Company Act), invest more than 5% of the value of our total assets in the securities of one investment company or invest more than 10% of the value of our total assets in the securities of investment companies in the aggregate. With regard to that portion of our portfolio invested in securities issued by investment companies, it should be noted that such investments might subject our stockholders to additional expenses.



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**QUALIFYING ASSETS**

A BDC must have been organized and have its principal place of business in the United States and must be operated for the purpose of making investments in the types of securities described in (1), (2) or (3) below. Thus, under the Investment Company Act, a BDC may not acquire any asset other than assets of the type listed in Section 55(a) of the Investment Company Act, which are referred to as qualifying assets, unless, at the time the acquisition is made, qualifying assets represent at least 70% of the company's total assets. The principal categories of qualifying assets relevant to our business are the following:

- (1) Securities purchased in transactions not involving any public offering from the issuer of such securities, which issuer (subject to certain limited exceptions):
  - (a) is an eligible portfolio company, or from any person who is, or has been during the preceding 13 months, an affiliated person of an eligible portfolio company, or from any other person, subject to such rules as may be prescribed by the SEC. An eligible portfolio company is defined in the Investment Company Act as any issuer that:
    - (i) is organized under the laws of, and has its principal place of business in, the United States;
    - (ii) is not an investment company (other than a small business investment company wholly owned by the BDC) or a company that would be an investment company but for certain exclusions under the Investment Company Act; and
    - (iii) does not have any class of securities listed on a national securities exchange;
  - (b) is a company that meets the requirements of (a)(i) and (ii) above, but is not an eligible portfolio company because it has issued a class of securities on a national securities exchange, if:
    - (i) at the time of the purchase, we own at least 50% of the (x) greatest number of equity securities of such issuer and securities convertible into or exchangeable for such securities; and (y) the greatest amount of debt securities of such issuer, held by us at any point in time during the period when such issuer was an eligible portfolio company; and
    - (ii) we are one of the 20 largest holders of record of such issuer's outstanding voting securities; or
  - (c) is a company that meets the requirements of (a)(i) and (ii) above, but is not an eligible portfolio company because it has issued a class of securities on a national securities exchange, if the aggregate market value of such company's outstanding voting and non-voting common equity is less than \$250.0 million.
- (2) Securities of any eligible portfolio company that we control.
- (3) Securities purchased in a private transaction from a U.S. issuer that is not an investment company or from an affiliated person of the issuer, or in transactions incident thereto, if the issuer is in bankruptcy and subject to reorganization or if the issuer, immediately prior to the purchase of its securities was unable to meet its obligations as they came due without material assistance other than conventional lending or financing arrangements.
- (4) Securities of an eligible portfolio company purchased from any person in a private transaction if there is no ready market for such securities and we already own 60% of the outstanding equity of the eligible portfolio company.



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- (5) Securities received in exchange for or distributed on or with respect to securities described in (1) through (4) above, or pursuant to the exercise of warrants or rights relating to such securities.
- (6) Cash, cash items, U.S. Government securities or high-quality debt securities maturing in one year or less from the time of investment.

**MANAGERIAL ASSISTANCE TO PORTFOLIO COMPANIES**

In order to count portfolio securities as qualifying assets for the purpose of the 70% test discussed above under "Qualifying Assets," the BDC must either control the issuer of the securities or must offer to make available to the issuer of the securities (other than small and solvent companies described above) significant managerial assistance; except that, where the BDC purchases such securities in conjunction with one or more other persons acting together, one of the other persons in the group may make available such managerial assistance (as long as the BDC itself does not make available significant managerial assistance solely in this fashion). Making available managerial assistance means, among other things, exercising control over the management or policies of the portfolio company or any arrangement whereby the BDC, through its directors, officers or employees, offers to provide, and, if the offer is accepted, does so provide, significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company.

**TEMPORARY INVESTMENTS**

Pending investment in other types of "qualifying assets," as described above, our investments may consist of cash, cash items, U.S. Government securities or high-quality debt securities maturing in one year or less from the time of investment, which we refer to, collectively, as "temporary investments," so that 70% of our assets are qualifying assets. Typically, we will invest in U.S. Treasury bills or in repurchase agreements, provided that such agreements are fully collateralized by cash or securities issued by the U.S. Government or its agencies. A repurchase agreement involves the purchase by an investor, such as us, of a specified security and the simultaneous agreement by the seller to repurchase it at an agreed-upon future date and at a price which is greater than the purchase price by an amount that reflects an agreed-upon interest rate. There is no percentage restriction on the proportion of our assets that may be invested in such repurchase agreements. However, if more than 25% of our total assets constitute repurchase agreements from a single counterparty, we may not meet the Diversification Tests in order to qualify as a RIC. Thus, we do not intend to enter into repurchase agreements with a single counterparty in excess of this limit. Our investment adviser will monitor the creditworthiness of the counterparties with which we enter into repurchase agreement transactions.

**INDEBTEDNESS AND SENIOR SECURITIES**

We are permitted, under specified conditions, to issue multiple classes of indebtedness and one class of stock senior to our common stock if our asset coverage, as defined in the Investment Company Act, is at least equal to 200% immediately after each such issuance. In addition, while any indebtedness and senior securities remain outstanding, we must make provisions to prohibit any distribution to our stockholders or the repurchase of such securities or shares unless we meet the applicable asset coverage ratios at the time of the distribution or repurchase. Specifically, we may be precluded from declaring dividends or repurchasing shares of our common stock unless our asset coverage is at least 200%. We may also borrow amounts up to 5% of the value of our total assets for temporary or emergency purposes without regard to asset coverage. For a discussion of the risks associated with leverage, see "Risk Factors Risks Relating to Our Business Regulations governing our operation as a BDC affect our ability to, and the way in which we, raise additional capital."

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**CODE OF ETHICS**

We and Ares Capital Management have each adopted a code of ethics pursuant to Rule 17j-1 under the Investment Company Act that establishes procedures for personal investments and restricts certain personal securities transactions. Personnel subject to each code may invest in securities for their personal investment accounts, including securities that may be purchased or held by us, so long as such investments are made in accordance with the code's requirements. Our code of ethics is filed as an exhibit to our registration statement of which this prospectus is a part. For information on how to obtain a copy of the code of ethics, see "Available Information."

**PROXY VOTING POLICIES AND PROCEDURES**

SEC-registered advisers that have the authority to vote (client) proxies (which authority may be implied from a general grant of investment discretion) are required to adopt policies and procedures reasonably designed to ensure that the adviser votes proxies in the best interests of its clients. Registered advisers also must maintain certain records on proxy voting. In most cases, we invest in securities that do not generally entitle it to voting rights in its portfolio companies. When we do have voting rights, we delegate the exercise of such rights to Ares Capital Management. Ares Capital Management's proxy voting policies and procedures are summarized below:

In determining how to vote, officers of our investment adviser consult with each other and other investment professionals of Ares, taking into account our and our investors' interests as well as any potential conflicts of interest. Our investment adviser consults with legal counsel to identify potential conflicts of interest. Where a potential conflict of interest exists, our investment adviser may, if it so elects, resolve it by following the recommendation of a disinterested third party, by seeking the direction of the independent directors of the Company or, in extreme cases, by abstaining from voting. While our investment adviser may retain an outside service to provide voting recommendations and to assist in analyzing votes, our investment adviser will not delegate its voting authority to any third party.

An officer of Ares Capital Management keeps a written record of how all such proxies are voted. Our investment adviser retains records of (a) proxy voting policies and procedures, (b) all proxy statements received (or it may rely on proxy statements filed on the SEC's EDGAR system in lieu thereof), (c) all votes cast, (d) investor requests for voting information and (e) any specific documents prepared or received in connection with a decision on a proxy vote. If it uses an outside service, our investment adviser may rely on such service to maintain copies of proxy statements and records, so long as such service will provide a copy of such documents promptly upon request.

Our investment adviser's proxy voting policies are not exhaustive and are designed to be responsive to the wide range of issues that may be subject to a proxy vote. In general, our investment adviser votes our proxies in accordance with these guidelines unless: (a) it has determined otherwise due to the specific and unusual facts and circumstances with respect to a particular vote, (b) the subject matter of the vote is not covered by these guidelines, (c) a material conflict of interest is present or (d) we find it necessary to vote contrary to our general guidelines to maximize stockholder value or the best interests of Ares Capital. In reviewing proxy issues, our investment adviser generally uses the following guidelines:

**Elections of Directors:** In general, our investment adviser will vote in favor of the management-proposed slate of directors. If there is a proxy fight for seats on a portfolio company's board of directors, or our investment adviser determines that there are other compelling reasons for withholding our vote, it will determine the appropriate vote on the matter. Our investment adviser may withhold votes for directors when it (a) believes a direct conflict of interest exists between the interests of the director and the stockholders, (b) concludes that the actions of the director are unlawful, unethical or negligent or (c) believes the board is entrenched in or dealing inadequately with performance problems, and/or acting with insufficient independence between the board and

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management. Finally, our investment adviser may withhold votes for directors of non-U.S. issuers where there is insufficient information about the nominees disclosed in the proxy statement.

**Appointment of Auditors:** We believe that a portfolio company remains in the best position to choose its independent auditors and our investment adviser will generally support management's recommendation in this regard.

**Changes in Capital Structure:** Changes in a portfolio company's charter or bylaws may be required by state or federal regulation. In general, our investment adviser will cast our votes in accordance with the management on such proposals. However, our investment adviser will consider carefully any proposal regarding a change in corporate structure that is not required by state or federal regulation.

**Corporate Restructurings, Mergers and Acquisitions:** We believe proxy votes dealing with corporate reorganizations are an extension of the investment decision. Accordingly, our investment adviser will analyze such proposals on a case-by-case basis and vote in accordance with its perception of our interests.

**Proposals Affecting Stockholder Rights:** We will generally vote in favor of proposals that give stockholders a greater voice in the affairs of a portfolio company and oppose any measure that seeks to limit such rights. However, when analyzing such proposals, our investment adviser will balance the financial impact of the proposal against any impairment of stockholder rights as well as of our investment in the portfolio company.

**Corporate Governance:** We recognize the importance of good corporate governance. Accordingly, our investment adviser will generally favor proposals that promote transparency and accountability within a portfolio company.

**Anti-Takeover Measures:** Our investment adviser will evaluate, on a case-by-case basis, any proposals regarding anti-takeover measures to determine the measure's likely effect on stockholder value dilution.

**Stock Splits:** Our investment adviser will generally vote with management on stock split matters.

**Limited Liability of Directors:** Our investment adviser will generally vote with management on matters that could adversely affect the limited liability of directors.

**Social and Corporate Responsibility:** Our investment adviser will review proposals related to social, political and environmental issues to determine whether they may adversely affect stockholder value. Our investment adviser may abstain from voting on such proposals where they do not have a readily determinable financial impact on stockholder value.

Stockholders may obtain information regarding how we voted proxies with respect to our portfolio securities during the twelve-month period ended March 31, 2011 free of charge by making a written request for proxy voting information to: Ares Capital Corporation, 2000 Avenue of the Stars, 12th Floor, Los Angeles, California 90067 or by calling us collect at (310) 401-4200.

**PRIVACY PRINCIPLES**

We are committed to maintaining the privacy of our stockholders and to safeguarding their non-public personal information. The following information is provided to help you understand what personal information we collect, how we protect that information and why, in certain cases, we may share information with select other parties.

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Generally, we do not receive any non-public personal information relating to our stockholders, although certain non-public personal information of our stockholders may become available to us. The non-public personal information that we may receive falls into the following categories:

information we receive from stockholders, whether we receive it orally, in writing or electronically. This includes stockholders' communications to us concerning their investment;

information about stockholders' transactions and history with us; or

other general information that we may obtain about stockholders, such as demographic and contact information such as a person's address.

We do not disclose any non-public personal information about our stockholders or former stockholders to anyone, except:

to our affiliates (such as our investment adviser and administrator) and their employees that have a legitimate business need for the information;

to our service providers (such as our accountants, attorneys, custodians, transfer agent, underwriters and proxy solicitors) and their employees, as is necessary to service recordholder accounts or otherwise provide the applicable services;

to comply with court orders, subpoenas, lawful discovery requests or other legal or regulatory requirements; or

as allowed or required by applicable law or regulation.

When the Company shares non-public stockholder personal information referred to above, the information is made available for limited business purposes and under controlled circumstances designed to protect our stockholders' privacy. The Company does not permit use of stockholder information for any non-business or marketing purpose, nor does the Company permit third parties to rent, sell, trade or otherwise release or disclose information to any other party.

The Company's service providers, such as its investment adviser, administrator and transfer agent, are required to maintain physical, electronic, and procedural safeguards to protect stockholder non-public personal information to prevent unauthorized access or use and to dispose of such information when it is no longer required.

Personnel of our affiliates may access stockholder information only for business purposes. The degree of access is based on the sensitivity of the information and on personnel need for the information to service a stockholder's account or comply with legal requirements.

If a stockholder ceases to be a stockholder, we will adhere to the privacy policies and practices as described above. We may choose to modify our privacy policies at any time. Before we do so, we will notify stockholders and provide a description of our privacy policy.

In the event of a corporate change in control resulting from, for example, a sale to, or merger with, another entity, or in the event of a sale of assets, we reserve the right to transfer stockholders' non-public personal information to the new party in control or the party acquiring assets.

**OTHER**

We have designated a chief compliance officer and established a compliance program pursuant to the requirements of the Investment Company Act. We are periodically examined by the SEC for compliance with the Investment Company Act.



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We are required to provide and maintain a bond issued by a reputable fidelity insurance company to protect us against larceny and embezzlement. Furthermore, as a BDC, we are prohibited from protecting any director or officer against any liability to the Company or our stockholders arising from willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person's office.

**Compliance with the Sarbanes-Oxley Act of 2002 and The NASDAQ Global Select Market Corporate Governance Regulations**

The Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") imposes a wide variety of regulatory requirements on publicly-held companies and their insiders. Many of these requirements affect us. The Sarbanes-Oxley Act has required us to review our policies and procedures to determine whether we comply with the Sarbanes-Oxley Act and the regulations promulgated thereunder. We will continue to monitor our compliance with all future regulations that are adopted under the Sarbanes-Oxley Act and will take actions necessary to ensure that we are in compliance therewith.

In addition, The NASDAQ Global Select Market has adopted various corporate governance requirements as part of its listing standards. We believe we are in compliance with such corporate governance listing standards. We will continue to monitor our compliance with all future listing standards and will take actions necessary to ensure that we are in compliance therewith.

**CUSTODIAN, TRANSFER AND DIVIDEND PAYING AGENT AND REGISTRAR**

Our securities are held under a custody agreement by U.S. Bank National Association. The address of the custodian is Corporate Trust Services, One Federal Street, 3rd Floor, Boston, MA 02110. BNY Mellon acts as the transfer agent, dividend paying agent and registrar for our common stock. The principal business address of BNY Mellon is 480 Washington Boulevard, Jersey City, NJ 07310.

**BROKERAGE ALLOCATION AND OTHER PRACTICES**

Since we generally acquire and dispose of our investments in privately negotiated transactions, we infrequently use brokers in the normal course of business.

Subject to policies established by our board of directors, the investment adviser, Ares Capital Management, is primarily responsible for the execution of the publicly traded securities portion of our portfolio transactions and the allocation of brokerage commissions. The investment adviser does not expect to execute transactions through any particular broker or dealer, but seeks to obtain the best net results for the Company, taking into account such factors as price (including the applicable brokerage commission or dealer spread), size of order, difficulty of execution, and operational facilities of the firm and the firm's risk and skill in positioning blocks of securities.

While the investment adviser generally seeks reasonably competitive trade execution costs, we will not necessarily pay the lowest spread or commission available. Subject to applicable legal requirements, the investment adviser may select a broker based partly upon brokerage or research services provided to the investment adviser and us and any other clients. In return for such services, we may pay a higher commission than other brokers would charge if the investment adviser determines in good faith that such commission is reasonable in relation to the services provided.

We have not paid any brokerage commissions during the three most recent fiscal years.



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**PLAN OF DISTRIBUTION**

We may offer, from time to time, in one or more offerings or series, up to \$2,000,000,000 of our common stock, preferred stock, debt securities, subscription rights to purchase shares of our common stock or warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, or units comprised of any combination of the foregoing, in one or more underwritten public offerings, at-the-market offerings, negotiated transactions, block trades, best efforts or a combination of these methods. We may sell the securities through underwriters or dealers, directly to one or more purchasers, including existing stockholders in a rights offering, through agents or through a combination of any such methods of sale. In the case of a rights offering, the applicable prospectus supplement will set forth the number of shares of our common stock issuable upon the exercise of each right and the other terms of such rights offering. Any underwriter or agent involved in the offer and sale of the securities will be named in the applicable prospectus supplement. A prospectus supplement or supplements will also describe the terms of the offering of the securities, including: the purchase price of the securities and the proceeds we will receive from the sale; any over-allotment options under which underwriters may purchase additional securities from us; any agency fees or underwriting discounts and other items constituting agents' or underwriters' compensation; the public offering price; any discounts or concessions allowed or re-allowed or paid to dealers; and any securities exchange or market on which the securities may be listed. Only underwriters named in the prospectus supplement will be underwriters of the securities offered by the prospectus supplement.

The distribution of the securities may be effected from time to time in one or more transactions at a fixed price or prices, which may be changed, at prevailing market prices at the time of sale, at prices related to such prevailing market prices, or at negotiated prices, provided, however, that the offering price per share of our common stock, less any underwriting commissions or discounts, must equal or exceed the net asset value per share of our common stock at the time of the offering except (a) in connection with a rights offering to our existing stockholders, (b) with the consent of the majority of our common stockholders or (c) under such circumstances as the SEC may permit. The price at which securities may be distributed may represent a discount from prevailing market prices.

In connection with the sale of the securities, underwriters or agents may receive compensation from us or from purchasers of the securities, for whom they may act as agents, in the form of discounts, concessions or commissions. Underwriters may sell the securities to or through dealers and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agents. Underwriters, dealers and agents that participate in the distribution of the securities may be deemed to be underwriters under the Securities Act, and any discounts and commissions they receive from us and any profit realized by them on the resale of the securities may be deemed to be underwriting discounts and commissions under the Securities Act. Any such underwriter or agent will be identified and any such compensation received from us will be described in the applicable prospectus supplement. The maximum aggregate commission or discount to be received by any member of FINRA or independent broker-dealer will not be greater than 8% of the gross proceeds of the sale of securities offered pursuant to this prospectus and any applicable prospectus supplement. We may also reimburse the underwriter or agent for certain fees and legal expenses incurred by it.

Any underwriter may engage in over-allotment, stabilizing transactions, short-covering transactions and penalty bids in accordance with Regulation M under the Exchange Act. Over-allotment involves sales in excess of the offering size, which create a short position. Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum price. Syndicate-covering or other short-covering transactions involve purchases of the securities, either through exercise of the over-allotment option or in the open market after the distribution is completed, to cover short positions. Penalty bids permit the underwriters to reclaim a selling concession from a dealer when the securities originally sold by the dealer are

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purchased in a stabilizing or covering transaction to cover short positions. Those activities may cause the price of the securities to be higher than it would otherwise be. If commenced, the underwriters may discontinue any of the activities at any time.

Any underwriters that are qualified market makers on the NASDAQ Global Market may engage in passive market making transactions in our common stock on the NASDAQ Global Market in accordance with Regulation M under the Exchange Act, during the business day prior to the pricing of the offering, before the commencement of offers or sales of our common stock. Passive market makers must comply with applicable volume and price limitations and must be identified as passive market makers. In general, a passive market maker must display its bid at a price not in excess of the highest independent bid for such security; if all independent bids are lowered below the passive market maker's bid, however, the passive market maker's bid must then be lowered when certain purchase limits are exceeded. Passive market making may stabilize the market price of the securities at a level above that which might otherwise prevail in the open market and, if commenced, may be discontinued at any time.

We may sell securities directly or through agents we designate from time to time. We will name any agent involved in the offering and sale of securities and we will describe any commissions we will pay the agent in the prospectus supplement. Unless the prospectus supplement states otherwise, our agent will act on a best-efforts basis for the period of its appointment.

Unless otherwise specified in the applicable prospectus supplement, each class or series of securities will be a new issue with no trading market, other than our common stock, which is traded on The NASDAQ Global Select Market. We may elect to list any other class or series of securities on any exchanges, but we are not obligated to do so. We cannot guarantee the liquidity of the trading markets for any securities.

Under agreements that we may enter, underwriters, dealers and agents who participate in the distribution of shares of our securities may be entitled to indemnification by us against certain liabilities, including liabilities under the Securities Act, or contribution with respect to payments that the agents or underwriters may make with respect to these liabilities. Underwriters, dealers and agents may engage in transactions with, or perform services for, us in the ordinary course of business.

If so indicated in the applicable prospectus supplement, we will authorize underwriters or other persons acting as our agents to solicit offers by certain institutions to purchase our securities from us pursuant to contracts providing for payment and delivery on a future date. Institutions with which such contracts may be made include commercial and savings banks, insurance companies, pension funds, investment companies, educational and charitable institutions and others, but in all cases such institutions must be approved by us. The obligations of any purchaser under any such contract will be subject to the condition that the purchase of our securities shall not at the time of delivery be prohibited under the laws of the jurisdiction to which such purchaser is subject. The underwriters and such other agents will not have any responsibility in respect of the validity or performance of such contracts. Such contracts will be subject only to those conditions set forth in the prospectus supplement, and the prospectus supplement will set forth the commission payable for solicitation of such contracts.

We may enter into derivative transactions with third parties, or sell securities not covered by this prospectus to third parties in privately negotiated transactions. If the applicable prospectus supplement indicates, in connection with those derivatives, the third parties may sell securities covered by this prospectus and the applicable prospectus supplement, including in short sale transactions. If so, the third party may use securities pledged by us or borrowed from us or others to settle those sales or to close out any related open borrowings of stock, and may use securities received from us in settlement of those derivatives to close out any related open borrowings of stock. The third parties in such sale transactions will be underwriters and, if not identified in this prospectus, will be identified in the applicable prospectus supplement.

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In order to comply with the securities laws of certain states, if applicable, our securities offered hereby will be sold in such jurisdictions only through registered or licensed brokers or dealers.

**LEGAL MATTERS**

The legality of the securities offered hereby will be passed upon for the Company by Proskauer Rose LLP, Los Angeles, California and Venable LLP, Baltimore, Maryland. Certain legal matters in connection with the offering will be passed upon for the underwriters, if any, by the counsel named in the prospectus supplement.

**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

KPMG LLP, located at 355 South Grand Avenue, Los Angeles, California 90071, is the independent registered public accounting firm of the Company.

**AVAILABLE INFORMATION**

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

We file with or submit to the SEC annual, quarterly and current periodic reports, proxy statements and other information meeting the informational requirements of the Exchange Act. This information is available free of charge by calling us collect at (310) 201-4200 or on our website at [www.arescapitalcorp.com](http://www.arescapitalcorp.com). Information contained on our website is not incorporated into this document and you should not consider such information to be part of this document. You also may inspect and copy these reports, proxy statements and other information, as well as the registration statement and related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street, N.E., Washington, D.C. 20549, the SEC's Northeast Regional Office at 3 World Financial Center, Suite 400, New York, NY 10281 and the SEC's Midwest Regional Office at 175 W. Jackson Blvd., Suite 900, Chicago, IL 60604. Such information is also available from the EDGAR database on the SEC's web site at <http://www.sec.gov>. You also can obtain copies of such information, after paying a duplicating fee, by sending a request by e-mail to [publicinfo@sec.gov](mailto:publicinfo@sec.gov) or by writing the SEC's Public Reference Branch, Office of Consumer Affairs and Information Services, Securities and Exchange Commission, Washington, D.C. 20549. You may obtain information on the operation of the SEC's Public Reference Room by calling the SEC at (202) 551-8090 or (800) SEC-0330.

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders  
Ares Capital Corporation

We have audited the accompanying consolidated balance sheets of Ares Capital Corporation (and subsidiaries) (the Company) as of December 31, 2010 and 2009, including the consolidated schedule of investments as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders' equity, and cash flows, and the financial highlights (included in Note 15), for each of the years in the three-year period ended December 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ares Capital Corporation (and subsidiaries) as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Ares Capital Corporation's internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of Treadway Commission (COSO), and our report dated February 28, 2011 expressed an unqualified opinion on the effectiveness of Ares Capital Corporation's internal control over financial reporting.

As explained in Note 8 to the consolidated financial statements, the accompanying consolidated financial statements include investments valued at \$4.3 billion (142% of net assets), whose fair values have been estimated by the Board of Directors and management in the absence of readily determinable fair values. Such estimates are based on financial and other information provided by management of its portfolio companies, pertinent market and industry data, as well as input from independent valuation firms. These investments are valued in accordance with Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, (SFAS 157) (included in FASB ASC 820, *Fair Value Measurements and Disclosures*), which requires the Company to assume that the portfolio investments are sold in a principal market to market participants. The Company has considered its principal market as the market in which the Company exits its portfolio investments with the greatest volume and level of activity. SFAS 157 specifies a hierarchy of valuation techniques based on whether the inputs to these valuation techniques are observable or unobservable. \$4.3 billion of investments at December 31, 2010 are valued based on unobservable inputs. Because such valuations, and particularly valuations of private investments and private companies, are inherently uncertain, they may fluctuate significantly over short periods of time. These determinations of fair value could differ materially from the values that would have been utilized had a ready market for these investments existed.

Los Angeles, California  
February 28, 2011

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(in thousands, except per share data)

|  | As of December 31,  |                     |
|--|---------------------|---------------------|
|  | 2010                | 2009                |
| <b>ASSETS</b>  |                     |                     |
| Investments at fair value  |                     |                     |
| Non-controlled/non-affiliate investments   | \$ 2,482,642        | \$ 1,568,423        |
| Non-controlled affiliate company investments   | 380,396             | 276,351             |
| Controlled affiliate company investments   | 1,454,952           | 327,040             |
| Total investments at fair value (amortized cost of \$4,291,955 and \$2,376,384, respectively)  | 4,317,990           | 2,171,814           |
| Cash and cash equivalents  | 100,752             | 99,227              |
| Receivable for open trades   | 8,876               |                     |
| Interest receivable  | 72,548              | 28,019              |
| Other assets   | 62,380              | 14,455              |
| <b>Total assets</b>  | <b>\$ 4,562,546</b> | <b>\$ 2,313,515</b> |
| <b>LIABILITIES</b>   |                     |                     |
| Debt   | \$ 1,378,509        | \$ 969,465          |
| Management and incentive fees payable  | 52,397              | 66,495              |
| Accounts payable and other liabilities   | 34,742              | 16,533              |
| Interest and facility fees payable   | 21,763              | 2,645               |
| Payable for open trades  | 24,602              | 489                 |
| <b>Total liabilities</b>   | <b>1,512,013</b>    | <b>1,055,627</b>    |
| Commitments and contingencies (Note 7)   |                     |                     |
| <b>STOCKHOLDERS' EQUITY</b>  |                     |                     |
| Common stock, par value \$.001 per share, 300,000 common shares authorized, 204,419 and 109,945 common shares issued and outstanding, respectively | 204                 | 110                 |
| Capital in excess of par value   | 3,205,326           | 1,490,458           |
| Accumulated (overdistributed) undistributed net investment income  | (11,336)            | 3,143               |
| Accumulated net realized loss on investments, foreign currency transactions, extinguishment of debt, other assets and acquisitions                 | (169,696)           | (31,115)            |
| Net unrealized gain (loss) on investments and foreign currency transactions  | 26,035              | (204,708)           |
| <b>Total stockholders' equity</b>  | <b>3,050,533</b>    | <b>1,257,888</b>    |
| <b>Total liabilities and stockholders' equity</b>  | <b>\$ 4,562,546</b> | <b>\$ 2,313,515</b> |
| <b>NET ASSETS PER SHARE</b>  | <b>\$ 14.92</b>     | <b>\$ 11.44</b>     |

See accompanying notes to consolidated financial statements.

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|  | <b>For the Year Ended December 31,</b> |                |                |
|--|--|----------------|----------------|
|  | <b>2010</b>                            | <b>2009</b>    | <b>2008</b>    |
| <b>INVESTMENT INCOME:</b>  |  |                |                |
| From non-controlled/non-affiliate company investments:                                     |  |                |                |
| Interest from investments  | \$ 238,278                             | \$ 188,126     | \$ 169,519     |
| Capital structuring service fees   | 23,921                                 | 5,429          | 16,421         |
| Management fees  | 4,797                                  | 113            |                |
| Dividend income  | 4,340                                  | 1,162          | 1,621          |
| Interest from cash & cash equivalents  | 112                                    | 265            | 1,625          |
| Other income   | 5,310                                  | 6,484          | 3,244          |
| <b>Total investment income from non-controlled/non-affiliate company investments</b>       | <b>276,758</b>                         | <b>201,579</b> | <b>192,430</b> |
| From non-controlled affiliate company investments:   |  |                |                |
| Interest from investments  | 51,386                                 | 21,866         | 28,532         |
| Capital structuring service fees   | 813                                    |                | 1,821          |
| Management fees  | 813                                    | 1,443          | 750            |
| Dividend income  | 2,125                                  | 285            | 825            |
| Other income   | 569                                    | 377            | 847            |
| <b>Total investment income from non-controlled affiliate company investments</b>           | <b>55,706</b>                          | <b>23,971</b>  | <b>32,775</b>  |
| From controlled affiliate company investments:   |  |                |                |
| Interest from investments  | 103,853                                | 15,074         | 10,420         |
| Capital structuring service fees   | 29,946                                 | 194            | 3,000          |
| Management fees  | 8,762                                  | 1,942          | 1,628          |
| Dividend income  | 7,903                                  | 2,391          | 133            |
| Other income   | 468                                    | 121            | 75             |
| <b>Total investment income from controlled affiliate company investments</b>               | <b>150,932</b>                         | <b>19,722</b>  | <b>15,256</b>  |
| <b>Total investment income</b>   | <b>483,396</b>                         | <b>245,272</b> | <b>240,461</b> |
| <b>EXPENSES:</b>   |  |                |                |
| Interest and credit facility fees  | 79,347                                 | 24,262         | 36,515         |
| Incentive management fees  | 76,895                                 | 33,332         | 31,748         |
| Base management fees   | 51,998                                 | 30,409         | 30,463         |
| Professional fees and other costs related to the acquisition of Allied Capital Corporation | 19,833                                 | 4,939          |                |
| Professional fees  | 12,320                                 | 7,820          | 5,990          |
| Administrative fees  | 8,721                                  | 4,009          | 2,701          |
| Other general and administrative   | 13,074                                 | 6,519          | 5,804          |
| <b>Total expenses</b>  | <b>262,188</b>                         | <b>111,290</b> | <b>113,221</b> |
| <b>NET INVESTMENT INCOME BEFORE INCOME TAXES</b>   | <b>221,208</b>                         | <b>133,982</b> | <b>127,240</b> |
| Income tax expense, including excise tax   | 5,392                                  | 576            | 248            |
| <b>NET INVESTMENT INCOME</b>   | <b>215,816</b>                         | <b>133,406</b> | <b>126,992</b> |
| <b>REALIZED AND UNREALIZED NET GAINS (LOSSES) ON INVESTMENTS AND FOREIGN CURRENCIES:</b>   |  |                |                |
| Net realized gains (losses):   |  |                |                |

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|   |            |            |              |
|---|------------|------------|--------------|
| Non-controlled/non-affiliate company investments                                    | 26,865     | (17,010)   | 5,200        |
| Non-controlled affiliate company investments  | 11,965     | (15,478)   | 1,357        |
| Controlled affiliate company investments  | 6,563      | (13,680)   |              |
| Foreign currency transactions   | 85         | 205        | (186)        |
| Net realized gains (losses)   | 45,478     | (45,963)   | 6,371        |
| Net unrealized gains (losses):  |            |            |              |
| Non-controlled/non-affiliate company investments                                    | 138,619    | 60,339     | (168,570)    |
| Non-controlled affiliate company investments  | 40,595     | 21,361     | (82,457)     |
| Controlled affiliate company investments  | 51,681     | 7,194      | (21,797)     |
| Foreign currency transactions   | (152)      | (187)      | 6            |
| Net unrealized gains (losses)   | 230,743    | 88,707     | (272,818)    |
| Net realized and unrealized gains (losses) from investments and foreign currencies  | 276,221    | 42,744     | (266,447)    |
| GAIN ON THE ACQUISITION OF ALLIED CAPITAL CORPORATION                               | 195,876    |            |              |
| REALIZED GAIN (LOSS) ON EXTINGUISHMENT OF DEBT                                      | (1,961)    | 26,543     |              |
| REALIZED GAIN ON SALE OF OTHER ASSETS   | 5,882      |            |              |
| NET INCREASE (DECREASE) IN STOCKHOLDERS' EQUITY RESULTING FROM OPERATIONS           | \$ 691,834 | \$ 202,693 | \$ (139,455) |
| BASIC AND DILUTED EARNINGS PER COMMON SHARE (see Note 10)                           | \$ 3.91    | \$ 1.99    | \$ (1.56)    |
| WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING BASIC AND DILUTED (see Note 10) | 176,732    | 101,720    | 89,666       |

See accompanying notes to consolidated financial statements.



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**ARES CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS**  
**As of December 31, 2010**  
**(dollar amounts in thousands)**

| Company(1)  | Industry               | Investment  | Interest(5)(10)   | Acquisition Date | Amortized Cost | Fair Value | Percentage of Net Assets |  |
|---|------------------------|---|-------------------|------------------|----------------|------------|--------------------------|--|
| <b>Investment Funds</b>                                 |                        |   |                   |                  |                |            |                          |  |
| AGILE Fund I, LLC(7)(9)                                 | Investment partnership | Member interest (0.50% interest)  |                   | 4/1/2010         | \$ 264         | \$ 217(16) |                          |  |
| BB&T Capital Partners/Windsor Mezzanine Fund, LLC(6)(9) | Investment company     | Member interest (32.59% interest)   |                   | 4/1/2010         | 11,900         | 15,704     |                          |  |
| Callidus Debt Partners CDO Fund I, Ltd.(8)(9)           | Investment company     | Class C notes (\$18,800 par due 12/2013)<br>Class D notes (\$9,400 par due 12/2013)       |                   | 4/1/2010         | 2,669          | 1,239      |                          |  |
|   |                        |   |                   | 4/1/2010         |                | (13)       |                          |  |
|   |                        |   |                   |                  | 2,669          | 1,239      |                          |  |
| Callidus Debt Partners CLO Fund III, Ltd.(8)(9)         | Investment company     | Preferred shares (23,600,000 shares)  | 7.18%             | 4/1/2010         | 4,343          | 7,324(16)  |                          |  |
| Callidus Debt Partners CLO Fund IV, Ltd.(8)(9)          | Investment company     | Class D notes (\$3,000 par due 4/2020)<br>Subordinated notes (\$17,500 par due 4/2020)    | 4.84%             | 4/1/2010         | 1,824          | 1,817(16)  |                          |  |
|   |                        |   | (Libor + 4.55%/Q) |                  | 4/1/2010       | 6,935      | 11,720(16)               |  |
|   |                        |   | 14.92%            |                  |                | 8,759      | 13,537                   |  |
| Callidus Debt Partners CLO Fund V, Ltd.(8)(9)           | Investment company     | Subordinated notes (\$14,150 par due 11/2020)   | 23.49%            | 4/1/2010         | 8,586          | 11,995(16) |                          |  |
| Callidus Debt Partners CLO Fund VI, Ltd.(8)(9)          | Investment company     | Class D notes (\$9,000 par due 10/2021)<br>Subordinated notes (\$25,500 par due 10/2021)  | 6.29%             | 4/1/2010         | 4,039          | 5,538(16)  |                          |  |
|   |                        |   | (Libor + 6.00%/Q) |                  | 4/1/2010       | 11,572     | 22,711(16)               |  |
|   |                        |   | 20.14%            |                  |                | 15,611     | 28,249                   |  |
| Callidus Debt Partners CLO Fund VII, Ltd.(8)(9)         | Investment company     | Subordinated notes (\$28,000 par due 1/2021)  | 11.94%            | 4/1/2010         | 10,216         | 17,197(16) |                          |  |
| Callidus MAPS CLO Fund I LLC                            | Investment company     | Class E notes (\$17,000 par due 12/2017)<br>Subordinated notes (\$47,900 par due 12/2017) | 5.79%             | 4/1/2010         | 11,863         | 11,535(16) |                          |  |
|   |                        |   | (Libor + 5.5%/Q)  |                  | 4/1/2010       | 12,652     | 19,156(16)               |  |
|   |                        |   | 8.62%             |                  |                | 24,515     | 30,691                   |  |
| Callidus MAPS CLO Fund II, Ltd.(8)(9)                   | Investment company     | Class D notes (\$7,700 par due 7/2022)  | 4.54%             | 4/1/2010         | 3,428          | 4,364(16)  |                          |  |
|   |                        |   | (Libor + 4.25%/Q) |                  |                |            |                          |  |

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|  |                        |   |                             |            |        |            |
|--|------------------------|---|-----------------------------|------------|--------|------------|
|  |                        | Subordinated notes<br>(\$17,900 par due 7/2022) | 18.41%                      | 4/1/2010   | 8,857  | 13,624(16) |
|  |                        |   |                             |            | 12,285 | 17,988     |
| Carador PLC(6)(8)(9)(17)                       | Investment company     | Ordinary shares<br>(7,110,525 shares)           |                             | 12/15/2006 | 9,033  | 5,333(16)  |
| CIC Flex, LP(9)                                | Investment partnership | Limited partnership units<br>(0.94 unit)        |                             | 9/7/2007   | 2,553  | 2,500(16)  |
| Covestia Capital Partners, LP(9)               | Investment partnership | Limited partnership interest (47.00% interest)  |                             | 6/17/2008  | 1,059  | 1,041(16)  |
| Dryden XVIII Leveraged Loan 2007 Limited(8)(9) | Investment company     | Class B notes (\$9,000 par due 10/2019)         | 4.79%                       | 4/1/2010   | 3,816  | 4,823(16)  |
|  |                        | Subordinated notes (\$21,164 par due 10/2019)   | (Libor + 4.50%/Q)<br>23.01% | 4/1/2010   | 12,266 | 19,436(16) |
| Dynamic India Fund IV, LLC(9)                  | Investment company     | Member interest<br>(5.44% interest)             |                             | 4/1/2010   | 4,822  | 4,822(16)  |

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| Company(1)  | Industry               | Investment   | Interest(5)(10)  | Acquisition Date                       | Amortized Cost             | Fair Value                            | Percentage of Net Assets |
|---|------------------------|--|--|--|----------------------------|---------------------------------------|--------------------------|
| Fidus Mezzanine Capital, L.P.(9)                  | Investment partnership | Limited partnership interest<br>(29.12% interest)  |  | 4/1/2010                               | 9,206                      | 7,499                                 |                          |
| Firstflight Financial Corporation(6)(9)           | Investment company     | Senior subordinated loan (\$73,811 par due 12/2016)<br>Common stock (10,000 shares)<br>Common stock (30,000 shares)          | 1.00% PIK  | 12/31/2006<br>12/31/2006<br>12/31/2006 | 73,569<br>10,000<br>30,000 | 54,050(4)(16)<br>(16)<br>(16)         |                          |
|   |                        |  |  |  | 113,569                    | 54,050                                |                          |
| HCI Equity, LLC(7)(8)(9)                          | Investment company     | Member interest<br>(100% interest)   |  | 4/1/2010                               | 808                        | 993(16)                               |                          |
| Imperial Capital Private Opportunities, LP(6)(9)  | Investment partnership | Limited partnership interest (80% interest)  |  | 5/10/2007                              | 6,643                      | 5,300(16)                             |                          |
| Ivy Hill Middle Market Credit Fund, Ltd.(7)(8)(9) | Investment company     | Class B deferrable interest notes (\$40,000 par due 11/2018)<br>Subordinated notes (\$15,351 par due 11/2018)                | 6.25%<br>(Libor + 6.00%/Q)<br>15.50%   | 11/20/2007<br>11/20/2007               | 40,000<br>15,351           | 37,200(16)<br>14,737(16)              |                          |
|   |                        |  |  |  | 55,351                     | 51,937                                |                          |
| Knightsbridge CLO 2007-1 Ltd.(7)(8)(9)            | Investment company     | Class E notes (\$20,350 par due 1/2022)  | 9.29%<br>(Libor + 9.00%/Q)   | 3/24/2010                              | 14,852                     | 14,545(16)                            |                          |
| Knightsbridge CLO 2008-1 Ltd.(7)(8)(9)            | Investment company     | Class C notes (\$14,400 par due 6/2018)<br>Class D notes (\$9,000 par due 6/2018)<br>Class E notes (\$14,850 par due 6/2018) | 7.80%<br>(Libor + 7.50%/Q)<br>8.79%<br>(Libor + 8.50%/Q)<br>5.29%<br>(Libor + 5.00%/Q) | 3/24/2010<br>3/24/2010<br>3/24/2010    | 14,400<br>9,000<br>13,596  | 14,400(16)<br>9,000(16)<br>10,488(16) |                          |
|   |                        |  |  |  | 36,996                     | 33,888                                |                          |
| Kodiak Funding, LP(9)                             | Investment partnership | Limited partnership interest (1.52% interest)  |  | 4/1/2010                               | 918                        | 788                                   |                          |
| Novak Biddle Venture Partners III, L.P.(9)        | Investment partnership | Limited partnership interest (2.47% interest)  |  | 4/1/2010                               | 221                        | 254(16)                               |                          |
| Pangaea CLO 2007-1 Ltd.(8)(9)                     | Investment company     | Class D notes (\$15,000 par due 1/2021)  | 5.04%<br>(Libor + 4.75%/Q)   | 4/1/2010                               | 9,061                      | 8,307(16)                             |                          |
| Partnership Capital Growth Fund I, LP(9)          | Investment partnership | Limited partnership interest (25% interest)  |  | 6/16/2006                              | 2,370                      | 2,393(16)                             |                          |
| Senior Secured Loan Fund LLC(7)(15)               | Investment company     | Subordinated certificates (\$548,161 par due 12/2015)  | (Libor + 8.00%/Q)  | 10/30/2009                             | 537,439                    | 561,674(16)                           |                          |
| Trivergance Capital Partners, LP(9)               | Investment partnership | Limited partnership interest (100% interest)   |  | 6/5/2008                               | 3,162                      | (16)                                  |                          |
| VSC Investors LLC(9)                              |                        |  |  | 1/24/2008                              | 994                        | 699(16)                               |                          |

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|                    |                                      |  |  |  |         |         |        |
|--------------------|--------------------------------------|--|--|--|---------|---------|--------|
| Investment company | Membership interest (4.63% interest) |  |  |  | 924,287 | 924,423 | 30.30% |
|--------------------|--------------------------------------|--|--|--|---------|---------|--------|

**Healthcare-Services**

|  |   |   |       |           |        |           |  |
|--|---|---|-------|-----------|--------|-----------|--|
| Axiom Healthcare Pharmacy, Inc.  | Specialty pharmacy provider               | Senior subordinated loan (\$3,160 par due 3/2015) | 8.00% | 4/1/2010  | 2,915  | 3,002(4)  |  |
| CCS Group Holdings, LLC  | Correctional facility healthcare operator | Class A units (1,000,000 units)                   |       | 8/19/2010 | 1,000  | 1,000(16) |  |
| CT Technologies Intermediate Holdings, Inc. and CT Technologies Holdings, LLC(6) | Healthcare analysis services              | Preferred stock (7,427 shares)                    |       | 6/15/2007 | 8,763  | 8,325(16) |  |
|  |   | Common stock (9,679 shares)                       |       | 6/15/2007 | 4,000  | 9,656(16) |  |
|  |   | Common stock (1,546 shares)                       |       | 6/15/2007 |        | 1,542(16) |  |
|  |   |   |       |           | 12,763 | 19,523    |  |

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| Company(1)   | Industry                                | Investment   | Interest(5)(10)         | Acquisition Date | Amortized Cost | Fair Value     | Percentage of Net Assets |
|--|---|--|-------------------------|------------------|----------------|----------------|--------------------------|
| DSI Renal Inc.(6)  | Dialysis provider                       | Senior secured loan (\$9,359 par due 3/2013)       | 8.50% (Libor + 6.50%/M) | 4/4/2006         | 9,284          | 9,359(14)(16)  |                          |
|  |   | Senior subordinated loan (\$69,009 par due 4/2014) | 6.00% Cash, 10.00% PIK  | 4/4/2006         | 68,523         | 69,006(4)(16)  |                          |
|  |   | Common units (19,726 units)                        |                         | 4/4/2006         | 19,684         | 40,687(16)     |                          |
|  |   |  |                         |                  | 97,491         | 119,052        |                          |
| GG Merger Sub I, Inc.  | Drug testing services                   | Senior secured loan (\$11,330 par due 12/2014)     | 4.31% (Libor + 4.0%/Q)  | 12/14/2007       | 10,944         | 10,764(2)      |                          |
|  |   | Senior secured loan (\$12,000 par due 12/2014)     | 4.31% (Libor + 4.0%/Q)  | 12/14/2007       | 11,586         | 11,400(3)      |                          |
|  |   |  |                         |                  | 22,530         | 22,164         |                          |
| HCP Acquisition Holdings, LLC(7)   | Healthcare compliance advisory services | Class A units (10,044,176 units)                   |                         | 6/26/2008        | 10,044         | 5,070(16)      |                          |
| Heartland Dental Care, Inc.  | Dental services                         | Senior subordinated loan (\$27,717 par due 7/2014) | 14.25%                  | 7/31/2008        | 27,717         | 28,548(16)     |                          |
| INC Research, Inc.   | Pharmaceutical and biotechnology        | Senior subordinated loan (\$10,039 par due 9/2017) | 13.50%                  | 9/27/2010        | 10,039         | 10,039(16)     |                          |
|  | consulting services                     | Common stock (1,000,000 shares)                    |                         | 9/27/2010        | 1,000          | 1,000(16)      |                          |
|  |   |  |                         |                  | 11,039         | 11,039         |                          |
| Magnacare Holdings, Inc., Magnacare Administrative Services, LLC, and Magnacare, LLC | Healthcare professional provider        | Senior secured loan (\$66,169 par due 9/2016)      | 9.75% (Libor + 8.75%/Q) | 9/13/2010        | 66,169         | 66,169(14)(16) |                          |
|  |   | Senior secured loan (\$48,511 par due 9/2016)      | 9.75% (Libor + 8.75%/Q) | 9/13/2010        | 48,511         | 48,511(2)(14)  |                          |
|  |   | Senior secured loan (\$9,023 par due 9/2016)       | 9.75% (Libor + 8.75%/Q) | 9/13/2010        | 9,023          | 9,023(3)(14)   |                          |
|  |   |  |                         |                  | 123,703        | 123,703        |                          |
| MPBP Holdings, Inc., Cohr Holdings, Inc. and MPBP Acquisition Co., Inc.              | Healthcare equipment services           | Junior secured loan (\$18,851 par due 1/2014)      |                         | 1/31/2007        | 18,851         | 943(13)(16)    |                          |
|  |   | Junior secured loan (\$11,310 par due 1/2014)      |                         | 1/31/2007        | 11,310         | 566(3)(13)     |                          |
|  |   | Common stock (50,000 shares)                       |                         | 1/31/2007        | 5,000          | (16)           |                          |
|  |   |  |                         |                  | 35,161         | 1,509          |                          |
| MWD Acquisition Sub, Inc.  | Dental services                         | Junior secured loan (\$5,000 par due 5/2013)       | 6.51% (Libor + 6.25%/M) | 5/3/2007         | 5,000          | 4,800(3)       |                          |
| NS Merger Sub, Inc. and NS Holdings, Inc.  | Healthcare technology provider          | Senior subordinated loan (\$579 par due            | 13.50%                  | 6/21/2010        | 579            | 579(16)        |                          |

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|  |  |  |                        |           |        |               |
|--|--|--|------------------------|-----------|--------|---------------|
|  |  | 6/2017)  |                        |           |        |               |
|  |  | Senior subordinated loan (\$50,000 par due 6/2017) | 13.50%                 | 6/21/2010 | 50,000 | 50,000(2)     |
|  |  | Common stock (2,500,000 shares)                    |                        | 6/21/2010 | 2,500  | 2,500(16)     |
|  |  |  |                        |           | 53,079 | 53,079        |
| OnCURE Medical Corp.                           | Radiation oncology care provider   | Common stock (857,143 shares)                      |                        | 8/18/2006 | 3,000  | 2,910(16)     |
| Passport Health Communications, Inc.,          | Healthcare technology provider   | Senior secured loan (\$11,287 par due 5/2014)      | 8.25% (Libor + 7.0%/Q) | 5/9/2008  | 11,287 | 11,287(2)(14) |
| Passport Holding Corp. and Prism Holding Corp. |  | Senior secured loan (\$10,419 par due 5/2014)      | 8.25% (Libor + 7.0%/Q) | 5/9/2008  | 10,419 | 10,419(3)(14) |
|  |  | Series A preferred stock (1,594,457 shares)        |                        | 7/30/2008 | 11,156 | 10,978(4)(16) |
|  |  | Common stock (16,106 shares)                       |                        | 7/30/2008 | 100    | (16)          |
|  |  |  |                        |           | 32,962 | 32,684        |
| PG Mergersub, Inc.                             | Provider of patient surveys, management reports and national databases for integrated healthcare delivery system | Senior secured loan (\$1,100 par due 11/3/2015)    | 6.75% (Libor + 5.0%/Q) | 11/3/2010 | 1,098  | 1,100(16)(14) |
|  |  | Senior secured loan (\$9,200 par due 11/3/2015)    | 6.75% (Libor + 5.0%/Q) | 11/3/2010 | 9,171  | 9,200(3)(14)  |
|  |  | Senior subordinated loan (\$4,000 par due 3/2016)  | 12.50%                 | 3/12/2008 | 3,948  | 4,000(16)     |

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| Company(1)                         | Industry  | Investment  | Interest(5)(10)         | Acquisition Date | Amortized Cost | Fair Value     | Percentage of Net Assets |
|------------------------------------|---|---|-------------------------|------------------|----------------|----------------|--------------------------|
|                                    |   | Preferred stock (333 shares)                            |                         | 3/12/2008        | 125            | 9(16)          |                          |
|                                    |   | Common stock (16,667 shares)                            |                         | 3/12/2008        | 167            | 471(16)        |                          |
|                                    |   |   |                         |                  | 14,509         | 14,780         |                          |
| Reed Group, Ltd.                   | Medical disability management services provider | Senior secured loan (\$10,755 par due 12/2013)          |                         | 4/1/2010         | 9,129          | 9,142(13)(16)  |                          |
|                                    |   | Senior secured revolving loan (\$1,250 par due 12/2013) |                         | 4/1/2010         | 1,097          | 1,063(13)(16)  |                          |
|                                    |   | Senior subordinated loan (\$19,625 par due 12/2013)     |                         | 4/1/2010         | 15,918         | 10,714(13)(16) |                          |
|                                    |   | Equity interests  |                         | 4/1/2010         | 203            | (16)           |                          |
|                                    |   |   |                         |                  | 26,347         | 20,919         |                          |
| Regency Healthcare Group, LLC(6)   | Hospice provider                                | Preferred member interest (1,293,960 shares)            |                         | 4/1/2010         | 2,007          | 1,672(16)      |                          |
| Soteria Imaging Services, LLC(6)   | Outpatient medical imaging provider             | Junior secured loan (\$1,687 par due 11/2010)           |                         | 4/1/2010         | 1,644          | 1,383(13)(16)  |                          |
|                                    |   | Junior secured loan (\$2,422 par due 11/2010)           |                         | 4/1/2010         | 2,361          | 1,986(13)(16)  |                          |
|                                    |   | Preferred member interest (1,881,234 units)             |                         | 4/1/2010         |                |                |                          |
|                                    |   |   |                         |                  | 4,005          | 3,369          |                          |
| Sunquest Information Systems, Inc. | Laboratory software solutions provider          | Junior secured loan (\$95,000 par due 6/2017)           | 9.75% (Libor + 8.50%/M) | 12/16/2010       | 95,000         | 95,000(14)(16) |                          |
|                                    |   | Junior secured loan (\$50,000 par due 6/2017)           | 9.75% (Libor + 8.50%/M) | 12/16/2010       | 50,000         | 50,000(2)(14)  |                          |
|                                    |   |   |                         |                  | 145,000        | 145,000        |                          |
| U.S. Renal Care, Inc.              | Dialysis provider                               | Senior subordinated loan (\$20,235 par due 5/2017)      | 11.25% Cash, 2.00% PIK  | 5/24/2010        | 20,235         | 20,235(4)(16)  |                          |
| Univita Health Inc.                | Outsourced services provider                    | Senior subordinated loan (\$21,094 par due 12/2014)     | 12.00% Cash, 3.00% PIK  | 12/22/2009       | 21,094         | 21,094(4)(16)  |                          |
| VOTC Acquisition Corp.             | Radiation oncology care provider                | Senior secured loan (\$7,580 par due 7/2012)            | 11.00% Cash, 2.00% PIK  | 6/30/2008        | 7,580          | 7,580(4)(16)   |                          |
|                                    |   | Preferred stock (3,888,222 shares)                      |                         | 7/14/2008        | 8,748          | 11,624(16)     |                          |
|                                    |   |   |                         |                  | 16,328         | 19,204         |                          |
|                                    |   |   |                         |                  | 687,929        | 674,356        | 22.11%                   |

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**Business Services**

|                                    |   |   |                                  |           |        |             |
|------------------------------------|---|---|----------------------------------|-----------|--------|-------------|
| Aviation Properties Corporation(7) | Aviation services                           | Common stock (100 shares)                             |                                  | 4/1/2010  |        | (16)        |
| BenefitMall Holdings Inc.(7)       | Employee benefits broker services           | Senior subordinated loan (\$40,326 par due 6/2014)    | 18.00%                           | 4/1/2010  | 40,326 | 40,326      |
|                                    |   | company   | Common stock (39,274,290 shares) | 4/1/2010  | 53,510 | 50,450      |
|                                    |   | Warrants  |                                  | 4/1/2010  |        |             |
|                                    |   |   |                                  |           |        | 93,836      |
| Booz Allen Hamilton, Inc.          | Strategy and technology consulting services | Senior secured loan (\$733 par due 7/2015)            | 7.50% (Libor + 4.50%/M)          | 7/31/2008 | 721    | 733(3)(14)  |
|                                    |   | Senior subordinated loan (\$101 par due 7/2016)       | 13.00%                           | 7/31/2008 | 90     | 104(16)     |
|                                    |   | Senior subordinated loan (\$5,007 par due 7/2016)     | 13.00%                           | 7/31/2008 | 4,983  | 5,157(2)    |
|                                    |   |   |                                  |           | 5,794  | 5,994       |
| CitiPostal Inc.(7)                 | Document storage and management services    | Senior secured revolving loan (\$691 par due 12/2013) | 6.50% (Libor + 4.50%/M)          | 4/1/2010  | 691    | 691(14)(16) |
|                                    |   | Senior secured revolving loan (\$700 par due 12/2013) | 6.50% (Libor + 4.50%/Q)          | 4/1/2010  | 700    | 700(14)(16) |

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| Company(1)                             | Industry                                    | Investment  | Interest(5)(10)             | Acquisition Date | Amortized Cost | Fair Value    | Percentage of Net Assets |
|--|---|---|-----------------------------|------------------|----------------|---------------|--------------------------|
|  |   | Senior secured revolving loan (\$1,250 par due 12/2013) | 6.75% (Base Rate + 3.25%/Q) | 4/1/2010         | 1,250          | 1,250(14)(16) |                          |
|  |   | Senior secured loan (\$49,333 par due 12/2013)          | 11.00% Cash, 2.00% PIK      | 4/1/2010         | 49,333         | 49,333(2)(4)  |                          |
|  |   | Senior secured loan (\$482 par due 12/2013)             | 11.00% Cash, 2.00% PIK      | 4/1/2010         | 482            | 482(4)(16)    |                          |
|  |   | Senior subordinated loan (\$12,526 par due 12/2015)     | 16.00% PIK                  | 4/1/2010         | 12,526         | 12,022(4)(16) |                          |
|  |   | Common stock (37,024 shares)                            |                             | 4/1/2010         |                |               |                          |
|  |   |   |                             |                  | 64,982         | 64,478        |                          |
| Cook Inlet Alternative Risk, LLC       | Risk management services                    | Senior secured loan (\$40,000 par due 4/2013)           | 8.50%                       | 4/1/2010         | 25,124         | 26,083(16)    |                          |
|  |   | Senior secured loan (\$44,346 par due 4/2013)           | 8.50%                       | 4/1/2010         | 26,622         | 28,917(16)    |                          |
|  |   | Member interest (3.17%)                                 |                             | 4/1/2010         |                |               |                          |
|  |   |   |                             |                  | 51,746         | 55,000        |                          |
| Coverall North America, Inc.(7)        | Commercial janitorial service provider      | Senior secured loan (\$15,763 par due 7/2011)           | 12.00%                      | 4/1/2010         | 15,763         | 15,763(2)     |                          |
|  |   | Senior secured loan (\$15,864 par due 7/2011)           | 12.00%                      | 4/1/2010         | 15,864         | 15,864(2)     |                          |
|  |   | Senior subordinated loan (\$5,557 par due 7/2011)       |                             | 4/1/2010         | 5,554          | 928(13)(16)   |                          |
|  |   | Common stock (763,333 shares)                           |                             | 4/1/2010         | 2,999          |               |                          |
|  |   |   |                             |                  | 40,180         | 32,555        |                          |
| Digital Videostream, LLC               | Media content supply chain services company | Senior secured loan (\$256 par due 2/2012)              | 10.00% Cash, 1.00% PIK      | 4/1/2010         | 256            | 256(4)(16)    |                          |
|  |   | Senior secured loan (\$9 par due 2/2012)                | 10.00% Cash, 1.00% PIK      | 4/1/2010         | 9              | 9(2)(4)       |                          |
|  |   | Senior secured loan (\$10,403 par due 2/2012)           | 10.00% Cash, 1.00% PIK      | 4/1/2010         | 10,345         | 10,403(2)(4)  |                          |
|  |   | Convertible subordinated loan (\$5,538 par due 2/2016)  | 10.00% PIK                  | 4/1/2010         | 5,978          | 6,025(4)(16)  |                          |
|  |   |   |                             |                  | 16,588         | 16,693        |                          |
| Diversified Collections Services, Inc. | Collections services                        | Senior secured loan (\$6,921 par due 3/2012)            | 7.50% (Libor + 5.50%/Q)     | 4/1/2010         | 6,921          | 6,921(3)(14)  |                          |
|  |   | Senior secured loan (\$79 par due 3/2012)               | 7.50% (Libor + 5.50%/Q)     | 4/1/2010         | 79             | 79(3)(14)     |                          |
|  |   | Senior secured loan (\$34,000 par due 9/2012)           | 13.75% (Libor + 11.75%/Q)   | 4/1/2010         | 34,000         | 34,000(2)(14) |                          |

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|  |  |  |                                |           |        |               |
|--|--|--|--------------------------------|-----------|--------|---------------|
|  |  | Senior secured loan<br>(\$2,000 par due 9/2012)                          | 13.75%<br>(Libor + 11.75%/Q)   | 4/1/2010  | 2,000  | 2,000(2)(14)  |
|  |  | Preferred stock<br>(14,927 shares)                                       |                                | 5/18/2006 | 169    | 289(16)       |
|  |  | Common stock<br>(114,004 shares)   |                                | 2/5/2005  | 295    | 445(16)       |
|  |  | Common stock<br>(478,816 shares)   |                                | 4/1/2010  | 1,478  | 1,586         |
|  |  |  |                                |           | 44,942 | 45,320        |
| Diversified Mercury<br>Communications, LLC | Business media<br>consulting services                              | Senior secured loan<br>(\$1,774 par due 3/2013)                          | 8.00% (Base<br>Rate + 4.50%/M) | 4/1/2010  | 1,613  | 1,596(14)(16) |
| Impact Innovations<br>Group, LLC(7)        | IT consulting and<br>outsourcing services                          | Member interest<br>(50% interest)  |                                | 4/1/2010  |        |               |
| Investor Group<br>Services, LLC(6)         | Business consulting<br>for private equity<br>and corporate clients | Limited liability<br>company membership<br>interest<br>(10.00% interest) |                                | 6/22/2006 |        | 564           |
| Multi-Ad Services, Inc.(6)                 | Marketing services<br>and software<br>provider                     | Preferred units<br>(1,725,280 units)                                     |                                | 4/1/2010  | 788    | 1,366(16)     |

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| Company(1)   | Industry                                       | Investment<br>Common units<br>(1,725,280 units)     | Interest(5)(10)         | Acquisition<br>Date<br>4/1/2010 | Amortized<br>Cost | Fair<br>Value<br>(16) | Percentage<br>of Net<br>Assets |
|--|--|---|-------------------------|---------------------------------|-------------------|-----------------------|--------------------------------|
|  |  |   |                         |                                 | 788               | 1,366                 |                                |
| VL Group, Inc.(7)  | Marketing research provider                    | Senior secured loan (\$22,772 par due 7/2012)       | 12.00%                  | 4/1/2010                        | 22,772            | 22,772(16)            |                                |
|  |  | Senior subordinated loan (\$34,937 par due 7/2012)  | 12.00% Cash, 2.50% PIK  | 4/1/2010                        | 33,884            | 34,937(4)(16)         |                                |
|  |  | Junior subordinated loan (\$144 par due 7/2012)     | 10.00%                  | 4/1/2010                        |                   | 33(16)                |                                |
|  |  | Common stock (554,091 shares)                       |                         | 4/1/2010                        |                   | (16)                  |                                |
|  |  | Common stock (560,716 shares)                       |                         | 4/1/2010                        |                   | (16)                  |                                |
|  |  |   |                         |                                 | 56,656            | 57,742                |                                |
| PC Helps Support, LLC                                    | Technology support provider                    | Senior secured loan (\$7,153 par due 12/2013)       | 3.54% (Libor + 3.25%/Q) | 4/1/2010                        | 7,153             | 7,153(3)              |                                |
|  |  | Senior subordinated loan (\$23,377 par due 12/2013) | 12.76%                  | 4/1/2010                        | 23,377            | 23,377(16)            |                                |
|  |  |   |                         |                                 | 30,530            | 30,530                |                                |
| Pillar Holdings LLC and PHL Holding Co.(6)               | Mortgage services                              | Senior secured loan (\$1,875 par due 5/2014)        | 14.50%                  | 7/31/2008                       | 1,875             | 1,875(16)             |                                |
|  |  | Senior secured loan (\$5,500 par due 5/2014)        | 14.50%                  | 7/31/2008                       | 5,500             | 5,500(2)              |                                |
|  |  | Senior secured loan (\$14,730 par due 11/2013)      | 5.80% (Libor + 5.50%/Q) | 11/20/2007                      | 14,730            | 14,730(2)             |                                |
|  |  | Senior secured loan (\$9,194 par due 11/2013)       | 5.80% (Libor + 5.50%/Q) | 11/20/2007                      | 9,194             | 9,194(3)              |                                |
|  |  | Common stock (85 shares)                            |                         | 11/20/2007                      | 3,768             | 5,701(16)             |                                |
|  |  |   |                         |                                 | 35,067            | 37,000                |                                |
| Primis Marketing Group, Inc. and Primis Holdings, LLC(6) | Database marketing services                    | Senior subordinated loan (\$10,222 par due 2/2013)  |                         | 8/24/2006                       | 10,222            | 102(13)(16)           |                                |
|  |  | Preferred units (4,000 units)                       |                         | 8/24/2006                       | 3,600             | (16)                  |                                |
|  |  | Common units (4,000,000 units)                      |                         | 8/24/2006                       | 400               | (16)                  |                                |
|  |  |   |                         |                                 | 14,222            | 102                   |                                |
| Prommis Solutions, LLC, E-Default Services, LLC,         | Bankruptcy and foreclosure processing services | Senior subordinated loan (\$16,788 par due 2/2014)  | 11.50% Cash, 2.00% PIK  | 2/8/2007                        | 16,788            | 16,788(4)(16)         |                                |
| Statewide Tax and Title Services, LLC &                  |  | Senior subordinated loan (\$27,032 par due 2/2014)  | 11.50% Cash, 2.00% PIK  | 2/8/2007                        | 27,032            | 27,032(2)(4)          |                                |
| Statewide Publishing Services, LLC (formerly             |  | Preferred units (30,000 units)                      |                         | 4/11/2006                       | 3,000             | 4,661(16)             |                                |

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known as MR Processing Holding Corp.)

|                               |                                       |  |        |           |        |            |
|-------------------------------|---------------------------------------|--|--------|-----------|--------|------------|
|                               |                                       |  |        |           | 46,820 | 48,481     |
| Promo Works, LLC              | Marketing services                    | Senior secured loan (\$8,655 par due 12/2013)      | 11.00% | 4/1/2010  | 5,105  | 5,438(16)  |
| R2 Acquisition Corp.          | Marketing services                    | Common stock (250,000 shares)                      |        | 5/29/2007 | 250    | 257(16)    |
| Summit Business Media, LLC    | Business media consulting services    | Junior secured loan (\$11,930 par due 7/2014)      |        | 8/3/2007  | 10,276 | 239(3)(13) |
| Summit Energy Services, Inc.  | Energy management consulting services | Common stock (38,778 shares)                       |        | 4/1/2010  | 222    | 287        |
|                               |                                       | Common stock (385,608 shares)                      |        | 4/1/2010  | 2,336  | 2,850      |
|                               |                                       |  |        |           | 2,558  | 3,137      |
| Tradesmen International, Inc. | Construction labor support            | Senior subordinated loan (\$20,000 par due 5/2014) | 10.00% | 4/1/2010  | 14,364 | 20,000(16) |
|                               |                                       | Warrants to purchase up to 771,036 shares          |        | 4/1/2010  |        | 2,086      |
|                               |                                       |  |        |           |        | 14,364     |

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| Company(1)                                     | Industry  | Investment  | Interest(5)(10)             | Acquisition Date | Amortized Cost | Fair Value     | Percentage of Net Assets |
|--|---|---|-----------------------------|------------------|----------------|----------------|--------------------------|
| VSS-Tranzact Holdings, LLC(6)                  | Management consulting services                                  | Common membership interest (8.51% interest)             |                             | 10/26/2007       | 10,204         | 6,475          |                          |
| Venturehouse-Cibernet Investors, LLC           | Financial settlement services for intercarrier wireless roaming | Equity interest   |                             | 4/1/2010         |                | (16)           |                          |
|  |   | Equity interest   |                             | 4/1/2010         |                | (16)           |                          |
|  |   |   |                             |                  | 546,521        | 525,829        | 17.24%                   |
| <b>Restaurants and Food Services</b>           |   |   |                             |                  |                |                |                          |
| ADF Capital, Inc. & ADF Restaurant Group, LLC  | Restaurant owner and operator                                   | Senior secured revolving loan (\$2,010 par due 11/2012) | 6.50% (Libor + 3.50%/Q)     | 11/27/2006       | 2,010          | 2,010(14)(16)  |                          |
|  |   | Senior secured revolving loan (\$108 par due 11/2012)   | 6.50% (Base Rate + 2.50%/Q) | 11/27/2006       | 108            | 108(14)(16)    |                          |
|  |   | Senior secured loan (\$22,839 par due 11/2013)          | 12.50% (Libor + 9.50%/Q)    | 11/27/2006       | 22,845         | 22,839(2)(14)  |                          |
|  |   | Senior secured loan (\$10,705 par due 11/2013)          | 12.50% (Libor + 9.50%/Q)    | 11/27/2006       | 10,705         | 10,705(3)(14)  |                          |
|  |   | Promissory note (\$14,897 par due 11/2016)              |                             | 6/1/2006         | 14,886         | 10,957(4)(16)  |                          |
|  |   | Warrants to purchase up to 0.61 shares                  |                             | 6/1/2006         |                | (16)           |                          |
|  |   |   |                             |                  | 50,554         | 46,619         |                          |
| Encanto Restaurants, Inc.(8)                   | Restaurant owner and operator                                   | Junior secured loan (\$20,997 par due 8/2013)           | 11.00%                      | 8/16/2006        | 20,997         | 19,947(2)      |                          |
|  |   | Junior secured loan (\$3,999 par due 8/2013)            | 11.00%                      | 8/16/2006        | 3,999          | 3,799(3)       |                          |
|  |   |   |                             |                  | 24,996         | 23,746         |                          |
| Fulton Holdings Corp                           | Airport restaurant operator                                     | Senior secured loan (\$40,000 par due 5/2016)           | 12.50%                      | 5/28/2010        | 40,000         | 40,000(2)(11)  |                          |
|  |   | Common stock (19,672 shares)                            |                             | 5/28/2010        | 1,967          | 2,430(16)      |                          |
|  |   |   |                             |                  | 41,967         | 42,430         |                          |
| Orion Foods, LLC (fka Hot Stuff Foods, LLC)(7) | Convenience food service retailer                               | Senior secured loan (\$34,357 par due 9/2014)           | 10.00% (Libor + 8.50%/Q)    | 4/1/2010         | 34,357         | 34,357(14)(16) |                          |
|  |   | Junior secured loan (\$37,552 par due 9/2014)           | 14.00%                      | 4/1/2010         | 24,881         | 36,085(16)     |                          |

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|                       |                                  |   |  |           |        |                   |
|-----------------------|----------------------------------|---|--|-----------|--------|-------------------|
|                       |                                  | Preferred stock<br>(\$10,000 par due)                           |  | 4/1/2010  |        | (16)              |
|                       |                                  | Class A common units<br>(25,001 units)                          |  | 4/1/2010  |        | (16)              |
|                       |                                  | Class B common units<br>(1,122,452 units)                       |  | 4/1/2010  |        | (16)              |
|                       |                                  |   |  |           | 59,238 | 70,442            |
| Huddle House, Inc.(7) | Restaurant owner<br>and operator | Senior subordinated<br>loan (\$20,300 par due<br>12/2015)       | 12.00% Cash,<br>3.00% PIK                          | 4/1/2010  | 20,032 | 16,202(4)(16)     |
|                       |                                  | Common stock<br>(358,428 shares)                                |  | 4/1/2010  |        |                   |
|                       |                                  |   |  |           | 20,032 | 16,202            |
| OTG Management, Inc.  | Airport restaurant<br>operator   | Junior secured loan<br>(\$12,603 par due<br>6/2013)             | 16.00%<br>(Libor + 11.00%<br>Cash,<br>2.00% PIK/M) | 6/19/2008 | 12,603 | 12,603(4)(14)(16) |
|                       |                                  | Junior secured loan<br>(\$42,030 par due<br>6/2013)             | 18.00%<br>(Libor + 11.00%<br>Cash,<br>4.00% PIK/M) | 6/19/2008 | 42,030 | 42,030(4)(14)(16) |
|                       |                                  | Warrants to purchase<br>up to 100,857 shares of<br>common stock |  | 6/19/2008 | 100    | 4,939(16)         |
|                       |                                  | Warrants to purchase<br>up to 9 shares of<br>common stock       |  | 6/19/2008 |        | (16)              |
|                       |                                  |   |  |           | 54,733 | 59,572            |

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| Company(1)   | Industry                                     | Investment  | Interest(5)(10)              | Acquisition Date | Amortized Cost | Fair Value     | Percentage of Net Assets |  |
|--|--|---|------------------------------|------------------|----------------|----------------|--------------------------|--|
| PMI Holdings, Inc.                                   | Restaurant owner and operator                | Senior secured revolving loan (\$575 par due 5/2015)      | 10.00% (Libor + 8.00%/Q)     | 5/5/2010         | 575            | 575(14)(16)    |                          |  |
|  |  | Senior secured loan (\$9,918 par due 5/2015)              | 10.00% (Libor + 8.00%/M)     | 5/5/2010         | 9,918          | 9,918(2)(14)   |                          |  |
|  |  | Senior secured loan (\$9,918 par due 5/2015)              | 10.00% (Libor + 8.00%/M)     | 5/5/2010         | 9,918          | 9,918(3)(14)   |                          |  |
|  |  | Senior secured loan (\$7 par due 5/2015)                  | 10.25% (Base Rate + 7.00%/M) | 5/5/2010         | 7              | 7(2)           |                          |  |
|  |  | Senior secured loan (\$7 par due 5/2015)                  | 10.25% (Base Rate + 7.00%/M) | 5/5/2010         | 7              | 7(3)           |                          |  |
|  |  |   |                              |                  |                | 20,425         | 20,425                   |  |
|  |  |   |                              |                  |                |                |                          |  |
| S.B. Restaurant Company                              | Restaurant owner and operator                | Senior secured loan (\$35,406 par due 7/2012)             | 13.00% (Libor + 11.00%/Q)    | 4/1/2010         | 26,872         | 33,635(14)(16) |                          |  |
|  |  | Preferred stock (46,690 shares)                           |                              | 4/1/2010         |                | (16)           |                          |  |
|  |  | Warrants to purchase up to 257,429 shares of common stock |                              | 4/1/2010         |                | (16)           |                          |  |
|  |  |   |                              |                  | 26,872         | 33,635         |                          |  |
| Vistar Corporation and Wellspring Distribution Corp. | Food service distributor                     | Senior subordinated loan (\$31,625 par due 5/2015)        | 13.50%                       | 5/23/2008        | 31,625         | 31,625(16)     |                          |  |
|  |  | Senior subordinated loan (\$30,000 par due 5/2015)        | 13.50%                       | 5/23/2008        | 30,000         | 30,000(2)      |                          |  |
|  |  | Class A non-voting common stock (1,366,120 shares)        |                              | 5/3/2008         | 7,500          | 5,287(16)      |                          |  |
|  |  |   |                              |                  |                | 69,125         | 66,912                   |  |
|  |  |   |                              |                  | 367,942        | 379,983        | 12.46%                   |  |
| <b>Financial Services</b>                            |  |   |                              |                  |                |                |                          |  |
| AllBridg Financial, LLC(7)                           | Asset management services                    | Equity interests  |                              | 4/1/2010         | 11,395         | 13,112(16)     |                          |  |
| Callidus Capital Corporation(7)                      | Asset management services                    | Common stock (100 shares)                                 |                              | 4/1/2010         |                | 246            |                          |  |
| Ciena Capital LLC(7)                                 | Real estate and small business loan servicer | Senior secured loan (\$14,000 par due 12/2013)            | 6.00%                        | 11/23/2010       | 14,000         | 14,000(16)     |                          |  |
|  |  | Senior secured loan (\$2,000 par due 12/2015)             | 12.00%                       | 11/29/2010       | 2,000          | 2,000(16)      |                          |  |
|  |  | Senior secured loan (\$20,000 par due 12/2015)            | 12.00%                       | 11/29/2010       | 20,000         | 20,000(16)     |                          |  |
|  |  | Senior secured loan (\$10,000 par due 12/2015)            | 12.00%                       | 11/29/2010       | 10,000         | 10,000(16)     |                          |  |
|  |  | Equity interests  |                              | 11/29/2010       | 53,374         | 47,063(16)     |                          |  |

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|   |  |   |                         |            | 99,374 | 93,063    |
|---|--|---|-------------------------|------------|--------|-----------|
| Commercial Credit Group, Inc.               | Commercial equipment finance and leasing company | Senior subordinated loan (\$6,000 par due 6/2015)     | 15.00%                  | 4/1/2010   | 6,000  | 6,000     |
|   |  | Senior subordinated loan (\$4,000 par due 6/2015)     | 15.00%                  | 4/1/2010   | 4,000  | 4,000     |
|   |  | Senior subordinated loan (\$9,500 par due 6/2015)     | 15.00%                  | 4/1/2010   | 9,500  | 9,500     |
|   |  |   |                         |            | 19,500 | 19,500    |
| Compass Group Diversified Holdings, LLC(17) | Middle market business manager                   | Senior secured revolving loan (\$735 par due 12/2012) | 2.76% (Libor + 2.50%/M) | 4/1/2010   | 735    | 735(16)   |
|   |  | Senior secured revolving loan (\$882 par due 12/2012) | 2.76% (Libor + 2.50%/M) | 4/1/2010   | 882    | 882(16)   |
|   |  |   |                         |            | 1,617  | 1,617     |
| Financial Pacific Company(7)                | Commercial finance leasing                       | Preferred stock (6,500 shares)                        | 8.00% PIK               | 10/13/2010 | 6,500  | 6,543(16) |
|   |  | Common stock (650,000 shares)                         |                         | 10/13/2010 |        | (16)      |
|   |  |   |                         |            | 6,500  | 6,543     |



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| Company(1)                             | Industry                                   | Investment   | Interest(5)(10)          | Acquisition Date | Amortized Cost | Fair Value        | Percentage of Net Assets |
|--|--|--|--------------------------|------------------|----------------|-------------------|--------------------------|
| Imperial Capital                       | Investment services                        | Common units (2,526 units)                           |                          | 5/10/2007        | 3              | 4,735(16)         |                          |
| Group, LLC(6)(9)                       |  | Common units (315 units)                             |                          | 5/10/2007        |                | 590(16)           |                          |
|  |  | Common units (7,710 units)                           |                          | 5/10/2007        | 14,997         | 14,453(16)        |                          |
|  |  |  |                          |                  | 15,000         | 19,778            |                          |
| Ivy Hill Asset Management, L.P.(7)     | Asset management services                  | Member interest (100% interest)                      |                          | 6/15/2009        | 103,458        | 136,235(16)       |                          |
|  |  |  |                          |                  | 256,844        | 290,094           | 9.51%                    |
| <b>Consumer Products Non-durable</b>   |  |  |                          |                  |                |                   |                          |
| Augusta Sportswear, Inc.               | Manufacturer of athletic apparel           | Senior secured loan (\$6,556 par due 7/2015)         | 8.50% (Libor + 7.50%/Q)  | 9/3/2010         | 6,556          | 6,556(2)(14)      |                          |
|  |  | Senior secured loan (\$9,353 par due 7/2015)         | 8.50% (Libor + 7.50%/Q)  | 9/3/2010         | 9,353          | 9,353(3)(14)      |                          |
|  |  |  |                          |                  | 15,909         | 15,909            |                          |
| Gilchrist & Soames, Inc.               | Personal care manufacturer                 | Senior subordinated loan (\$22,902 par due 10/2013)  | 13.44%                   | 4/1/2010         | 22,128         | 22,902(16)        |                          |
| Insight Pharmaceuticals Corporation(6) | OTC drug products manufacturer             | Senior subordinated loan (\$50,255 par due 9/2012)   | 13.00% Cash, 2.00% PIK   | 4/1/2010         | 50,255         | 50,255(2)(4)(14)  |                          |
|  |  | Senior subordinated loan (\$5,298 par due 9/2012)    | 13.00% Cash, 2.00% PIK   | 4/1/2010         | 5,298          | 5,298(4)(14)(16)  |                          |
|  |  | Common stock (155,000 shares)                        |                          | 4/1/2010         | 12,070         | 13,432(16)        |                          |
|  |  |  |                          |                  | 67,623         | 68,985            |                          |
| Making Memories Wholesale, Inc.(7)     | Scrapbooking branded products manufacturer | Senior secured revolving loan (\$250 par due 8/2014) | 10.00% (Libor + 6.50%/Q) | 8/21/2009        | 250            | 250(14)(16)       |                          |
|  |  | Senior secured revolving loan (\$250 par due 8/2014) | 10.00% (Libor + 6.50%/Q) | 8/21/2009        | 250            | 250(14)(16)       |                          |
|  |  | Senior secured loan (\$9,388 par due 8/2014)         |                          | 8/21/2009        | 7,433          | 6,048(13)(14)(16) |                          |
|  |  | Senior secured loan (\$5,129 par due 8/2014)         |                          | 8/21/2009        | 3,979          | (13)(16)          |                          |
|  |  | Common stock (100 shares)                            |                          | 8/21/2009        |                | (16)              |                          |
|  |  |  |                          |                  | 11,912         | 6,548             |                          |
| The Step2 Company, LLC                 | Toy manufacturer                           | Senior secured loan (\$27,000 par due 4/2015)        | 10.00%                   | 4/1/2010         | 25,557         | 27,000(4)(16)     |                          |

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|                        |                                |  |           |           |         |               |
|------------------------|--------------------------------|--|-----------|-----------|---------|---------------|
|                        |                                | Senior subordinated loan (\$30,000 par due 4/2015) | 15.00%    | 4/1/2010  | 28,396  | 30,000(4)(16) |
|                        |                                | Common units (1,114,343 units)                     |           | 4/1/2010  | 24      | 1,010(16)     |
|                        |                                | Warrants to purchase up to 3,157,895 shares        |           | 4/1/2010  |         | (16)          |
|                        |                                |  |           |           | 53,977  | 58,010        |
| The Thymes, LLC(7)     | Cosmetic products manufacturer | Preferred units (6,283 units)                      | 8.00% PIK | 6/21/2007 | 6,784   | 6,902(4)      |
|                        |                                | Common units (5,400 units)                         |           | 6/21/2007 |         | (16)          |
|                        |                                |  |           |           | 6,784   | 6,902         |
| Woodstream Corporation | Pet products manufacturer      | Senior subordinated loan (\$4,743 par due 2/2015)  | 12.00%    | 1/22/2010 | 4,772   | 4,505(16)     |
|                        |                                | Senior subordinated loan (\$50,257 par due 2/2015) | 12.00%    | 1/22/2010 | 43,287  | 47,745(16)    |
|                        |                                | Common stock (4,254 shares)                        |           | 1/22/2010 | 1,222   | 2,194(16)     |
|                        |                                |  |           |           | 49,281  | 54,444        |
|                        |                                |  |           |           | 227,614 | 233,700       |
|                        |                                |  |           |           |         | 7.66%         |

**Education**

|  |                              |                                  |  |          |       |            |
|--|------------------------------|----------------------------------|--|----------|-------|------------|
| Campus Management Corp. and Campus Management Acquisition Corp.(6) | Education software developer | Preferred stock (465,509 shares) |  | 2/8/2008 | 9,949 | 13,834(16) |
|--|------------------------------|----------------------------------|--|----------|-------|------------|

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| Company(1)  | Industry   | Investment   | Interest(5)(10)              | Acquisition Date | Amortized Cost | Fair Value     | Percentage of Net Assets |
|---|--|--|------------------------------|------------------|----------------|----------------|--------------------------|
| Community Education Centers, Inc.                             | Offender re-entry and in-prison treatment services provider  | Senior secured loan (\$20,000 par due 12/2014)     | 6.25%<br>(Libor + 5.25%/M)   | 12/10/2010       | 20,000         | 20,000(14)(16) |                          |
|   |  | Junior secured loan (\$9,231 par due 12/2015)      | 15.28%<br>(Libor + 15.00%/M) | 12/10/2010       | 9,231          | 9,231(16)      |                          |
|   |  | Junior secured loan (\$30,769 par due 12/2015)     | 15.30%<br>(Libor + 15.00%/M) | 12/10/2010       | 30,769         | 30,769(16)     |                          |
|   |  | Warrants to purchase up to 578,407 shares          |                              | 12/13/2010       |                | 1,009(16)      |                          |
|   |  |  |                              |                  |                | 60,000         | 61,009                   |
| eInstruction Corporation                                      | Developer, manufacturer and retailer of educational products | Senior subordinated loan (\$23,270 par due 1/2015) | 16.00% PIK                   | 4/1/2010         | 21,290         | 22,106(4)(16)  |                          |
|   |  | Junior secured loan (\$17,000 par due 7/2014)      | 7.80%<br>(Libor + 7.50%/Q)   | 4/1/2010         | 14,881         | 14,960(16)     |                          |
|   |  | Common stock (2,406 shares)                        |                              | 4/1/2010         | 926            | 1,326(16)      |                          |
|   |  |  |                              |                  | 37,097         | 38,392         |                          |
| ELC Acquisition Corporation                                   | Developer, manufacturer and retailer of educational products | Senior secured loan (\$160 par due 11/2012)        | 3.51%<br>(Libor + 3.25%/M)   | 11/30/2006       | 160            | 160(3)         |                          |
|   |  | Junior secured loan (\$8,333 par due 11/2013)      | 7.26%<br>(Libor + 7.00%/M)   | 11/30/2006       | 8,333          | 8,333(3)       |                          |
|   |  |  |                              |                  | 8,493          | 8,493          |                          |
| Instituto de Banca y Comercio, Inc. & Leeds IV Advisors, Inc. | Private school operator                                      | Series B preferred stock (1,401,385 shares)        |                              | 8/5/2010         | 4,004          | 4,244(16)      |                          |
|   |  | Series B preferred stock (348,615 shares)          |                              | 8/5/2010         | 996            | 1,056(16)      |                          |
|   |  | Series C preferred stock (1,994,644 shares)        |                              | 6/7/2010         | 547            | 2,586(16)      |                          |
|   |  | Series C preferred stock (517,942 shares)          |                              | 6/7/2010         | 142            | 672(16)        |                          |
|   |  | Common stock (16 shares)                           |                              | 6/7/2010         |                | (16)           |                          |
|   |  | Common stock (4 shares)                            |                              | 6/7/2010         |                | (16)           |                          |
|   |  |  |                              |                  | 5,689          | 8,558          |                          |
| JTC Education Holdings, Inc.                                  | Postsecondary school operator                                | Senior secured loan (\$19,997 par due 12/2014)     | 12.50%<br>(Libor + 9.50%/M)  | 12/31/2009       | 19,997         | 19,997(14)(16) |                          |
|   |  | Senior secured loan (\$10,863 par due 12/2014)     | 12.50%<br>(Libor + 9.50%/M)  | 12/31/2009       | 10,863         | 10,863(3)(14)  |                          |
|   |  |  |                              |                  | 30,860         | 30,860         |                          |
| R3 Education, Inc. (formerly known as Equinox EIC)            | Medical school operator                                      | Senior secured loan (\$6,275 par due 4/2013)       | 9.00%<br>(Libor + 6.00%/Q)   | 4/3/2007         | 6,275          | 9,652(3)(14)   |                          |

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|   |   |   |                       |          |                |              |
|---|---|---|-----------------------|----------|----------------|--------------|
| Partners, LLC and MUA Management Company) and | Senior secured loan (\$10,113 par due 4/2013) | 9.00% (Libor + 6.00%/Q)                             | 9/21/2007             | 10,113   | 15,555(14)(16) |              |
| EIC Acquisitions Corp.(8)                     | Senior secured loan (\$4,000 par due 4/2013)  | 9.00% (Libor + 6.00%/Q)                             | 9/21/2007             | 4,000    | 6,153(3)(14)   |              |
|   | Senior secured loan (\$5,727 par due 4/2013)  | 13.00% PIK  | 12/8/2009             | 2,335    | 8,809(4)(16)   |              |
|   | Preferred stock (800 shares)                  |   | 7/30/2008             | 200      | 100(16)        |              |
|   | Preferred stock (8,000 shares)                |   | 7/30/2008             | 2,000    | 1,000(16)      |              |
|   | Common membership interest (26.27% interest)  |   | 9/21/2007             | 15,800   | 20,734(16)     |              |
|   | Warrants to purchase up to 27,890 shares      |   | 12/8/2009             |          | (16)           |              |
|   |   |   |                       | 40,723   | 62,003         |              |
|   |   |   |                       | 192,811  | 223,149        |              |
|   |   |   |                       |          | 7.32%          |              |
| <b>Manufacturing</b>                          |   |   |                       |          |                |              |
| Component Hardware Group, Inc.                | Commercial equipment manufacturer             | Senior secured loan (\$3,014 par due 12/2014)       | 7.00% Cash, 3.00% PIK | 8/4/2010 | 3,014          | 3,014(4)(16) |
|   |   | Senior subordinated loan (\$10,078 par due 12/2014) | 7.50% Cash, 5.00% PIK | 4/1/2010 | 5,775          | 10,078(4)    |

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| Company(1)  | Industry  | Investment  | Interest(5)(10)                               | Acquisition Date | Amortized Cost | Fair Value       | Percentage of Net Assets |
|---|---|---|---|------------------|----------------|------------------|--------------------------|
|   |   | Warrants to purchase up to 1,462,500 shares of common stock |   | 8/4/2010         |                | 1,240(16)        |                          |
|   |   |   |   |                  | 8,789          | 14,332           |                          |
| Emerald Performance Materials, LLC                                  | Polymers and performance materials manufacturer                   | Senior secured loan (\$375 par due 5/2011)                  | 8.25% (Libor + 4.25%/M)                       | 5/16/2006        | 375            | 375(14)(16)      |                          |
|   |   | Senior secured loan (\$5,801 par due 5/2011)                | 8.25% (Libor + 4.25%/M)                       | 5/16/2006        | 5,801          | 5,801(14)(16)    |                          |
|   |   | Senior secured loan (\$536 par due 5/2011)                  | 8.25% (Libor + 4.25%/M)                       | 5/16/2006        | 536            | 536(3)(14)       |                          |
|   |   | Senior secured loan (\$8,296 par due 5/2011)                | 8.25% (Libor + 4.25%/M)                       | 5/16/2006        | 8,296          | 8,296(3)(14)     |                          |
|   |   | Senior secured loan (\$3,806 par due 5/2011)                | 10.00% (Libor + 6.00%/M)                      | 5/16/2006        | 3,806          | 3,806(14)(16)    |                          |
|   |   | Senior secured loan (\$1,579 par due 5/2011)                | 10.00% (Libor + 6.00%/M)                      | 5/16/2006        | 1,579          | 1,579(3)(14)     |                          |
|   |   | Senior secured loan (\$3,558 par due 5/2011)                | 13.00% Cash, 3.00% PIK                        | 5/16/2006        | 3,558          | 3,558(4)(16)     |                          |
|   |   | Senior secured loan (\$5,089 par due 5/2011)                | 13.00% Cash, 3.00% PIK                        | 5/16/2006        | 5,089          | 5,089(2)(4)      |                          |
|   |   |   |   |                  | 29,040         | 29,040           |                          |
| Industrial Air Tool, LP and Affiliates d/b/a Industrial Air Tool(7) | Industrial products   | Class B common units (37,125 units)                         |   | 4/1/2010         | 6,000          | 14,787           |                          |
|   |   | Member interest (375 units)                                 |   | 4/1/2010         | 7,419          | 149(16)          |                          |
|   |   |   |   |                  | 13,419         | 14,936           |                          |
| NetShape Technologies, Inc.   | Metal precision engineered components manufacturer                | Senior secured revolving loan (\$972 par due 2/2013)        | 4.06% (Libor + 3.75%/M)                       | 4/1/2010         | 521            | 602(16)          |                          |
|   |   | Common units (1,000 units)                                  |   | 1/30/2007        | 1,000          | (16)             |                          |
|   |   |   |   |                  | 1,521          | 602              |                          |
| Reflexite Corporation(7)  | Developer and manufacturer of high-visibility reflective products | Senior subordinated loan (\$3,282 par due 11/2014)          | 20.00% (Base Rate + 12.25% Cash, 7.50% PIK/Q) | 2/26/2008        | 3,282          | 3,282(4)(14)(16) |                          |
|   |   | Senior subordinated loan (\$5,999 par due 11/2014)          | 20.00% (Base Rate + 12.25% Cash, 7.50% PIK/Q) | 2/26/2008        | 5,999          | 5,999(3)(4)(14)  |                          |
|   |   | Common stock (1,821,860 shares)                             |   | 3/28/2006        | 27,435         | 30,523(16)       |                          |

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|   |  |  |                               |            | 36,716 | 39,804     |
|---|--|--|-------------------------------|------------|--------|------------|
| STS Operating, Inc.   | Hydraulic systems equipment and supplies provider    | Senior subordinated loan (\$30,386 par due 1/2013) | 11.00%                        | 4/1/2010   | 29,461 | 30,386(2)  |
| Bundy Refrigeration International Holding B.V. (aka Tyde Group Worldwide) | Refrigeration and cooling systems parts manufacturer | Senior secured loan (\$9,010 par due 4/2012)       | 13.13% (Base Rate + 9.88%/Q)  | 12/15/2010 | 9,010  | 9,010(16)  |
|   |  | Senior secured loan (\$15,592 par due 4/2012)      | 15.38% (Base Rate + 12.13%/Q) | 12/15/2010 | 15,592 | 15,592(16) |
|   |  |  |                               |            | 24,602 | 24,602     |
| UL Holding Co., LLC   | Petroleum product manufacturer                       | Senior secured loan (\$5,000 par due 12/2012)      | 15.00%                        | 8/13/2010  | 5,000  | 5,000(16)  |
|   |  | Junior secured loan (\$2,108 par due 12/2012)      | 9.66% (Libor + 9.38%/Q)       | 2/13/2009  | 2,108  | 2,108(16)  |
|   |  | Junior secured loan (\$839 par due 12/2012)        | 9.66% (Libor + 9.38%/Q)       | 2/13/2009  | 839    | 839(3)     |
|   |  | Junior secured loan (\$2,119 par due 12/2012)      | 14.50%                        | 2/13/2009  | 2,119  | 2,119(16)  |
|   |  | Junior secured loan (\$844 par due 12/2012)        | 14.50%                        | 2/13/2009  | 844    | 844(3)     |

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| Company(1)                                    | Industry   | Investment   | Interest(5)(10)                             | Acquisition Date | Amortized Cost | Fair Value       | Percentage of Net Assets |
|---|--|--|---|------------------|----------------|------------------|--------------------------|
|   |  | Junior secured loan (\$10,809 par due 12/2012)         | 9.66%<br>(Libor + 9.38%/Q)                  | 2/13/2009        | 10,809         | 10,809(3)        |                          |
|   |  | Junior secured loan (\$2,963 par due 12/2012)          | 14.50%                                      | 2/13/2009        | 2,963          | 2,963(2)         |                          |
|   |  | Junior secured loan (\$988 par due 12/2012)            | 14.50%                                      | 2/13/2009        | 988            | 988(3)           |                          |
|   |  | Common units (50,000 units)                            |   | 4/25/2008        | 500            | 97(16)           |                          |
|   |  | Common units (207,843 units)                           |   | 4/25/2008        |                | 403(16)          |                          |
|   |  |  |   |                  | 26,170         | 26,170           |                          |
| Universal Trailer Corporation(6)              | Livestock and specialty trailer manufacturer   | Common stock (74,920 shares)                           |   | 10/8/2004        | 7,930          | (16)             |                          |
|   |  |  |   |                  | 177,648        | 179,872          | 5.90%                    |
| <b>Services-Other</b>                         |  |  |   |                  |                |                  |                          |
| The Dwyer Group                               | Operator of multiple franchise concepts primarily related to home maintenance or repairs | Senior subordinated loan (\$27,100 par due 12/2016)    | 14.50%                                      | 12/22/2010       | 27,100         | 27,100(16)       |                          |
|   |  | Series A preferred units (15,000,000 units)            | 8.00% PIK                                   | 12/22/2010       | 15,000         | 15,000(16)       |                          |
|   |  |  |   |                  | 42,100         | 42,100           |                          |
| Growing Family, Inc. and GFH Holdings, LLC(6) | Photography services   | Senior secured revolving loan (\$182 par due 8/2011)   | 9.00% (Base Rate + 1.75% Cash, 4.00% PIK/M) | 3/16/2007        | 178            | 80(4)(14)(16)    |                          |
|   |  | Senior secured revolving loan (\$2,252 par due 8/2011) | 9.00% (Base Rate + 1.75% Cash, 4.00% PIK/M) | 3/16/2007        | 2,207          | 991(4)(14)(16)   |                          |
|   |  | Senior secured loan (\$524 par due 3/2013)             | 9.00% (Base Rate + 1.75% Cash, 4.00% PIK/M) | 3/16/2007        | 514            | 230(4)(14)(16)   |                          |
|   |  | Senior secured loan (\$6,498 par due 3/2013)           | 9.00% (Base Rate + 1.75% Cash, 4.00% PIK/M) | 3/16/2007        | 6,378          | 2,859(4)(14)(16) |                          |
|   |  | Preferred stock (8,750 shares)                         |   | 3/16/2007        |                | (16)             |                          |
|   |  | Common stock (552,430 shares)                          |   | 3/16/2007        | 872            | (16)             |                          |
|   |  | Warrants to purchase up to 11,313,678 Class B units    |   | 3/16/2007        |                | (16)             |                          |
|   |  |  |   |                  | 10,149         | 4,160            |                          |
| PODS Funding Corp.                            | Storage and warehousing  | Senior subordinated loan (\$25,125 par due 6/2015)     | 15.00%                                      | 12/23/2009       | 25,125         | 25,125(16)       |                          |
|   |  |  | 16.64% PIK                                  | 12/23/2009       | 6,290          | 7,430(4)(16)     |                          |

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|                              |   |   |  |           |         |                   |       |
|------------------------------|---|---|--|-----------|---------|-------------------|-------|
|                              |   | Senior subordinated loan<br>(\$7,582 par due<br>12/2015)    |  |           | 31,415  | 32,555            |       |
| United Road Towing, Inc.     | Towing company                            | Junior secured loan<br>(\$18,840 par due<br>1/2014)         | 14.75%<br>(Libor + 11.25%<br>Cash, 1.00%<br>PIK/Q) | 4/1/2010  | 18,606  | 18,840(4)(14)(16) |       |
|                              |   | Warrants to purchase<br>up to 607 shares                    |  | 4/1/2010  |         | 4                 |       |
|                              |   |   |  |           | 18,606  | 18,844            |       |
| Web Services<br>Company, LLC | Laundry service and<br>equipment provider | Senior secured loan<br>(\$4,888 par due<br>8/2014)          | 7.00% (Base<br>Rate + 3.75%/Q)                     | 6/15/2009 | 4,718   | 4,888(3)          |       |
|                              |   | Senior subordinated<br>loan<br>(\$13,563 par due<br>8/2016) | 11.50% Cash,<br>2.50% PIK                          | 8/29/2008 | 13,563  | 13,563(4)(16)     |       |
|                              |   | Senior subordinated<br>loan<br>(\$26,462 par due<br>8/2016) | 11.50% Cash,<br>2.50% PIK                          | 8/29/2008 | 26,462  | 26,462(2)(4)      |       |
|                              |   |   |  |           | 44,743  | 44,913            |       |
|                              |   |   |  |           | 147,013 | 142,572           | 4.67% |



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| Company(1)<br>Consumer<br>Products Durable                      | Industry  | Investment   | Interest(5)(10)                | Acquisition<br>Date      | Amortized<br>Cost | Fair<br>Value  | Percentage<br>of Net<br>Assets |
|---|---|--|--------------------------------|--------------------------|-------------------|----------------|--------------------------------|
| Bushnell Inc.   | Sports optics<br>manufacturer                                 | Senior subordinated<br>loan<br>(\$41,325 par due<br>2/2014)                            | 6.80%<br>(Libor + 6.50%/Q)     | 4/1/2010                 | 30,708            | 30,994(16)     |                                |
| Carlisle Wide Plank<br>Floors, Inc.                             | Hardwood floor<br>manufacturer                                | Senior secured loan<br>(\$1,545 par due<br>6/2011)<br>Common stock<br>(345,056 shares) |                                | 4/1/2010<br><br>4/1/2010 | 1,449             | 773(4)(13)(16) |                                |
|   |   |  |                                |                          | 1,449             | 773            |                                |
| Direct Buy Holdings, Inc.<br>and Direct Buy<br>Investors, LP(6) | Membership based<br>buying club<br>franchisor and<br>operator | Senior secured loan<br>(\$1,897 par due<br>11/2012)                                    | 8.25% (Base<br>Rate + 5.00%/Q) | 12/14/2007               | 1,858             | 1,897(2)(14)   |                                |
|   |   | Senior subordinated<br>loan<br>(\$81,634 par due<br>5/2013)                            | 12.00% Cash,<br>4.00% PIK      | 4/1/2010                 | 77,892            | 81,634(4)(16)  |                                |
|   |   | Limited partnership<br>interest<br>(80,000 shares)                                     |                                | 4/1/2010                 | 3,112             | 3,414(16)      |                                |
|   |   | Partnership interests<br>(100,000 shares)  |                                | 11/30/2007               | 10,000            | 4,347(16)      |                                |
|   |   |  |                                |                          | 92,862            | 91,292         |                                |
|   |   |  |                                |                          | 125,019           | 123,059        | 4.03%                          |
| <b>Telecommunications</b>                                       |   |  |                                |                          |                   |                |                                |
| American Broadband<br>Communications, LLC and                   | Broadband<br>communication<br>services                        | Senior secured loan<br>(\$5,530 par due<br>9/2013)                                     | 7.50%<br>(Libor + 5.50%/Q)     | 9/1/2010                 | 5,861             | 5,530(14)(16)  |                                |
| American Broadband  |   | Senior secured loan<br>(\$17,775 par due<br>9/2013)                                    | 7.50%<br>(Libor + 5.50%/Q)     | 9/1/2010                 | 16,924            | 17,775(2)(14)  |                                |
|   |   | Senior secured loan<br>(\$9,283 par due<br>9/2013)                                     | 7.50%<br>(Libor + 5.50%/Q)     | 9/1/2010                 | 9,283             | 9,283(3)(14)   |                                |
|   |   | Senior subordinated<br>loan<br>(\$30,594 par due<br>11/2014)                           | 12.00% Cash,<br>4.00% PIK      | 9/1/2010                 | 30,594            | 30,594(4)(16)  |                                |
|   |   | Senior subordinated<br>loan<br>(\$32,768 par due<br>11/2014)                           | 12.00% Cash,<br>4.00% PIK      | 2/8/2008                 | 32,768            | 32,768(2)(4)   |                                |
|   |   | Senior subordinated<br>loan<br>(\$10,321 par due<br>11/2014)                           | 12.00% Cash,<br>4.00% PIK      | 11/7/2007                | 10,321            | 10,321(4)(16)  |                                |
|   |   | Warrants to purchase<br>up to 200 shares   |                                | 11/7/2007                |                   | 3,915(16)      |                                |
|   |   | Warrants to purchase<br>up to 208 shares   |                                | 9/1/2010                 |                   | (16)           |                                |

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|  |  |   |                              |           |         |                |       |
|--|--|---|------------------------------|-----------|---------|----------------|-------|
|  |  |   |                              |           | 105,751 | 110,186        |       |
| Startec Equity, LLC(7)                         | Communication services                         | Member interest   |                              | 4/1/2010  |         | (16)           |       |
|  |  |   |                              |           | 105,751 | 110,186        | 3.59% |
| <b>Food and Beverage</b>                       |  |   |                              |           |         |                |       |
| Apple & Eve, LLC and US Juice Partners, LLC(6) | Juice manufacturer                             | Senior secured revolving loan (\$1,200 par due 10/1/2013) | 12.00% (Base Rate + 8.00%/Q) | 10/5/2007 | 1,200   | 1,200(14)(16)  |       |
|  |  | Senior secured loan (\$14,162 par due 10/2013)            | 12.00% (Libor + 9.00%/M)     | 10/5/2007 | 14,162  | 14,162(14)(16) |       |
|  |  | Senior secured loan (\$14,900 par due 10/2013)            | 12.00% (Libor + 9.00%/M)     | 10/5/2007 | 14,900  | 14,900(3)(14)  |       |
|  |  | Senior units (50,000 units)                               |                              | 10/5/2007 | 5,000   | 5,036          |       |
|  |  |   |                              |           | 35,262  | 35,298         |       |
| Border Foods, Inc.(7)                          | Green chile and jalapeno products manufacturer | Senior secured loan (\$28,526 par due 3/2012)             | 13.50%                       | 4/1/2010  | 28,526  | 28,526(16)     |       |
|  |  | Preferred stock (100,000 shares)                          |                              | 4/1/2010  | 21,346  | 22,801(16)     |       |
|  |  | Common stock (148,838 shares)                             |                              | 4/1/2010  | 13,472  | 4,809(16)      |       |
|  |  | Common stock (87,707 shares)                              |                              | 4/1/2010  |         | 2,834(16)      |       |
|  |  | Common stock (23,922 shares)                              |                              | 4/1/2010  |         | 773(16)        |       |
|  |  |   |                              |           | 63,344  | 59,743         |       |

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| Company(1)   | Industry                    | Investment   | Interest(5)(10)                             | Acquisition Date | Amortized Cost | Fair Value        | Percentage of Net Assets |
|--|-----------------------------|--|---|------------------|----------------|-------------------|--------------------------|
| Charter Baking Company, Inc.                         | Baked goods manufacturer    | Senior subordinated loan                               | 13.00% PIK                                  | 2/6/2008         | 6,673          | 6,673(4)(16)      |                          |
|  |                             | (\$6,673 par due 2/2013)                               |   |                  |                |                   |                          |
|  |                             | Preferred stock (6,258 shares)                         |   | 9/1/2006         | 2,500          | 1,650(16)         |                          |
|  |                             |  |   |                  | 9,173          | 8,323             |                          |
| Distant Lands Trading Co.                            | Coffee manufacturer         | Common stock (1,294 shares)                            |   | 4/1/2010         | 980            | 1,048(16)         |                          |
|  |                             | Common stock (2,157 shares)                            |   | 4/1/2010         |                | (16)              |                          |
|  |                             |  |   |                  | 980            | 1,048             |                          |
| Ideal Snacks Corporation                             | Snacks manufacturer         | Senior secured revolving loan (\$1,084 par due 6/2011) | 8.50% (Base Rate + 4.00%/M)                 | 4/1/2010         | 1,084          | 922(14)(16)       |                          |
|  |                             |  |   |                  | 109,843        | 105,334           | 3.45%                    |
| <b>Retail</b>  |                             |  |   |                  |                |                   |                          |
| Apogee Retail, LLC                                   | For-profit thrift retailer  | Senior secured revolving loan (\$780 par due 3/2012)   | 7.25% (Base Rate + 4.00%/Q)                 | 3/27/2007        | 780            | 765(16)           |                          |
|  |                             | Senior secured loan (\$11,523 par due 9/2012)          | 12.00% Cash, 4.00% PIK                      | 5/28/2008        | 11,523         | 11,523(4)(16)     |                          |
|  |                             | Senior secured loan (\$2,939 par due 3/2012)           | 5.51% (Libor + 5.25%/M)                     | 3/27/2007        | 2,939          | 2,880(2)          |                          |
|  |                             | Senior secured loan (\$3,420 par due 9/2012)           | 12.00% Cash, 4.00% PIK                      | 5/28/2008        | 3,420          | 3,420(4)(16)      |                          |
|  |                             | Senior secured loan (\$25,841 par due 3/2012)          | 5.51% (Libor + 5.25%/M)                     | 3/27/2007        | 25,841         | 25,324(2)         |                          |
|  |                             | Senior secured loan (\$11,307 par due 3/2012)          | 5.51% (Libor + 5.25%/M)                     | 3/27/2007        | 11,307         | 11,081(3)         |                          |
|  |                             |  |   |                  |                | 55,810            | 54,993                   |
| Savers, Inc. and SAI Acquisition Corporation         | For-profit thrift retailer  | Common stock (1,170,182 shares)                        |   | 8/8/2006         | 4,500          | 7,238(16)         |                          |
| Things Remembered, Inc. and TRM Holdings Corporation | Personalized gifts retailer | Senior secured loan (\$2,413 par due 9/2012)           | 6.50% (Base Rate + 1.25% Cash, 1.00% PIK/M) | 9/28/2006        | 2,409          | 2,364(3)(4)(14)   |                          |
|  |                             | Senior secured loan (\$28,122 par due 9/2012)          | 6.50% (Base Rate + 1.25% Cash, 1.00% PIK/M) | 9/28/2006        | 28,089         | 27,560(4)(14)(16) |                          |
|  |                             | Senior secured loan (\$7,110 par due 9/2012)           | 6.50% (Base Rate + 1.25% Cash, 1.00% PIK/M) | 9/28/2006        | 7,188          | 6,968(3)(4)(14)   |                          |
|  |                             | Preferred stock (73 shares)                            |   | 3/19/2009        |                | 1,939(16)         |                          |
|  |                             | Preferred stock (80 shares)                            |   | 9/28/2006        | 1,800          | 2,121(16)         |                          |

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|  |           |        |         |       |
|--|-----------|--------|---------|-------|
| Common stock<br>(800 shares)                                   | 9/28/2006 | 200    | (16)    |       |
| Warrants to purchase<br>up to 859 shares of<br>preferred stock | 3/19/2009 |        | (16)    |       |
|  |           | 39,686 | 40,952  |       |
|  |           | 99,996 | 103,183 | 3.38% |

**Commercial Real Estate  
Finance**

|                                 |                                 |  |                          |          |        |           |
|---------------------------------|---------------------------------|--|--------------------------|----------|--------|-----------|
| 10th Street, LLC(6)             | Real estate holding<br>company  | Senior subordinated<br>loan<br>(\$23,247 par due<br>11/2014) | 8.93% Cash, 4.07%<br>PIK | 4/1/2010 | 23,247 | 23,247(4) |
|                                 |                                 | Member interest<br>(10.00% interest)                         |                          | 4/1/2010 | 594    | 578       |
|                                 |                                 | Option<br>(25,000 units)                                     |                          | 4/1/2010 | 25     | 25        |
|                                 |                                 |  |                          |          | 23,866 | 23,850    |
| Allied Capital<br>REIT, Inc.(7) | Real estate<br>investment trust | Real estate equity<br>interests                              |                          | 4/1/2010 | 50     | 35        |

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| Company(1)                                       | Industry              | Investment   | Interest(5)(10) | Acquisition Date | Amortized Cost | Fair Value    | Percentage of Net Assets |
|--|-----------------------|--|-----------------|------------------|----------------|---------------|--------------------------|
|  |                       | Real estate equity interests                       |                 | 4/1/2010         | 115            | 699           |                          |
|  |                       |  |                 |                  | 165            | 734           |                          |
| American Commercial Coatings, Inc.               | Real estate property  | Commercial mortgage loan (\$2,000 par due 12/2025) |                 | 4/1/2010         | 1,927          | 1,875(13)     |                          |
| Aquila Binks Forest Development, LLC             | Real estate developer | Commercial mortgage loan (\$12,870 par due 6/2011) | 2.50%           | 4/1/2010         | 11,293         | 4,812(13)(16) |                          |
|  |                       | Real estate equity interest                        |                 | 4/1/2010         |                |               |                          |
|  |                       |  |                 |                  | 11,293         | 4,812         |                          |
| Cleveland East Equity, LLC                       | Hotel operator        | Real estate equity interest (2,522,748 shares)     |                 | 4/1/2010         | 1,026          | 2,051         |                          |
| Commons R-3, LLC                                 | Real estate developer | Real estate equity interest                        |                 | 4/1/2010         |                |               |                          |
| Crescent Hotels & Resorts, LLC and affiliates(7) | Hotel operator        | Senior subordinated loan (\$433 par due 6/2010)    |                 | 4/1/2010         | 433            | 444(13)(16)   |                          |
|  |                       | Senior subordinated loan (\$4,124 par due 1/2012)  |                 | 4/1/2010         | 1,475          | (13)          |                          |
|  |                       | Senior subordinated loan (\$4,348 par due 6/2017)  |                 | 4/1/2010         | 1,482          | 1,288(13)(16) |                          |
|  |                       | Senior subordinated loan (\$2,722 par due 6/2017)  |                 | 4/1/2010         | 928            | 1,963(13)(16) |                          |
|  |                       | Senior subordinated loan (\$5,974 par due 9/2012)  |                 | 4/1/2010         | 2,051          | (13)          |                          |
|  |                       | Senior subordinated loan (\$263 par due 3/2013)    |                 | 4/1/2010         | 263            | (13)(16)      |                          |
|  |                       | Senior subordinated loan (\$2,112 par due 9/2011)  |                 | 4/1/2010         |                | (13)          |                          |
|  |                       | Senior subordinated loan (\$3,078 par due 1/2012)  |                 | 4/1/2010         |                | (13)          |                          |
|  |                       | Senior subordinated loan (\$2,926 par due 6/2017)  |                 | 4/1/2010         |                | (13)          |                          |
|  |                       | Senior subordinated loan (\$2,050 par due 6/2017)  |                 | 4/1/2010         |                | (13)          |                          |
|  |                       | Senior subordinated loan (\$4,826 par due 9/2012)  |                 | 4/1/2010         |                | (13)          |                          |
|  |                       | Preferred equity interest                          |                 | 4/1/2010         |                | 43            |                          |
|  |                       | Preferred equity interest                          |                 | 4/1/2010         |                |               |                          |
|  |                       | Common equity interest                             |                 | 4/1/2010         | 35             |               |                          |
|  |                       | Member interests                                   |                 | 4/1/2010         |                |               |                          |

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|                            |                             |  |                   |        |               |       |
|----------------------------|-----------------------------|--|-------------------|--------|---------------|-------|
|                            |                             |  |                   | 6,667  | 3,738         |       |
| DI Safford, LLC            | Hotel operator              | Commercial mortgage loan<br>(\$5,311 par due 5/2032)   | 4/1/2010          | 2,757  | 2,750(13)(16) |       |
| Holiday Inn West Chester   | Hotel property              | Real estate owned                                      | 4/1/2010          | 3,513  | 3,330         |       |
| Hot Light Brands, Inc.(7)  | Real estate holding company | Senior secured loan<br>(\$27,393 par due 2/2011)       | 4/1/2010          | 4,875  | 4,629(13)(16) |       |
|                            |                             | Common stock<br>(93,500 shares)                        | 4/1/2010          |        | (16)          |       |
|                            |                             |  |                   | 4,875  | 4,629         |       |
| MGP Park Place Equity, LLC | Office building operator    | Commercial mortgage loan<br>(\$6,170 par due 5/2011)   | 4/1/2010          | 320    | 163(13)       |       |
| NPH, Inc.                  | Hotel property              | Real estate equity interest                            | 4/1/2010          | 5,291  | 6,907         |       |
| Van Ness Hotel, Inc.       | Hotel operator              | Commercial mortgage loan<br>(\$3,750 par due 8/2013)   | 4/1/2010          | 1,027  | (13)(16)      |       |
|                            |                             | Commercial mortgage loan<br>(\$13,702 par due 12/2011) | 5.50%<br>4/1/2010 | 13,702 | 11,291(16)    |       |
|                            |                             | Real estate equity interests                           | 4/1/2010          |        | (16)          |       |
|                            |                             |  |                   | 14,729 | 11,291        |       |
|                            |                             |  |                   | 76,429 | 66,130        | 2.17% |

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| Company(1)                            | Industry  | Investment  | Interest(5)(10)              | Acquisition Date | Amortized Cost | Fair Value     | Percentage of Net Assets |
|---------------------------------------|---|---|------------------------------|------------------|----------------|----------------|--------------------------|
| <b>Wholesale Distribution</b>         |   |   |                              |                  |                |                |                          |
| BECO Holding Company, Inc.            | Wholesale distributor of first response fire protection equipment and related parts | Common stock (25,000 shares)                                    |                              | 7/30/2010        | 2,500          | 2,500(16)      |                          |
| Stag-Parkway, Inc.(7)                 | Automotive aftermarket components supplier  | Senior secured loan (\$34,500 par due 12/2014)                  | 12.50% (Libor + 11.00%/Q)    | 9/30/2010        | 34,500         | 34,500(14)(16) |                          |
|                                       |   | Preferred stock (4,200 shares)                                  | 16.50%                       | 9/30/2010        | 2,328          | 4,200(16)      |                          |
|                                       |   | Common stock (10,200 shares)                                    |                              | 9/30/2010        |                | 13,987(16)     |                          |
|                                       |   |   |                              |                  | 36,828         | 52,687         |                          |
|                                       |   |   |                              |                  | 39,328         | 55,187         | 1.81%                    |
| <b>Computers and Electronics</b>      |   |   |                              |                  |                |                |                          |
| Interactive Technology Solutions, LLC | IT services provider  | Senior secured loan (\$7,944 par due 6/2015)                    | 9.50% (Libor + 6.50%/Q)      | 10/21/2010       | 7,944          | 7,944(14)(16)  |                          |
|                                       |   | Senior secured loan (\$8,900 par due 6/2015)                    | 9.50% (Libor + 6.50%/Q)      | 10/21/2010       | 8,900          | 8,900(3)(14)   |                          |
|                                       |   |   |                              |                  | 16,844         | 16,844         |                          |
| Network Hardware Resale, Inc.         | Networking equipment resale provider  | Senior subordinated loan (\$12,343 par due 12/2011)             | 12.00% (Base Rate + 6.00%/A) | 4/1/2010         | 12,343         | 12,343(2)(14)  |                          |
|                                       |   | Convertible junior subordinated loan (\$17,518 par due 12/2015) | 9.75% PIK                    | 4/1/2010         | 17,680         | 21,039(4)(16)  |                          |
|                                       |   |   |                              |                  | 30,023         | 33,382         |                          |
| TZ Merger Sub, Inc.                   | Healthcare enterprise software developer  | Senior secured loan (\$4,678 par due 8/2015)                    | 6.75% (Base Rate + 3.50%/Q)  | 6/15/2009        | 4,597          | 4,678(3)       |                          |
|                                       |   |   |                              |                  | 51,464         | 54,904         | 1.79%                    |
| <b>Environmental Services</b>         |   |   |                              |                  |                |                |                          |
| AWTP, LLC                             | Water treatment services  | Junior secured loan (\$4,755 par due 12/2012)                   |                              | 12/21/2005       | 4,755          | 1,517(13)(16)  |                          |
|                                       |   | Junior secured loan (\$2,086 par due 12/2012)                   |                              | 12/21/2005       | 2,086          | 666(3)(13)     |                          |
|                                       |   | Junior secured loan (\$4,755 par due 12/2012)                   |                              | 12/21/2005       | 4,755          | 1,517(13)(16)  |                          |
|                                       |   | Junior secured loan (\$2,086 par due 12/2012)                   |                              | 12/21/2005       | 2,086          | 666(3)(13)     |                          |

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|                                       |  |   | 12/2012)                 |            | 13,682 | 4,366         |
|---------------------------------------|--|---|--------------------------|------------|--------|---------------|
| Mactec, Inc.                          | Engineering and environmental services                                   | Class B-4 stock (16 shares)                   |                          | 11/3/2004  |        | (16)          |
|                                       |  | Class C stock (5,556 shares)                  |                          | 11/3/2004  |        | 162(16)       |
|                                       |  |   |                          |            |        | 162           |
| Sigma International Group, Inc.(8)    | Water treatment parts manufacturer                                       | Junior secured loan (\$1,833 par due 10/2013) | 16.00% (Libor + 8.00%/Q) | 10/11/2007 | 1,833  | 1,283(14)(16) |
|                                       |  | Junior secured loan (\$917 par due 10/2013)   | 16.00% (Libor + 8.00%/Q) | 10/11/2007 | 917    | 642(14)(16)   |
|                                       |  | Junior secured loan (\$2,778 par due 10/2013) | 16.00% (Libor + 8.00%/Q) | 10/11/2007 | 2,778  | 1,944(14)(16) |
|                                       |  | Junior secured loan (\$4,000 par due 10/2013) | 16.00% (Libor + 8.00%/Q) | 10/11/2007 | 4,000  | 2,800(3)(14)  |
|                                       |  | Junior secured loan (\$2,000 par due 10/2013) | 16.00% (Libor + 8.00%/Q) | 10/11/2007 | 2,000  | 1,400(3)(14)  |
|                                       |  | Junior secured loan (\$6,060 par due 10/2013) | 16.00% (Libor + 8.00%/Q) | 10/11/2007 | 6,060  | 4,242(3)(14)  |
|                                       |  |   |                          |            | 17,588 | 12,311        |
| Universal Environmental Services, LLC | Hydrocarbon recycling and related waste management services and products | Preferred member interest (15.00% interest)   |                          | 4/1/2010   |        |               |

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| Company(1)                            | Industry  | Investment   | Interest(5)(10)             | Acquisition Date | Amortized Cost | Fair Value   | Percentage of Net Assets |
|---------------------------------------|---|--|-----------------------------|------------------|----------------|--------------|--------------------------|
|                                       |   | Preferred member interest (850,242 shares)         |                             | 4/1/2010         |                |              |                          |
|                                       |   | Preferred member interest (7,099 shares)           |                             | 4/1/2010         |                |              |                          |
|                                       |   | Preferred member interest (763,889 shares)         |                             | 4/1/2010         |                |              |                          |
| Waste Pro USA, Inc                    | Waste management services                                     | Preferred Class A Common Equity (611,615 shares)   |                             | 11/9/2006        | 12,263         | 16,861(16)   |                          |
| Wastequip, Inc.(6)                    | Waste management equipment manufacturer                       | Senior subordinated loan (\$12,669 par due 2/2015) |                             | 2/5/2007         | 12,581         | 760(13)(16)  |                          |
|                                       |   | Common stock (13,889 shares)                       |                             | 2/2/2007         | 1,389          | (16)         |                          |
|                                       |   |  |                             |                  | 13,970         | 760          |                          |
|                                       |   |  |                             |                  | 57,503         | 34,460       | 1.13%                    |
| <b>Automotive Services</b>            |   |  |                             |                  |                |              |                          |
| Driven Brands, Inc.(6)                | Automotive aftermarket car care franchisor                    | Senior secured loan (\$3,200 par due 10/2014)      | 6.50% (Libor + 5.00%/M)     | 5/12/2010        | 3,116          | 3,200(3)(14) |                          |
|                                       |   | Senior secured loan (\$520 par due 10/2014)        | 6.50% (Libor + 5.00%/M)     | 4/1/2010         | 506            | 520(3)(14)   |                          |
|                                       |   | Senior secured loan (\$213 par due 10/2014)        | 7.00% (Base Rate + 3.75%/M) | 4/1/2010         | 207            | 213(3)       |                          |
|                                       |   | Common stock (3,772,098 shares)                    |                             | 4/1/2010         | 4,939          | 6,308        |                          |
|                                       |   |  |                             |                  | 8,768          | 10,241       |                          |
| Penn Detroit Diesel Allison, LLC(7)   | Diesel engine manufacturer                                    | Member interest (70,249 shares)                    |                             | 4/1/2010         | 20,069         | 22,057(16)   |                          |
|                                       |   |  |                             |                  | 28,837         | 32,298       | 1.06%                    |
| <b>Containers Packaging</b>           |   |  |                             |                  |                |              |                          |
| Industrial Container Services, LLC(6) | Industrial container manufacturer, reconditioner and servicer | Senior secured loan (\$1,033 par due 9/2011)       | 5.75% (Base Rate + 2.50%/Q) | 9/30/2005        | 1,033          | 1,033(16)    |                          |
|                                       |   | Senior secured loan (\$20 par due 9/2011)          | 4.26% (Libor + 4.00%/Q)     | 6/21/2006        | 20             | 20(2)        |                          |
|                                       |   | Senior secured loan (\$101 par due 9/2011)         | 4.26% (Libor + 4.00%/Q)     | 6/21/2006        | 101            | 101(2)       |                          |
|                                       |   | Senior secured loan (\$308 par due 9/2011)         | 4.26% (Libor + 4.00%/Q)     | 6/21/2006        | 308            | 308(3)       |                          |
|                                       |   |  |                             | 6/21/2006        | 1,539          | 1,539(3)     |                          |

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|  |  |                             |           |       |            |
|--|--|-----------------------------|-----------|-------|------------|
|  | Senior secured loan (\$1,539 par due 9/2011) | 4.26% (Libor + 4.00%/Q)     |           |       |            |
|  | Senior secured loan (\$107 par due 9/2011)   | 4.26% (Libor + 4.00%/Q)     | 6/21/2006 | 107   | 107(2)     |
|  | Senior secured loan (\$1,642 par due 9/2011) | 4.26% (Libor + 4.00%/Q)     | 6/21/2006 | 1,642 | 1,642(3)   |
|  | Senior secured loan (\$27 par due 9/2011)    | 5.75% (Base Rate + 2.50%/Q) | 6/21/2006 | 27    | 27(2)      |
|  | Senior secured loan (\$410 par due 9/2011)   | 5.75% (Base Rate + 2.50%/Q) | 6/21/2006 | 410   | 410(3)     |
|  | Common units (1,800,000 units)               |                             | 9/29/2005 | 1,800 | 15,203(16) |

6,987 20,390

6,987 20,390 0.67%

**Health Clubs**

|                              |                              |  |                         |            |        |               |
|------------------------------|------------------------------|--|-------------------------|------------|--------|---------------|
| Athletic Club Holdings, Inc. | Premier health club operator | Senior secured loan (\$7,250 par due 10/2013)  | 4.76% (Libor + 4.50%/M) | 10/11/2007 | 7,250  | 6,453(2)(12)  |
|                              |                              | Senior secured loan (\$11,500 par due 10/2013) | 4.76% (Libor + 4.50%/M) | 10/11/2007 | 11,500 | 10,235(3)(12) |

18,750 16,688

18,750 16,688 0.55%

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| Company(1)<br>Printing, Publishing and Media       | Industry   | Investment  | Interest(5)(10)                              | Acquisition Date | Amortized Cost | Fair Value      | Percentage of Net Assets |
|--|--|---|--|------------------|----------------|-----------------|--------------------------|
| EarthColor, Inc.(7)                                | Printing management services   | Common stock (89,435 shares)                            |  | 4/1/2010         |                |                 |                          |
| LVCG Holdings LLC(7)                               | Commercial printer   | Membership interests (56.53% interest)                  |  | 10/12/2007       | 6,600          |                 |                          |
| National Print Group, Inc.                         | Printing management services   | Senior secured revolving loan (\$1,141 par due 10/2012) | 9.00% (Libor + 6.00%/Q)                      | 3/2/2006         | 1,141          | 965(14)(16)     |                          |
|  |  | Senior secured revolving loan (\$1,250 par due 10/2012) | 9.00% (Base Rate + 5.00%/Q)                  | 3/2/2006         | 1,250          | 1,057(14)(16)   |                          |
|  |  | Senior secured loan (\$7,685 par due 10/2012)           | 14.00% (Libor + 6.00% Cash, 5.00% PIK/Q)     | 3/2/2006         | 7,359          | 7,091(3)(4)(14) |                          |
|  |  | Senior secured loan (\$187 par due 10/2012)             | 14.00% (Base Rate + 5.00% Cash, 5.00% PIK/Q) | 3/2/2006         | 179            | 173(3)(4)(14)   |                          |
|  |  | Preferred stock (9,344 shares)                          |  | 3/2/2006         | 2,000          | (16)            |                          |
|  |  |   |  |                  |                |                 | 11,929                   |
| The Teaching Company, LLC and The Teaching Company | Education publications provider  | Preferred stock (29,969 shares)                         |  | 9/29/2006        | 2,997          | 3,851(16)       |                          |
| Holdings, Inc.                                     |  | Common stock (15,393 shares)                            |  | 9/29/2006        | 3              | 4(16)           |                          |
|  |  |   |  |                  | 3,000          | 3,855           |                          |
|  |  |   |  |                  | 21,529         | 13,141          | 0.43%                    |
| <b>Aerospace and Defense</b>                       |  |   |  |                  |                |                 |                          |
| AP Global Holdings, Inc.                           | Safety and security equipment manufacturer                             | Senior secured loan (\$6,274 par due 10/2013)           | 4.02% (Libor + 3.75%/M)                      | 11/18/2007       | 6,243          | 6,274(3)        |                          |
| Wyle Laboratories, Inc. and Wyle Holdings, Inc.    | Provider of specialized engineering, scientific and technical services | Senior preferred stock (775 shares)                     | 8.00%  | 1/17/2008        | 87             | 87(16)          |                          |
|  |  | Common stock (1,885,195 shares)                         |  | 1/17/2008        | 2,291          | 1,968(16)       |                          |
|  |  |   |  |                  | 2,378          | 2,055           |                          |
|  |  |   |  |                  | 8,621          | 8,329           | 0.27%                    |
| <b>Oil and Gas</b>                                 |  |   |  |                  |                |                 |                          |
|  |  |   |  | 4/1/2010         | 54             | (16)            |                          |

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|                             |                                   |  |          |       |         |       |
|-----------------------------|-----------------------------------|--|----------|-------|---------|-------|
| Geotrace Technologies, Inc. | Reservoir processing, development | Warrants to purchase up to 43,356 shares of common stock     |          |       |         |       |
|                             |                                   | Warrants to purchase up to 26,622 shares of common stock     | 4/1/2010 | 33    | (16)    |       |
|                             |                                   | Warrants to purchase up to 80,063 shares of preferred stock  | 4/1/2010 | 1,738 | 207(16) |       |
|                             |                                   | Warrants to purchase up to 130,390 shares of preferred stock | 4/1/2010 | 1,067 | 337(16) |       |
|                             |                                   |  |          | 2,892 | 544     |       |
|                             |                                   |  |          | 2,892 | 544     | 0.02% |

**Housing Building Materials**

|                        |   |   |           |       |             |  |
|------------------------|---|---|-----------|-------|-------------|--|
| HB&G Building Products | Synthetic and wood product manufacturer | Senior subordinated loan (\$8,956 par due 3/2013) | 10/8/2004 | 8,991 | 179(13)(16) |  |
|                        |   | Common stock (2,743 shares)                       | 10/8/2004 | 753   | (16)        |  |

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| Company(1) | Industry | Investment  | Interest(5)(10) | Acquisition Date | Amortized Cost | Fair Value   | Percentage of Net Assets |
|------------|----------|---|-----------------|------------------|----------------|--------------|--------------------------|
|            |          | Warrants to purchase up to 4,464 shares of common stock |                 | 10/8/2004        | 653            |              | (16)                     |
|            |          |   |                 |                  | 10,397         | 179          |                          |
|            |          |   |                 |                  | 10,397         | 179          | 0.01%                    |
|            |          |   |                 |                  | \$ 4,291,955   | \$ 4,317,990 | 141.55%                  |

- (1) Other than our investments listed in footnote 7 below, we do not "Control" any of our portfolio companies, as defined in the Investment Company Act of 1940 (the "Investment Company Act"). In general, under the Investment Company Act, we would "Control" a portfolio company if we owned more than 25% of its outstanding voting securities and/or had the power to exercise control over the management or policies of such portfolio company. All of our portfolio company investments are subject to legal restrictions on sales which as of December 31, 2010 represented 142% of the Company's net assets or 95% of the Company's total assets.
- (2) These assets are owned by the Company's wholly owned subsidiary Ares Capital CP, are pledged as collateral for the Revolving Funding Facility and, as a result, are not directly available to the creditors of the Company to satisfy any obligations of the Company other than Ares Capital CP's obligations under the Revolving Funding Facility (see Note 5 to the consolidated financial statements).
- (3) Pledged as collateral for the ARCC CLO.
- (4) Has a payment-in-kind interest feature (see Note 2 to the consolidated financial statements).
- (5) Investments without an interest rate are non-income producing.
- (6) As defined in the Investment Company Act, we are an "Affiliated Person" of this portfolio company because we own 5% or more of the portfolio company's outstanding voting securities or we have the power to exercise control over the management or policies of such portfolio company (including through a management agreement). Transactions during the year ended December 31, 2010 in which the issuer was an Affiliated company (but not a portfolio company that we "Control") are as follows:

| Company   | Purchases  | Redemptions (cost) | Sales (cost) | Interest income | Capital structuring service fees | Dividend Income | Other income | Net realized gains (losses) | Net unrealized gains (losses) |
|---|------------|--------------------|--------------|-----------------|----------------------------------|-----------------|--------------|-----------------------------|-------------------------------|
| 10th Street LLC   | \$ 23,171  | \$                 | \$           | \$ 2,465        | \$                               | \$              | \$           | \$                          | \$ (16)                       |
| Air Medical Group   | \$ 30,065  | \$ 11,955          | \$ 18,205    | \$ 106          | \$                               | \$              | \$ 13        | \$ 14,909                   | \$                            |
| Apple & Eve, LLC and US Juice Partners, LLC                                   | \$ 3,500   | \$ 5,022           | \$ 2,816     | \$ 3,753        | \$                               | \$              | \$ 47        | \$                          | \$ 36                         |
| BB&T Capital  | \$ 13,943  | \$ 2,043           | \$           | \$              | \$                               | \$              | \$           | \$                          | \$ 3,804                      |
| Carador, PLC  | \$         | \$                 | \$           | \$              | \$                               | \$ 616          | \$           | \$                          | \$ 2,844                      |
| Campus Management Corp. and Campus Management Acquisition Corp.               | \$         | \$ 43,462          | \$           | \$ 4,829        | \$                               | \$              | \$ 1         | \$                          | \$ (197)                      |
| CT Technologies Intermediate Holdings, Inc. and CT Technologies Holdings, LLC | \$         | \$                 | \$           | \$ 297          | \$                               | \$              | \$           | \$                          | \$ 3,070                      |
| Direct Buy Holdings, Inc. and Direct Buy Investors LP                         | \$ 78,350  | \$ 219             | \$           | \$ 10,767       | \$                               | \$              | \$           | \$ 6                        | \$ 826                        |
| Driven Brands, Inc.   | \$ 103,157 | \$ 41              | \$ 96,643    | \$ 3,032        | \$                               | \$              | \$           | \$ 843                      | \$ 1,473                      |
| DSI Renal, Inc.   | \$ 1,505   | \$ 5,346           | \$ 7,991     | \$ 13,449       | \$                               | \$              | \$ 57        | \$ 3,863                    | \$ 24,699                     |
| Dwyer Group, Inc.   | \$ 42,100  | \$                 | \$           | \$ 97           | \$ 813                           | \$              | \$           | \$                          | \$                            |
| Firstlight Financial Corporation  | \$         | \$                 | \$           | \$ 545          | \$                               | \$              | \$ 312       | \$                          | \$ (1,295)                    |
| Growing Family, Inc. and GFH Holdings, LLC                                    | \$         | \$                 | \$           | \$ 1,097        | \$                               | \$              | \$           | \$ (7,659)                  | \$ 1,668                      |
| Imperial Capital Group, LLC   | \$         | \$                 | \$ 151       | \$              | \$                               | \$ 1,509        | \$           | \$                          | \$ 464                        |
| Industrial Container Services, LLC  | \$ 1,446   | \$ 10,692          | \$           | \$ 391          | \$                               | \$              | \$ 148       | \$                          | \$ 7,049                      |

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|   |           |           |           |          |    |        |      |            |
|---|-----------|-----------|-----------|----------|----|--------|------|------------|
| InSight Pharmaceuticals Corporation                   | \$ 66,790 | \$        | \$        | \$ 6,325 | \$ | \$ 375 | \$   | \$ 1,362   |
| Investor Group Services, LLC                          | \$ 100    | \$ 100    | \$        | \$ 203   | \$ | \$ 20  | \$   | \$ 64      |
| Multi-Ad Services, Inc.                               | \$ 2,666  | \$ 1,886  | \$        | \$ 149   | \$ | \$ 17  | \$   | \$ 578     |
| Pillar Holdings LLC and PHL Holding Co.               | \$        | \$ 4,597  | \$        | \$ 2,564 | \$ | \$ 36  | \$   | \$ (2,116) |
| Primis Marketing Group, Inc. and Primis Holdings, LLC | \$        | \$        | \$        | \$       | \$ | \$     | \$   | \$ (409)   |
| Regency Equity Corp.                                  | \$ 2,007  | \$        | \$        | \$       | \$ | \$     | \$   | \$ (335)   |
| Service Champ, Inc.                                   | \$ 28,463 | \$ 26,585 | \$ 28,463 | \$ 969   | \$ | \$ 75  | \$   | \$         |
| Soteria Imaging Services, LLC                         | \$ 4,080  | \$        | \$ 142    | \$ 348   | \$ | \$     | \$   | \$ (636)   |
| VSS-Tranzact Holdings, LLC                            | \$ 204    | \$        | \$        | \$       | \$ | \$     | \$   | \$ (1,579) |
| Universal Corporation                                 | \$        | \$        | \$        | \$       | \$ | \$     | \$   | \$         |
| Universal Trailer Corporation                         | \$        | \$        | \$        | \$       | \$ | \$     | \$   | \$         |
| Wastequip, Inc.                                       | \$        | \$        | \$ 449    | \$       | \$ | \$ 281 | \$ 3 | \$ (759)   |

(7)

As defined in the Investment Company Act, we are an "Affiliated Person" of this portfolio company because we own 5% or more of the portfolio company's outstanding voting securities or we have the power to exercise control over the management or policies of such portfolio company (including through a management agreement). In addition, as defined in the Investment Company Act, we "Control" this portfolio company because we own more than 25% of the portfolio company's outstanding voting securities or we have the power to exercise control over the management or policies of such portfolio company

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(including through a management agreement). Transactions during the period for the year ended December 31, 2010 in which the issuer was both an Affiliated company and a portfolio company that we Control are as follows:

| Company                                  | Purchases  | Redemptions (cost) | Sales (cost) | Interest income | Capital structuring service fees | Dividend Income | Other income | Net realized gains (losses) | Net unrealized gains (losses) |
|--|------------|--------------------|--------------|-----------------|----------------------------------|-----------------|--------------|-----------------------------|-------------------------------|
| AGILE Fund I, LLC                        | \$ 264     | \$                 | \$           | \$              | \$                               | \$ 124          | \$           | \$                          | \$ (47)                       |
| Allied Capital REIT, Inc.                | \$ 765     | \$ 600             | \$           | \$              | \$                               | \$ 40           | \$           | \$                          | \$ 569                        |
| AllBridge Financial, LLC                 | \$ 11,370  | \$                 | \$           | \$              | \$                               | \$ 29           | \$           | \$                          | \$ 1,717                      |
| Avborne, Inc.                            | \$ 39      | \$                 | \$ 39        | \$              | \$                               | \$              | \$           | \$ 41                       | \$                            |
| Aviation Properties Corporation          | \$         | \$                 | \$           | \$              | \$                               | \$              | \$           | \$                          | \$                            |
| BenefitMall Holdings, Inc.               | \$ 93,837  | \$                 | \$           | \$ 5,525        | \$                               | \$              | \$ 375       | \$                          | \$ (3,060)                    |
| Border Foods, Inc.                       | \$ 68,944  | \$ 5,600           | \$           | \$ 3,107        | \$                               | \$ 25           | \$           | \$                          | \$ (3,601)                    |
| Callidus Capital Corporation             | \$ 20,120  | \$ 16,000          | \$ 4,120     | \$              | \$                               | \$              | \$           | \$ 2,580                    | \$ (2,354)                    |
| Ciena Capital LLC                        | \$ 98,012  | \$                 | \$           | \$ 429          | \$                               | \$              | \$           | \$                          | \$ (6,058)                    |
| Citipostal, Inc.                         | \$ 63,961  | \$ 1,020           | \$           | \$ 7,308        | \$                               | \$ 282          | \$           | \$                          | \$ (504)                      |
| Coverall North America, Inc.             | \$ 40,189  | \$                 | \$           | \$ 3,541        | \$                               | \$ 225          | \$           | \$                          | \$ (7,624)                    |
| Crescent Equity Corp.                    | \$ 6,653   | \$                 | \$           | \$ 532          | \$                               | \$              | \$           | \$ 216                      | \$ (2,894)                    |
| Direct Capital Corporation               | \$ 10,109  | \$                 | \$           | \$              | \$                               | \$              | \$           | \$                          | \$ (31)                       |
| EarthColor, Inc.                         | \$         | \$                 | \$           | \$              | \$                               | \$              | \$           | \$                          | \$                            |
| Financial Pacific Company                | \$ 32,800  | \$ 32,899          | \$           | \$ 3,191        | \$                               | \$ 500          | \$           | \$ 1,592                    | \$ 1,543                      |
| HCI Equity, LLC                          | \$ 808     | \$                 | \$           | \$              | \$                               | \$              | \$           | \$                          | \$ 186                        |
| HCP Acquisition Holdings, LLC            | \$         | \$                 | \$           | \$              | \$                               | \$              | \$           | \$                          | \$ 814                        |
| Hot Light Brands, Inc.                   | \$ 6,746   | \$ 1,896           | \$           | \$ 2            | \$                               | \$              | \$           | \$ 266                      | \$ (246)                      |
| Hot Stuff Foods, LLC                     | \$ 69,167  | \$ 10,230          | \$           | \$ 3,201        | \$                               | \$ 71           | \$           | \$                          | \$ 11,203                     |
| Huddle House Inc.                        | \$ 19,607  | \$                 | \$           | \$ 2,265        | \$                               | \$ 564          | \$           | \$                          | \$ (3,830)                    |
| IAT Equity, LLC                          | \$ 13,419  | \$                 | \$           | \$              | \$                               | \$ 130          | \$           | \$                          | \$ 1,432                      |
| Ivy Hill Asset Management, L.P.          | \$ 71,116  | \$ 4,834           | \$           | \$              | \$                               | \$ 7,320        | \$           | \$                          | \$ 21,633                     |
| Ivy Hill Middle Market Credit Fund, Ltd. | \$         | \$                 | \$ 330       | \$ 6,859        | \$                               | \$              | \$           | \$                          | \$ 884                        |
| Knightsbridge CLO 2007-1 Ltd.            | \$ 14,852  | \$                 | \$           | \$ 1,823        | \$                               | \$              | \$           | \$                          | \$ (307)                      |
| Knightsbridge CLO 2008-1 Ltd.            | \$ 36,996  | \$                 | \$           | \$ 2,189        | \$                               | \$              | \$           | \$                          | \$ (3,108)                    |
| LVCG Holdings, LLC                       | \$         | \$                 | \$           | \$              | \$                               | \$              | \$           | \$                          | \$ (330)                      |
| Making Memories Wholesale, Inc.          | \$ 1,250   | \$ 1,007           | \$           | \$ 1,062        | \$                               | \$ 188          | \$           | \$ 73                       | \$ (3,883)                    |
| MVL Group, Inc.                          | \$ 60,707  | \$ 4,837           | \$           | \$ 6,686        | \$                               | \$              | \$           | \$ 80                       | \$ 1,086                      |
| PENN Detroit Diesel Allison LLC          | \$ 20,069  | \$                 | \$           | \$              | \$                               | \$ 375          | \$           | \$                          | \$ 1,987                      |
| Reflexite Corporation                    | \$         | \$                 | \$ 8,450     | \$ 3,568        | \$                               | \$ 141          | \$           | \$ 950                      | \$ 5,928                      |
| Senior Secured Loan Fund LLC*            | \$ 391,571 | \$ 15,410          | \$           | \$ 50,013       | \$ 29,946                        | \$ 6,096        | \$           | \$ 796                      | \$ 24,235                     |
| Stag-Parkway, Inc.                       | \$ 36,810  | \$                 | \$           | \$ 2,131        | \$                               | \$ 18           | \$ 229       | \$                          | \$ 15,513                     |
| Startec Equity, LLC                      | \$         | \$                 | \$           | \$              | \$                               | \$              | \$           | \$                          | \$                            |
| The Thymes, LLC                          | \$         | \$                 | \$           | \$ 421          | \$                               | \$ 401          | \$           | \$                          | \$ 797                        |

\*

Together with GE Commercial Finance Investment Advisory Services LLC ("GE"), we serve as co-managers of the SSLP. Investments and portfolio decisions made by the SSLP must be approved by both the Company and GE; therefore, although the Company owns more than 25% of the voting securities of the LLC, the Company does not believe that it has control over the SSLP (for purposes of the Investment Company Act or otherwise).

(8)

Non-U.S. company or principal place of business outside the U.S. and as a result is not a qualifying asset under Section 55(a) of the Investment Company Act. Under the Investment Company Act, we may not acquire any non-qualifying asset unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets.

(9)

Non-registered investment company. Under the Investment Company Act, we may not acquire any non-qualifying asset unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets.

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- (10) Variable rate loans to our portfolio companies bear interest at a rate that may be determined by reference to either LIBOR or an alternate base rate (commonly based on the Federal Funds Rate or the Prime Rate), at the borrower's option, which reset annually (A), semi-annually (S), quarterly (Q), bi-monthly (B), monthly (M) or daily (D). For each such loan, we have provided the interest rate in effect on the date presented.
- (11) In addition to the interest earned based on the stated interest rate of this security, we are entitled to receive an additional interest amount of 5% on \$40 million aggregate principal amount outstanding of the portfolio company's senior term debt previously syndicated by us.
- (12) In addition to the interest earned based on the stated interest rate of this security, we are entitled to receive an additional interest amount of 2.50% on \$25 million aggregate principal amount outstanding of the portfolio company's senior term debt previously syndicated by us.
- (13) Loan was on non-accrual status as of December 31, 2010.
- (14) Loan includes interest rate floor feature.
- (15) In addition to the interest earned based on the stated interest rate of this security, the notes entitle us to receive a portion of the excess cash flow from the SSLP's loan portfolio, which may result in a return greater than the contractual rate.
- (16) Pledged as collateral for the Revolving Credit Facility.
- (17) Public company. Under the Investment Company Act, we may not acquire any non-qualifying asset unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets.

See accompanying notes to consolidated financial statements.



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**ARES CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS**  
**As of December 31, 2009**  
**(dollar amounts in thousands)**

| Company(1)   | Industry                     | Investment   | Interest(5)(10)             | Acquisition Date                               | Amortized Cost          | Fair Value    | Percentage of Net Assets |           |
|--|------------------------------|--|-----------------------------|--|-------------------------|---------------|--------------------------|-----------|
| <b>Healthcare Services</b>   |                              |  |                             |  |                         |               |                          |           |
| American Renal Associates, Inc.  | Dialysis provider            | Senior secured loan (\$902 par due 12/2010)            | 8.50% (Libor + 5.00%/D)     | 12/14/2005                                     | \$ 902                  | \$ 902(3)(15) |                          |           |
|  |                              | Senior secured loan (\$10,389 par due 12/2011)         | 8.50% (Libor + 5.00%/Q)     | 12/14/2005                                     | 10,389                  | 10,389(3)(15) |                          |           |
|  |                              |  |                             |  | 11,291                  | 11,291        |                          |           |
| Capella Healthcare, Inc.   | Acute care hospital operator | Junior secured loan (\$12,500 par due 2/2016)          | 13.00%                      | 2/29/2008                                      | 12,500                  | 12,500        |                          |           |
|  |                              | Junior secured loan (\$30,000 par due 2/2016)          | 13.00%                      | 2/29/2008                                      | 30,000                  | 30,000(2)     |                          |           |
|  |                              |  |                             |  | 42,500                  | 42,500        |                          |           |
| CT Technologies Intermediate Holdings, Inc. and CT Technologies Holdings, LLC(6) | Healthcare analysis services | Preferred stock (7,427 shares)                         | 14.00% PIK                  | 6/15/2007                                      | 8,467                   | 8,043(4)      |                          |           |
|  |                              | Common stock (9,679 shares)                            |                             | 6/15/2007                                      | 4,000                   | 8,114         |                          |           |
|  |                              | Common stock (1,546 shares)                            |                             | 6/15/2007                                      | 12,467                  | 16,157        |                          |           |
| DSI Renal, Inc.  | Dialysis provider            | Senior secured revolving loan (\$2 par due 3/2011)     | 7.25% (Base Rate + 4.00%/M) | 4/4/2006                                       | 2                       | 2             |                          |           |
|  |                              | Senior secured revolving loan (\$132 par due 3/2011)   | 7.25% (Base Rate + 4.00%/M) | 4/4/2006                                       | 132                     | 126           |                          |           |
|  |                              | Senior secured revolving loan (\$20 par due 3/2011)    | 7.25% (Base Rate + 4.00%/M) | 4/4/2006                                       | 20                      | 19            |                          |           |
|  |                              | Senior secured revolving loan (\$7,392 par due 3/2011) | 7.25% (Base Rate + 4.00%/M) | 4/4/2006                                       | 7,392                   | 7,022         |                          |           |
|  |                              | Senior secured revolving loan (\$122 par due 3/2011)   | 7.25% (Base Rate + 4.00%/M) | 4/4/2006                                       | 122                     | 116           |                          |           |
|  |                              | Senior secured loan (\$339 par due 3/2013)             | 7.25% (Base Rate + 4.00%/Q) | 4/4/2006                                       | 237                     | 322           |                          |           |
|  |                              | Senior secured loan (\$44 par due 3/2013)              | 7.25% (Base Rate + 4.00%/Q) | 4/4/2006                                       | 31                      | 42            |                          |           |
|  |                              | Senior secured loan (\$16,960 par due 3/2013)          | 7.25% (Base Rate + 4.00%/Q) | 4/4/2006                                       | 12,323                  | 16,112        |                          |           |
|  |                              | Senior subordinated loan (\$66,552 par due 4/2014)     | 16.00% PIK                  | 4/4/2006                                       | 66,215                  | 63,220(4)     |                          |           |
|  |                              | Senior subordinated loan (\$14,285 par due 4/2014)     | 16.00% PIK                  | 4/4/2006                                       | 14,211                  | 13,571(3)(4)  |                          |           |
|  |                              |  |                             |  |                         | 100,685       | 100,552                  |           |
|  |                              | GG Merger Sub I, Inc.                                  | Drug testing services       | Senior secured loan (\$11,330 par due 12/2014) | 4.26% (Libor + 4.00%/Q) | 12/14/2007    | 10,919                   | 10,197(2) |
|  |                              |  |                             | 12/14/2007                                     | 11,460                  | 10,800(3)     |                          |           |

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|  |   |   |                            |           |        |           |
|--|---|---|----------------------------|-----------|--------|-----------|
|  |   | Senior secured loan<br>(\$12,000 par due<br>12/2014)  | 4.26% (Libor +<br>4.00%/Q) |           | 22,379 | 20,997    |
| HCP Acquisition Holdings, LLC(7)   | Healthcare compliance advisory services | Class A units<br>(10,044,176 units)                   |                            | 6/26/2008 | 10,044 | 4,256     |
| Heartland Dental Care, Inc.  | Dental services                         | Senior subordinated loan<br>(\$32,717 par due 8/2013) | 11.00% Cash,<br>3.25% PIK  | 7/31/2008 | 32,717 | 32,717(4) |
| Magnacare Holdings, Inc., Magnacare Administrative Services, LLC, and Magnacare, LLC | Health plan management company          | Senior subordinated loan<br>(\$4,670 par due 1/2013)  | 12.75% Cash,<br>2.00% PIK  | 2/9/2009  | 3,363  | 4,670(4)  |

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| Company(1)   | Industry   | Investment  | Interest(5)(10)          | Acquisition Date | Amortized Cost | Fair Value    | Percentage of Net Assets |
|--|--|---|--------------------------|------------------|----------------|---------------|--------------------------|
| MPBP Holdings, Inc., Cohr Holdings, Inc. and MPBP Acquisition Co., Inc.              | Healthcare equipment services  | Senior secured loan (\$997 par due 1/2013)          |                          | 1/31/2007        | 489            | 628           |                          |
|  |  | Junior secured loan (\$20,000 par due 1/2014)       | 6.48% (Libor + 6.25%/B)  | 1/31/2007        | 20,049         | 5,000         |                          |
|  |  | Junior secured loan (\$12,000 par due 1/2014)       | 6.48% (Libor + 6.25%/B)  | 1/31/2007        | 12,000         | 3,000(3)      |                          |
|  |  | Common stock (50,000 shares)                        |                          | 1/31/2007        | 5,000          |               |                          |
|  |  |   |                          |                  | 37,538         | 8,628         |                          |
| MWD Acquisition Sub, Inc.  | Dental services  | Junior secured loan (\$5,000 par due 5/2012)        | 6.48% (Libor + 6.25%/M)  | 5/3/2007         | 5,000          | 4,350(3)      |                          |
| OnCURE Medical Corp.   | Radiation oncology care provider   | Senior secured loan (\$3,068 par due 6/2012)        | 3.75% (Libor + 3.50%/M)  | 8/18/2006        | 3,068          | 2,761(3)      |                          |
|  |  | Senior subordinated loan (\$32,642 par due 8/2013)  | 11.00% Cash, 1.50% PIK   | 8/18/2006        | 32,664         | 29,378(4)     |                          |
|  |  | Common stock (857,143 shares)                       |                          | 8/18/2006        | 3,000          | 3,000         |                          |
|  |  |   |                          |                  | 38,732         | 35,139        |                          |
| Passport Health Communications, Inc., Passport Holding Corp. and Prism Holding Corp. | Healthcare technology provider   | Senior secured loan (\$12,660 par due 5/2014)       | 10.50% (Libor + 7.50%/M) | 5/9/2008         | 12,660         | 12,660(2)(15) |                          |
|  |  | Senior secured loan (\$11,686 par due 5/2014)       | 10.50% (Libor + 7.50%/M) | 5/9/2008         | 11,686         | 11,686(3)(15) |                          |
|  |  | Series A preferred stock (1,594,457 shares)         |                          | 7/30/2008        | 9,900          | 9,900         |                          |
|  |  | Common stock (16,106 shares)                        |                          | 7/30/2008        | 100            | 100           |                          |
|  |  |   |                          |                  | 34,346         | 34,346        |                          |
| PG Mergersub, Inc.   | Provider of patient surveys, management reports and national databases for the integrated healthcare delivery system | Senior subordinated loan (\$4,000 par due 3/2016)   | 12.50%                   | 3/12/2008        | 3,938          | 4,000         |                          |
|  |  | Preferred stock (333 shares)                        |                          | 3/12/2008        | 333            | 333           |                          |
|  |  | Common stock (16,667 shares)                        |                          | 3/12/2008        | 167            | 167           |                          |
|  |  |   |                          |                  | 4,438          | 4,500         |                          |
| The Schumacher Group of Delaware, Inc.   | Outsourced physician service provider  | Junior secured loan (\$5,229 par due 7/2013)        | 11.13% Cash, 1.00% PIK   | 7/18/2008        | 5,229          | 5,229(4)      |                          |
|  |  | Junior secured loan (\$30,909 par due 7/2013)       | 11.13% Cash, 1.00% PIK   | 7/18/2008        | 30,943         | 30,909(2)(4)  |                          |
|  |  |   |                          |                  | 36,172         | 36,138        |                          |
| Univita Health, Inc.   | Outsourced services provider   | Senior subordinated loan (\$20,500 par due 12/2014) | 15.00%                   | 12/22/2009       | 20,500         | 20,500        |                          |

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|                        |                                  |   |                           |           |         |           |        |
|------------------------|----------------------------------|---|---------------------------|-----------|---------|-----------|--------|
| VOTC Acquisition Corp. | Radiation oncology care provider | Senior secured loan (\$17,417 par due 7/2012) | 11.00% Cash,<br>2.00% PIK | 6/30/2008 | 17,417  | 17,417(4) |        |
|                        |                                  | Preferred stock (3,888,222 shares)            |                           | 7/14/2008 | 8,748   | 3,800     |        |
|                        |                                  |   |                           |           | 26,165  | 21,217    |        |
|                        |                                  |   |                           |           | 438,337 | 397,958   | 31.64% |

**Investment Funds**

|  |                        |   |           |            |        |           |
|--|------------------------|---|-----------|------------|--------|-----------|
| CIC Flex, LP(9)                        | Investment partnership | Limited partnership units (0.69 unit)               |           | 9/7/2007   | 41     | 41        |
| Covestia Capital Partners, LP(9)       | Investment partnership | Limited partnership interest (47% interest)         |           | 6/17/2008  | 1,059  | 1,059     |
| Firstlight Financial Corporation(6)(9) | Investment company     | Senior subordinated loan (\$73,077 par due 12/2016) | 1.00% PIK | 12/31/2006 | 73,032 | 54,808(4) |
|  |                        | Common stock (10,000 shares)                        |           | 12/31/2006 | 10,000 |           |

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| Company(1)   | Industry   | Investment   | Interest(5)(10)         | Acquisition Date | Amortized Cost | Fair Value       | Percentage of Net Assets |
|--|--|--|-------------------------|------------------|----------------|------------------|--------------------------|
|  |  | Common stock (30,000 shares)                                 |                         | 12/31/2006       | 30,000         | 113,032          | 54,808                   |
| Ivy Hill Middle Market Credit Fund, Ltd.(7)(8)(9)                  | Investment company   | Class B deferrable interest notes (\$40,000 par due 11/2018) | 6.28% (Libor + 6.00%/Q) | 11/20/2007       | 40,000         | 36,800           |                          |
|  |  | Subordinated notes (\$15,681 par due 11/2018)                | 18.70%                  | 11/20/2007       | 15,681         | 14,583           |                          |
|  |  |  |                         |                  | 55,681         | 51,383           |                          |
| Partnership Capital Growth Fund I, LP(9)                           | Investment partnership                                       | Limited partnership interest (25% interest)                  |                         | 6/16/2006        | 3,045          | 3,045            |                          |
| Senior Secured Loan Fund LLC(7)(17)                                | Investment partnership                                       | Subordinated certificates (\$172,796 par due 12/2015)        | (Libor + 8.00%/Q)       | 10/30/2009       | 165,000        | 165,000          |                          |
| Trivergance Capital Partners, LP(9)                                | Investment partnership                                       | Limited partnership interest (100% interest)                 |                         | 6/5/2008         | 2,016          | 2,016            |                          |
|  |  |  |                         |                  | 339,874        | 277,352          | 22.05%                   |
| <b>Education</b>   |  |  |                         |                  |                |                  |                          |
| Campus Management Corp. and Campus Management Acquisition Corp.(6) | Education software developer                                 | Senior secured loan (\$3,256 par due 8/2013)                 | 10.00% Cash, 3.00% PIK  | 2/8/2008         | 3,256          | 3,256(4)(16)     |                          |
|  |  | Senior secured loan (\$30,269 par due 8/2013)                | 10.00% Cash, 3.00% PIK  | 2/8/2008         | 30,269         | 30,269(2)(4)(16) |                          |
|  |  | Senior secured loan (\$8,961 par due 8/2013)                 | 10.00% Cash, 3.00% PIK  | 2/8/2008         | 8,961          | 8,961(16)(4)     |                          |
|  |  | Preferred stock (493,147 shares)                             | 8.00% PIK               | 2/8/2008         | 9,668          | 13,750(4)        |                          |
|  |  |  |                         |                  | 52,154         | 56,236           |                          |
| ELC Acquisition Corporation  | Developer, manufacturer and retailer of educational products | Senior secured loan (\$162 par due 11/2012)                  | 3.48% (Libor + 3.25%/M) | 11/30/2006       | 162            | 157(3)           |                          |
|  |  | Junior secured loan (\$8,333 par due 11/2013)                | 7.23% (Libor + 7.00%/M) | 11/30/2006       | 8,333          | 8,167(3)         |                          |
|  |  |  |                         |                  | 8,495          | 8,324            |                          |
| Instituto de Banca y Comercio, Inc. Leeds IV Advisors, Inc.(8)     | Private school operator                                      | Senior secured loan (\$11,700 par due 3/2014)                | 8.50% (Libor + 6.00%/Q) | 3/15/2007        | 11,700         | 11,700(3)(15)    |                          |
|  |  | Senior subordinated loan (\$30,877 par due 6/2014)           | 13.00% Cash, 3.00% PIK  | 6/4/2008         | 30,877         | 30,877           |                          |
|  |  | Preferred stock (165,811 shares)                             |                         | 6/4/2008         | 788            | 2,124            |                          |
|  |  | Preferred stock (140,577 shares)                             |                         | 3/31/2009        | 668            | 1,801            |                          |
|  |  | Common stock (214,286 shares)                                |                         | 6/4/2008         | 54             | 2,745            |                          |
|  |  | Common stock (140,577 shares)                                |                         | 3/31/2009        | 35             | 1,801            |                          |
|  |  |  |                         |                  | 44,122         | 51,048           |                          |
|  |  |  |                         | 12/31/2009       | 31,250         | 31,250(15)       |                          |

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|   |                               |  |                          |            |        |               |
|---|-------------------------------|--|--------------------------|------------|--------|---------------|
| JTC Education Holdings, Inc.  | Postsecondary school operator | Senior secured loan (\$31,250 par due 12/2014) | 12.50% (Libor + 9.50%/M) |            |        |               |
| Lakeland Finance, LLC   | Private school operator       | Junior secured loan (\$2,423 par due 12/2012)  | 11.50%                   | 12/13/2005 | 2,423  | 2,423         |
|   |                               | Junior secured loan (\$24,231 par due 12/2012) | 11.50%                   | 12/13/2005 | 24,231 | 24,231(2)     |
|   |                               |  |                          |            | 26,654 | 26,654        |
| R3 Education, Inc. (formerly known as Equinox EIC Partners, LLC and MUA Management Company)(7)(8) | Medical school operator       | Senior secured loan (\$791 par due 6/2010)     | 9.00% (Libor + 6.00%/M)  | 4/24/2009  | 791    | 1,101(15)     |
|   |                               | Senior secured loan (\$7,275 par due 4/2013)   | 9.00% (Libor + 6.00%/M)  | 4/3/2007   | 7,275  | 10,127(3)(15) |
|   |                               | Senior secured loan (\$5,041 par due 4/2013)   | 13.00% PIK               | 12/8/2009  | 1,244  | 3,186         |
|   |                               | Senior secured loan (\$14,113 par due 4/2013)  | 9.00% (Libor + 6.00%/M)  | 9/21/2007  | 14,113 | 19,646(15)    |

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| Company(1)                                 | Industry  | Investment   | Interest(5)(10)           | Acquisition Date | Amortized Cost | Fair Value    | Percentage of Net Assets |
|--|---|--|---------------------------|------------------|----------------|---------------|--------------------------|
|  |   | Preferred stock (8,800 shares)                         |                           |                  | 2,200          | 1,100         |                          |
|  |   | Warrants to purchase 27,890 shares                     |                           |                  |                |               |                          |
|  |   | Common membership interest (26.27% interest)           |                           | 9/21/2007        | 15,800         | 11,515        |                          |
|  |   |  |                           |                  | 41,423         | 46,675        |                          |
|  |   |  |                           |                  | 204,098        | 220,187       | 17.50%                   |
| <b>Services Other</b>                      |   |  |                           |                  |                |               |                          |
| American Residential Services, LLC         | Plumbing, heating and air-conditioning services | Junior secured loan (\$20,608 par due 4/2015)          | 10.00% Cash, 2.00% PIK    | 4/17/2007        | 20,608         | 20,195(2)(4)  |                          |
| Diversified Collection Services, Inc.      | Collections services                            | Senior secured loan (\$10,529 par due 2/2011)          | 9.50% (Libor + 6.75%/M)   | 2/2/2005         | 9,280          | 10,529(2)(15) |                          |
|  |   | Senior secured loan (\$3,747 par due 2/2011)           | 9.50% (Libor + 6.75%/M)   | 2/2/2005         | 3,747          | 3,747(3)(15)  |                          |
|  |   | Senior secured loan (\$1,931 par due 8/2011)           | 13.75% (Libor + 11.00%/M) | 2/2/2005         | 1,931          | 1,931(2)(15)  |                          |
|  |   | Senior secured loan (\$7,492 par due 8/2011)           | 13.75% (Libor + 11.00%/M) | 2/2/2005         | 7,492          | 7,492(3)(15)  |                          |
|  |   | Preferred stock (14,927 shares)                        |                           | 5/18/2006        | 169            | 269           |                          |
|  |   | Common stock (114,004 shares)                          |                           | 2/2/2005         | 295            | 402           |                          |
|  |   |  |                           |                  | 22,914         | 24,370        |                          |
| GCA Services Group, Inc.                   | Custodial services                              | Senior secured loan \$(13,255 par due 12/2011)         | 12.00%                    | 12/15/2006       | 13,171         | 13,255        |                          |
|  |   | Senior secured loan \$(14,768 par due 12/2011)         | 12.00%                    | 12/15/2006       | 14,765         | 14,768(2)     |                          |
|  |   | Senior secured loan \$(9,866 par due 12/2011)          | 12.00%                    | 12/15/2006       | 9,866          | 9,866(3)      |                          |
|  |   |  |                           |                  | 37,802         | 37,889        |                          |
| Growing Family, Inc. and GFH Holdings, LLC | Photography services                            | Senior secured loan \$(11,188 par due 8/2011)          |                           | 3/16/2007        | 11,188         | 2,238(4)(14)  |                          |
|  |   | Senior secured loan \$(372 par due 8/2011)             |                           | 3/16/2007        | 372            | 74(4)(14)     |                          |
|  |   | Senior secured revolving loan \$(2,500 par due 8/2011) |                           | 3/16/2007        | 1,513          | 303(4)(14)    |                          |
|  |   | Senior secured loan \$(3,575 par due 8/2011)           |                           | 3/16/2007        | 3,575          | 715(4)(14)    |                          |
|  |   | Senior secured loan \$(147 par due 8/2011)             |                           | 3/16/2007        | 147            | 29(4)(14)     |                          |
|  |   | Common stock (552,430 shares)                          |                           | 3/16/2007        | 872            |               |                          |
|  |   |  |                           |                  | 17,667         | 3,359         |                          |
| NPA Acquisition, LLC                       | Powersport vehicle auction operator             | Junior secured loan \$(12,000 par due 2/2013)          | 6.98% (Libor + 6.75%/M)   | 8/23/2006        | 12,000         | 12,000(3)     |                          |
|  |   | Common units (1,709 units)                             |                           | 8/23/2006        | 1,000          | 2,570         |                          |

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|                           |  |  |                             |            |         |              |        |
|---------------------------|--|--|-----------------------------|------------|---------|--------------|--------|
|                           |  |  |                             |            | 13,000  | 14,570       |        |
| PODS Funding Corp.        | Storage and warehousing provider       | Senior subordinated loan \$(25,125 par due 6/2015) | 15.00%                      | 12/23/2009 | 25,125  | 25,125       |        |
|                           |  | Subordinated loan \$(6,500 par due 12/2015)        | 16.64%                      | 12/23/2009 | 5,079   | 5,070        |        |
|                           |  |  |                             |            | 30,204  | 30,195       |        |
| Web Services Company, LLC | Laundry service and equipment provider | Senior secured loan \$(4,938 par due 8/2014)       | 7.00% (Base Rate + 3.75%/Q) | 6/15/2009  | 4,607   | 4,938(3)     |        |
|                           |  | Senior subordinated loan \$(18,219 par due 8/2016) | 11.50% Cash, 2.50% PIK      | 8/29/2008  | 18,219  | 17,308(4)    |        |
|                           |  | Senior subordinated loan \$(25,804 par due 8/2016) | 11.50% Cash, 2.50% PIK      | 8/29/2008  | 25,804  | 24,513(2)(4) |        |
|                           |  |  |                             |            | 48,630  | 46,759       |        |
|                           |  |  |                             |            | 190,825 | 177,337      | 14.10% |



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| Company(1)   | Industry                      | Investment   | Interest(5)(10)                            | Acquisition Date | Amortized Cost | Fair Value       | Percentage of Net Assets |
|--|-------------------------------|--|--|------------------|----------------|------------------|--------------------------|
| <b>Restaurants and Food Services</b>                 |                               |  |  |                  |                |                  |                          |
| ADF Capital, Inc. & ADF Restaurant Group, LLC        | Restaurant owner and operator | Senior secured revolving loan \$(3,592 par due 11/2012)  | 6.50% (Libor + 3.00% Cash, 0.50% PIK/S)    | 11/27/2006       | 2,010          | 2,010(4)(15)     |                          |
|  |                               | Senior secured revolving loan \$(1,408 par due 11/2012)  | 6.50% (Base Rate + 2.50%/Q)                | 11/27/2006       | 1,408          | 1,408(4)(15)     |                          |
|  |                               | Senior secured loan \$(23,574 par due 11/2013)           | 12.50% (Libor + 6.50% Cash, 3.00% PIK/Q)   | 11/27/2006       | 23,580         | 23,574(2)(4)(15) |                          |
|  |                               | Senior secured loan \$(11,049 par due 11/2013)           | 12.50% (Libor + 6.50% Cash, 3.00% PIK/Q)   | 11/27/2006       | 11,049         | 11,049(3)(4)(15) |                          |
|  |                               | Promissory note \$(13,105 par due 11/2016)               | 12.00% PIK                                 | 6/1/2006         | 13,093         | 13,105(4)        |                          |
|  |                               | Warrants to purchase 0.61 shares                         |  | 6/1/2006         |                | 2,719            |                          |
|  |                               |  |  |                  |                | 51,140           | 53,865                   |
| Encanto Restaurants, Inc.(8)                         | Restaurant owner and operator | Junior secured loan \$(20,997 par due 8/2013)            | 7.50% Cash, 3.50% PIK                      | 8/16/2006        | 20,997         | 19,947(2)(4)     |                          |
|  |                               | Junior secured loan \$(3,999 par due 8/2013)             | 7.50% Cash + 3.50% PIK                     | 8/16/2006        | 3,999          | 3,799(3)(4)      |                          |
|  |                               |  |  |                  | 24,996         | 23,746           |                          |
| OTG Management, Inc.                                 | Airport restaurant operator   | Senior secured loan \$(16,149 par due 6/2013)            | 20.500% (Libor + 11.00% Cash, 6.50% PIK/M) | 6/19/2008        | 16,149         | 16,149(4)(15)    |                          |
|  |                               | Warrants to purchase up to 88,991 shares of common stock |  |                  |                | 1,102            |                          |
|  |                               | Warrants to purchase up to 9 shares of common stock      |  |                  |                | 16,149           | 17,251                   |
| Vistar Corporation and Wellspring Distribution Corp. | Food service distributor      | Senior subordinated loan \$(43,625 par due 5/2015)       | 13.50%                                     | 5/23/2008        | 43,625         | 41,444           |                          |
|  |                               | Senior subordinated loan \$(30,000 par due 5/2015)       | 13.50%                                     | 5/23/2008        | 30,000         | 28,500(2)        |                          |
|  |                               | Class A non-voting common stock (1,366,120 shares)       |  | 5/23/2008        | 7,500          | 4,050            |                          |
|  |                               |  |  |                  | 81,125         | 73,994           |                          |
|  |                               |  |  | 173,410          | 168,856        | 13.42%           |                          |
| <b>Food and Beverage</b>                             |                               |  |  |                  |                |                  |                          |
| 3091779 Nova Scotia Inc.(8)                          | Baked goods manufacturer      | Senior secured revolving loan \$(5,485 par due 1/2010)   | 8.00%                                      | 11/2/2007        | 1,385          | 1,494(4)(12)     |                          |
|  |                               | Senior secured revolving loan \$(1,016 par due 1/2010)   | 8.00%                                      | 11/2/2007        | 1,016          | 969              |                          |
|  |                               | Junior secured loan \$(14,386 par due 1/2010)            | 10.00% Cash, 4.00% PIK                     | 11/2/2007        | 15,147         | 10,292(4)(12)    |                          |

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Warrants to purchase  
57,545 shares

17,548 12,755

|  |                          |  |                          |           |        |               |
|--|--------------------------|--|--------------------------|-----------|--------|---------------|
| Apple & Eve, LLC and<br>US Juice<br>Partners, LLC(6) | Juice manufacturer       | Senior secured revolving loan \$(10,000 par due 10/2013) | 12.00% (Libor + 9.00%/M) | 10/5/2007 | 3,000  | 3,000(15)     |
|  |                          | Senior secured loan \$(17,963 par due 10/2013)           | 12.00% (Libor + 9.00%/M) | 10/5/2007 | 17,963 | 17,963(15)    |
|  |                          | Senior secured loan \$(15,937 par due 10/2013)           | 12.00% (Libor + 9.00%/M) | 10/5/2007 | 15,937 | 15,937(3)(15) |
|  |                          | Senior units (50,000 units)                              |                          |           | 5,000  | 5,000         |
|  |                          |  |                          |           | 41,900 | 41,900        |
| Best Brands Corporation                              | Baked goods manufacturer | Senior secured loan \$(324 par due 12/2012)              | 7.48% (Libor + 7.25%/M)  | 2/15/2008 | 324    | 324(4)        |
|  |                          | Senior secured loan \$(13,034 par due 12/2012)           | 7.48% (Libor + 7.25%/M)  | 2/15/2008 | 11,035 | 13,034(2)(4)  |

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| Company(1)   | Industry                    | Investment   | Interest(5)(10)              | Acquisition Date | Amortized Cost | Fair Value   | Percentage of Net Assets |
|--|-----------------------------|--|------------------------------|------------------|----------------|--------------|--------------------------|
|  |                             | Junior secured loan \$(28,692 par due 6/2013)      | 12.00% Cash, 4.00% PIK       | 12/14/2006       | 28,112         | 28,692(4)    |                          |
|  |                             | Junior secured loan \$(11,733 par due 6/2013)      | 12.00% Cash, 4.00% PIK       | 12/14/2006       | 11,733         | 11,733(2)(4) |                          |
|  |                             | Junior secured loan \$(8,611 par due 6/2013)       | 12.00% Cash, 4.00% PIK       | 12/14/2006       | 8,531          | 8,611(3)(4)  |                          |
|  |                             |  |                              |                  | 59,735         | 62,394       |                          |
| Bumble Bee Foods, LLC and BB Co-Invest LP            | Canned seafood manufacturer | Common stock (4,000 shares)                        |                              | 11/18/2008       | 4,000          | 6,760        |                          |
| Charter Baking Company, Inc.                         | Baked goods manufacturer    | Senior subordinated loan \$(5,883 par due 2/2013)  | 13.00% PIK                   | 2/6/2008         | 5,883          | 5,883(4)     |                          |
|  |                             | Preferred stock (6,258 shares)                     |                              | 9/1/2006         | 2,500          | 1,725        |                          |
|  |                             |  |                              |                  | 12,383         | 14,368       |                          |
|  |                             |  |                              |                  | 131,566        | 131,417      | 10.45%                   |
| <b>Retail</b>  |                             |  |                              |                  |                |              |                          |
| Apogee Retail, LLC                                   | For-profit thrift retailer  | Senior secured loan \$(1,859 par due 3/2012)       | 5.23% (Libor + 5.00%/M)      | 3/27/2007        | 1,859          | 1,747        |                          |
|  |                             | Senior secured loan \$(2,969 par due 3/2012)       | 5.23% (Libor + 5.00%/M)      | 3/27/2007        | 2,969          | 2,791(2)     |                          |
|  |                             | Senior secured loan \$(26,670 par due 3/2012)      | 5.23% (Libor + 5.00%/M)      | 3/27/2007        | 26,670         | 25,070(2)    |                          |
|  |                             | Senior secured loan \$(11,670 par due 3/2012)      | 5.23% (Libor + 5.00%/M)      | 3/27/2007        | 11,670         | 10,970(3)    |                          |
|  |                             | Senior secured loan \$(11,069 par due 9/2012)      | 12.00% Cash, 4.00% PIK       | 5/28/2008        | 11,069         | 11,069(4)    |                          |
|  |                             | Senior secured loan \$(11,411 par due 9/2012)      | 12.00% Cash, 4.00% PIK       | 5/28/2008        | 11,411         | 11,411(4)    |                          |
|  |                             |  |                              |                  | 65,648         | 63,058       |                          |
| Dufry AG(8)  | Retail newsstand operator   | Common stock (39,056 shares)                       |                              | 3/28/2008        | 3,000          | 2,638        |                          |
| Savers, Inc. and SAI Acquisition Corporation         | For-profit thrift retailer  | Senior subordinated loan \$(5,524 par due 8/2014)  | 10.00% Cash, 2.00% PIK       | 8/8/2006         | 5,524          | 5,524(4)     |                          |
|  |                             | Senior subordinated loan \$(20,323 par due 8/2014) | 10.00% Cash, 2.00% PIK       | 8/8/2006         | 20,323         | 20,323(2)(4) |                          |
|  |                             | Common stock (1,170,182 shares)                    |                              | 8/8/2006         | 4,500          | 5,840        |                          |
|  |                             |  |                              |                  | 30,347         | 31,687       |                          |
| Things Remembered, Inc. and TRM Holdings Corporation | Personalized gifts retailer | Senior secured loan \$(11 par due 9/2012)          | 5.50% Cash, 1.00% PIK Option | 9/28/2006        | 11             | 9(3)(4)      |                          |
|  |                             | Senior secured loan \$(3,626 par due 9/2012)       | 5.50% Cash, 1.00% PIK Option | 9/28/2006        | 3,624          | 2,901(3)(4)  |                          |
|  |                             | Senior secured loan \$(68 par due 9/2012)          | 5.50% Cash, 1.00% PIK Option | 9/28/2006        | 68             | 55(4)        |                          |
|  |                             | Senior secured loan \$(18 par due 9/2012)          | 5.50% Cash, 1.00% PIK Option | 9/28/2006        | 18             | 14(3)        |                          |
|  |                             | Senior secured loan \$(28,402 par due 9/2012)      | 5.50% Cash, 1.00% PIK Option | 9/28/2006        | 28,388         | 22,722       |                          |

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|  |                          |                  |           |         |          |        |
|--|--------------------------|------------------|-----------|---------|----------|--------|
|  | 9/2012)                  |                  |           |         |          |        |
|  | Senior secured loan      | 5.50% Cash,      | 9/28/2006 | 7,300   | 5,843(3) |        |
|  | \$(7,303 par due 9/2012) | 1.00% PIK Option |           |         |          |        |
|  | Preferred stock          |                  | 3/19/2009 |         |          |        |
|  | (73 shares)              |                  |           |         |          |        |
|  | Preferred stock          |                  | 9/28/2006 | 1,800   |          |        |
|  | (80 shares)              |                  |           |         |          |        |
|  | Warrants to purchase     |                  | 3/19/2009 |         |          |        |
|  | 859 shares of preferred  |                  |           |         |          |        |
|  | shares                   |                  |           |         |          |        |
|  | Common stock             |                  | 9/28/2006 | 200     |          |        |
|  | (800 shares)             |                  |           |         |          |        |
|  |                          |                  |           | 41,409  | 31,544   |        |
|  |                          |                  |           | 140,404 | 128,927  | 10.25% |

**Business Services**

|                           |   |                          |                            |           |     |            |
|---------------------------|---|--------------------------|----------------------------|-----------|-----|------------|
| Booz Allen Hamilton, Inc. | Strategy and<br>technology<br>consulting services | Senior secured loan      | 7.50% (Libor +<br>4.50%/S) | 7/31/2008 | 727 | 741(3)(15) |
|                           |   | \$(741 par due 7/2015)   |                            |           |     |            |
|                           |   | Senior subordinated loan | 11.00% Cash,               | 7/31/2008 | 245 | 250(4)     |
|                           |   | \$(250 par due 7/2016)   | 2.00% PIK                  |           |     |            |

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|--|--|---|-------------------------|------------------|----------------|---------------|--------------------------|
|  |  | Senior subordinated loan \$(12,400 par due 7/2016)              | 11.00% Cash, 2.00% PIK  | 7/31/2008        | 12,296         | 12,400(2)(4)  |                          |
|  |  |   |                         |                  | 13,268         | 13,391        |                          |
| Investor Group Services, LLC(6)  | Financial services                             | Limited liability company membership interest (10.00% interest) |                         | 6/22/2006        |                | 500           |                          |
| Pillar Holdings LLC and PHL Holding Co.(6)   | Mortgage services                              | Senior secured revolving loan \$(3,750 par due 11/2013)         | 5.78% (Libor + 5.50%/B) | 11/20/2007       | 1,313          | 1,313         |                          |
|  |  | Senior secured loan \$(16,752 par due 11/2013)                  | 5.78% (Libor + 5.50%/B) | 11/20/2007       | 16,752         | 16,752(2)     |                          |
|  |  | Senior secured loan \$(10,456 par due 11/2013)                  | 5.78% (Libor + 5.50%/B) | 11/20/2007       | 10,456         | 10,456(3)     |                          |
|  |  | Senior secured loan \$(1,875 par due 5/2014)                    | 14.50%                  | 7/31/2008        | 1,875          | 1,875         |                          |
|  |  | Senior secured loan \$(5,500 par due 5/2014)                    | 14.50%                  | 7/31/2008        | 5,500          | 5,500(2)      |                          |
|  |  | Common stock (84.78 shares)                                     |                         | 11/20/2007       | 3,768          | 7,818         |                          |
|  |  |   |                         |                  | 39,664         | 43,714        |                          |
| Primis Marketing Group, Inc. and Primis Holdings, LLC(6)   | Database marketing services                    | Senior subordinated loan \$(10,222 par due 2/2013)              |                         | 8/24/2006        | 10,222         | 511(4)(14)    |                          |
|  |  | Preferred units (4,000 units)                                   |                         | 8/24/2006        | 3,600          |               |                          |
|  |  | Common units (4,000,000 units)                                  |                         | 8/24/2006        | 400            |               |                          |
|  |  |   |                         |                  | 14,222         | 511           |                          |
| Prommis Solutions, LLC, E-Default Services, LLC,   | Bankruptcy and foreclosure processing services | Senior subordinated loan \$(26,526 par due 2/2014)              | 11.50% Cash, 2.00% PIK  | 2/8/2007         | 26,526         | 26,526(4)     |                          |
| Statewide Tax and Title Services, LLC & Statewide Publishing Services, LLC (formerly known as MR Processing Holding Corp.) |  | Senior subordinated loan \$(26,630 par due 2/2014)              | 11.50% Cash, 2.00% PIK  | 2/8/2007         | 26,630         | 26,630(2)(4)  |                          |
|  |  | Preferred stock (30,000 shares)                                 |                         | 4/11/2006        | 3,000          | 6,221         |                          |
|  |  |   |                         |                  | 56,156         | 59,377        |                          |
| R2 Acquisition Corp.   | Marketing services                             | Common stock (250,000 shares)                                   |                         | 5/29/2007        | 250            | 250           |                          |
| Summit Business Media, LLC   | Business media consulting services             | Junior secured loan \$(11,078 par due 7/2014)                   |                         | 8/3/2007         | 10,018         | 554(3)(4)(14) |                          |
| VSS-Tranzact Holdings, LLC(6)  | Management consulting services                 | Common membership interest (8.51% interest)                     |                         | 10/26/2007       | 10,000         | 7,850         |                          |
|  |  |   |                         |                  | 143,578        | 126,147       | 10.03%                   |

**Manufacturing**

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|                                    |   |   |                             |           |        |              |
|------------------------------------|---|---|-----------------------------|-----------|--------|--------------|
| Arrow Group Industries, Inc.       | Residential and outdoor shed manufacturer                         | Senior secured loan \$(5,616 par due 4/2010)        | 5.25% (Libor + 5.00%/Q)     | 3/28/2005 | 5,653  | 4,437(3)     |
| Emerald Performance Materials, LLC | Polymers and performance materials manufacturer                   | Senior secured loan \$(536 par due 5/2011)          | 8.25% (Libor + 4.25%/M)     | 5/16/2006 | 536    | 531(3)(15)   |
|                                    |   | Senior secured loan \$(8,392 par due 5/2011)        | 8.25% (Libor + 4.25%/M)     | 5/16/2006 | 8,392  | 8,308(3)(15) |
|                                    |   | Senior secured loan \$(626 par due 5/2011)          | 8.50% (Base Rate + 5.25%/M) | 5/16/2006 | 626    | 620(3)       |
|                                    |   | Senior secured loan \$(1,604 par due 5/2011)        | 10.00% (Libor + 6.00%/M)    | 5/16/2006 | 1,604  | 1,556(3)(15) |
|                                    |   | Senior secured loan \$(4,937 par due 5/2011)        | 13.00% Cash, 3.00% PIK      | 5/16/2006 | 4,937  | 4,838(2)(4)  |
|                                    |   |   |                             |           |        | 16,095       |
| Reflexite Corporation(7)           | Developer and manufacturer of high-visibility reflective products | Senior subordinated loan \$(16,785 par due 11/2014) | 12.50% Cash, 5.50% PIK      | 2/26/2008 | 16,785 | 16,785(4)    |
|                                    |   | Common stock (1,821,860 shares)                     |                             | 3/28/2006 | 27,435 | 24,595       |
|                                    |   |   |                             |           | 44,220 | 41,380       |

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| Company(1)   | Industry   | Investment                                     | Interest(5)(10)              | Acquisition Date | Amortized Cost | Fair Value | Percentage of Net Assets |
|--|--|--|------------------------------|------------------|----------------|------------|--------------------------|
| Saw Mill PCG Partners LLC                                    | Precision components manufacturer                | Common units (1,000 units)                     |                              | 2/2/2007         | 1,000          |            |                          |
| UL Holding Co., LLC  | Petroleum product manufacturer                   | Senior secured loan \$(2,978 par due 12/2012)  | 14.00%                       | 2/13/2009        | 2,978          | 2,829(2)   |                          |
|  |  | Senior secured loan \$(993 par due 12/2012)    | 14.00%                       | 2/13/2009        | 993            | 943(3)     |                          |
|  |  | Senior secured loan \$(848 par due 12/2012)    | 14.00%                       | 2/13/2009        | 848            | 805(3)     |                          |
|  |  | Senior secured loan \$(2,130 par due 12/2012)  | 9.15% (Libor + 8.88%/Q)      | 2/13/2009        | 2,130          | 2,023      |                          |
|  |  | Senior secured loan \$(2,130 par due 12/2012)  | 14.00%                       | 2/13/2009        | 2,130          | 2,023      |                          |
|  |  | Senior secured loan \$(848 par due 12/2012)    | 9.15% (Libor + 8.88%/Q)      | 2/13/2009        | 848            | 805(3)     |                          |
|  |  | Senior secured loan \$(10,918 par due 12/2012) | 9.15% (Libor + 8.88%/Q)      | 2/13/2009        | 10,918         | 10,372(3)  |                          |
|  |  | Common units (50,000 units)                    |                              | 4/25/2008        | 500            | 500        |                          |
|  |  | Common units (50,000 units)                    |                              | 4/25/2008        |                |            |                          |
|  |  |  |                              |                  | 21,345         | 20,300     |                          |
| Universal Trailer Corporation(6)                             | Livestock and specialty trailer manufacturer     | Common stock (74,920 shares)                   |                              | 10/8/2004        | 7,930          |            |                          |
|  |  |  |                              |                  |                | 96,243     | 81,970 6.52%             |
| <b>Financial Services</b>                                    |  |  |                              |                  |                |            |                          |
| Carador PLC(6)(8)(9)   | Investment company                               | Ordinary shares (7,110,525 shares)             |                              | 12/15/2006       | 9,033          | 2,489      |                          |
| Imperial Capital Group, LLC and Imperial                     | Investment banking services                      | Common units (2,526 units)                     |                              | 5/10/2007        | 3              | 3          |                          |
| Capital Private Opportunities, LP(6)(9)                      |  | Common units (315 units)                       |                              | 5/10/2007        |                |            |                          |
|  |  | Common units (7,710 units)                     |                              | 5/10/2007        | 14,997         | 18,400     |                          |
|  |  | Limited partnership interest (80% interest)    |                              | 5/10/2007        | 6,094          | 5,663      |                          |
|  |  |  |                              |                  | 21,094         | 24,066     |                          |
| Ivy Hill Asset Management, L.P.(7)                           | Asset management services                        | Member interest                                |                              | 6/15/2009        | 37,176         | 48,321     |                          |
| VSC Investors LLC(9)   | Investment company                               | Membership interest (4.63% interest)           |                              | 1/24/2008        | 648            | 648        |                          |
|  |  |  |                              |                  | 67,951         | 75,524     | 6.00%                    |
| <b>Consumer Products Non-Durable</b>                         |  |  |                              |                  |                |            |                          |
| Blacksmith Brands Holdings, Inc. and Blacksmith Brands, Inc. | Consumer products and personal care manufacturer | Senior secured loan \$(32,500 par due 12/2014) | 12.50% (Base Rate + 8.50%/Q) | 10/23/2009       | 32,500         | 32,500(15) |                          |
| Innovative Brands, LLC                                       | Consumer products and personal care manufacturer | Senior secured loan \$(8,881 par due 9/2011)   | 15.50%                       | 10/12/2006       | 8,881          | 8,881(2)   |                          |
|  |  |  | 15.50%                       | 10/12/2006       | 8,198          | 8,198(3)   |                          |

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|                                       |  |   |  |           |        |           |       |
|---------------------------------------|--|---|--|-----------|--------|-----------|-------|
|                                       |  | Senior secured loan<br>\$(8,198 par due 9/2011) |  |           | 17,079 | 17,079    |       |
| Making Memories<br>Wholesale, Inc.(6) | Scrapbooking<br>branded products<br>manufacturer | Senior secured loan<br>\$(9,750 par due 8/2014) | 10.00% (Base<br>Rate + 5.50%/Q)        | 8/21/2009 | 7,770  | 9,750(15) |       |
|                                       |  | Senior secured loan<br>\$(5,138 par due 8/2014) | 15.00% (7.50%<br>Cash,<br>7.50% PIK/Q) | 8/21/2009 | 4,062  | 514(4)    |       |
|                                       |  | Common stock<br>(100 shares)                    |  | 8/21/2009 |        |           |       |
|                                       |  |   |  |           | 11,832 | 10,264    |       |
| The Thymes, LLC(7)                    | Cosmetic products<br>manufacturer                | Preferred stock<br>(6,283 shares)               | 8.00% PIK                              | 6/21/2007 | 6,785  | 6,107(4)  |       |
|                                       |  | Common stock<br>(5,400 shares)                  |  | 6/21/2007 |        |           |       |
|                                       |  |   |  |           | 6,785  | 6,107     |       |
|                                       |  |   |  |           | 68,196 | 65,950    | 5.24% |



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| Company(1)   | Industry   | Investment   | Interest(5)(10)                          | Acquisition Date | Amortized Cost | Fair Value      | Percentage of Net Assets |
|--|--|--|--|------------------|----------------|-----------------|--------------------------|
| <b>Aerospace &amp; Defense</b>                         |  |  |  |                  |                |                 |                          |
| AP Global Holdings, Inc.                               | Safety and security equipment manufacturer                             | Senior secured loan \$(7,414 par due 10/2013)          | 4.74% (Libor + 4.50%/M)                  | 11/8/2007        | 7,295          | 6,969(3)        |                          |
| ILC Industries, Inc.                                   | Industrial products provider   | Junior secured loan \$(12,000 par due 6/2014)          | 11.50%                                   | 6/27/2006        | 12,000         | 12,000(3)       |                          |
| <b>Thermal Solutions LLC and TSI Group, Inc.</b>       |  |  |  |                  |                |                 |                          |
| Thermal Solutions LLC and TSI Group, Inc.              | Thermal management and electronics packaging manufacturer              | Senior secured loan \$(462 par due 3/2011)             | 4.00% (Libor + 3.75%/Q)                  | 3/28/2005        | 462            | 444(3)          |                          |
|  |  | Senior secured loan \$(2,732 par due 3/2012)           | 4.50% (Libor + 4.25%/Q)                  | 3/28/2005        | 2,732          | 2,486(3)        |                          |
|  |  | Senior subordinated loan \$(2,747 par due 3/2013)      | 11.50% Cash, 2.50% PIK                   | 3/21/2006        | 2,747          | 2,554(4)        |                          |
|  |  | Senior subordinated loan \$(2,165 par due 3/2013)      | 11.50% Cash, 2.75% PIK                   | 3/28/2005        | 2,165          | 2,013(4)        |                          |
|  |  | Senior subordinated loan \$(3,418 par due 3/2013)      | 11.50% Cash, 2.75% PIK                   | 3/28/2005        | 3,418          | 3,178(4)        |                          |
|  |  | Preferred stock (71,552 shares)                        |  | 3/28/2005        | 716            | 529             |                          |
|  |  | Common stock (1,460,246 shares)                        |  | 3/28/2005        | 15             | 11              |                          |
|  |  |  |  |                  | 12,255         | 11,215          |                          |
| <b>Wyle Laboratories, Inc. and Wyle Holdings, Inc.</b> |  |  |  |                  |                |                 |                          |
| Wyle Laboratories, Inc. and Wyle Holdings, Inc.        | Provider of specialized engineering, scientific and technical services | Junior secured loan \$(16,000 par due 1/2015)          | 15.00%                                   | 1/17/2008        | 16,000         | 16,000(2)       |                          |
|  |  | Junior secured loan \$(12,000 par due 1/2015)          | 15.00%                                   | 1/17/2008        | 12,000         | 12,000(3)       |                          |
|  |  | Senior preferred stock (775 shares)                    | 8.00% PIK                                | 1/17/2008        | 96             | 80(4)           |                          |
|  |  | Common stock (1,616,976 shares)                        |  | 1/17/2008        | 2,004          | 1,600           |                          |
|  |  |  |  |                  | 30,100         | 29,680          |                          |
|  |  |  |  |                  | 61,650         | 59,864          | 4.76%                    |
| <b>Printing, Publishing and Media</b>                  |  |  |  |                  |                |                 |                          |
| Canon Communications LLC                               | Print publications services  | Junior secured loan \$(11,968 par due 11/2011)         | 13.75% (Libor + 8.75% Cash, 2.00% PIK/Q) | 5/25/2005        | 11,957         | 9,574(2)(4)(15) |                          |
|  |  | Junior secured loan \$(12,197 par due 11/2011)         | 13.75% (Libor + 8.75% Cash, 2.00% PIK/Q) | 5/25/2005        | 12,190         | 9,757(3)(4)(15) |                          |
|  |  |  |  |                  | 24,147         | 19,331          |                          |
| LVCG Holdings LLC(7)                                   | Commercial printer   | Membership interests (56.53% interest)                 |  | 10/12/2007       | 6,600          | 330             |                          |
| <b>National Print Group, Inc.</b>                      |  |  |  |                  |                |                 |                          |
| National Print Group, Inc.                             | Printing management services   | Senior secured revolving loan \$(3,926 par due 3/2012) | 9.00% (Libor + 6.00%/S)                  | 3/2/2006         | 1,428          | 771(15)         |                          |
|  |  | Senior secured revolving loan \$(183 par due 3/2012)   | 9.00% (Libor + 5.00%/M)                  | 3/2/2006         | 183            | 99(15)          |                          |

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|  |                                       |   |   |           |        |                 |
|--|---------------------------------------|---|---|-----------|--------|-----------------|
|  |                                       | Senior secured loan<br>\$(7,119 par due 3/2012)     | 16.00% (Libor +<br>9.00% Cash,<br>4.00% PIK/Q)        | 3/2/2006  | 7,024  | 3,844(3)(15)(4) |
|  |                                       | Senior secured loan<br>\$(1,071 par due 3/2012)     | 16.00% (Base<br>Rate + 8.00%<br>Cash,<br>4.00% PIK/M) | 3/2/2006  | 1,071  | 578(3)(15)(4)   |
|  |                                       | Preferred stock<br>(9,344 shares)                   |   | 3/2/2006  | 2,000  |                 |
|  |                                       |   |   |           | 11,706 | 5,292           |
| The Teaching<br>Company, LLC and The<br>Teaching Company<br>Holdings, Inc.(11) | Education<br>publications<br>provider | Senior secured loan<br>\$(18,000 par due<br>9/2012) | 10.50%  | 9/29/2006 | 18,000 | 18,000(2)(11)   |
|  |                                       | Senior secured loan<br>\$(10,000 par due<br>9/2012) | 10.50%  | 9/29/2006 | 10,000 | 10,000(3)(11)   |
|  |                                       | Preferred stock<br>(29,969 shares)                  | 8.00%   | 9/29/2006 | 2,997  | 3,872           |

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|---|--|---|-----------------------------------|------------------|----------------|--------------|--------------------------|
|   |  | Common stock<br>(15,393 shares)                     |                                   | 9/29/2006        | 3              | 4            |                          |
|   |  |   |                                   |                  | 31,000         | 31,876       |                          |
|   |  |   |                                   |                  | 73,453         | 56,829       | 4.52%                    |
| <b>Telecommunications</b>   |  |   |                                   |                  |                |              |                          |
| American Broadband Communications, LLC and American Broadband Holding Company | Broadband communication services       | Senior subordinated loan \$(31,902 par due 11/2014) | 18.00% (10.00% Cash, 8.00% PIK/Q) | 2/8/2008         | 31,902         | 31,902(2)(4) |                          |
|   |  | Senior subordinated loan \$(8,050 par due 11/2014)  | 18.00% (10.00% Cash, 8.00% PIK/Q) | 11/7/2007        | 8,050          | 8,050(4)     |                          |
|   |  | Warrants to purchase 166 shares                     |                                   | 11/7/2007        |                |              |                          |
|   |  |   |                                   |                  | 39,952         | 39,952       |                          |
|   |  |   |                                   |                  | 39,952         | 39,952       | 3.18%                    |
| <b>Environmental Services</b>   |  |   |                                   |                  |                |              |                          |
| AWTP, LLC   | Water treatment services               | Junior secured loan \$(4,755 par due 12/2012)       |                                   | 12/23/2005       | 4,755          | 1,902(14)    |                          |
|   |  | Junior secured loan \$(2,086 par due 12/2012)       |                                   | 12/23/2005       | 2,086          | 834(3)(14)   |                          |
|   |  | Junior secured loan \$(4,755 par due 12/2012)       |                                   | 12/23/2005       | 4,755          | 1,902(14)    |                          |
|   |  | Junior secured loan \$(2,086 par due 12/2012)       |                                   | 12/23/2005       | 2,086          | 834(3)(14)   |                          |
|   |  |   |                                   |                  | 13,682         | 5,472        |                          |
| Mactec, Inc.  | Engineering and environmental services | Class B-4 stock (16 shares)                         |                                   | 11/3/2004        |                |              |                          |
|   |  | Class C stock (5,556 shares)                        |                                   | 11/3/2004        |                | 150          |                          |
|   |  |   |                                   |                  | 0              | 150          |                          |
| Sigma International Group, Inc.   | Water treatment parts manufacturer     | Junior secured loan \$(917 par due 10/2013)         | 16.00% (Libor + 8.00%/Q)          | 11/6/2007        | 917            | 642(15)      |                          |
|   |  | Junior secured loan \$(2,750 par due 10/2013)       | 16.00% (Libor + 8.00%/Q)          | 11/1/2007        | 2,750          | 1,925(15)    |                          |
|   |  | Junior secured loan \$(1,833 par due 10/2013)       | 16.00% (Libor + 8.00%/Q)          | 10/11/2007       | 1,833          | 1,283(15)    |                          |
|   |  | Junior secured loan (\$2,000 par due 10/2013)       | 16.00% (Libor + 8.00%/Q)          | 11/6/2007        | 2,000          | 1,400(3)(15) |                          |
|   |  | Junior secured loan (\$6,000 par due 10/2013)       | 16.00% (Libor + 8.00%/Q)          | 11/1/2007        | 6,000          | 4,200(3)(15) |                          |
|   |  | Junior secured loan (\$4,000 par due 10/2013)       | 16.00% (Libor + 8.00%/Q)          | 10/11/2007       | 4,000          | 2,800(3)(15) |                          |
|   |  |   |                                   |                  | 17,500         | 12,250       |                          |
| Waste Pro USA, Inc.   | Waste management services              | Preferred Class A common stock (611,615 shares)     | 14.00% PIK                        | 11/9/2006        | 12,263         | 13,263(4)    |                          |

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|                    |   |  |                        |          |        |          |
|--------------------|---|--|------------------------|----------|--------|----------|
| Wastequip, Inc.(6) | Waste management equipment manufacturer | Senior subordinated loan (\$13,121 par due 2/2015) | 10.00% Cash, 2.50% PIK | 2/5/2007 | 13,030 | 1,968(4) |
|                    |   | Common stock (13,889 shares)                       |                        | 2/2/2007 | 1,389  |          |
|                    |   |  |                        |          | 14,419 | 1,968    |

57,864 33,103 2.63%

**Computers and Electronics**

|                        |                       |   |                         |           |        |           |
|------------------------|-----------------------|---|-------------------------|-----------|--------|-----------|
| RedPrairie Corporation | Software manufacturer | Junior secured loan (\$3,300 par due 1/2013)  | 6.78% (Libor + 6.50%/Q) | 7/13/2006 | 3,300  | 3,135(2)  |
|                        |                       | Junior secured loan (\$12,000 par due 1/2013) | 6.78% (Libor + 6.50%/Q) | 7/13/2006 | 12,000 | 11,400(3) |
|                        |                       |   |                         |           | 15,300 | 14,535    |

|                     |                           |  |                         |           |       |              |
|---------------------|---------------------------|--|-------------------------|-----------|-------|--------------|
| TZ Merger Sub, Inc. | Computers and Electronics | Senior secured loan (\$4,818 par due 7/2015) | 7.50% (Libor + 4.50%/Q) | 6/15/2009 | 4,711 | 4,818(3)(15) |
|---------------------|---------------------------|--|-------------------------|-----------|-------|--------------|

|                      |                               |  |                               |          |       |              |
|----------------------|-------------------------------|--|-------------------------------|----------|-------|--------------|
| X-rite, Incorporated | Artwork software manufacturer | Junior secured loan (\$3,074 par due 7/2013) | 14.38% (Libor + 11.38%/Q)     | 7/6/2006 | 3,074 | 3,074(15)    |
|                      |                               | Junior secured loan (\$7,685 par due 7/2013) | 14.38% (Libor + 11.38%/Q)     | 7/6/2006 | 7,685 | 7,685(3)(15) |
|                      |                               | Junior secured loan (\$42 par due 7/2013)    | 14.38% (Base Rate + 10.38%/Q) | 7/6/2006 | 42    | 42(15)       |

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| Company(1)                            | Industry   | Investment  | Interest(5)(10)               | Acquisition Date | Amortized Cost | Fair Value    | Percentage of Net Assets |  |
|---------------------------------------|--|---|-------------------------------|------------------|----------------|---------------|--------------------------|--|
|                                       |  | Junior secured loan (\$105 par due 7/2013)              | 14.38% (Base Rate + 10.38%/Q) | 7/6/2006         | 105            | 105(3)(15)    |                          |  |
|                                       |  |   |                               |                  | 10,906         | 10,906        |                          |  |
|                                       |  |   |                               |                  | 30,917         | 30,259        | 2.41%                    |  |
| <b>Cargo Transport</b>                |  |   |                               |                  |                |               |                          |  |
| The Kenan Advantage Group, Inc.       | Fuel transportation provider                                 | Senior secured loan (\$2,400 par due 12/2011)           | 2.98% (Libor + 2.75%/M)       | 12/15/2005       | 2,400          | 2,304(3)(4)   |                          |  |
|                                       |  | Senior subordinated loan (\$26,125 par due 12/2013)     | 9.50% Cash, 3.50% PIK         | 12/15/2005       | 26,125         | 25,603(2)(4)  |                          |  |
|                                       |  | Preferred stock (10,984 shares)                         | 8.00% PIK                     | 12/15/2005       | 1,454          | 1,932(4)      |                          |  |
|                                       |  | Common stock (30,575 shares)                            |                               | 12/15/2005       | 31             | 41            |                          |  |
|                                       |  |   |                               |                  | 30,010         | 29,880        |                          |  |
|                                       |  |   |                               |                  | 30,010         | 29,880        | 2.38%                    |  |
| <b>Health Clubs</b>                   |  |   |                               |                  |                |               |                          |  |
| Athletic Club Holdings, Inc.          | Premier health club operator                                 | Senior secured loan (\$1,750 par due 10/2013)           | 4.73% (Libor + 4.50%/M)       | 10/11/2007       | 1,750          | 1,540(2)(13)  |                          |  |
|                                       |  | Senior secured loan (\$1,000 par due 10/2013)           | 4.73% (Libor + 4.50%/M)       | 10/11/2007       | 1,000          | 880(2)(13)    |                          |  |
|                                       |  | Senior secured loan (\$17 par due 10/2013)              | 6.75% (Base Rate + 3.50%/Q)   | 10/11/2007       | 17             | 15(2)(13)     |                          |  |
|                                       |  | Senior secured loan (\$16 par due 10/2013)              | 6.75% (Base Rate + 3.50%/Q)   | 10/11/2007       | 16             | 14(3)(13)     |                          |  |
|                                       |  | Senior secured loan (\$11,484 par due 10/2013)          | 4.73% (Libor + 4.50%/M)       | 10/11/2007       | 11,484         | 10,106(3)(13) |                          |  |
|                                       |  | Senior secured loan (\$12,483 par due 10/2013)          | 6.75% (Base Rate + 3.50%/Q)   | 10/11/2007       | 12,483         | 10,985(2)(13) |                          |  |
|                                       |  |   |                               |                  | 26,750         | 23,540        |                          |  |
|                                       |  |   |                               |                  | 26,750         | 23,540        | 1.87%                    |  |
| <b>Containers Packaging</b>           |  |   |                               |                  |                |               |                          |  |
| Industrial Container Services, LLC(6) | Industrial container manufacturer, reconitioner and servicer | Senior secured revolving loan (\$15,696 par due 9/2011) | 5.75% (Base Rate + 2.50%/M)   | 6/21/2006        | 950            | 922           |                          |  |
|                                       |  | Senior secured loan (\$322 par due 9/2011)              | 4.23% (Libor + 4.00%/M)       | 6/21/2006        | 322            | 312(2)        |                          |  |
|                                       |  | Senior secured loan (\$134 par due 9/2011)              | 4.23% (Libor + 4.00%/M)       | 6/21/2006        | 134            | 130(2)        |                          |  |
|                                       |  | Senior secured loan (\$4,926 par due 9/2011)            | 4.23% (Libor + 4.00%/M)       | 6/21/2006        | 4,926          | 4,778(3)      |                          |  |
|                                       |  | Senior secured loan (\$2,052 par due 9/2011)            | 4.23% (Libor + 4.00%/M)       | 6/21/2006        | 2,052          | 1,991(3)      |                          |  |
|                                       |  | Senior secured loan (\$268 par due 9/2011)              | 4.25% (Libor + 4.00%/M)       | 6/21/2006        | 268            | 260(2)        |                          |  |
|                                       |  | Senior secured loan (\$4,105 par due 9/2011)            | 4.25% (Libor + 4.00%/M)       | 6/21/2006        | 4,105          | 3,982(3)      |                          |  |
|                                       |  | Senior secured loan (\$27 par due 9/2011)               | 5.75% (Base Rate + 2.50%/M)   | 6/21/2006        | 27             | 26(2)         |                          |  |
|                                       |  | Senior secured loan (\$410 par due 9/2011)              | 5.75% (Base Rate + 2.50%/M)   | 6/21/2006        | 410            | 398(3)        |                          |  |
|                                       |  |   |                               |                  |                |               |                          |  |

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|  |                                    |           |        |        |       |
|--|------------------------------------|-----------|--------|--------|-------|
|  | Common stock<br>(1,800,000 shares) | 9/29/2005 | 1,800  | 8,550  |       |
|  |                                    |           | 14,994 | 21,349 |       |
|  |                                    |           | 14,994 | 21,349 | 1.70% |

**Grocery**

|                                |                                |  |                           |          |        |              |       |
|--------------------------------|--------------------------------|--|---------------------------|----------|--------|--------------|-------|
| Planet Organic Health Corp.(8) | Organic grocery store operator | Junior secured loan (\$876 par due 7/2013)         | 15.00% (Libor + 12.00%/Q) | 7/3/2007 | 874    | 832(15)      |       |
|                                |                                | Junior secured loan (\$10,436 par due 7/2013)      | 15.00% (Libor + 12.00%/Q) | 7/3/2007 | 10,414 | 9,914(3)(15) |       |
|                                |                                | Senior subordinated loan (\$12,724 par due 7/2012) | 13.00% Cash, 4.00% PIK    | 7/3/2007 | 12,572 | 9,416(4)     |       |
|                                |                                |  |                           |          | 23,860 | 20,162       |       |
|                                |                                |  |                           |          | 23,863 | 20,162       | 1.60% |

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| Company(1)  | Industry   | Investment  | Interest(5)(10)         | Acquisition Date | Amortized Cost | Fair Value    | Percentage of Net Assets |
|---|--|---|-------------------------|------------------|----------------|---------------|--------------------------|
| <b>Consumer Products Durable</b>                          |  |   |                         |                  |                |               |                          |
| Direct Buy Holdings, Inc. and Direct Buy Investors, LP(6) | Membership-based buying club franchisor and operator | Senior secured loan (\$23 par due 11/2012)        | 6.75% (Libor + 5.00%/M) | 12/14/2007       | 22             | 19(2)(15)     |                          |
|   |  | Senior secured loan (\$2,099 par due 11/2012)     | 6.75% (Libor + 5.00%/M) | 12/14/2007       | 2,030          | 1,784(2)(15)  |                          |
|   |  | Partnership interests (19.31% interest)           |                         | 11/30/2007       | 10,000         | 3,000         |                          |
|   |  |   |                         |                  | 12,052         | 4,803         |                          |
|   |  |   |                         |                  | 12,052         | 4,803         | 0.38%                    |
| <b>Housing Building Materials</b>                         |  |   |                         |                  |                |               |                          |
| HB&G Building Products                                    | Synthetic and wood product manufacturer              | Senior subordinated loan (\$8,956 par due 3/2011) |                         | 10/8/2004        | 8,991          | 448(2)(4)(14) |                          |
|   |  | Warrants to purchase 4,464 shares                 |                         | 10/8/2004        | 653            |               |                          |
|   |  | Common stock (2,743 shares)                       |                         | 10/8/2004        | 753            |               |                          |
|   |  |   |                         |                  | 10,397         | 448           |                          |
|   |  |   |                         |                  | 10,397         | 448           | 0.04%                    |
|   |  |   |                         |                  | 2,376,384      | 2,171,814     |                          |

- (1) Other than our investments listed in Note 7 below, we do not "Control" any of our portfolio companies, as defined in the Investment Company Act. In general, under the Investment Company Act, we would "Control" a portfolio company if we owned more than 25% of its outstanding voting securities and/or had the power to exercise control over the management or policies of such portfolio company. All of our portfolio company investments are subject to legal restrictions on sales which as of December 31, 2009 represented 173% of the Company's net assets or 94% of the Company's total assets.
- (2) These assets are owned by the Company's wholly owned subsidiary Ares Capital CP, are pledged as collateral for the Revolving Funding Facility and, as a result, are not directly available to the creditors of the Company to satisfy any obligations of the Company other than Ares Capital CP's obligations under the Revolving Funding Facility (see Note 5 to the consolidated financial statements). Unless otherwise noted, as of December 31, 2009, all other investments were pledged as collateral for the Revolving Credit Facility (see Note 5 to the consolidated financial statements).
- (3) Pledged as collateral for the ARCC CLO. Unless otherwise noted, as of December 31, 2009, all other investments were pledged as collateral for the Revolving Credit Facility (see Note 5 to the consolidated financial statements).
- (4) Has a payment-in-kind interest feature (see Note 2 to the consolidated financial statements).
- (5) Investments without an interest rate are non-income producing.
- (6) As defined in the Investment Company Act, we are an "Affiliated Person" of this portfolio company because we own 5% or more of the portfolio company's outstanding voting securities or we have the power to exercise control over the management or policies of such portfolio company (including through a management agreement). Transactions during the period for the year ended December 31, 2009 in which the issuer was an Affiliated company (but not a portfolio company that we "Control") are as follows:

**Company Purchases**

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|   |    | Redemptions<br>(cost) | Sales<br>(cost) | Interest<br>income | Capital<br>structuring<br>service fees | Dividend<br>Income | Other<br>income | Net<br>realized<br>gains (losses) | Net<br>unrealized<br>gains (losses) |
|---|----|-----------------------|-----------------|--------------------|--|--------------------|-----------------|-----------------------------------|-------------------------------------|
| Apple & Eve, LLC and<br>US Juice Partners, LLC  | \$ | 7,500                 | \$ 15,019       | \$ 9,800           | \$ 5,335                               | \$                 | \$ 37           | \$                                | \$ 12,283                           |
| Carador, PLC  | \$ | \$                    | \$              | \$                 | \$                                     | \$ 285             | \$              | \$                                | \$ (1,778)                          |
| Campus Management<br>Corp. and Campus<br>Management Acquisition<br>Corp.                  | \$ | \$                    | 2,953           | \$ 15,000          | \$ 6,518                               | \$                 | \$ 90           | \$ (482)                          | \$ 442                              |
| CT Technologies<br>Intermediate<br>Holdings, Inc. and CT<br>Technologies<br>Holdings, LLC | \$ | \$                    | \$              | \$ 1,040           | \$                                     | \$                 | \$ 9            | \$                                | \$ 2,052                            |
| Direct Buy Holdings, Inc.<br>and Direct Buy<br>Investors LP                               | \$ | \$                    | 152             | \$ 147             | \$                                     | \$                 | \$              | 6                                 | \$ (3,218)                          |
| Firstlight Financial<br>Corporation   | \$ | \$                    | \$              | \$ 2,936           | \$                                     | \$                 | \$ 1,442        | \$                                | \$ (11,055)                         |
| Imperial Capital<br>Group, LLC  | \$ | 5,210                 | \$              | \$                 | \$                                     | \$                 | \$              | \$                                | \$ 2,972                            |
| Industrial Container<br>Services, LLC   | \$ | 7,517                 | \$ 12,621       | \$ 709             | \$                                     | \$                 | \$ 153          | \$                                | \$ (341)                            |
| Investor Group<br>Services, LLC   | \$ | \$                    | 750             | \$                 | \$                                     | \$                 | \$ 26           | \$                                | \$                                  |
| Making Memories<br>Wholesale, Inc.  | \$ | \$                    | \$              | \$                 | \$                                     | \$                 | \$              | \$                                | \$ (240)                            |
| Pillar Holdings LLC and<br>PHL Holding Co.  | \$ | \$                    | 3,179           | \$ 2,874           | \$                                     | \$                 | \$ 33           | \$                                | \$ 2,551                            |
| Primis Marketing<br>Group, Inc. and Primis<br>Holdings, LLC                               | \$ | \$                    | \$              | \$                 | \$                                     | \$                 | \$              | \$                                | \$ (511)                            |
| R3 Education, Inc.  | \$ | 24,000                | \$ 31,600       | \$ 697             | \$                                     | \$                 | \$ 29           | \$                                | \$ 87                               |
| VSS-Tranzact<br>Holdings, LLC   | \$ | \$                    | \$              | \$                 | \$                                     | \$                 | \$              | \$                                | \$ 1,850                            |
| Wastequip, Inc.   | \$ | \$                    | \$              | \$ 1,535           | \$                                     | \$                 | \$              | \$                                | \$ (5,787)                          |
| Wear Me Apparel, LLC  | \$ | \$                    | 34,110          | \$ 75              | \$                                     | \$                 | \$              | (15,002)                          | \$ 22,055                           |

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(7)

As defined in the Investment Company Act, we are an "Affiliated Person" of this portfolio company because we own 5% or more of the portfolio company's outstanding voting securities or we have the power to exercise control over the management or policies of such portfolio company (including through a management agreement). In addition, as defined in the Investment Company Act, we "Control" this portfolio company because we own more than 25% of the portfolio company's outstanding voting securities or we have the power to exercise control over the management or policies of such portfolio company (including through a management agreement). Transactions during the period for the year ended December 31, 2009 in which the issuer was both an Affiliated company and a portfolio company that we Control are as follows:

| Company                                  | Purchases  | Redemptions (cost) | Sales (cost) | Interest income | Capital structuring service fees | Dividend Income | Other income | Net realized gains (losses) | Net unrealized gains (losses) |
|--|------------|--------------------|--------------|-----------------|----------------------------------|-----------------|--------------|-----------------------------|-------------------------------|
| HCP Acquisition Holdings, LLC            | \$ 1,495   | \$                 | \$ 18        | \$              | \$                               | \$              | \$           | \$                          | \$ (3,721)                    |
| Ivy Hill Asset Management, L.P.          | \$ 37,406  | \$                 | \$ 236       | \$              | \$                               | \$ 2,391        | \$           | \$ 494                      | \$ 11,145                     |
| Ivy Hill Middle Market Credit Fund, Ltd. | \$         | \$                 | \$ 131       | \$ 5,742        | \$                               | \$              | \$ 1,265     | \$                          | \$ 1,284                      |
| LVCV Holdings, LLC                       | \$         | \$                 | \$           | \$              | \$                               | \$              | \$ 66        | \$                          | \$ (8,170)                    |
| Making Memories Wholesale, Inc.          | \$         | \$ 199             | \$ 14,224    | \$ 518          | \$                               | \$              | \$ 5         | \$ (14,173)                 | \$ 12,822                     |
| R3 Education, Inc.                       | \$ 15,613  | \$ 6,050           | \$           | \$ 651          | \$                               | \$              | \$ 17        | \$                          | \$ (3,696)                    |
| Reflexite Corporation                    | \$ 7,800   | \$                 | \$ 2,000     | \$ 2,830        | \$ 194                           | \$              | \$ 71        | \$                          | \$ (10,925)                   |
| Senior Secured Loan Fund LLC*            | \$ 165,000 | \$                 | \$           | \$ 4,831        | \$                               | \$              | \$ 640       | \$                          | \$                            |
| The Thymes, LLC                          | \$         | \$                 | \$           | \$ 502          | \$                               | \$              | \$           | \$                          | \$ 455                        |

\*

Together with GE Commercial Finance Investment Advisory Services LLC ("GE"), we serve as co-managers of the SSLP (as defined below). Investments and portfolio decisions made by the SSLP must be approved by both the Company and GE; therefore, although the Company owns more than 25% of the voting securities of the LLC, the Company does not believe that it has control over the SSLP (for purposes of the Investment Company Act of 1940 or otherwise).

(8)

Non-U.S. company or principal place of business outside the U.S. and as a result is not a qualifying asset under Section 55(a) of the Investment Company Act. Under the Investment Company Act, we may not acquire any non-qualifying asset unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets.

(9)

Non-registered investment company. Under the Investment Company Act, we may not acquire any non-qualifying asset unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets.

(10)

A majority of the variable rate loans to our portfolio companies bear interest at a rate that may be determined by reference to either LIBOR or an alternate Base Rate (commonly based on the Federal Funds Rate or the Prime Rate), at the borrower's option, which reset annually (A), semi-annually (S), quarterly (Q), bi-monthly (B), monthly (M) or daily (D). For each such loan, we have provided the interest rate in effect on the date presented.

(11)

In addition to the interest earned based on the stated interest rate of this security, we are entitled to receive an additional interest amount of 2.50% on \$18.4 million aggregate principal amount outstanding of the portfolio company's senior term debt previously syndicated by us.

(12)

Principal amount denominated in Canadian dollars has been translated into U.S. dollars (see Note 2 to the consolidated financial statements).

(13)

In addition to the interest earned based on the stated interest rate of this security, we are entitled to receive an additional interest amount of 2.50% on \$25.0 million aggregate principal amount of the portfolio company's senior term debt previously syndicated by us.

(14)

Loan was on non-accrual status.

(15)

Loan includes interest rate floor feature.

(16)

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In addition to the interest earned based on the stated interest rate of this security, we are entitled to receive an additional interest amount of 2.98% on \$15.0 million aggregate principal amount outstanding of the portfolio company's senior term debt previously syndicated by us.

(17)

In addition to the interest earned based on the stated interest rate of this security, the notes entitle us to receive a portion of the excess cash flow from the SSLP's loan portfolio, which may result in a return greater than the contractual rate.

See accompanying notes to consolidated financial statements.

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**ARES CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
(in thousands, except per share data)

|  | Common Stock |        |              | Accumulated<br>(Overdistributed)<br>Undistributed<br>Net<br>Investment<br>Income | Accumulated<br>Net Realized<br>Gain (Loss) on<br>Investments,<br>Foreign<br>Currency<br>Transactions,<br>Extinction<br>of<br>Debt, Other<br>Assets and<br>Acquisitions | Net<br>Unrealized<br>Gain (Loss)<br>on<br>Investments<br>and Foreign<br>Currency<br>Transactions | Total<br>Stockholders'<br>Equity |
|--|--------------|--------|--------------|--|--|--|----------------------------------|
|  | Shares       | Amount | Par Value    |  |  |  |                                  |
| Balance at December 31, 2007   | 72,684       | \$ 73  | \$ 1,136,599 | \$ 7,005   | \$ 1,471   | \$ (20,597)  | \$ 1,124,551                     |
| Issuance of common stock from transferable rights offering (net of offering and dealer manager costs)                            | 24,228       | 24     | 259,777      |  |  |  | 259,801                          |
| Shares issued in connection with dividend reinvestment plan  | 241          |        | 2,922        |  |  |  | 2,922                            |
| Net decrease in stockholders' equity resulting from operations   |              |        |              | 126,992  | 6,371  | (272,818)  | (139,455)                        |
| Dividend declared (\$1.68 per share)   |              |        |              | (145,098)  | (7,842)  |  | (152,940)                        |
| Tax reclassification of stockholders' equity in accordance with generally accepted accounting principles                         |              |        | (3,340)      | 3,464  | (124)  |  |                                  |
| Balance at December 31, 2008   | 97,153       | \$ 97  | \$ 1,395,958 | \$ (7,637)   | \$ (124)   | \$ (293,415)   | \$ 1,094,879                     |
| Issuance of common stock from August add-on offering (net of offering and underwriting costs)                                    | 12,440       | 13     | 109,073      |  |  |  | 109,086                          |
| Shares issued in connection with dividend reinvestment plan  | 352          |        | 4,025        |  |  |  | 4,025                            |
| Net increase in stockholders' equity resulting from operations   |              |        |              | 133,406  | (19,420)   | 88,707   | 202,693                          |
| Dividend declared (\$1.47 per share)   |              |        |              | (128,210)  | (24,585)   |  | (152,795)                        |
| Tax reclassification of stockholders' equity in accordance with generally accepted accounting principles                         |              |        | (18,598)     | 5,584  | 13,014   |  |                                  |
| Balance at December 31, 2009   | 109,945      | \$ 110 | \$ 1,490,458 | \$ 3,143   | \$ (31,115)  | \$ (204,708)   | \$ 1,257,888                     |
| Issuance of common stock in add-on offerings (net of offering and underwriting costs)  | 34,458       | 34     | 457,815      |  |  |  | 457,849                          |
| Shares issued in connection with dividend reinvestment plan  | 1,523        | 2      | 22,529       |  |  |  | 22,531                           |
| Issuance of common stock in the acquisition of Allied Capital Corporation  | 58,493       | 58     | 872,669      |  |  |  | 872,727                          |
| Gain on the acquisition of Allied Capital Corporation  |              |        |              |  | 195,876  |  | 195,876                          |
| Net increase in stockholders' equity resulting from operations (excluding gain on the acquisition of Allied Capital Corporation) |              |        |              | 215,816  | 49,399   | 230,743  | 495,958                          |
| Dividend declared (\$1.40 per share)   |              |        |              | (252,296)  |  |  | (252,296)                        |
| Tax reclassification of stockholders' equity in accordance with generally accepted accounting principles                         |              |        | 361,855      | 22,001   | (383,856)  |  |                                  |

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|                              |         |    |     |    |           |    |          |    |           |    |        |    |           |
|------------------------------|---------|----|-----|----|-----------|----|----------|----|-----------|----|--------|----|-----------|
| Balance at December 31, 2010 | 204,419 | \$ | 204 | \$ | 3,205,326 | \$ | (11,336) | \$ | (169,696) | \$ | 26,035 | \$ | 3,050,533 |
|------------------------------|---------|----|-----|----|-----------|----|----------|----|-----------|----|--------|----|-----------|

See accompanying notes to consolidated financial statements.

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|   | <b>For the Year Ended December 31,</b> |             |              |
|---|--|-------------|--------------|
|   | <b>2010</b>                            | <b>2009</b> | <b>2008</b>  |
| <b>OPERATING ACTIVITIES:</b>  |  |             |              |
| Net increase (decrease) in stockholders' equity resulting from operations                           | \$ 691,834                             | \$ 202,693  | \$ (139,455) |
| Adjustments to reconcile net increase (decrease) in stockholders' equity resulting from operations: |  |             |              |
| Gain on the acquisition of Allied Capital Corporation   | (195,876)                              |             |              |
| Realized loss (gain) from extinguishment of debt  | 1,961                                  | (26,543)    |              |
| Realized (gain) on sale of intangible asset   | (5,882)                                |             |              |
| Net realized (gains) losses from investment and foreign currency transactions                       | (45,478)                               | 45,963      | (6,371)      |
| Net unrealized (gains) losses from investment and foreign currency transactions                     | (230,743)                              | (88,707)    | 272,818      |
| Net accretion of discount on securities   | (12,594)                               | (2,554)     | (1,307)      |
| Increase in accrued payment-in-kind interest and dividends  | (45,002)                               | (40,761)    | (32,816)     |
| Collections of payment-in-kind interest and dividends   | 32,668                                 | 6,371       | 272          |
| Amortization of debt issuance costs   | 8,992                                  | 4,198       | 2,210        |
| Accretion of discount on the Allied Unsecured Notes   | 8,201                                  |             |              |
| Depreciation  | 923                                    | 672         | 503          |
| Proceeds from sales and repayments of investments   | 1,562,356                              | 455,437     | 496,827      |
| Purchases of investments  | (1,559,819)                            | (575,046)   | (925,945)    |
| Acquisition of Allied Capital Corporation, net of cash acquired                                     | (774,190)                              |             |              |
| Changes in operating assets and liabilities:  |  |             |              |
| Interest receivable   | (4,076)                                | (8,165)     | 6,183        |
| Other assets  | 12,379                                 | (709)       | (2,009)      |
| Management and incentive fees payable   | (14,098)                               | 33,506      | 19,948       |
| Accounts payable and accrued expenses   | (93,484)                               | 7,126       | 1,035        |
| Interest and facility fees payable  | 5,437                                  | (1,224)     | (900)        |
| Net provided by (used in) operating activities  | (656,491)                              | 12,257      | (309,007)    |
| <b>FINANCING ACTIVITIES:</b>  |  |             |              |
| Net proceeds from issuance of common stock  | 1,330,577                              | 109,086     | 259,801      |
| Borrowings on debt  | 1,737,264                              | 477,403     | 951,000      |
| Repayments and repurchases of debt  | (2,154,884)                            | (392,136)   | (721,200)    |
| Debt issuance costs   | (25,176)                               | (7,192)     | (3,139)      |
| Dividends paid in cash  | (229,765)                              | (189,574)   | (109,214)    |
| Net cash provided by (used in) financing activities   | 658,016                                | (2,413)     | 377,248      |
| CHANGE IN CASH AND CASH EQUIVALENTS   | 1,525                                  | 9,844       | 68,241       |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD  | 99,227                                 | 89,383      | 21,142       |
| CASH AND CASH EQUIVALENTS, END OF PERIOD  | \$ 100,752                             | \$ 99,227   | \$ 89,383    |

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Supplemental Information:

|                                      |    |         |    |         |    |         |
|--------------------------------------|----|---------|----|---------|----|---------|
| Interest paid during the period      | \$ | 53,117  | \$ | 19,963  | \$ | 34,421  |
| Taxes paid during the period         | \$ | 1,323   | \$ | 818     | \$ | 1,601   |
| Dividends declared during the period | \$ | 252,296 | \$ | 152,795 | \$ | 152,940 |

See accompanying notes to consolidated financial statements.

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**ARES CAPITAL CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**As of December 31, 2010**

**(dollar amounts in thousands, except per share data and as otherwise indicated;  
for example, with the words "million," "billion" or otherwise)**

**1. ORGANIZATION**

Ares Capital Corporation (the "Company" or "ARCC" or "we") is a specialty finance company that is a closed-end, non-diversified management investment company incorporated in Maryland. We have elected to be regulated as a business development company under the Investment Company Act of 1940 (the "Investment Company Act"). We were incorporated on April 16, 2004 and were initially funded on June 23, 2004. On October 8, 2004, we completed our initial public offering. On the same date, we commenced substantial investment operations.

On April 1, 2010, we consummated our acquisition (the "Allied Acquisition") of Allied Capital Corporation ("Allied Capital"), in an all stock merger where each existing share of common stock of Allied Capital was exchanged for 0.325 shares of our common stock. The Allied Acquisition was valued at approximately \$908 million as of April 1, 2010. In connection therewith, we issued approximately 58.5 million shares of our common stock to Allied Capital's then-existing stockholders, thereby resulting in our then-existing stockholders owning approximately 69% of the combined company and then-existing Allied Capital stockholders owning approximately 31% of the combined company (see Note 17).

The Company has elected to be treated as a regulated investment company, or a "RIC", under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code") and operates in a manner so as to qualify for the tax treatment applicable to RICs. Our investment objective is to generate both current income and capital appreciation through debt and equity investments. We invest primarily in first and second lien senior loans and mezzanine debt, which in some cases includes an equity component. To a lesser extent, we also make equity investments. Also, as a result of the Allied Acquisition, Allied Capital's equity investments, including equity investments larger than those we have traditionally made and controlled portfolio company equity investments became part of our portfolio.

We are externally managed by Ares Capital Management LLC ("Ares Capital Management" or our "investment adviser"), an affiliate of Ares Management LLC ("Ares Management"), a global alternative asset manager and a Securities and Exchange Commission ("SEC") registered investment adviser. Ares Operations LLC ("Ares Operations" or our "administrator"), an affiliate of Ares Management, provides the administrative services necessary for us to operate.

**2. SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with Generally Accepted Accounting Principles ("GAAP"), and include the accounts of the Company and its wholly owned subsidiaries. The consolidated financial statements reflect all adjustments and reclassifications that, in the opinion of management, are necessary for the fair presentation of the results of the operations and financial condition as of and for the periods presented. All significant intercompany balances and transactions have been eliminated.

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***Cash and Cash Equivalents***

Cash and cash equivalents include funds from time to time deposited with financial institutions and short-term, liquid investments in a money market fund. Cash and cash equivalents are carried at cost which approximates fair value.

***Concentration of Credit Risk***

The Company places its cash and cash equivalents with financial institutions and, at times, cash held in money market accounts may exceed the Federal Deposit Insurance Corporation insured limit.

***Investments***

Investment transactions are recorded on the trade date. Realized gains or losses are measured by the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment without regard to unrealized gains or losses previously recognized, and include investments charged off during the period, net of recoveries. Unrealized gains or losses primarily reflect the change in investment values, including the reversal of previously recorded unrealized gains or losses when gains or losses are realized.

Investments for which market quotations are readily available are typically valued at such market quotations. In order to validate market quotations, we look at a number of factors to determine if the quotations are representative of fair value, including the source and nature of the quotations. Debt and equity securities that are not publicly traded or whose market prices are not readily available (i.e., substantially all of our investments) are valued at fair value as determined in good faith by our board of directors, based on the input of our investment adviser, audit committee and independent third-party valuation firms that have been engaged at the direction of our board of directors to assist in the valuation of each portfolio investment without a readily available market quotation at least once during a trailing 12 month period and under a valuation policy and a consistently applied valuation process. The valuation process is conducted at the end of each fiscal quarter, and a minimum of 50% of our portfolio at fair value is subject to review by an independent valuation firm each quarter.

As part of the valuation process, we may take into account the following types of factors, if relevant, in determining the fair value of our investments: the enterprise value of a portfolio company (an estimate of the total fair value of the portfolio company's debt and equity), 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 of the portfolio company's securities to any similar publicly traded securities, changes in the interest rate environment and the credit markets generally that may affect the price at which similar investments may be made in the future and other relevant factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we consider the pricing indicated by the external event to corroborate our valuation.

Because there is not a readily available market value for most of the investments in our portfolio, we value substantially all of our portfolio investments at fair value as determined in good faith by our board of directors, as described herein. 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 fluctuate from period to period. Additionally, the fair value of our investments may differ significantly from the values that would have been used had a ready market existed for such investments and may differ materially from the values that we may ultimately realize. Further, such investments are generally subject to legal and other restrictions on resale or otherwise are less liquid than publicly traded securities. If we were required to liquidate a portfolio investment in a forced or liquidation sale, we could realize significantly less than the value at which we have recorded it.



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In addition, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the gains or losses reflected in the valuations currently assigned.

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 in conjunction with our portfolio management team.

Preliminary valuations are reviewed and discussed with our investment adviser's management and investment professionals, and then valuation recommendations are presented to our board of directors.

The audit committee of our board of directors reviews these valuations, as well as the input of independent third-party valuation firms with respect to the valuations of a minimum of 50% of our portfolio at fair value.

Our board of directors discusses valuations and determines the fair value of each investment in our portfolio without a readily available market quotation in good faith based on the input of our investment adviser, audit committee and, where applicable, independent third-party valuation firms.

Effective January 1, 2008, the Company adopted Accounting Standards Codification ("ASC") 820-10 (previously Statement of Financial Accounting Standards ("SFAS") No. 157, Fair Value Measurements), which expands the application of fair value accounting for investments (see Note 8). Investments acquired as part of the Allied Acquisition were accounted for in accordance with ASC 805-10 (previously Statement of Financial Accounting Standards No. 141(R), Business Combinations), which requires that all assets be recorded at fair value. As a result, the initial amortized cost basis and fair value for the acquired investments were the same at April 1, 2010 (see Note 17).

***Interest and Dividend Income Recognition***

Interest income is recorded on an accrual basis and includes the accretion of discounts and amortization of premiums. Discounts and premiums to par value on securities purchased are accreted/amortized into interest income over the life of the respective security using the effective yield method. The amortized cost of investments represents the original cost adjusted for the accretion of discounts and amortization of premiums, if any.

Loans are generally placed on non-accrual status when principal or interest payments are past due 30 days or more or when there is reasonable doubt that principal or interest will be collected in full. Accrued and unpaid interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment regarding collectability. Non-accrual loans are restored to accrual status when past due principal and interest is paid and, in management's judgment, are likely to remain current. The Company may make exceptions to this if the loan has sufficient collateral value and is in the process of collection.

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

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

The Company has loans in its portfolio that contain payment-in-kind ("PIK") provisions. The PIK interest, computed at the contractual rate specified in each loan agreement, is added to the principal balance of the loan and recorded as interest income. To maintain the Company's status as a RIC, this non-cash source of income must be paid out to stockholders in the form of dividends, even though the Company has not yet collected the cash. For the years ended December 31, 2010, 2009 and 2008, \$45,002, \$40,761 and \$32,816, respectively, in PIK income were recorded. Of the PIK income recorded for the year ended December 31, 2010, \$13,513 was PIK income from investments acquired as part of the Allied Acquisition. For the years ended December 31, 2010, 2009 and 2008, \$32,668, \$6,371 and \$272 of PIK income was collected. Of the PIK income collected for the year ended December 31, 2010, \$2,895 was from investments acquired as part of the Allied Acquisition.

***Capital Structuring Service Fees and Other Income***

The Company's investment adviser seeks to provide assistance to our portfolio companies in connection with the Company's investments and in return the Company may receive fees for capital structuring services. These fees are generally only available to the Company as a result of the Company's underlying investments, are normally paid at the closing of the investments, are generally non-recurring and are recognized as revenue when earned upon closing of the investment. The services that the Company's investment adviser provides vary by investment, but generally include reviewing existing credit facilities, arranging bank financing, arranging equity financing, structuring financing from multiple lenders, structuring financing from multiple equity investors, restructuring existing loans, raising equity and debt capital, and providing general financial advice, which concludes upon closing of the investment. Any services of the above nature subsequent to the closing would generally generate a separate fee payable to the Company. In certain instances where the Company is invited to participate as a co-lender in a transaction and does not provide significant services in connection with the investment, a portion of loan fees paid to the Company in such situations will be deferred and amortized over the estimated life of the loan. The Company's investment adviser may also take a seat on the board of directors of a portfolio company, or observe the meetings of the board of directors without taking a formal seat.

Other income includes fees for asset management, management and consulting services, loan guarantees, commitments, amendments and other services rendered by the Company to portfolio companies. Such fees are recognized as income when earned or the services are rendered.

***Foreign Currency Translation***

The Company's books and records are maintained in U.S. dollars. Any foreign currency amounts are translated into U.S. dollars on the following basis:

- (1) Fair value of investment securities, other assets and liabilities at the exchange rates prevailing at the end of the period.
- (2) Purchases and sales of investment securities, income and expenses at the exchange rates prevailing on the respective dates of such transactions, income or expenses.

Results of operations based on changes in foreign exchange rates are separately disclosed in the statement of operations. Foreign security and currency translations may involve certain considerations and risks not typically associated with investing in U.S. companies and U.S. government securities. These risks include, but are not limited to, currency fluctuation and revaluations and future adverse political, social and economic developments, which could cause investments in foreign markets to be less liquid and prices more volatile than those of comparable U.S. companies or U.S. government securities.

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***Accounting for Derivative Instruments***

The Company does not utilize hedge accounting and marks its derivatives to market through unrealized gains (losses) in the accompanying statement of operations.

***Equity Offering Expenses***

The Company's offering costs, excluding underwriters' fees, are charged against the proceeds from equity offerings when received.

***Debt Issuance Costs***

Debt issuance costs are being amortized over the life of the related debt instrument using the straight line method, which closely approximates the effective yield method.

***U.S. Federal Income Taxes***

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

Depending on the level of taxable income earned in a tax year, we may choose to carry forward taxable income in excess of current year dividend distributions from such income into the next tax year and pay a 4% excise tax on such income, as required. To the extent that the Company determines that its estimated current year annual taxable income will be in excess of estimated current year dividend distributions from such income, the Company accrues excise tax, if any, on estimated excess taxable income as taxable income is earned.

***Dividends to Common Stockholders***

Dividends and distributions to common stockholders are recorded on the record date. The amount to be paid out as a dividend is determined by our board of directors each quarter and is generally based upon the earnings estimated by management. Net realized capital gains, if any, are generally distributed at least annually, although we may decide to retain such capital gains for investment.

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

***Use of Estimates in the Preparation of Financial Statements***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of actual and contingent assets and

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liabilities at the date of the financial statements and the reported amounts of income or loss and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the valuation of investments.

***New Accounting Pronouncements***

In January 2010, the Financial Accounting Standards Board issued Accounting Standard Update 2010-06, Fair Value Measurements and Disclosures (Topic 820), Improving Disclosures About Fair Value Measurements ("ASU 2010-06"). ASU 2010-06 adds new requirements for disclosures about transfers into and out of Level 1 and 2 inputs and separate disclosures about fair value measurements (see Note 8), particularly with respect to purchases, sales, issuances and settlements relating to Level 3 inputs. It also clarifies existing fair value disclosures about the level of disaggregation, will require that entities provide fair value measurement disclosures for each class of assets and liabilities, and adds requirements relating to inputs and valuation techniques used to measure fair value. Generally, ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, however, the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 inputs will not be required until fiscal years beginning after December 15, 2010. The adoption of ASU 2010-06 did not have a significant impact on the Company's financial condition and results of operations.

**3. AGREEMENTS**

***Investment Advisory and Management Agreement***

The Company is party to an investment advisory and management agreement (the "investment advisory and management agreement") with Ares Capital Management. Subject to the overall supervision of our board of directors, Ares Capital Management provides investment advisory and management services to the Company. For providing these services, Ares Capital Management receives a fee from us, consisting of two components a base management fee and an incentive fee. Ares Capital Management has committed to defer up to \$15,000 in base management and incentive fees for each of the first two fiscal years following the Allied Acquisition if certain earnings targets are not met.

The base management fee is calculated at an annual rate of 1.5% based on the average value of our total assets (other than cash or cash equivalents but including assets purchased with borrowed funds) at the end of the two most recently completed calendar quarters. The base management fee is payable quarterly in arrears.

The incentive fee has two parts. One part is calculated and payable quarterly in arrears based on our pre-incentive fee net investment income for the quarter. Pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees such as commitment, origination, structuring, diligence and consulting fees or other fees that we receive from portfolio companies but excluding fees for providing managerial assistance) accrued during the calendar quarter, minus operating expenses for the quarter (including the base management fee, any expenses payable under the administration agreement, and any interest expense and dividends paid on any outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature such as market discount, debt instruments with PIK interest, preferred stock with PIK dividends and zero coupon securities, accrued income that we have not yet received in cash. Our investment adviser is not under any obligation to reimburse us for any part of the incentive fee it received that was based on such accrued income that we never actually receive in cash.

Pre-incentive fee net investment income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Because of the structure of the incentive fee, it is possible that we may pay an incentive fee in a quarter where we incur a loss. For

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example, if we receive pre-incentive fee net investment income in excess of the hurdle rate (as defined below) for a quarter, we will pay the applicable incentive fee even if we have incurred a loss in that quarter due to realized and/or unrealized capital losses.

Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets (defined as total assets less indebtedness and before taking into account any incentive fees payable during the period) at the end of the immediately preceding calendar quarter, is compared to a fixed "hurdle rate" of 2% per quarter. If market interest rates rise, we may be able to invest our funds in debt instruments that provide for a higher return, which may increase our pre-incentive fee net investment income and make it easier for our investment adviser to surpass the fixed hurdle rate and receive an incentive fee based on such net investment income. Our pre-incentive fee net investment income used to calculate this part of the incentive fee is also included in the amount of our total assets (other than cash and cash equivalents but including assets purchased with borrowed funds) used to calculate the 1.5% base management fee.

We pay our investment adviser an incentive fee with respect to our pre-incentive fee net investment income in each calendar quarter as follows:

no incentive fee in any calendar quarter in which the pre-incentive fee net investment income does not exceed the hurdle rate;

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 rate but is less than 2.5% in any calendar quarter. We refer to this portion of our pre-incentive fee net investment income (which exceeds the hurdle rate but is less than 2.5%) as the "catch-up" provision. The "catch-up" is meant to provide our investment adviser with 20% of the pre-incentive fee net investment income as if a hurdle rate did not apply if this net investment income exceeds 2.5% in any calendar quarter; and

20% of the amount of our pre-incentive fee net investment income, if any, that exceeds 2.5% in any calendar quarter.

These calculations are adjusted for any share issuances or repurchases during the quarter.

The second part of the incentive fee (the "Capital Gains Fee"), is determined and payable in arrears as of the end of each calendar year (or, upon termination of the investment advisory and management agreement, as of the termination date) and is calculated at the end of each applicable year by subtracting (a) the sum of our cumulative aggregate realized capital losses and aggregate unrealized capital depreciation from (b) our cumulative aggregate realized capital gains, in each case calculated from October 8, 2004. Realized capital gains and losses include gains and losses on investments and foreign currencies, as well as gains and losses on extinguishment of debt and other assets. If such amount is positive at the end of such year, then the Capital Gains Fee for such year is equal to 20% of such amount, less the aggregate amount of Capital Gains Fees paid in all prior years. If such amount is negative, then there is no Capital Gains Fee for such year.

The cumulative aggregate realized capital gains are calculated as the sum of the differences, if positive, between (a) the net sales price of each investment in our portfolio when sold and (b) the accreted or amortized cost basis of such investment.

The cumulative aggregate realized capital losses are calculated as the sum of the amounts by which (a) the net sales price of each investment in our portfolio when sold is less than (b) the accreted or amortized cost basis of such investment.

The aggregate unrealized capital depreciation is calculated as the sum of the differences, if negative, between (a) the valuation of each investment in our portfolio as of the applicable Capital Gains Fee calculation date and (b) the accreted or amortized cost basis of such investment.

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We defer cash payment of any incentive fee otherwise earned by our investment adviser if during the most recent four full calendar quarter period ending on or prior to the date such payment is to be made the sum of (a) the aggregate distributions to our stockholders and (b) the change in net assets (defined as total assets less indebtedness and before taking into account any incentive fees payable during the period) is less than 8.0% of our net assets at the beginning of such period.

The Capital Gains Fee due to our investment adviser as calculated under the investment advisory and management agreement (as described above) for the year ended December 31, 2010 was \$0. However, in accordance with GAAP, the Company accrued a capital gains incentive fee of \$15,609 for the year ended December 31, 2010. This GAAP accrual is calculated using the aggregate cumulative realized capital gains and losses and aggregate cumulative unrealized capital depreciation included in the calculation of the Capital Gains Fee plus the aggregate cumulative unrealized capital appreciation. If such amount is positive at the end of a period, then GAAP requires us to record a capital gains incentive fee equal to 20% of such amount, less the aggregate amount of actual Capital Gains Fees paid in all prior years. If such amount is negative, then there is no accrual for such year. GAAP requires that the capital gains incentive fee accrual consider the cumulative aggregate unrealized capital appreciation in the calculation, as a capital gains incentive fee would be payable if such unrealized capital appreciation were realized. There can be no assurance that such unrealized capital appreciation will be realized in the future. There was no similar GAAP accrual for the years ended December 31, 2009 and 2008.

For the year ended December 31, 2010, base management fees were \$51,998, incentive management fees related to pre-incentive fee net investment income were \$61,286 and incentive management fees related to capital gains were \$15,609. As of December 31, 2010, \$52,397 was included in "management and incentive fees payable" in the accompanying consolidated balance sheet, of which \$36,788 is currently payable to the Company's investment adviser under the investment advisory and management agreement.

For the year ended December 31, 2009, base management fees were \$30,409, incentive management fees related to pre-incentive fee net investment income were \$33,332 and there were no incentive management fees related to capital gains. As of December 31, 2009, \$66,495 was unpaid and included in "management and incentive fees payable" in the accompanying consolidated balance sheet, including \$49,019 of incentive management fees that had been previously deferred pursuant to the investment and advisory agreement. The payment of incentive management fees that were deferred as of December 31, 2009 pursuant to the investment advisory and management agreement, were paid in the first quarter of 2010.

For the year ended December 31, 2008, base management fees were \$30,463, incentive management fees related to pre-incentive fee net investment income were \$31,748 and there were no incentive management fees related to capital gains.

***Administration Agreement***

We are party to a separate administration agreement, referred to herein as the "administration agreement", with our administrator, Ares Operations. Pursuant to the administration agreement, Ares Operations furnishes us with office equipment and clerical, bookkeeping and record keeping services. Under the administration agreement, Ares Operations also performs, or oversees the performance of, our required administrative services, which include, among other things, being responsible for the financial records that we are required to maintain and preparing reports to our stockholders and reports filed with the SEC. In addition, Ares Operations assists us in determining and publishing our net asset value, oversees the preparation and filing of our tax returns and the printing and dissemination of reports to our stockholders, and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others.

Payments under

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our administration agreement are equal to an amount based upon our allocable portion of Ares Operations' overhead and other expenses (including travel expenses) incurred by Ares Operations in performing its obligations under the administration agreement, including our allocable portion of the cost of certain of our officers (including our chief compliance officer, chief financial officer, general counsel, secretary and treasurer) and their respective staffs. The administration agreement may be terminated by either party without penalty upon 60 days' written notice to the other party.

For the years ended December 31, 2010, 2009 and 2008, we incurred \$8,721, \$4,009 and \$2,701, respectively, in administrative fees. As of December 31, 2010, \$2,470 was unpaid and included in "accounts payable and accrued expenses" in the accompanying consolidated balance sheet.

**4. INVESTMENTS**

As of December 31, 2010 and 2009, investments consisted of the following:

|                                    | 2010                |                     | 2009                |                     |
|------------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                    | Amortized Cost(1)   | Fair Value          | Amortized Cost(1)   | Fair Value          |
| Senior term debt                   | 1,722,130           | 1,695,532           | 1,152,462           | 1,072,149           |
| Senior subordinated debt           | 1,055,441           | 1,014,514           | 658,787             | 595,668             |
| Subordinated Notes of SSLP         | 537,438             | 561,674             | 165,000             | 165,000             |
| Collateralized loan obligations(2) | 219,324             | 261,156             | 55,681              | 51,383              |
| Equity securities                  | 716,601             | 751,202             | 344,454             | 287,614             |
| Commercial real estate             | 41,021              | 33,912              |                     |                     |
| <b>Total</b>                       | <b>\$ 4,291,955</b> | <b>\$ 4,317,990</b> | <b>\$ 2,376,384</b> | <b>\$ 2,171,814</b> |

(1) The amortized cost represents the original cost adjusted for the accretion of discounts and amortization of premiums on debt investments using the effective interest method.

(2) See Note 19.

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The industrial and geographic compositions of our portfolio at fair value at December 31, 2010 and December 31, 2009 were as follows:

| <b>Industry</b>               | <b>As of<br/>December 31,</b> |               |
|-------------------------------|-------------------------------|---------------|
|                               | <b>2010</b>                   | <b>2009</b>   |
| Investment Funds(1)           | 21.4%                         | 12.9%         |
| Healthcare Services           | 15.6                          | 18.3          |
| Business Services             | 12.2                          | 5.8           |
| Restaurants and Food Services | 8.8                           | 7.8           |
| Consumer Products             | 8.3                           | 3.2           |
| Financial Services            | 6.7                           | 3.3           |
| Education                     | 5.2                           | 10.1          |
| Manufacturing                 | 4.2                           | 3.8           |
| Other Services                | 3.3                           | 8.2           |
| Telecommunications            | 2.5                           | 1.8           |
| Food and Beverage             | 2.4                           | 6.1           |
| Retail                        | 2.4                           | 5.9           |
| Commercial Real Estate        | 1.5                           | 0.0           |
| Wholesale Distribution        | 1.3                           | 0.0           |
| Other                         | 4.2                           | 12.8          |
| <b>Total</b>                  | <b>100.0%</b>                 | <b>100.0%</b> |

(1)

Includes our investment in the SSLP (as defined below), which had issued loans to 20 and 11 different issuers as of December 31, 2010 and 2009, respectively. The portfolio companies in the SSLP are in industries similar to the companies in our portfolio.

| <b>Geographic Region</b> | <b>As of<br/>December 31,</b> |               |
|--------------------------|-------------------------------|---------------|
|                          | <b>2010</b>                   | <b>2009</b>   |
| West                     | 34.5%                         | 29.4%         |
| Mid-Atlantic             | 24.4                          | 19.9          |
| Midwest                  | 20.2                          | 19.8          |
| Southeast                | 16.5                          | 19.7          |
| International            | 3.0                           | 7.5           |
| Northeast                | 1.4                           | 3.7           |
| <b>Total</b>             | <b>100.0%</b>                 | <b>100.0%</b> |

As of December 31, 2010, 3.8% of total investments at amortized cost (or 1.3% of total investments at fair value), were on non-accrual status, including 1.5% of total investments at amortized cost (or 1.0% of total investments at fair value) of investments acquired as part of the Allied Acquisition. As of December 31, 2009, 2.5% of total investments at amortized cost (or 0.5% at fair value), were on non-accrual status.



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**SSLP**

In October 2009, the Company completed its acquisition from Allied Capital of subordinated notes (the "SSLP Notes") issued by the Senior Secured Loan Program (the "SSLP"). The SSLP was formed in December 2007 to invest in "stretch senior" or "unitranche" loans (loans that combine both senior and subordinated debt, generally in a first lien position) of middle-market companies. The amortized cost and fair value of the SSLP Notes was \$537,439 and \$561,674, respectively, at December 31, 2010, and \$165,000 and \$165,000, respectively, at December 31, 2009. The SSLP Notes pay a coupon of LIBOR plus 8.0% and also entitle the Company to receive a portion of the excess cash flow from the loan portfolio, which may result in a return greater than the contractual coupon. The Company is also entitled to certain other sourcing and management fees in connection with the SSLP. The Company's yield on its investment in the SSLP at fair value was 15.8% and 17.0% at December 31, 2010 and December 31, 2009, respectively. For the years ended December 31, 2010 and 2009, the Company earned interest income of \$50,013 and \$4,831, respectively, on the SSLP Notes.

As of December 31, 2010 and December 31, 2009, the SSLP had total assets of \$2.6 billion and \$0.9 billion, respectively, in aggregate principal amount outstanding. The senior debt obligations of the SSLP were \$1.9 billion and \$0.7 billion in aggregate principal amount outstanding at December 31, 2010 and December 31, 2009, respectively. The SSLP Notes owned by the Company are junior to the senior debt obligations of the fund and the Company owned 88.6% and 87.5% of the outstanding class of such notes as of December 31, 2010 and 2009, respectively.

The SSLP's portfolio consisted of 20 and 11 different issuers as of December 31, 2010 and 2009, respectively. At December 31, 2010 and 2009, the portfolio was comprised of all first lien senior secured debt issued by U.S. middle-market companies and none of the loans were on non-accrual status. At December 31, 2010 and 2009, the single largest issuer in the SSLP's portfolio in aggregate principal amount was \$270.0 million and \$179.9 million, respectively, and the top five issuers totaled \$1.1 billion and \$535.3 million, respectively. The portfolio companies in the SSLP are in industries similar to the companies in Ares Capital's portfolio.

**5. BORROWINGS**

In accordance with the Investment Company Act, with certain limited exceptions, the Company is only allowed to borrow amounts such that its asset coverage, as defined in the Investment Company Act, is at least 200% after such borrowing. As of December 31, 2010 our asset coverage for borrowed amounts was 321%.

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The Company's outstanding debt as of December 31, 2010 and 2009 was as follows:

|  | 2010              |                    | 2009              |                    |
|--|-------------------|--------------------|-------------------|--------------------|
|  | Carrying Value(1) | Total Available(2) | Carrying Value(1) | Total Available(2) |
| Revolving Funding Facility                             | \$ 242,050        | \$ 400,000         | \$ 221,569        | \$ 221,569         |
| Revolving Credit Facility                              | 146,000           | 810,000(6)         | 474,144           | 525,000            |
| Revolving Funding II Facility(3)                       |                   |                    |                   | 200,000            |
| Debt Securitization                                    | 155,297           | 183,190            | 273,752           | 274,981            |
| 2011 Notes (principal amount outstanding of \$300,584) | 296,258(4)        | 300,584            |                   |                    |
| 2012 Notes (principal amount outstanding of \$161,210) | 158,108(4)        | 161,210            |                   |                    |
| 2040 Notes   | 200,000           | 200,000            |                   |                    |
| 2047 Notes (principal amount outstanding of \$230,000) | 180,795(4)        | 230,000            |                   |                    |
|  | \$ 1,378,508(5)   | \$ 2,284,984       | \$ 969,465        | \$ 1,221,550       |

- (1) Except for the Allied Unsecured Notes (as defined below), all carrying values are the same as the principal amounts outstanding.
- (2) Subject to borrowing base and leverage restrictions.
- (3) The Revolving Funding II Facility was combined with the Revolving Funding Facility on January 22, 2010. In connection therewith, the Revolving Funding II Facility was terminated.
- (4) Represents the aggregate principal amount outstanding of the applicable series of notes less the unaccreted discount initially recorded as a part of the Allied Acquisition. The total unaccreted discount on the Allied Unsecured Notes (as defined below) was \$56,633 at December 31, 2010.
- (5) Total principal amount of debt outstanding totaled \$1,435,141.
- (6) Includes an "accordion" feature that allows us, under certain circumstances, to increase the size of the facility to a maximum of \$1,050,000.

The weighted average stated interest rate of all our debt obligations at principal as of December 31, 2010 and December 31, 2009 was 5.2% and 2.1%, respectively.

### ***Revolving Funding Facility***

In October 2004, we formed Ares Capital CP Funding LLC ("Ares Capital CP"), a wholly owned subsidiary of the Company, through which we established a revolving facility (as amended, the "Revolving Funding Facility") that, as amended at such time, allowed Ares Capital CP to issue up to \$350,000 of variable funding certificates ("VFC"). On May 7, 2009, the Company and Ares Capital CP entered into an amendment that, among other things, converted the Revolving Funding Facility from a revolving facility to an amortizing facility, extended the maturity from July 21, 2009 to May 7, 2012, reduced the availability from \$350,000 to \$225,000 (with a reduction in the outstanding balance required by each of December 31, 2010 and December 31, 2011) and decreased the advance rates applicable to certain types of eligible loans. In addition, the interest rate charged on the Revolving Funding Facility was increased from the commercial paper rate plus 2.50% to the commercial paper, Eurodollar or adjusted Eurodollar rate, as applicable, plus 3.50% and the commitment fee requirement was removed. The Company paid a renewal fee of 1.25% of the total facility amount, or \$2,813.

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On July 21, 2009, the Company and Ares Capital CP entered into an agreement with Wells Fargo N.A. ("Wells Fargo") to establish an additional revolving facility (the "Revolving Funding II Facility") whereby Wells Fargo agreed to extend credit to us in an aggregate principal amount not exceeding \$200,000 at any one time outstanding. The Revolving Funding II Facility was scheduled to expire on July 21, 2012.

On January 22, 2010, the Company and Ares Capital CP combined the Revolving Funding II Facility into the Revolving Funding Facility, creating a single \$400,000 revolving securitized facility. In connection with the combination, we terminated the Revolving Funding II Facility and entered into an Amended and Restated Purchase and Sale Agreement with Ares Capital CP Funding Holdings LLC, our wholly owned subsidiary ("CP Holdings"), pursuant to which we may sell to CP Holdings certain loans that we have originated or acquired (the "Loans") from time to time, which CP Holdings will subsequently sell to Ares Capital CP, which is a wholly owned subsidiary of CP Holdings. The Revolving Funding Facility is secured by all of the assets held by, and the membership interest in, Ares Capital CP. The Revolving Funding Facility, among other things, extended the maturity date of the facility to January 22, 2013 (with two one-year extension options, subject to mutual consent, see Note 19).

As part of the Revolving Funding Facility, we are subject to limitations as to how borrowed funds may be used including restrictions on geographic concentrations, sector concentrations, loan size, payment frequency and status, average life, collateral interests and investment ratings as well as regulatory restrictions on leverage which may affect the amount of VFC that we may issue from time to time. There are also certain requirements relating to portfolio performance, including required minimum portfolio yield and limitations on delinquencies and charge offs, violation of which could result in the early amortization of the Revolving Funding Facility and limit further advances under the Revolving Funding Facility and in some cases could be an event of default. The Revolving Funding Facility is also subject to a borrowing base that applies different advance rates to assets held in Ares Capital CP. Such limitations, requirements, and associated defined terms are as provided for in the documents governing the Revolving Funding Facility. The Company and Ares Capital CP continue to be in material compliance with all of the limitations and requirements of the Revolving Funding Facility.

As of December 31, 2010 and 2009, there was \$242,050 and \$221,569 outstanding under the Revolving Funding Facility, respectively. The Revolving Funding Facility is secured by all of the assets held by Ares Capital CP, which as of December 31, 2010 consisted of 34 investments.

Prior to January 22, 2010, the interest rate charged on the Revolving Funding Facility was based on the commercial paper, Eurodollar or adjusted Eurodollar rate plus 3.50%. After January 22, 2010, subject to certain exceptions, the interest charged on the Revolving Funding Facility is based on LIBOR plus an applicable spread of between 2.25% and 3.75% or on a "base rate" (which is the higher of a prime rate, or the federal funds rate plus 0.50%) plus an applicable spread of between 1.25% to 2.75%, in each case, based on a pricing grid depending upon our credit rating. As of December 31, 2010 and for the period from January 22, 2010 through December 31, 2010, the effective LIBOR spread under the Revolving Funding Facility was 2.75%. As of December 31, 2010, the rate in effect was one month LIBOR, which was 0.26%. As of December 31, 2009, the rate in effect was the adjusted Eurodollar rate, which was 0.23%.

We are also required to pay a commitment fee of between 0.50% and 2.00% depending on the usage level on any unused portion of the Revolving Funding Facility. Prior to May 7, 2009, we were required to pay a commitment fee for any unused portion of the Revolving Funding Facility equal to 0.50% per annum for any unused portion of the Revolving Funding Facility. Prior to January 22, 2010, we were also required to pay a commitment fee on any unused portion of the Revolving Funding II Facility of between 0.50% and 2.00% depending on the usage level.

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The components of interest and credit facility fees expense, cash paid for interest expense, average interest rates (i.e., rate in effect plus the spread) and average outstanding balances for the Revolving Funding Facility were as follows:

|   | For the Year Ended December 31, |            |           |
|---|---------------------------------|------------|-----------|
|   | 2010                            | 2009       | 2008      |
| Stated Interest Expense                         | \$ 7,458                        | \$ 6,751   | \$ 4,280  |
| Facility Fees(1)                                | 1,453                           | 899        | 625       |
| Amortization of Debt Issuance Costs             | 1,787                           | 2,716      | 1,269     |
| <br>  |                                 |            |           |
| Total Interest and Credit Facility Fees Expense | \$ 10,698                       | \$ 10,366  | \$ 6,174  |
| <br>  |                                 |            |           |
| Cash Paid for Interest Expense                  | \$ 7,224                        | \$ 6,501   | \$ 3,754  |
| Average Stated Interest Rate                    | 3.0%                            | 3.8%       | 5.2%      |
| Average Outstanding Balance                     | \$ 247,490                      | \$ 179,443 | \$ 82,540 |

(1)

Includes facility fees incurred related to the Revolving Funding II Facility.

***Revolving Credit Facility***

In December 2005, we entered into a senior secured revolving credit facility (as amended and restated, the "Revolving Credit Facility"), under which, as amended, the lenders agreed to extend credit to the Company. On January 22, 2010, we entered into an agreement to amend and restate the Revolving Credit Facility. The amendment and restatement of the Revolving Credit Facility, among other things, increased the size of the facility from \$525,000 to \$690,000 (comprised of \$615,000 in commitments on a stand-alone basis and an additional \$75,000 in commitments contingent upon the closing of the Allied Acquisition), extended the maturity date from December 28, 2010 to January 22, 2013 and modified pricing. The Revolving Credit Facility also includes an "accordion" feature that allows, under certain circumstances, for an increase in the size of the facility to a maximum of \$1,050,000. During the year ended December 31, 2010, we exercised this "accordion" feature and increased the size of the facility by \$120,000 to bring the total facility size to \$810,000. The Revolving Credit Facility generally requires payments of interest at the end of each LIBOR interest period, but no less frequently than quarterly, on LIBOR-based loans, and monthly payments of interest on other loans. All principal is due upon maturity.

Under the Revolving Credit Facility, we are required to comply with various covenants, reporting requirements and other customary requirements for similar revolving credit facilities, including, without limitation, covenants related to: (a) limitations on the incurrence of additional indebtedness and liens, (b) limitations on certain investments, (c) limitations on certain restricted payments, (d) maintaining a certain minimum stockholders' equity, (e) maintaining a ratio of total assets (less total liabilities) to total indebtedness, of the Company and its subsidiaries, of not less than 2.0:1.0, (f) maintaining minimum liquidity, and (g) limitations on the creation or existence of agreements that prohibit liens on certain properties of the Company and its subsidiaries. The Company continues to be in material compliance with all of the limitations and requirements of the Revolving Credit Facility.

In addition to the asset coverage ratio described above, borrowings under the Revolving Credit Facility (and the incurrence of certain other permitted debt) will be subject to compliance with a borrowing base that will apply different advance rates to different types of assets in our portfolio.

As of December 31, 2010 and 2009, there was \$146,000 and \$474,144, respectively, outstanding under the Revolving Credit Facility. The Revolving Credit Facility also provides for a sub-limit for the issuance of letters of credit for up to an aggregate amount of \$100,000 and \$25,000 as of December 31, 2010 and 2009, respectively. As of December 31, 2010 and 2009, the Company had \$7,281 and \$24,000

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in standby letters of credit issued through the Revolving Credit Facility. The amount available for borrowing under the Revolving Credit Facility is reduced by any standby letters of credit issued. At December 31, 2010, there was \$656,719 available for borrowing under the Revolving Credit Facility.

Prior to January 22, 2010, subject to certain exceptions, pricing on the Revolving Credit Facility was based on LIBOR plus 1.00% or on an "alternate base rate" (which was the highest of a prime rate, the federal funds rate plus 0.50%, or one month LIBOR plus 1.00%). After January 22, 2010, subject to certain exceptions, pricing under the Revolving Credit Facility is based on LIBOR plus an applicable spread of between 2.50% and 4.00% or on the "alternate base rate" plus an applicable spread of between 1.50% and 3.00%, in each case, based on a pricing grid depending upon our credit rating. As of December 31, 2010 and for the period from January 22, 2010 through December 31, 2010, the effective LIBOR spread under the Revolving Credit Facility was 3.00%. As of December 31, 2010, the one, two, three and six month LIBOR was 0.26%, 0.28%, 0.30% and 0.46%, respectively. As of December 31, 2009, the one, two, three and six month LIBOR was 0.23%, 0.24%, 0.25% and 0.43%, respectively.

In addition to the stated interest expense on the Revolving Funding Facility, the Company is required to pay a commitment fee of 0.50% per annum on any unused portion of the Revolving Credit Facility and a letter of credit fee of 3.25% per annum on letters of credit issued, both of which are payable quarterly. In connection with the expansion and extension of the Revolving Credit Facility in January 2010, we paid arrangement fees totaling approximately \$15,600.

With certain exceptions, the Revolving Credit Facility is secured by substantially all of the assets in our portfolio (other than investments held by Ares Capital CP under the Revolving Funding Facility, those held as a part of the Debt Securitization, discussed below, and certain other investments). As of December 31, 2010, the Revolving Credit Facility was secured by 298 investments.

The components of interest and credit facility fees expense, cash paid for interest expense, average interest rates (i.e., rate in effect plus the spread) and average outstanding balances for the Revolving Credit Facility were as follows:

|   | <b>For the Year Ended December 31,</b> |             |             |
|---|--|-------------|-------------|
|   | <b>2010</b>                            | <b>2009</b> | <b>2008</b> |
| Stated Interest Expense(1)                      | \$ 10,370                              | \$ 8,855    | \$ 17,610   |
| Facility Fees                                   | 3,158                                  | 396         | 224         |
| Amortization of Debt Issuance Costs             | 6,635                                  | 723         | 601         |
| <br>  |  |             |             |
| Total Interest and Credit Facility Fees Expense | \$ 20,163                              | \$ 9,974    | \$ 18,435   |
| <br>  |  |             |             |
| Cash Paid for Interest Expense(1)               | \$ 10,301                              | \$ 9,758    | \$ 18,787   |
| Average Stated Interest Rate(1)                 | 4.3%                                   | 2.1%        | 4.2%        |
| Average Outstanding Balance                     | \$ 244,254                             | \$ 410,947  | \$ 422,614  |

(1)

The stated interest expense, cash paid for interest expense and average stated interest rate reflect the impact of the interest rate swap agreement entered into by the Company in October 2008 and terminated in December 2010 whereby the Company paid a fixed interest rate of 2.985% and received a floating rate based on the prevailing three-month LIBOR. See Note 6 for more information on the interest rate swap agreement.

With certain exceptions, the Revolving Credit Facility is secured by substantially all of the assets in our portfolio (other than investments held by Ares Capital CP under the Revolving Funding Facility, those held as a part of the Debt Securitization, discussed below and certain other investments). As of December 31, 2010, the Revolving Credit Facility was secured by 298 investments.

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The amount available for borrowing under the Revolving Credit Facility is reduced by any standby letters of credit issued through the Revolving Credit Facility. As of December 31, 2010, the Company had \$7,281 in standby letters of credit issued through the Revolving Credit Facility. As of December 31, 2009, the Company had \$24,000 in standby letters of credit issued through the Revolving Credit Facility.

***Debt Securitization***

In July 2006, through ARCC Commercial Loan Trust 2006, a vehicle serviced by our wholly owned subsidiary, ARCC CLO 2006 LLC ("ARCC CLO"), the Company completed a \$400,000 debt securitization (the "Debt Securitization") and issued approximately \$314,000 aggregate principal amount of asset-backed notes (including an aggregate amount of up to \$50,000 of revolving notes, \$22,107 of which was drawn down as of December 31, 2010) (the "CLO Notes") to third parties that are secured by a pool of middle-market loans that were purchased or originated by the Company. The Company initially retained approximately \$86,000 of aggregate principal amount of certain "BBB" and non-rated securities in the Debt Securitization. The CLO Notes are included in the consolidated balance sheet.

During the year ended December 31, 2010, we repaid \$39,996, \$26,665 and \$51,795 of the Class A-1-A, Class A-1A-VFN and Class A-2A Notes, respectively. During the year ended December 31, 2009, we repurchased, in several open market transactions, \$34,790 of CLO Notes consisting of \$14,000 of Class B Notes and \$20,790 of Class C Notes for a total purchase price of \$8,247. As a result of these purchases, we recognized a \$26,543 gain on the extinguishment of debt during the year ended December 31, 2009. As of December 31, 2010, we held an aggregate principal amount of \$120,790 of CLO Notes (the "Retained Notes") in total. The CLO Notes mature on December 20, 2019, and, as of December 31, 2010, there was \$155,297 outstanding under the Debt Securitization (excluding the Retained Notes).

During the first five years from the closing date, principal collections received on the underlying collateral may be used to purchase new collateral, allowing us to maintain the initial leverage in the securitization for the entire five-year period. This reinvestment period ends on June 21, 2011.

The Class A-1A VFN Notes are a revolving class of secured notes and allow us to borrow and repay AAA/Aaa financing over the initial five-year period thereby providing more efficiency in funding costs. All of the notes are secured by the assets of ARCC Commercial Loan Trust 2006, including commercial loans totaling \$308,100 as of the closing date, which were sold to the trust by the Company, the originator and servicer of the assets. As of December 31, 2010, there were 42 investments securing the CLO Notes. Additional commercial loans have been purchased by the trust from the Company primarily using the proceeds from the Class A-1A VFN Notes as well as proceeds from loan repayments. The pool of commercial loans in the trust must meet certain requirements, including, but not limited to, asset mix and concentration, collateral coverage, term, agency rating, minimum coupon, minimum spread and sector diversity requirements. Under the terms of the securitization, up to 15% of the collateral may be subordinated loans that are neither first nor second lien loans.

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The classes, amounts and interest rates (expressed as a spread to LIBOR) of the CLO Notes as of December 31, 2010 and 2009 are as follows:

| Class          | 2010                 |                                   | 2009                 |                                   |
|----------------|----------------------|-----------------------------------|----------------------|-----------------------------------|
|                | Amount<br>(millions) | LIBOR<br>Spread<br>(basis points) | Amount<br>(millions) | LIBOR<br>Spread<br>(basis points) |
| A-1A           | \$ 33,161            | 25                                | \$ 73,157            | 25                                |
| A-1A<br>VFN(1) | 22,107               | 28                                | 48,772               | 28                                |
| A-1B           | 14,000               | 37                                | 14,000               | 37                                |
| A-2A           | 20,819               | 22                                | 72,614               | 22                                |
| A-2B           | 33,000               | 35                                | 33,000               | 35                                |
| B              | 9,000                | 43                                | 9,000                | 43                                |
| C              | 23,210               | 70                                | 23,210               | 70                                |
| Total          | \$ 155,297           |                                   | \$ 273,753           |                                   |

(1) Revolving Notes, in an aggregate amount of up to \$50,000.

The interest charged under the Debt Securitization is based on 3-month LIBOR, which as of December 31, 2010 was 0.30% and as of December 31, 2009 was 0.25%. The blended pricing of the CLO Notes, excluding fees, at December 31, 2010, was approximately 3-month LIBOR plus 36 basis points.

The Company is also required to pay a commitment fee of 0.175% for any unused portion of the Class A-1A VFN Notes through June 21, 2011.

The components of interest and credit facility fees expense, cash paid for interest expense, average interest rates (i.e., rate in effect plus the spread) and average outstanding balances for the Debt Securitization are as follows:

|   | For the Year Ended December 31, |            |            |
|---|---------------------------------|------------|------------|
|   | 2010                            | 2009       | 2008       |
| Stated Interest Expense                         | \$ 1,534                        | \$ 3,568   | \$ 11,556  |
| Facility Fees                                   | 21                              |            |            |
| Amortization of Debt Issuance Costs             | 358                             | 354        | 350        |
| Total Interest and Credit Facility Fees Expense | \$ 1,913                        | \$ 3,922   | \$ 11,906  |
| Cash Paid for Interest Expense                  | \$ 1,536                        | \$ 3,704   | \$ 11,881  |
| Average Stated Interest Rate                    | 0.7%                            | 1.3%       | 3.7%       |
| Average Outstanding Balance                     | \$ 228,252                      | \$ 282,856 | \$ 314,000 |

***Unsecured Notes Payable***

*Allied Unsecured Notes*

As part of the Allied Acquisition, the Company assumed all outstanding debt obligations of Allied Capital, including Allied Capital's unsecured notes which consisted of 6.625% Notes due on July 15, 2011 (the "2011 Notes"), 6.000% Notes due on April 1, 2012 (the "2012 Notes") and 6.875% Notes due on April 15, 2047 (the "2047 Notes" and, together with the 2011 Notes and the 2012 Notes, the "Allied Unsecured Notes").

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As of December 31, 2010, the Company had the following outstanding Allied Unsecured Notes:

|            | Outstanding<br>Principal | Carrying<br>Value(1) |
|------------|--------------------------|----------------------|
| 2011 Notes | \$ 300,584               | \$ 296,258           |
| 2012 Notes | 161,210                  | 158,108              |
| 2047 Notes | 230,000                  | 180,795              |
| <br>Total  | <br>\$ 691,794           | <br>\$ 635,161       |

(1)

Represents the principal amount of the Allied Unsecured Notes less the unaccreted discount initially recorded as a part of the Allied Acquisition

The 2011 Notes bear interest at a rate of 6.625% and mature on July 15, 2011. The 2012 Notes bear interest at a rate of 6.000% and mature on April 1, 2012. The 2011 Notes and 2012 Notes require payment of interest semi-annually, and all principal is due upon maturity. The Company has the option to redeem these notes in whole or in part, together with a redemption premium, as stipulated in the notes (see Note 19).

The 2047 Notes bear interest at a rate of 6.875% and mature on April 15, 2047. The 2047 Notes require payment of interest quarterly, and all principal is due upon maturity. The 2047 Notes may be redeemed in whole or in part at any time or from time to time on or after April 15, 2012, at a par redemption price of \$25 per security plus accrued and unpaid interest and upon the occurrence of certain tax events as stipulated in the notes. For the year ended December 31, 2010, the Company incurred \$35,314 of stated interest expense in connection with the Allied Unsecured Notes, respectively, and the cash paid for interest on the Allied Unsecured Notes was \$34,056. In accordance with ASC 805-10, the initial carrying value of the Allied Unsecured Notes was equal to the fair value as of April 1, 2010 resulting in an initial unaccreted discount from the principal value of the Allied Unsecured Notes of approximately \$65,800. For the year ended December 31, 2010, we recorded \$8,201 of accretion expense related to this discount which was included in "interest and credit facility fees" in the accompanying statement of operations.

The Company may purchase the Allied Unsecured Notes in the market to the extent permitted by the Investment Company Act. During the year ended December 31, 2010, the Company purchased \$19,350 principal amount of the 2011 Notes and \$34,400 principal amount of the 2012 Notes. As a result of these transactions, the Company recognized a realized loss of \$1,961 during the year ended December 31, 2010.

#### *2040 Notes*

On October 21, 2010, we issued \$200,000 of senior unsecured notes that mature on October 15, 2040 (the "2040 Notes"). The 2040 Notes may be redeemed in whole or in part at our option at any time or from time to time on or after October 15, 2015, at a par redemption price of \$25 per security plus accrued and unpaid interest. The 2040 Notes bear interest at a rate of 7.75% per annum, payable quarterly commencing on January 15, 2011, and all principal is due upon maturity. Total proceeds from the issuance of the 2040 Notes, net of underwriters' discount and offering costs, were approximately \$193,000. For the year ended December 31, 2010, the Company incurred \$3,014 of interest expense on the 2047 Notes and no cash was paid for interest. Also for the year ended December 31, 2010, the Company incurred \$44 in amortization of debt issuance costs related to the 2040 Notes.

The Allied Unsecured Notes and the 2040 Notes contain certain covenants, including covenants requiring Ares Capital to comply with Section 18(a)(1)(A) as modified by Section 61(a)(1) of the Investment Company Act and to provide financial information to the holders of such notes under



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certain circumstances. These covenants are subject to important limitations and exceptions. The Company continues to be in material compliance with all of the limitations and requirements of the Allied Unsecured Notes and the 2040 Notes.

**6. DERIVATIVE INSTRUMENTS**

In October 2008, we entered into an interest rate swap agreement that terminated on December 20, 2010 to mitigate our exposure to adverse fluctuations in interest rates for a total notional amount of \$75,000. Under the interest rate swap agreement, we paid a fixed interest rate of 2.985% and receive a floating rate based on the prevailing three-month LIBOR. For the years ended December 31, 2010, 2009 and 2008, we recognized \$1,741, \$423 and \$(2,164), in unrealized appreciation (depreciation) related to this swap agreement. As of December 31, 2009, this swap agreement had a fair value of \$(1,741), which is included in the "accounts payable and other liabilities" in the accompanying consolidated balance sheet. Upon termination of this swap agreement in 2010, no realized gain or loss was recognized.

**7. COMMITMENTS AND CONTINGENCIES***Portfolio Company Commitments*

The Company has various commitments to fund investments in its portfolio, including commitments to fund revolving senior and subordinated loans, subordinated notes in the SSLP, and private equity investment partnerships.

As of December 31, 2010 and 2009, the Company had the following commitments to fund various revolving senior secured and subordinated loans:

|  | <b>As of December 31,</b> |                  |
|--|---------------------------|------------------|
|  | <b>2010</b>               | <b>2009</b>      |
| Total revolving commitments  | \$ 260,691                | \$ 136,800       |
| Less: funded commitments   | (59,980)                  | (37,200)         |
| <b>Total unfunded commitments</b>  | <b>200,711</b>            | <b>99,600</b>    |
| Less: commitments substantially at discretion of the Company                       | (19,922)                  | (4,000)          |
| Less: unavailable commitments due to borrowing base or other covenant restrictions | (6,738)                   | (16,200)         |
| <b>Total net adjusted unfunded revolving commitments</b>                           | <b>\$ 174,051</b>         | <b>\$ 79,400</b> |

Of the total net adjusted unfunded commitments as of December 31, 2010, \$33,837 are from commitments for investments acquired as part of the Allied Acquisition. Also, as of December 31, 2010, \$147,341 of the total revolving commitments extend beyond the maturity date for our Revolving Credit Facility. Included within the total revolving commitments as of December 31, 2010 are commitments to issue up to \$10,900 in standby letters of credit through a financial intermediary on behalf of certain portfolio companies. Under these arrangements, if the standby letters of credit were to be issued, the Company would be required to make payments to third parties if the portfolio companies were to default on their related payment obligations. As of December 31, 2010, the Company had \$8,600 in standby letters of credit issued and outstanding on behalf of the portfolio companies, of which no amounts were recorded as a liability on our balance sheet as such letters of credit are considered in the valuation of the investments in the portfolio company. Of these letters of credit, \$100 expire in February 2011, \$100 expire in April 2011, \$2,300 expire in September 2011, \$200 expire in December 2011, \$900 expire in January 2012, and \$5,000 expire in December 2012.

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As of December 31, 2010 and 2009, the Company had the following commitments to fund subordinated notes in the SSLP:

|  | As of December 31, |                |
|--|--------------------|----------------|
|  | 2010               | 2009           |
| Total SSLP commitments   | \$ 975,000         | \$ 525,000     |
| Less: funded SSLP commitments  | (564,000)          | (184,000)      |
| <b>Total unfunded SSLP commitments</b>                               | <b>411,000</b>     | <b>341,000</b> |
| Less: SSLP commitments substantially at discretion of the Company(1) | (411,000)          | (341,000)      |
| <b>Total net adjusted unfunded SSLP commitments</b>                  | <b>\$</b>          | <b>\$</b>      |

(1)

Investments made by the SSLP must be approved by both GE Commercial Finance Investment Advisory Services LLC ("GE") and the Company.

See Notes 4 and 14 for more information on the Company's commitment to the SSLP.

As of December 31, 2010 and 2009, the Company was subject to subscription agreements to fund equity investments in private equity investment partnerships:

|   | As of December 31, |                  |
|---|--------------------|------------------|
|   | 2010               | 2009             |
| Total private equity commitments  | \$ 537,600         | \$ 428,300       |
| Less: funded private equity commitments                                     | (104,300)          | (12,900)         |
| <b>Total unfunded private equity commitments</b>                            | <b>433,300</b>     | <b>415,400</b>   |
| Less: private equity commitments substantially at discretion of the Company | (400,400)          | (391,900)        |
| <b>Total net adjusted unfunded private equity commitments</b>               | <b>\$ 32,900</b>   | <b>\$ 23,500</b> |

Of the total net adjusted unfunded private equity commitments as of December 31, 2010, \$11,500 are for investments acquired as part of the Allied Acquisition.

In the ordinary course of business, Allied Capital had issued guarantees on behalf of certain portfolio companies. Under these arrangements, payments would be required to be made to third parties if the portfolio companies were to default on their related payment. As part of the Allied Acquisition, the Company assumed such outstanding guarantees or similar obligations. As a result, as of December 31, 2010, the Company had outstanding guarantees or similar obligations totaling \$800.

As of December 31, 2010, one of the Company's portfolio companies, Ciena Capital LLC ("Ciena"), had one non-recourse securitization Small Business Administration ("SBA") loan warehouse facility, which has reached its maturity date but remains outstanding. Ciena is working with the providers of the SBA loan warehouse facility with regard to the repayment of that facility. Allied Capital had previously issued a performance guaranty (which Ares Capital succeeded to as a result of the Allied Acquisition) whereby Ares Capital must indemnify the warehouse providers for any damages, losses, liabilities and related costs and expenses that they may incur as a result of Ciena's failure to perform any of its obligations as loan originator, loan seller or loan servicer under the warehouse facility. As of December 31, 2010, there are no known issues or claims with respect to this performance guaranty.

Table of Contents*Lease Commitments*

The Company is obligated under a number of operating leases for office spaces with terms ranging from less than one year to more than 15 years. Rent expense for the years ended December 31, 2010, 2009 and 2008 was \$5,167, \$1,803 and \$1,426 respectively.

The following table shows future minimum payments under the Company's operating leases:

| For the year ending December 31, | Amount           |
|----------------------------------|------------------|
| 2011                             | \$ 4,918         |
| 2012                             | 6,852            |
| 2013                             | 7,007            |
| 2014                             | 6,567            |
| 2015                             | 5,208            |
| Thereafter                       | 54,133           |
| <b>Total</b>                     | <b>\$ 84,685</b> |

For certain of its operating leases, the Company has entered into subleases including ones with Ares Management and Ivy Hill Asset Management, L.P. ("IHAM") (see Note 13).

The following table shows future expected rental payments to be received under the Company's subleases:

| For the year ending December 31, | Amount           |
|----------------------------------|------------------|
| 2011                             | \$ 1,806         |
| 2012                             | 2,389            |
| 2013                             | 2,411            |
| 2014                             | 2,200            |
| 2015                             | 1,567            |
| Thereafter                       | 17,738           |
| <b>Total</b>                     | <b>\$ 28,111</b> |

**8. FAIR VALUE OF FINANCIAL INSTRUMENTS**

Effective January 1, 2008, the Company adopted ASC 825-10 (previously SFAS No. 159, the Fair Value Option for Financial Assets and Liabilities), which provides companies the option to report selected financial assets and liabilities at fair value. ASC 825-10 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to more easily understand the effect of the company's choice to use fair value on its earnings. ASC 825-10 also requires entities to display the fair value of the selected assets and liabilities on the face of the balance sheet. The Company has not elected the ASC 825-10 option to report selected financial assets and liabilities at fair value. With the exception of the line items entitled "other assets" and "debt," which are reported at amortized cost, all assets and liabilities approximate fair value on the balance sheet. The carrying value of the line items entitled "interest receivable," "receivable for open trades," "payable for open trades," "accounts payable and accrued expenses," "management and incentive fees payable" and "interest and facility fees payable" approximate fair value due to their short maturity.

Effective January 1, 2008, the Company adopted ASC 820-10 (previously SFAS No. 157, Fair Value Measurements), which expands the application of fair value accounting. ASC 820-10 defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosure of fair value measurements. ASC 820-10 determines fair value to be the price that would be

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received for an investment in a current sale, which assumes an orderly transaction between market participants on the measurement date. ASC 820-10 requires the Company to assume that the portfolio investment is sold in its principal market to market participants or, in the absence of a principal market, the most advantageous market, which may be a hypothetical market. Market participants are defined as buyers and sellers in the principal or most advantageous market that are independent, knowledgeable, and willing and able to transact. In accordance with ASC 820-10, the Company has considered its principal market as the market in which the Company exits its portfolio investments with the greatest volume and level of activity. ASC 820-10 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. In accordance with ASC 820-10, these inputs are summarized in the three broad levels listed below:

Level 1 Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2 Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

In addition to using the above inputs in investment valuations, we continue to employ the net asset valuation policy approved by our board of directors that is consistent with ASC 820-10 (see Note 2). Consistent with our valuation policy, we evaluate the source of inputs, including any markets in which our investments are trading (or any markets in which securities with similar attributes are trading), in determining fair value. Our valuation policy considers the fact that because there is not a readily available market value for most of the investments in our portfolio, the fair value of the investments must typically be determined using unobservable inputs.

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 fluctuate from period to period. Additionally, the fair value of our investments may differ significantly from the values that would have been used had a ready market existed for such investments and may differ materially from the values that we may ultimately realize. Further, such investments are generally subject to legal and other restrictions on resale or otherwise are less liquid than publicly traded securities. If we were required to liquidate a portfolio investment in a forced or liquidation sale, we could realize significantly less than the value at which we have recorded it.

In addition, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the gains or losses reflected in the valuations currently assigned.

The following table presents fair value measurements of cash and cash equivalents and investments as of December 31, 2010:

|                           | <b>Fair Value Measurements Using</b> |                |                |                |
|---------------------------|--------------------------------------|----------------|----------------|----------------|
|                           | <b>Total</b>                         | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
| Cash and cash equivalents | \$ 100,752                           | \$ 100,752     | \$             | \$             |
| Investments               | \$ 4,317,990                         | \$             | \$ 5,333       | \$ 4,312,657   |

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The following tables present changes in investments that use Level 3 inputs for the year ended December 31, 2010:

|  | <b>For the Year Ended<br/>December 31, 2010</b> |
|--|---|
| Balance as of December 31, 2009  | \$ 2,166,687                                    |
| Net unrealized gains   | 272,940   |
| Net purchases, sales or redemptions (including investments acquired as part of the Allied Acquisition) | 1,873,030                                       |
| Net transfers in and/or out of Level 3   |   |
| <b>Balance as of December 31, 2010</b>   | <b>\$ 4,312,657</b>                             |

As of December 31, 2010, the net unrealized gain on the investments that use Level 3 inputs was \$29,735.

The following table presents fair value measurements of cash and cash equivalents and investments as of December 31, 2009:

|                           | <b>Fair Value Measurements Using</b> |                |                |                |
|---------------------------|--------------------------------------|----------------|----------------|----------------|
|                           | <b>Total</b>                         | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
| Cash and cash equivalents | \$ 99,227                            | \$ 99,227      | \$             | \$             |
| Investments               | \$ 2,171,814                         | \$             | \$ 5,127       | \$ 2,166,687   |

The following tables present changes in investments that use Level 3 inputs for the year ended December 31, 2009:

|  | <b>For the Year Ended<br/>December 31, 2009</b> |
|--|---|
| Balance as of December 31, 2008        | \$ 1,862,462                                    |
| Net unrealized gains                   | 41,229  |
| Net purchases, sales or redemptions    | 164,105   |
| Net transfers in and/or out of Level 3 | 98,891  |
| <b>Balance as of December 31, 2009</b> | <b>\$ 2,166,687</b>                             |

As of December 31, 2009, the net unrealized loss on the investments that use Level 3 inputs was \$198,895.

Following are the carrying and fair values of our debt instruments as of December 31, 2010 and December 31, 2009. Fair value is estimated by discounting remaining payment using applicable

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current market rates which take into account changes in the Company's marketplace credit ratings or market quotes, if available.

|  | December 31, 2010 |              | December 31, 2009 |            |
|--|-------------------|--------------|-------------------|------------|
|  | Carrying Value(1) | Fair Value   | Carrying Value(1) | Fair Value |
| Revolving Funding Facility                             | \$ 242,050        | \$ 242,000   | \$ 221,569        | \$ 226,000 |
| Revolving Credit Facility                              | 146,000           | 146,000      | 474,144           | 447,000    |
| Debt Securitization                                    | 155,297           | 133,000      | 273,752           | 217,000    |
| 2011 Notes (principal amount outstanding of \$300,584) | 296,258(2)        | 297,290      |                   |            |
| 2012 Notes (principal amount outstanding of \$161,210) | 158,108(2)        | 164,595      |                   |            |
| 2040 Notes (principal amount outstanding of \$200,000) | 200,000           | 184,986      |                   |            |
| 2047 Notes (principal amount outstanding of \$230,000) | 180,795(2)        | 197,314      |                   |            |
|  | \$ 1,378,508(3)   | \$ 1,365,185 | \$ 969,465        | \$ 890,000 |

- (1) Except for the Allied Unsecured Notes, all carrying values are the same as the principal amounts outstanding.
- (2) Represents the aggregate principal amount of the applicable series of notes less the unaccreted discount initially recorded as a part of the Allied Acquisition.
- (3) Total principal amount of debt outstanding totaled \$1,435,141.

**9. STOCKHOLDERS' EQUITY**

The following table summarizes the total shares issued and proceeds received in public offerings of the Company's common stock net of underwriter and offering costs for the years ended December 31, 2010, 2009 and 2008:

|  | Shares issued | Offering price per share | Proceeds net of underwriting and offering costs |
|--|---------------|--------------------------|---|
| <b>2010</b>                                |               |                          |   |
| November 2010 public offering              | 11,500        | \$ 16.50                 | \$ 180,642                                      |
| February 2010 public offering              | 22,958        | \$ 12.75                 | \$ 277,207                                      |
| Total for the year ended December 31, 2010 | 34,458        |                          | \$ 457,849                                      |
| <b>2009</b>                                |               |                          |   |
| August 2009 public offering                | 12,440        | \$ 9.25                  | \$ 109,086                                      |
| Total for the year ended December 31, 2009 | 12,440        |                          | \$ 109,086                                      |
| <b>2008</b>                                |               |                          |   |
| April 2008 public offering                 | 24,228        | \$ 11.00                 | \$ 259,801                                      |
| Total for the year ended December 31, 2008 | 24,228        |                          | \$ 259,801                                      |

For the years ended December 31, 2010, 2009 and 2008, the Company incurred approximately \$1,440, \$806 and \$1,414 in offering costs, respectively.

In connection with the Allied Acquisition, on April 1, 2010, the Company issued 58,493 shares valued at approximately \$872,727.



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In November 2010, the Company completed a public add-on equity offering (the "November Add-on Offering") of 11,500 shares of common stock (including 1,500 shares purchased pursuant to the underwriters' over-allotment option) at a price of \$16.50 per share, less an underwriting discount totaling approximately \$0.7425 per share. Total proceeds received from the November Add-on Offering, net of underwriters' discount and offering costs, were approximately \$180,642.

In February 2010, the Company completed a public add-on equity offering (the "February Add-on Offering") of approximately 22,958 shares of common stock (including approximately 1,958 shares purchased pursuant to the partial exercise by the underwriters of their over-allotment option) at a price of \$12.75 per share, less an underwriting discount totaling approximately \$0.6375 per share. Total proceeds received from the February Add-on Offering, net of underwriters' discount and offering costs, were approximately \$277,207.

In August 2009, the Company completed a public add-on equity offering (the "August Add-on Offering") of approximately 12,440 shares of common stock (including approximately 1,440 shares purchased pursuant to the underwriters' over-allotment option) at a price of \$9.25 per share, less an underwriting discount totaling approximately \$0.42 per share. The shares were offered at a discount from the then most recently determined net asset value per share of \$11.21 pursuant to authority granted by our common stockholders at the annual meeting of stockholders held on May 4, 2009. Total proceeds received from the August Add-on Offering, net of underwriters' discount and offering costs, were approximately \$109,086.

In April 2008, the Company completed a transferable rights offering, issuing approximately 24,228 shares at a subscription price of \$11.0016 per share, less dealer manager fees of \$0.22 per share. Net proceeds after deducting the dealer manager fees and estimated offering expenses were approximately \$259,801. Ares Investments LLC, an affiliate of our investment adviser, purchased 1,553 shares in the rights offering.

**10. EARNINGS PER SHARE**

The following information sets forth the computations of basic and diluted net increase (decrease) in stockholders' equity resulting from operations per share for the years ended December 31, 2010, 2009 and 2008:

|   | 2010       | 2009       | 2008         |
|---|------------|------------|--------------|
| Net increase (decrease) in stockholders' equity resulting from operations available to common stockholders: | \$ 691,834 | \$ 202,693 | \$ (139,455) |
| Weighted average shares of common stock outstanding basic and diluted:                                      | 176,732    | 101,720    | 89,666       |
| Basic and diluted net increase (decrease) in stockholders' equity resulting from operations per share:      | \$ 3.91    | \$ 1.99    | \$ (1.56)    |

In accordance with ASC 260-10 (previously SFAS No. 128, Earnings per Share), the weighted average shares of common stock outstanding used in computing basic and diluted net decrease in stockholders' equity resulting from operations per share for the year ended December 31, 2008 has been adjusted retroactively by a factor of 1.02% to recognize the bonus element associated with rights to acquire shares of common stock that we issued to stockholders of record as of March 24, 2008 in connection with a transferable rights offering.

**11. INCOME AND EXCISE TAXES**

For income tax purposes, dividends and distributions paid to stockholders are reported as ordinary income, capital gains, non-taxable return of capital, or a combination thereof. Dividends or



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distributions paid per common share for the years ended December 31, 2010, 2009 and 2008 were taxable as follows (unaudited):

|                          | For the years ended<br>December 31, |             |             |
|--------------------------|-------------------------------------|-------------|-------------|
|                          | 2010                                | 2009        | 2008        |
| Ordinary<br>income(1)(2) | \$ 1.40                             | \$ 1.36     | \$ 1.60     |
| Capital gains            |                                     |             | 0.08        |
| Return of capital        |                                     | 0.11        |             |
| <br>Total                | <br>\$ 1.40                         | <br>\$ 1.47 | <br>\$ 1.68 |

(1) For the years ended December 31, 2010, 2009 and 2008, ordinary income included dividend income of approximately \$0.0164, \$0.0107 and \$0.0184, per share, respectively, that qualified to be taxed at the 15% maximum capital gains rate.

(2) For certain eligible corporate shareholders, dividends eligible for the dividend received deduction for 2010, 2009 and 2008, was approximately \$0.0164, \$0.0107 and \$0.0184, per share, respectively.

The following reconciles net increase (decrease) in stockholders' equity resulting from operations to taxable income for the years ended December 31, 2010, 2009, and 2008:

|  | For the years ended December 31, |                |                |
|--|----------------------------------|----------------|----------------|
|  | 2010                             | 2009           | 2008           |
|  | (Estimated)(1)                   |                |                |
| Net increase (decrease) in stockholders'<br>equity resulting from operations | \$ 691,834                       | \$ 202,693     | \$ (139,455)   |
| Adjustments:   |                                  |                |                |
| Net unrealized (gain) loss on<br>investments                                 | (230,743)                        | (88,707)       | 272,818        |
| Items related to the Allied Acquisition:                                     |                                  |                |                |
| Gain on the Allied Acquisition   | (195,876)                        |                |                |
| Other merger-related items   | (4,463)                          |                |                |
| Other income not currently taxable   | (36,486)                         | (21,310)       | (7,136)        |
| Other income for tax but not book  | 64,404                           | 51,218         | 6,307          |
| Expenses not currently deductible  | 29,200                           | 10,545         | 29,921         |
| Other deductible expenses  | (786)                            | (29,636)       | (3,561)        |
| Other realized gain/loss differences   | (2,778)                          |                |                |
| <br>Taxable income   | <br>\$ 314,306                   | <br>\$ 124,803 | <br>\$ 158,894 |

(1) 2010 taxable income is an estimate and will not be finally determined until the 2010 tax return is filed in 2011.

Taxable income generally differs from net increase (decrease) in stockholders' equity resulting from operations for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses, and generally excludes net unrealized gains or losses, as unrealized gains or losses are generally not included in taxable income until they are realized. Additionally, on April 1, 2010, the Company acquired Allied Capital in a tax free exchange and recorded a book gain of \$195,876, which is not a realized event for tax purposes. Similarly, there were certain merger-related items that vary in their deductibility for GAAP and tax.

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Capital losses in excess of capital gains earned in a tax year may generally be carried forward and used to offset capital gains, subject to certain limitations. As of December 31, 2009, the Company

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had a capital loss carryforward of \$37 million. In addition, Allied Capital had a capital loss carryforward of \$111 million as of the merger date. As of December 31, 2010, the Company estimates that it will have a capital loss carryforward of approximately \$148 million available for use in later tax years. Because of the loss limitation rules of the Code, some of the tax basis losses may be limited in their use. The unused balance will be carried forward and utilized as gains are realized, subject to such limitations. In addition to the capital loss carryforwards, the Company realized net losses of approximately \$0.2 billion from the Allied portfolio for the year ended December 31, 2010, however, these losses have not yet been deducted for tax purposes as their deductibility in 2010 was limited by the Code.

For 2010, the Company had taxable income in excess of the distributions made from such taxable income during the year, and therefore, the Company has elected to carry forward the excess for distribution to shareholders in 2011. The amount carried forward to 2011 is estimated to be \$62,000, although this amount will not be finalized until the 2010 tax returns are filed in 2011. We have accrued \$2,229 of federal excise tax related to this carried over amount for the year ended December 31, 2010. For the years ended December 31, 2009 and 2008, a net benefit of \$30 and a net expense of \$100, respectively, were recorded for U.S. federal excise tax.

As of December 31, 2010, the cost basis of investments for tax purposes was \$5.4 billion resulting in estimated gross unrealized gains and losses of \$300 million and \$1.4 billion, respectively. As of December 31, 2010, the cost of investments for tax purposes was greater than the amortized cost of investments for book purposes of \$4.3 billion, primarily as a result of the Allied Acquisition. The Allied Acquisition qualified as a tax free exchange, which resulted in the acquired assets retaining Allied Capital's cost basis at the merger date. As of December 31, 2009, the cost of investments for tax purposes was \$2.4 billion resulting in gross unrealized gains and losses of \$0.1 billion and \$0.3 billion, respectively.

In general, the Company may make certain adjustments to the classification of stockholders' equity as a result of permanent book-to-tax differences, which may include merger-related items, differences in the book and tax basis of certain assets and liabilities, and nondeductible federal taxes, among other items. During the year ended December 31, 2010, as a result of these permanent book-to-tax differences, including the nontaxability of the book gain on the Allied Acquisition and the nondeductibility of certain merger-related expenses, the Company increased accumulated undistributed net investment income by \$22,001, increased accumulated net realized loss on sale of investments by \$383,856 and increased capital in excess of par value by \$361,855. During the year ended December 31, 2009, the Company increased accumulated undistributed net investment income by \$5,584, decreased accumulated net realized loss on sale of investments by \$13,014 and decreased capital in excess of par value by \$18,598. During the year ended December 31, 2008, the Company increased accumulated undistributed net investment income by \$3,464, increased accumulated net realized loss on sale of investments by \$124 and decreased capital in excess of par value by \$3,340. Aggregate stockholders' equity was not affected by these reclassifications.

Certain of our wholly owned subsidiaries are subject to U.S. federal and state income taxes. For the year ended December 31, 2010, we recorded a tax expense of \$3,163 for these subsidiaries. For the year ended December 31, 2009 and 2008 we recorded a tax expense of approximately \$600 and \$100, respectively, for these subsidiaries.

Table of Contents**12. DIVIDENDS AND DISTRIBUTIONS**

The following table summarizes our dividends declared for the years ended December 31, 2010, 2009 and 2008:

| <b>Date declared</b>    | <b>Record date</b> | <b>Payment date</b> | <b>Per share amount</b> | <b>Total amount</b> |
|-------------------------|--------------------|---------------------|-------------------------|---------------------|
| November 4, 2010        | December 15, 2010  | December 31, 2010   | \$ 0.35                 | \$ 71,423           |
| August 5, 2010          | September 15, 2010 | September 30, 2010  | \$ 0.35                 | 67,266              |
| May 10, 2010            | June 15, 2010      | June 30, 2010       | \$ 0.35                 | 67,091              |
| February 25, 2010       | March 15, 2010     | March 31, 2010      | \$ 0.35                 | 46,516              |
| Total declared for 2010 |                    |                     | \$ 1.40                 | \$ 252,296          |
| November 5, 2009        | December 15, 2009  | December 31, 2009   | \$ 0.35                 | \$ 39,630           |
| August 6, 2009          | September 15, 2009 | September 30, 2009  | \$ 0.35                 | 38,357              |
| May 7, 2009             | June 15, 2009      | June 30, 2009       | \$ 0.35                 | 34,004              |
| March 2, 2009           | March 16, 2009     | March 31, 2009      | \$ 0.42                 | 40,804              |
| Total declared for 2009 |                    |                     | \$ 1.47                 | \$ 152,795          |
| November 6, 2008        | December 15, 2008  | January 2, 2009     | \$ 0.42                 | \$ 40,803           |
| August 7, 2008          | September 15, 2008 | September 30, 2008  | \$ 0.42                 | 40,804              |
| May 8, 2008             | June 16, 2008      | June 30, 2008       | \$ 0.42                 | 40,805              |
| February 28, 2008       | March 17, 2008     | March 31, 2008      | \$ 0.42                 | 30,528              |
| Total declared for 2008 |                    |                     | \$ 1.68                 | \$ 152,940          |

The Company has a dividend reinvestment plan, whereby the Company may buy shares of its common stock in the open market or issue new shares in order to satisfy dividend reinvestment requests. If the Company issues new shares, the issue price is equal to closing price on the record date. Dividend reinvestment plan activity for the years ended December 31, 2010, 2009, and 2008, was as follows:

|   | <b>2010</b> | <b>2009</b> | <b>2008</b> |
|---|-------------|-------------|-------------|
| Shares issued                                   | 1,523       | 352         | 241         |
| Average price per share                         | \$ 14.79    | \$ 11.43    | \$ 12.12    |
| Shares purchased by plan agent for shareholders |             | 1,629       | 1,277       |
| Average price per share                         |             | \$ 6.85     | \$ 9.27     |

**13. RELATED PARTY TRANSACTIONS**

In accordance with the investment advisory and management agreement, we bear all costs and expenses of the operation of the Company and reimburse our investment adviser for certain of such costs and expenses incurred in the operation of the Company. For the years ended December 31, 2010, 2009 and 2008 our investment adviser incurred such expenses for which it was reimbursed by the Company totaling \$3,264, \$2,461 and \$2,292, respectively. As of December 31, 2010, \$341 was unpaid and such payable is included in "accounts payable and accrued expenses" in the accompanying consolidated balance sheet.

We rented office space directly from a third party pursuant to a lease that expired on February 27, 2011. In connection with such leases, we entered into a sublease agreement with Ares Management whereby Ares Management subleased approximately 25% of such office space for a fixed rent equal to 25% of the basic annual rent payable by us under this lease, plus certain additional costs and expenses. For the years ended December 31, 2010, 2009 and 2008, such amounts payable to the Company totaled \$253, \$652 and \$253, respectively.

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We recently entered into a new office lease that will expire in February 2026 pursuant to which we will lease new office facilities from a third party, and start to pay rent on the new office space in May 2011. We also entered into separate subleases with Ares Management and IHAM, pursuant to which Ares Management and IHAM will sublease approximately 15% and 20%, respectively, of the new office space for a fixed rent equal to 15% and 20%, respectively, of the base annual rent payable by us under the new office lease, plus certain additional costs and expenses.

As of December 31, 2010, Ares Investments, an affiliate of Ares Management, (the sole member of our investment adviser) owned approximately 2.9 million shares of the Company's common stock representing approximately 1.40% of the total shares outstanding as of December 31, 2010.

See Notes 3 and 14 for descriptions of other related party transactions.

**14. IVY HILL ASSET MANAGEMENT, L.P. AND OTHER MANAGED FUNDS**

*Ivy Hill Asset Management, L.P.*

In November 2007, the Company established IHAM to serve as a manager for a middle-market credit fund, Ivy Hill Middle Market Credit Fund, Ltd. ("Ivy Hill I"), an unconsolidated investment vehicle focusing on investments in middle-market loans. From inception until the second quarter of 2009, IHAM's financial results were consolidated with those of the Company. In June 2009, because of a shift in activity from being primarily a manager, with no dedicated employees, of funds in which the Company has invested debt and equity, to a manager with individuals dedicated to managing an increasing number of third party funds, the Company concluded that GAAP requires the financial results of IHAM to be reported as a portfolio company in the schedule of investments rather than as a consolidated subsidiary in the Company's financial results. The Company made an initial equity investment of \$3,816 into IHAM in June 2009. As of December 31, 2010, the total investment in IHAM at fair value was \$136,235, including an unrealized gain of \$32,777. As of December 31, 2009, the total investment in IHAM at fair value was \$48,321, including an unrealized gain of \$11,145. For the years ended December 31, 2010 and 2009, the Company received distributions from IHAM of \$12,154 and \$3,120, respectively. The distributions for the year ended December 31, 2010 and 2009 included dividend income of \$7,320 and \$2,390, respectively.

For the years ended December 31, 2009 and 2008, the Company earned \$900 and \$1,482, respectively, in management fees from IHAM's management of Ivy Hill I prior to IHAM's conversion to a portfolio company in June 2009. Ivy Hill I primarily invests in first and second lien bank debt of middle-market companies. Ivy Hill I was initially funded with \$404,000 of capital including a \$56,000 investment by the Company, consisting of \$40,000 of Class B notes and \$16,000 of subordinated notes. For the years ended December 31, 2010, 2009 and 2008, the Company earned \$6,859, \$5,742 and \$5,427, respectively, from its investments in Ivy Hill I.

Ivy Hill I purchased investments from the Company of \$12,000, \$18,000 and \$68,000 during the years ended December 31, 2010, 2009 and 2008, respectively, and may from time to time purchase additional investments from the Company. Any such purchases require approval by third parties unaffiliated with the Company or IHAM. There was no realized gain or loss recognized by the Company on these transactions.

In November 2008, the Company established a second middle-market credit fund, Ivy Hill Middle Market Credit Fund II, Ltd. ("Ivy Hill II" and, together with Ivy Hill I and Ivy Hill SDF (as defined below), the "Ivy Hill Funds"), which is also managed by IHAM. Ivy Hill II purchased \$86,500 and \$28,000 of investments from the Company during the years, ended December 31, 2010 and 2009, respectively, and may from time to time purchase additional investments from the Company. Any such purchases require approval by third parties unaffiliated with the Company or IHAM. A realized loss of \$1,218 and \$1,388 was recorded on these transactions for the years ended December 31, 2010 and 2009,

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respectively. For the year ended December 31, 2009, the Company earned \$365 in management fees from IHAM's management of Ivy Hill II prior to IHAM's conversion to a portfolio company in June 2009.

In December 2009, the Company made an additional cash investment of approximately \$33,000 in IHAM to facilitate IHAM's acquisition of Allied Capital's management rights in respect of, and interests in, the Allied Capital Senior Debt Fund, L.P. (now referred to as Ivy Hill Senior Debt Fund, L.P. or the "Ivy Hill SDF"). In October 2010, the Company made an additional cash investment of approximately \$4,000 in IHAM to facilitate IHAM's acquisition of an equity interest in Ivy Hill SDF.

In March 2010, the Company made an additional cash investment of approximately \$48,000 in IHAM to facilitate IHAM's acquisition of Allied Capital's management rights in respect of, and equity interests in, the Knightsbridge CLO 2007-1, Ltd. and Knightsbridge CLO 2008-1, Ltd. (the "Knightsbridge Funds"). At the time, the Company also acquired from Allied Capital certain debt investments of the Knightsbridge Funds for approximately \$52,000. The Knightsbridge Funds purchased \$8,800 of investments from the Company during the year ended December 31, 2010. A realized loss of \$31 was recognized by the Company on these transactions.

As part of the Allied Acquisition, the Company acquired, through the Company's wholly owned subsidiary, A.C. Corporation, the management rights for three unconsolidated loan funds: Emporia Preferred Funding I, Ltd., Emporia Preferred Funding II, Ltd. and Emporia Preferred Funding III, Ltd. (collectively, the "Emporia Funds"). In November 2010, the Company made an additional cash investment of \$7,900 in IHAM, which IHAM then used to purchase these management rights and related receivables from A.C. Corporation for \$7,900, which represented the fair value of those management rights as of the date of the sale. A realized gain of \$5,882 was recognized on this transaction. In August 2010, the Company made an additional cash investment of approximately \$8,000 in IHAM to facilitate IHAM's acquisition of an equity interest in Emporia Preferred Funding III, Ltd. The Emporia Funds purchased \$4,600 of investments from the Company during the year ended December 31, 2010. A realized loss of \$46 was recognized by the Company on these transactions.

In addition to the Ivy Hill Funds and the Knightsbridge Funds, IHAM also serves as the sub-adviser/sub-manager to six other funds: CoLTS 2005-1 Ltd., CoLTS 2005-2 Ltd., CoLTS 2007-1 Ltd. (collectively, the "CoLTS Funds") and FirstLight Funding I, Ltd., which is affiliated with the Company's portfolio company, Firstlight Financial Corporation, Ares Private Debt Strategies Fund II, L.P. and Ares Private Debt Strategies Fund III, L.P. The CoLTS Funds purchased \$1,200 of investments from the Company during the year ended December 31, 2010. A realized loss of \$12 was recognized by the Company on these transactions. The funds managed by IHAM may, from time to time, buy additional loans from the Company.

Beginning in November 2008, IHAM was party to a separate services agreement, referred to herein as the "services agreement," with Ares Capital Management. Pursuant to the services agreement, Ares Capital Management provided IHAM with office facilities, equipment, clerical, bookkeeping and record keeping services, services of investment professionals and others to perform investment advisory, research and related services, services of, and oversight of, custodians, depositories, accountants, attorneys, underwriters and such other persons in any other capacity deemed to be necessary. Under the services agreement, IHAM reimbursed Ares Capital Management for all of the actual costs associated with such services, including Ares Capital Management's allocable portion of overhead and the cost of its officers and respective staff in performing its obligations under the services agreement. The services agreement was terminated effective June 30, 2010 and replaced with a different services agreement with similar terms between IHAM and the Company's administrator. Prior to IHAM's conversion to a portfolio company in June 2009, for the years ended December 31, 2009 and 2008, IHAM incurred such expenses payable to Ares Capital Management of \$538 and \$244, respectively.

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***SSLP***

In October 2009, the Company completed the acquisition of the SSLP Notes in the SSLP for \$165,000. At December 31, 2010, the Company's investment in the SSLP was \$561,674 at fair value, including an unrealized gain of \$24,235. The SSLP was formed in December 2007 to invest in "stretch senior" or "unitranche" loans (loans that combine both senior and subordinated debt, generally in a first lien position) of middle-market companies and currently has approximately \$5.1 billion of total committed capital under management, approximately \$2.5 billion in aggregate principal amount of which was funded at December 31, 2010. At December 31, 2010, the Company's total commitment to the SSLP was \$975,000, of which \$410,633 was unfunded. The SSLP is capitalized as transactions are completed. Together with GE Commercial Finance Investment Advisory Services LLC ("GE"), the Company and GE serve as co-managers of the SSLP and both investment and portfolio management decisions made by the SSLP must be approved by both the Company and GE. The Company's investment entitles it to a coupon of LIBOR plus 8.0% and also to receive a portion of the excess cash flow from the loan portfolio, which may result in a return greater than the contractual coupon. The Company is also entitled to certain other sourcing and management fees in connection with the SSLP. See Note 4 for additional information on the Company's investment in the SSLP.

***Other Managed Funds***

Also as part of the Allied Acquisition, the Company acquired the management rights for an unconsolidated fund, the AGILE Fund I, LLC, which had \$68.1 million of total committed capital under management as of December 31, 2010. The Company's investment in AGILE Fund I, LLC was \$217 at fair value, including an unrealized loss of \$47 as of December 31, 2010.

Table of Contents**15. FINANCIAL HIGHLIGHTS**

The following is a schedule of financial highlights as of and for the years ended December 31, 2010, 2009 and 2008:

| Per Share Data:  | As of and for<br>the year ended |           | As of and for<br>the year ended |           | As of and for<br>the year ended |           |
|--|---------------------------------|-----------|---------------------------------|-----------|---------------------------------|-----------|
|  | December 31, 2010               |           | December 31, 2009               |           | December 31, 2008               |           |
| Net asset value, beginning of period(1)                    | \$                              | 11.44     | \$                              | 11.27     | \$                              | 15.47     |
| Issuance of common stock                                   |                                 | 0.95      |                                 | (0.35)    |                                 | (0.96)    |
| Net investment income for period(2)                        |                                 | 1.23      |                                 | 1.32      |                                 | 1.42      |
| Gain on the Allied Acquisition                             |                                 | 1.11      |                                 |           |                                 |           |
| Net realized and unrealized gains (loss) for period(2)     |                                 | 1.59      |                                 | 0.67      |                                 | (2.98)    |
| Net increase (decrease) in stockholders' equity            |                                 | 4.88      |                                 | 1.64      |                                 | (1.56)    |
| Distributions from net investment income                   |                                 | (1.40)    |                                 | (1.35)    |                                 | (1.58)    |
| Distributions from net realized gains                      |                                 |           |                                 | (0.12)    |                                 | (0.10)    |
| Total distributions to stockholders                        |                                 | (1.40)    |                                 | (1.47)    |                                 | (1.68)    |
| Net asset value at end of period(1)                        | \$                              | 14.92     | \$                              | 11.44     | \$                              | 11.27     |
| Per share market value at end of period                    | \$                              | 16.48     | \$                              | 12.45     | \$                              | 6.33      |
| Total return based on market value(3)                      |                                 | 43.61%    |                                 | 119.91%   |                                 | (45.25)%  |
| Total return based on net asset value(4)                   |                                 | 31.61%    |                                 | 17.84%    |                                 | (11.17)%  |
| Shares outstanding at end of period                        |                                 | 204,419   |                                 | 109,945   |                                 | 97,153    |
| Ratio/Supplemental Data:                                   |                                 |           |                                 |           |                                 |           |
| Net assets at end of period                                | \$                              | 3,050,533 | \$                              | 1,257,888 | \$                              | 1,094,879 |
| Ratio of operating expenses to average net assets(5)(6)    |                                 | 11.02%    |                                 | 9.78%     |                                 | 9.09%     |
| Ratio of net investment income to average net assets(5)(7) |                                 | 9.07%     |                                 | 11.72%    |                                 | 10.22%    |
| Portfolio turnover rate(5)                                 |                                 | 45%       |                                 | 26%       |                                 | 24%       |

(1) The net assets used equals the total stockholders' equity on the consolidated balance sheets.

(2) Weighted average basic per share data.

(3) For the year ended December 31, 2010, the total return based on market value for the year ended December 31, 2010 equals the increase of the ending market value at December 31, 2010 of \$16.48 per share over the ending market value at December 31, 2009 of \$12.45 per share plus the declared dividends of \$1.40 per share for the year ended December 31, 2010, divided by the market value at December 31, 2009. For the year ended December 31, 2009, the total return based on market value for the year ended December 31, 2009 equals the increase of the ending market value at December 31, 2009 of \$12.45 per share over the ending market value at December 31, 2008 of \$6.33 per share plus the declared dividends of \$1.47 per share for the year ended December 31, 2009, divided by the market value at December 31, 2008. For the year ended December 31, 2008, the total return based on market value for the year ended December 31, 2008 equals the decrease of the ending market value at December 31, 2008 of \$6.33 per share from the ending market value at December 31, 2007 of \$14.63 per share plus the declared dividends of \$1.68 per share for the year ended December 31, 2008, divided by the market value at December 31, 2007. Total return based on market value is not annualized. The Company's shares fluctuate in value. The Company's performance changes over time and currently may be different than that shown. Past performance is no guarantee of future results.



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- (4) For the year ended December 31, 2010, the total return based on net asset value equals the change in net asset value during the period plus the declared dividends of \$1.40 per share for the year ended December 31, 2010 divided by the beginning net asset value for the period. For the year ended December 31, 2009, the total return based on net asset value equals the change in net asset value during the period plus the declared dividends of \$1.47 per share for the year ended December 31, 2009 divided by the beginning net asset value for the period. For the year ended December 31, 2008, the total return based on net asset value equals the change in net asset value during the period plus the declared dividends of \$1.68 per share for the year ended December 31, 2008 divided by the beginning net asset value for the period. These calculations are adjusted for shares issued in connection with the dividend reinvestment plan and the issuance of common stock in connection with any equity offerings. Total return based on net asset value is not annualized. The Company's performance changes over time and currently may be different than that shown. Past performance is no guarantee of future results.
- (5) The ratios reflect an annualized amount.
- (6) For the year ended December 31, 2010, the ratio of operating expenses to average net assets consisted of 2.19% of base management fees, 3.23% of incentive management fees, 3.34% of the cost of borrowing and other operating expenses of 2.27%. For the year ended December 31, 2009, the ratio of operating expenses to average net assets consisted of 2.67% of base management fees, 2.93% of incentive management fees, 2.13% of the cost of borrowing and other operating expenses of 2.05%. For the year ended December 31, 2008, the ratio of operating expenses to average net assets consisted of 2.45% of base management fees, 2.55% of incentive management fees, 2.93% of the cost of borrowing and other operating expenses of 1.16%. These ratios reflect annualized amounts.
- (7) The ratio of net investment income to average net assets excludes income taxes related to realized gains.

**16. SELECTED QUARTERLY DATA (Unaudited)**

|   | 2010       |            |               |           |
|---|------------|------------|---------------|-----------|
|   | Q4         | Q3         | Q2            | Q1        |
| Total investment income   | \$ 157,170 | \$ 138,126 | \$ 121,590    | \$ 66,510 |
| Net investment income before net realized and unrealized gain (losses) and incentive compensation | \$ 99,323  | \$ 89,025  | \$ 64,514     | \$ 39,849 |
| Incentive compensation  | \$ 35,973  | \$ 17,805  | \$ 14,973     | \$ 8,144  |
| Net investment income before net realized and unrealized gain (losses)                            | \$ 63,350  | \$ 71,220  | \$ 49,541     | \$ 31,705 |
| Net realized and unrealized gains (losses)  | \$ 93,538  | \$ 57,157  | \$ 280,613(1) | \$ 44,710 |
| Net increase in stockholders' equity resulting from operations                                    | \$ 156,888 | \$ 128,377 | \$ 330,154    | \$ 76,415 |
| Basic and diluted earnings per common share   | \$ 0.79    | \$ 0.67    | \$ 1.73       | \$ 0.61   |
| Net asset value per share as of the end of the quarter  | \$ 14.92   | \$ 14.43   | \$ 14.11      | \$ 11.78  |

- (1) Includes gain on the Allied Acquisition of \$195,876.

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|   | 2009      |           |           |           |
|---|-----------|-----------|-----------|-----------|
|   | Q4        | Q3        | Q2        | Q1        |
| Total investment income   | \$ 69,264 | \$ 60,881 | \$ 59,111 | \$ 56,016 |
| Net investment income before net realized and unrealized gain (losses) and incentive compensation | \$ 47,920 | \$ 41,133 | \$ 39,935 | \$ 37,750 |
| Incentive compensation  | \$ 9,568  | \$ 8,227  | \$ 7,987  | \$ 7,550  |
| Net investment income before net realized and unrealized gain (losses)                            | \$ 38,352 | \$ 32,906 | \$ 31,948 | \$ 30,200 |
| Net realized and unrealized gains (losses)  | \$ 31,278 | \$ 30,370 | \$ 2,805  | \$ 4,834  |
| Net increase in stockholders' equity resulting from operations                                    | \$ 69,630 | \$ 63,276 | \$ 34,753 | \$ 35,034 |
| Basic and diluted earnings per common share   | \$ 0.64   | \$ 0.62   | \$ 0.36   | \$ 0.36   |
| Net asset value per share as of the end of the quarter  | \$ 11.44  | \$ 11.16  | \$ 11.21  | \$ 11.20  |

|   | 2008         |             |             |             |
|---|--------------|-------------|-------------|-------------|
|   | Q4           | Q3          | Q2          | Q1          |
| Total investment income   | \$ 62,723    | \$ 62,067   | \$ 63,464   | \$ 52,207   |
| Net investment income before net realized and unrealized gain (losses) and incentive compensation | \$ 40,173    | \$ 41,025   | \$ 45,076   | \$ 32,466   |
| Incentive compensation  | \$ 8,035     | \$ 8,205    | \$ 9,015    | \$ 6,493    |
| Net investment income before net realized and unrealized gain (losses)                            | \$ 32,138    | \$ 32,820   | \$ 36,061   | \$ 25,973   |
| Net realized and unrealized gains (losses)  | \$ (142,638) | \$ (74,213) | \$ (32,789) | \$ (16,807) |
| Net (decrease) increase in stockholders' equity resulting from operations                         | \$ (110,500) | \$ (41,393) | \$ 3,272    | \$ 9,166    |
| Basic and diluted (loss) earnings per common share  | \$ (1.14)    | \$ (0.43)   | \$ 0.04     | \$ 0.12     |
| Net asset value per share as of the end of the quarter  | \$ 11.27     | \$ 12.83    | \$ 13.67    | \$ 15.17    |

**17. ALLIED ACQUISITION**

On April 1, 2010, the Company completed the Allied Acquisition by acquiring the outstanding shares of Allied Capital in exchange for shares of our common stock in a transaction valued at approximately \$908 million as of the closing date. Concurrently with the completion of the Allied Acquisition, we repaid in full the \$137 million of remaining principal amounts outstanding on Allied Capital's \$250 million senior secured term loan. We also assumed all of Allied Capital's other outstanding debt obligations, including approximately \$745 million in aggregate principal amount outstanding of the Allied Unsecured Notes.

Under the terms of the Allied Acquisition each Allied Capital stockholder received 0.325 shares of our common stock for each share of Allied Capital common stock then owned by such stockholder. In connection with the Allied Acquisition, approximately 58.5 million shares of our common stock (including the effect of outstanding in-the money Allied Capital stock options) were issued to Allied Capital's then-existing stockholders, resulting in our then-existing stockholders owning approximately 69% of the combined company and the then-existing Allied Capital stockholders owning approximately 31% of the combined company.

The Allied Acquisition was accounted for in accordance with the acquisition method of accounting as detailed in ASC 805-10 (previously SFAS No. 141(R)), Business Combinations. The acquisition method of accounting requires an acquirer to recognize the assets acquired, the liabilities assumed and any noncontrolling interest in the acquired entity based on their fair values as of the date of acquisition. As described in more detail in ASC 805-10, if the total acquisition date fair value of the identifiable net assets acquired exceeds the fair value of the consideration transferred, the excess will be recognized as a gain. Upon completion of our determination of the fair value of Allied Capital's

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identifiable net assets as of April 1, 2010, the fair value of such net assets exceeded the fair value of the consideration transferred, resulting in the recognition of a gain. The valuation of the investments acquired as part of the Allied Acquisition was done in accordance with Ares Capital's valuation policy (see Notes 2 and 8).

Following is the allocation of the purchase price to the assets acquired and liabilities assumed as a result of the Allied Acquisition:

|   |           |                  |
|---|-----------|------------------|
| Common stock issued   | \$        | 872,727          |
| Payments to holders of "in-the-money"<br>Allied Capital stock options |           | 35,011(1)        |
| <b>Total purchase price</b>   | <b>\$</b> | <b>907,738</b>   |
| Assets acquired:  |           |                  |
| Investments   | \$        | 1,833,766        |
| Cash and cash equivalents   |           | 133,548          |
| Other assets  |           | 80,078           |
| <b>Total assets acquired</b>  |           | <b>2,047,392</b> |
| <b>Debt and other liabilities assumed</b>                             |           | <b>(943,778)</b> |
| <b>Net assets acquired</b>  |           | <b>1,103,614</b> |
| <b>Gain on Allied Acquisition</b>                                     |           | <b>(195,876)</b> |
|   | <b>\$</b> | <b>907,738</b>   |

(1) Represents cash payment for holders of any "in-the-money" Allied Capital stock options that elected to receive cash.

The following pro forma condensed combined financial information does not purport to be indicative of actual financial position or results of our operations had the Allied Acquisition actually been consummated at the beginning of each period presented. Certain one-time charges have been eliminated. For year ended December 31, 2010, we recognized \$19,833 in professional fees and other costs related to the Allied Acquisition. The pro forma adjustments reflecting the allocation of the purchase price of Allied Capital and the gain of \$195,876 recognized on the Allied Acquisition have been eliminated from all periods presented. The pro forma condensed combined financial information does not reflect the potential impact of possible synergies and does not reflect any impact of additional accretion which would have been recognized on the transaction, except for that which was recorded after the transaction was consummated on April 1, 2010.

|   | Year Ended December 31, |              |
|---|-------------------------|--------------|
|   | 2010                    | 2009         |
| Total investment income   | \$ 537,488              | \$ 563,958   |
| Net investment income   | \$ 238,982              | \$ 184,641   |
| Net increase (decrease) in stockholders' equity resulting from operations           | \$ 479,979              | \$ (323,133) |
| Net increase (decrease) in stockholders' equity resulting from operations per share | \$ 2.51                 | \$ (2.02)    |

Prior to the completion of the Allied Acquisition we purchased \$340 million of assets from Allied Capital in arm's length transactions. Additionally, during the same period of time, IHAM purchased \$69 million of assets from Allied Capital, also in arm's length transactions.

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**18. LITIGATION**

The Company is party to certain lawsuits in the normal course of business. Allied Capital was also involved in various other legal proceedings that the Company assumed in connection with the Allied Acquisition. Furthermore, third parties may try to seek to impose liability on Ares Capital in connection with the activities of its portfolio companies. While the outcome of any such open legal proceedings cannot at this time be predicted with certainty, the Company does not expect these matters will materially affect its financial condition or results of operations.

**19. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through the date of issuance of these consolidated financial statements. There have been no subsequent events that occurred during such period that would require disclosure in the financial statements as of the time they were initially filed in the Company's Form 10-K for the year ended December 31, 2010 or would be required to be recognized in the Consolidated Financial Statements as of and for the years ended December 31, 2010, except as disclosed below.

On January 18, 2011, we and Ares Capital CP amended the Revolving Funding Facility to, among other things, provide for a three year reinvestment period until January 18, 2014 (with two one-year extension options, subject to our and the lenders' consent) and extend the stated maturity date to January 18, 2016 (with two one-year extension options, subject to our and the lenders consent).

In January 2011, we issued an aggregate principal amount outstanding of \$575,000 of unsecured convertible senior notes (the "2016 Convertible Notes") that mature on February 1, 2016 (the "Maturity Date"), unless previously converted or repurchased in accordance with their terms. The 2016 Convertible Notes bear interest at rate of 5.75% per year, payable semiannually. In certain circumstances, the 2016 Convertible Notes will be convertible into cash, shares of Ares Capital's common stock or a combination of cash and shares of Ares Capital's common stock, at Ares Capital's election, at an initial conversion rate of 52.2766 shares of common stock per one thousand dollar principal amount of the 2016 Convertible Notes, which is equivalent to an initial conversion price of approximately \$19.13 per share of Ares Capital's common stock, subject to customary anti-dilution adjustments. The initial conversion price is approximately 17.5% above the \$16.28 per share closing price of Ares Capital's common stock on January 19, 2011. Ares Capital will not have the right to redeem the 2016 Convertible Notes prior to maturity.

The 2016 Convertible Notes are Ares Capital's senior unsecured obligations and rank senior in right of payment to Ares Capital's existing and future indebtedness that is expressly subordinated in right of payment to the 2016 Convertible Notes; equal in right of payment to Ares Capital's existing and future unsecured indebtedness that is not so subordinated; effectively junior in right of payment to any of Ares Capital's secured indebtedness (including existing unsecured indebtedness that Ares Capital later secures) to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness (including trade payables) incurred by Ares Capital's subsidiaries, financing vehicles or similar facilities.

Prior to the close of business on the business day immediately preceding August 15, 2015, holders may convert their 2016 Convertible Notes only under certain circumstances set forth in the indenture governing the terms of the 2016 Convertible Notes (the "Indenture"). On or after August 15, 2015 until the close of business on the scheduled trading day immediately preceding the Maturity Date, holders may convert their 2016 Convertible Notes at any time. Upon conversion, Ares Capital will pay or deliver, as the case may be, at its election, cash, shares of its common stock or a combination of cash and shares of its common stock. The conversion rate will be subject to adjustment in some events but will not be adjusted for any accrued and unpaid interest. In addition, if certain corporate events occur prior to the Maturity Date, the conversion rate will be increased for converting holders.

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Ares Capital may not redeem the 2016 Convertible Notes prior to maturity. No sinking fund is provided for the 2016 Convertible Notes. In addition, if certain corporate events occur in respect of Ares Capital, holders of the 2016 Convertible Notes may require Ares Capital to repurchase for cash all or part of their 2016 Convertible Notes at a repurchase price equal to 100% of the principal amount of the 2016 Convertible Notes to be repurchased, plus accrued and unpaid interest through, but excluding, the required repurchase date.

The Indenture contains certain covenants, including covenants requiring Ares Capital to comply with Section 18(a)(1)(A) as modified by Section 61(a)(1) of the Investment Company Act and to provide financial information to the holders of the 2016 Convertible Notes under certain circumstances. These covenants are subject to important limitations and exceptions that are described in the Indenture.

In accounting for the 2016 Convertible Notes, the Company estimated at the time of issuance that the values of the debt and equity components of the notes were approximately 93% and 7%, respectively. The original issue discount equal to the estimated equity component of 7% of the 2016 Convertible Notes will initially be recorded in "capital in excess of par value" in the balance sheet. As a result, the Company will record interest expense comprised of both stated interest expense as well as accretion of the original issue discount resulting in an estimated effective interest rate of approximately 7.5%.

On February 24, 2011 the Company notified the holders of our 2011 Notes that the Company was redeeming the \$300,584 aggregate principal amount of our 2011 Notes remaining outstanding, together with a redemption premium, in accordance with the terms of the indenture governing the 2011 Notes. The Company expects the redemption to be completed on March 16, 2011.

Effective as of February 25, 2011, the Company amended its charter to increase the number of shares of common stock we are authorized to issue from 300 million to 400 million.

In February 2011, the Company sold certain collateralized loan obligations that were originally acquired as part of the Allied Acquisition. Total proceeds from these investments sold were \$207,670 including a realized gain of \$99,055.

Table of Contents**ARES CAPITAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEET**

(in thousands, except per share data)

|  | As of               |                     |
|--|---------------------|---------------------|
|  | March 31, 2011      | December 31, 2010   |
|  | (unaudited)         |                     |
| <b>ASSETS</b>  |                     |                     |
| Investments at fair value  |                     |                     |
| Non-controlled/non-affiliate investments   | \$ 2,174,715        | \$ 2,482,642        |
| Non-controlled affiliate company investments   | 502,816             | 380,396             |
| Controlled affiliate company investments   | 1,585,502           | 1,454,952           |
| Total investments at fair value (amortized cost of \$4,214,764 and \$4,291,955, respectively)  | 4,263,033           | 4,317,990           |
| Cash and cash equivalents  | 246,233             | 100,752             |
| Receivable for open trades   | 37,549              | 8,876               |
| Interest receivable  | 72,824              | 72,548              |
| Other assets   | 87,404              | 62,380              |
| <b>Total assets</b>  | <b>\$ 4,707,043</b> | <b>\$ 4,562,546</b> |
| <b>LIABILITIES</b>   |                     |                     |
| Debt   | \$ 1,428,044        | \$ 1,378,509        |
| Management and incentive fees payable  | 63,280              | 52,397              |
| Accounts payable and other liabilities   | 32,339              | 34,742              |
| Interest and facility fees payable   | 20,372              | 21,763              |
| Payable for open trades  |                     | 24,602              |
| <b>Total liabilities</b>   | <b>1,544,035</b>    | <b>1,512,013</b>    |
| Commitments and contingencies (Note 7)   |                     |                     |
| <b>STOCKHOLDERS' EQUITY</b>  |                     |                     |
| Common stock, par value \$.001 per share, 400,000 and 300,000 common shares authorized, respectively, 204,752 and 204,419 common shares issued and outstanding, respectively | 205                 | 204                 |
| Capital in excess of par value   | 3,265,581           | 3,205,326           |
| Accumulated overdistributed net investment income  | (35,060)            | (11,336)            |
| Accumulated net realized loss on investments, foreign currency transactions, extinguishment of debt and other assets   | (115,987)           | (169,696)           |
| Net unrealized gain on investments and foreign currency transactions   | 48,269              | 26,035              |
| <b>Total stockholders' equity</b>  | <b>3,163,008</b>    | <b>3,050,533</b>    |
| <b>Total liabilities and stockholders' equity</b>  | <b>\$ 4,707,043</b> | <b>\$ 4,562,546</b> |
| <b>NET ASSETS PER SHARE</b>  | <b>\$ 15.45</b>     | <b>\$ 14.92</b>     |

See accompanying notes to consolidated financial statements.

Table of Contents**ARES CAPITAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF OPERATIONS**

(in thousands, except per share data)

|  | <b>For the three months ended</b> |                    |
|--|-----------------------------------|--------------------|
|  | <b>March 31,</b>                  | <b>March 31,</b>   |
|  | <b>2011</b>                       | <b>2010</b>        |
|  | <b>(unaudited)</b>                | <b>(unaudited)</b> |
| <b>INVESTMENT INCOME:</b>  |                                   |                    |
| From non-controlled/non-affiliate company investments:                                   |                                   |                    |
| Interest from investments  | \$ 61,807                         | \$ 46,075          |
| Capital structuring service fees   | 5,365                             | 1,350              |
| Interest from cash & cash equivalents  | 53                                | 11                 |
| Dividend income  | 1,515                             |                    |
| Management fees  | 154                               | 328                |
| Other income   | 1,236                             | 795                |
| <b>Total investment income from non-controlled/non-affiliate company investments</b>     | <b>70,130</b>                     | <b>48,559</b>      |
| From non-controlled affiliate company investments:                                       |                                   |                    |
| Interest from investments  | 10,132                            | 4,620              |
| Dividend income  | 2,376                             | 103                |
| Management fees  | 188                               | 138                |
| Other income   | 576                               | 58                 |
| <b>Total investment income from non-controlled affiliate company investments</b>         | <b>13,272</b>                     | <b>4,919</b>       |
| From controlled affiliate company investments:   |                                   |                    |
| Interest from investments  | 38,621                            | 10,841             |
| Capital structuring service fees   | 5,593                             | 751                |
| Dividend income  | 4,900                             | 378                |
| Management fees  | 3,107                             | 1,021              |
| Other income   | 68                                | 41                 |
| <b>Total investment income from controlled affiliate company investments</b>             | <b>52,289</b>                     | <b>13,032</b>      |
| <b>Total investment income</b>   | <b>135,691</b>                    | <b>66,510</b>      |
| <b>EXPENSES:</b>   |                                   |                    |
| Interest and credit facility fees  | 30,175                            | 8,588              |
| Incentive management fees  | 30,941                            | 8,144              |
| Base management fees   | 16,730                            | 8,456              |
| Professional fees  | 2,465                             | 2,504              |
| Administrative fees  | 2,425                             | 1,231              |
| Professional fees related to the acquisition of Allied Capital Corporation               | 167                               | 3,789              |
| Other general and administrative   | 2,918                             | 2,255              |
| <b>Total expenses</b>  | <b>85,821</b>                     | <b>34,967</b>      |
| <b>NET INVESTMENT INCOME BEFORE INCOME TAXES</b>   | <b>49,870</b>                     | <b>31,543</b>      |
| Income tax expense (benefit), including excise tax                                       | 2,047                             | (162)              |
| <b>NET INVESTMENT INCOME</b>   | <b>47,823</b>                     | <b>31,705</b>      |
| <b>REALIZED AND UNREALIZED NET GAINS (LOSSES) ON INVESTMENTS AND FOREIGN CURRENCIES:</b> |                                   |                    |

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|   |            |           |
|---|------------|-----------|
| Net realized gains (losses):  |            |           |
| Non-controlled/non-affiliate company investments                                    | 72,412     | 2,261     |
| Non-controlled affiliate company investments  | (3,596)    | (7,659)   |
| Controlled affiliate company investments  | (6,247)    | 432       |
| Foreign currency transactions   |            | 85        |
| Net realized gains (losses)   | 62,569     | (4,881)   |
| Net unrealized gains (losses):  |            |           |
| Non-controlled/non-affiliate company investments                                    | (13,054)   | 30,974    |
| Non-controlled affiliate company investments  | 6,547      | 11,845    |
| Controlled affiliate company investments  | 28,741     | 6,924     |
| Foreign currency transactions   |            | (152)     |
| Net unrealized gains  | 22,234     | 49,591    |
| Net realized and unrealized gains from investments and foreign currencies           | 84,803     | 44,710    |
| REALIZED LOSS ON EXTINGUISHMENT OF DEBT   | (8,860)    |           |
| NET INCREASE IN STOCKHOLDERS' EQUITY RESULTING FROM OPERATIONS                      | \$ 123,766 | \$ 76,415 |
| BASIC AND DILUTED EARNINGS PER COMMON SHARE (see Note 10)                           | \$ 0.61    | \$ 0.61   |
| WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING BASIC AND DILUTED (see Note 10) | 204,419    | 124,544   |

See accompanying notes to consolidated financial statements.



Table of Contents**ARES CAPITAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS**

As of March 31, 2011 (unaudited)

(dollar amounts in thousands)

| Company(1)  | Industry               | Investment   | Interest(5)(10)         | Acquisition Date | Amortized Cost | Fair Value | Percentage of Net Assets |
|---|------------------------|--|-------------------------|------------------|----------------|------------|--------------------------|
| <b>Investment Funds</b>                                 |                        |  |                         |                  |                |            |                          |
| AGILE Fund I, LLC(7)(9)                                 | Investment partnership | Member interest (0.50% interest)                             |                         | 4/1/2010         | \$ 264         | \$ 150     |                          |
| BB&T Capital Partners/Windsor Mezzanine Fund, LLC(6)(9) | Investment company     | Member interest (32.59% interest)                            |                         | 4/1/2010         | 10,108         | 13,976     |                          |
| Carador PLC(6)(8)(9)(16)                                | Investment company     | Ordinary shares (7,110,525 shares)                           |                         | 12/15/2006       | 9,033          | 6,613      |                          |
| CIC Flex, LP(9)   | Investment partnership | Limited partnership units (0.94 unit)                        |                         | 9/7/2007         | 2,553          | 2,499      |                          |
| Covestia Capital Partners, LP(9)                        | Investment partnership | Limited partnership interest (47.00% interest)               |                         | 6/17/2008        | 1,059          | 1,041      |                          |
| Dynamic India Fund IV, LLC(9)                           | Investment company     | Member interest (5.44% interest)                             |                         | 4/1/2010         | 4,822          | 4,728      |                          |
| Firstlight Financial Corporation(6)(9)                  | Investment company     | Senior subordinated loan (\$73,993 par due 12/2016)          | 1.00% PIK               | 12/31/2006       | 73,708         | 56,670(4)  |                          |
|   |                        | Common stock (10,000 shares)                                 |                         | 12/31/2006       | 10,000         |            |                          |
|   |                        | Common stock (30,000 shares)                                 |                         | 12/31/2006       | 30,000         |            |                          |
|   |                        |  |                         |                  | 113,708        | 56,670     |                          |
| HCI Equity, LLC(7)(8)(9)                                | Investment company     | Member interest (100% interest)                              |                         | 4/1/2010         | 808            | 943        |                          |
| Imperial Capital Private Opportunities, LP(6)(9)        | Investment partnership | Limited partnership interest (80% interest)                  |                         | 5/10/2007        | 6,643          | 5,300      |                          |
| Ivy Hill Middle Market Credit Fund, Ltd.(7)(8)(9)       | Investment company     | Class B deferrable interest notes (\$40,000 par due 11/2018) | 6.25% (Libor + 6.00%/Q) | 11/20/2007       | 40,000         | 37,600     |                          |
|   |                        | Subordinated notes (\$16 par due 11/2018)                    | 15.50%                  | 11/20/2007       | 15,515         | 16,000     |                          |
|   |                        |  |                         |                  | 55,515         | 53,600     |                          |
| Knightsbridge CLO 2007-1 Ltd.(7)(8)(9)                  | Investment company     | Class E notes (\$20,350 par due 1/2022)                      | 9.30% (Libor + 9.00%/Q) | 3/24/2010        | 14,852         | 17,324     |                          |
| Knightsbridge CLO 2008-1 Ltd.(7)(8)(9)                  | Investment company     | Class C notes (\$14,400 par due 6/2018)                      | 7.81% (Libor + 7.50%/Q) | 3/24/2010        | 14,400         | 14,400     |                          |
|   |                        | Class D notes (\$9,000 par due 6/2018)                       | 8.81% (Libor + 8.50%/Q) | 3/24/2010        | 9,000          | 9,000      |                          |

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|   |                           |  |                            |           |        |        |
|---|---------------------------|--|----------------------------|-----------|--------|--------|
|   |                           | Class E notes<br>(\$14,850 par due 6/2018)       | 5.31%<br>(Libor + 5.00%/Q) | 3/24/2010 | 13,596 | 13,634 |
|   |                           |  |                            |           | 36,996 | 37,034 |
| Kodiak Funding, LP(9)                         | Investment<br>partnership | Limited partnership<br>interest (1.52% interest) |                            | 4/1/2010  | 905    | 788    |
| Novak Biddle Venture<br>Partners III, L.P.(9) | Investment<br>partnership | Limited partnership<br>interest (2.47% interest) |                            | 4/1/2010  | 221    | 265    |
| Partnership Capital Growth<br>Fund I, LP(9)   | Investment<br>partnership | Limited partnership<br>interest (25% interest)   |                            | 6/16/2006 | 2,700  | 2,697  |

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| Company(1)  | Industry   | Investment  | Interest(5)(10)         | Acquisition Date | Amortized Cost | Fair Value     | Percentage of Net Assets |
|---|--|---|-------------------------|------------------|----------------|----------------|--------------------------|
| Senior Secured Loan Fund LLC(7)(15)(17)                                       | Investment company                                   | Subordinated certificates (\$671,435 par due 12/2015) | 8.30% (Libor + 8.00%/Q) | 10/30/2009       | 660,712        | 681,255        |                          |
| Trivergance Capital Partners, LP(9)   | Investment partnership                               | Limited partnership interest (100% interest)          |                         | 6/5/2008         | 3,586          |                |                          |
| VSC Investors LLC(9)  | Investment company                                   | Membership interest (1.95% interest)                  |                         | 1/24/2008        | 975            | 975            |                          |
|   |  |   |                         |                  | <b>925,460</b> | <b>885,858</b> | <b>28.01%</b>            |
| <b>Healthcare-Services</b>  |  |   |                         |                  |                |                |                          |
| Axiom Healthcare Pharmacy, Inc.   | Specialty pharmacy provider                          | Senior subordinated loan (\$3,160 par due 3/2015)     | 8.00%                   | 4/1/2010         | 2,926          | 3,065(4)       |                          |
| CCS Group Holdings, LLC   | Correctional facility healthcare operator            | Class A units (1,000,000 units)                       |                         | 8/19/2010        | 1,000          | 1,301          |                          |
| CT Technologies Intermediate Holdings, Inc. and CT Technologies Holdings, LLC | Healthcare analysis services                         | Senior secured loan (\$4,967 par due 3/2017)          | 7.75% (Libor + 6.50%/Q) | 3/15/2011        | 4,967          | 4,967(14)      |                          |
|   |  | Senior secured loan (\$5,016 par due 3/2017)          | 7.75% (Libor + 6.50%/S) | 3/15/2011        | 5,016          | 5,016(14)      |                          |
|   |  | Senior secured loan (\$5,016 par due 3/2017)          | 7.75% (Libor + 6.50%/M) | 3/15/2011        | 5,016          | 5,016(14)      |                          |
|   |  | Common stock (9,679 shares)                           |                         | 6/15/2007        | 4,000          | 9,090          |                          |
|   |  | Common stock (1,546 shares)                           |                         | 6/15/2007        |                | 1,452          |                          |
|   |  |   |                         |                  | 14,032         | 20,574         |                          |
| DSI Renal Inc.(6)   | Dialysis provider                                    | Senior secured loan (\$9,333 par due 3/2013)          | 8.50% (Libor + 6.50%/M) | 4/4/2006         | 9,266          | 9,333(14)      |                          |
|   |  | Senior subordinated loan (\$69,009 par due 4/2014)    | 6.00% Cash, 10.00% PIK  | 4/4/2006         | 68,522         | 69,011(4)      |                          |
|   |  | Common units (19,726 units)                           |                         | 4/4/2006         | 19,684         | 43,125         |                          |
|   |  |   |                         |                  | 97,472         | 121,469        |                          |
| GG Merger Sub I, Inc.   | Drug testing services                                | Senior secured loan (\$11,330 par due 12/2014)        | 4.31% (Libor + 4.00%/Q) | 12/14/2007       | 10,966         | 11,103(2)      |                          |
|   |  | Senior secured loan (\$12,000 par due 12/2014)        | 4.31% (Libor + 4.00%/Q) | 12/14/2007       | 11,609         | 11,760(2)      |                          |
|   |  |   |                         |                  | 22,575         | 22,863         |                          |
| HCP Acquisition Holdings, LLC(7)  | Healthcare compliance advisory services              | Class A units (10,044,176 units)                      |                         | 6/26/2008        | 10,044         | 4,687          |                          |
| INC Research, Inc.  | Pharmaceutical and biotechnology consulting services | Senior subordinated loan (\$10,076 par due 9/2017)    | 13.50%                  | 9/27/2010        | 10,076         | 10,076         |                          |

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|   |  |  |                            |           |        |            |
|---|--|--|----------------------------|-----------|--------|------------|
|   |  | Common stock<br>(1,000,000 shares)               |                            | 9/27/2010 | 1,000  | 628        |
|   |  |  |                            |           | 11,076 | 10,704     |
| Magnacare Holdings, Inc.,<br>Magnacare Administrative<br>Services, LLC, and<br>Magnacare, LLC | Healthcare<br>professional<br>provider | Senior secured loan<br>(\$50,755 par due 9/2016) | 9.75%<br>(Libor + 8.75%/Q) | 9/13/2010 | 50,755 | 50,755(14) |
|   |  | Senior secured loan<br>(\$48,119 par due 9/2016) | 9.75%<br>(Libor + 8.75%/Q) | 9/13/2010 | 48,119 | 48,119(14) |

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| Company(1)   | Industry   | Investment   | Interest(5)(10)             | Acquisition Date | Amortized Cost | Fair Value    | Percentage of Net Assets |
|--|--|--|-----------------------------|------------------|----------------|---------------|--------------------------|
|  |  | Senior secured loan<br>(\$8,950 par due 9/2016)            | 9.75%<br>(Libor + 8.75%/Q)  | 9/13/2010        | 8,950          | 8,950(14)     |                          |
|  |  |  |                             |                  | 107,824        | 107,824       |                          |
| MWD Acquisition Sub, Inc.  | Dental services  | Junior secured loan<br>(\$5,000 par due 5/2013)            | 8.50% (Base Rate + 5.25%/Q) | 5/3/2007         | 5,000          | 5,000(3)      |                          |
| NS Merger Sub, Inc. and NS Holdings, Inc.  | Healthcare technology provider   | Senior subordinated loan<br>(\$579 par due 6/2017)         | 13.50%                      | 6/21/2010        | 579            | 579           |                          |
|  |  | Senior subordinated loan<br>(\$50,000 par due 6/2017)      | 13.50%                      | 6/21/2010        | 50,000         | 50,000        |                          |
|  |  | Common stock<br>(2,500,000 shares)                         |                             | 6/21/2010        | 2,500          | 2,525         |                          |
|  |  |  |                             |                  | 53,079         | 53,104        |                          |
| OnCURE Medical Corp.   | Radiation oncology care provider   | Common stock<br>(857,143 shares)                           |                             | 8/18/2006        | 3,000          | 2,680         |                          |
| Passport Health Communications, Inc., Passport Holding Corp. and Prism Holding Corp. | Healthcare technology provider   | Senior secured loan<br>(\$250 par due 5/2014)              | 8.25%<br>(Libor + 7.00%/Q)  | 5/9/2008         | 250            | 250(2)(14)    |                          |
|  |  | Senior secured loan<br>(\$10,877 par due 5/2014)           | 8.25%<br>(Libor + 7.00%/Q)  | 5/9/2008         | 10,877         | 10,877(2)(14) |                          |
|  |  | Senior secured loan<br>(\$231 par due 5/2014)              | 8.25%<br>(Libor + 7.00%/Q)  | 5/9/2008         | 231            | 231(2)(14)    |                          |
|  |  | Senior secured loan<br>(\$10,041 par due 5/2014)           | 8.25%<br>(Libor + 7.00%/Q)  | 5/9/2008         | 10,041         | 10,041(2)(14) |                          |
|  |  | Series A preferred stock<br>(1,594,457 shares)             |                             | 7/30/2008        | 11,156         | 8,191(4)      |                          |
|  |  | Common stock<br>(16,106 shares)                            |                             | 7/30/2008        | 100            |               |                          |
|  |  |  |                             |                  | 32,655         | 29,590        |                          |
| PG Mergersub, Inc.   | Provider of patient surveys, management reports and national databases for the integrated healthcare delivery system | Senior secured loan<br>(\$1,097 par due 11/2015)           | 6.75%<br>(Libor + 5.00%/Q)  | 11/3/2010        | 1,096          | 1,097(3)(14)  |                          |
|  |  | Senior secured loan<br>(\$9,177 par due 11/2015)           | 6.75%<br>(Libor + 5.00%/Q)  | 11/3/2010        | 9,150          | 9,177(3)(14)  |                          |
|  |  | Senior subordinated loan<br>(\$4,000 par due 3/2016)       | 12.50%                      | 3/12/2008        | 3,950          | 4,000         |                          |
|  |  | Preferred stock<br>(333 shares)                            |                             | 3/12/2008        | 125            | 12            |                          |
|  |  | Common stock<br>(16,667 shares)                            |                             | 3/12/2008        | 167            | 601           |                          |
|  |  |  |                             |                  | 14,488         | 14,887        |                          |
| Reed Group, Ltd.   | Medical disability management services   | Senior secured revolving loan<br>(\$1,250 par due 12/2013) |                             | 4/1/2010         | 1,097          | 1,063(13)     |                          |

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|          |  |          |        |            |
|----------|--|----------|--------|------------|
| provider |  |          |        |            |
|          | Senior secured loan<br>(\$10,755 par due 12/2013)      | 4/1/2010 | 9,129  | 9,142(13)  |
|          | Senior subordinated loan<br>(\$19,625 par due 12/2013) | 4/1/2010 | 15,918 | 10,725(13) |
|          | Equity interests                                       | 4/1/2010 | 203    |            |
|          |  |          | 26,347 | 20,930     |

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| Company(1)                         | Industry                                  | Investment  | Interest(5)(10)         | Acquisition Date | Amortized Cost | Fair Value     | Percentage of Net Assets |
|------------------------------------|---|---|-------------------------|------------------|----------------|----------------|--------------------------|
| Regency Healthcare Group, LLC(6)   | Hospice provider                          | Preferred member interest (1,293,960 units)           |                         | 4/1/2010         | 2,007          | 2,310          |                          |
| Soteria Imaging Services, LLC(6)   | Outpatient medical imaging provider       | Junior secured loan (\$1,352 par due 11/2010)         |                         | 4/1/2010         | 1,309          | 971(13)        |                          |
|                                    |   | Junior secured loan (\$1,955 par due 11/2010)         |                         | 4/1/2010         | 1,894          | 1,404(13)      |                          |
|                                    |   | Preferred member interest (1,823,179 units)           |                         | 4/1/2010         |                |                |                          |
|                                    |   |   |                         |                  | 3,203          | 2,375          |                          |
| Sunquest Information Systems, Inc. | Laboratory software solutions provider    | Junior secured loan (\$38,000 par due 6/2017)         | 9.75% (Libor + 8.50%/Q) | 12/16/2010       | 38,000         | 38,000(14)     |                          |
|                                    |   | Junior secured loan (\$57,000 par due 6/2017)         | 9.75% (Libor + 8.50%/M) | 12/16/2010       | 57,000         | 57,000(14)     |                          |
|                                    |   | Junior secured loan (\$20,000 par due 6/2017)         | 9.75% (Libor + 8.50%/M) | 12/16/2010       | 20,000         | 20,000(2)(14)  |                          |
|                                    |   | Junior secured loan (\$30,000 par due 6/2017)         | 9.75% (Libor + 8.50%/M) | 12/16/2010       | 30,000         | 30,000(2)(14)  |                          |
|                                    |   |   |                         |                  | 145,000        | 145,000        |                          |
| U.S. Renal Care, Inc.              | Dialysis provider                         | Senior subordinated loan (\$20,336 par due 5/2017)    | 11.25% Cash, 2.00% PIK  | 5/24/2010        | 20,336         | 20,336(4)      |                          |
| Univita Health Inc.                | Outsourced services provider              | Senior subordinated loan (\$21,252 par due 12/2014)   | 12.00% Cash, 3.00% PIK  | 12/22/2009       | 21,252         | 21,252(4)      |                          |
| Vantage Oncology, Inc.             | Radiation oncology care provider          | Common stock (62,157 shares)                          |                         | 2/3/2011         | 4,670          | 6,218          |                          |
|                                    |   |   |                         |                  | <b>602,953</b> | <b>621,136</b> | <b>19.64%</b>            |
| <b>Business Services</b>           |   |   |                         |                  |                |                |                          |
| Aviation Properties Corporation(7) | Aviation services                         | Common stock (100 shares)                             |                         | 4/1/2010         |                |                |                          |
| BenefitMall Holdings Inc.(7)       | Employee benefits broker services company | Senior subordinated loan (\$40,326 par due 6/2014)    | 18.00%                  | 4/1/2010         | 40,326         | 40,326         |                          |
|                                    |   | Common stock (39,274,290 shares)                      |                         | 4/1/2010         | 53,510         | 51,321         |                          |
|                                    |   | Warrants  |                         | 4/1/2010         |                |                |                          |
|                                    |   |   |                         |                  | 93,836         | 91,647         |                          |
| CitiPostal Inc.(7)                 | Document storage and management services  | Senior secured revolving loan (\$691 par due 12/2013) | 6.50% (Libor + 4.50%/M) | 4/1/2010         | 691            | 691(14)        |                          |
|                                    |   | Senior secured revolving loan (\$900 par due 12/2013) | 6.50% (Libor + 4.50%/M) | 4/1/2010         | 900            | 900(14)        |                          |
|                                    |   |   |                         | 4/1/2010         | 1,250          | 1,250(14)      |                          |

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|   |                             |          |        |              |
|---|-----------------------------|----------|--------|--------------|
| Senior secured revolving loan (\$1,250 par due 12/2013) | 6.75% (Base Rate + 3.25%/M) |          |        |              |
| Senior secured loan (\$479 par due 12/2013)             | 11.00% Cash, 2.00% PIK      | 4/1/2010 | 479    | 479(4)       |
| Senior secured loan (\$49,086 par due 12/2013)          | 11.00% Cash, 2.00% PIK      | 4/1/2010 | 49,086 | 49,086(2)(4) |
| Senior subordinated loan (\$13,038 par due 12/2015)     |                             | 4/1/2010 | 13,038 | 6,971(13)    |
| Common stock (37,024 shares)                            |                             | 4/1/2010 |        |              |
|   |                             |          | 65,444 | 59,377       |

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| Company(1)                              | Industry   | Investment   | Interest(5)(10)              | Acquisition Date     | Amortized Cost | Fair Value    | Percentage of Net Assets |
|---|--|--|------------------------------|----------------------|----------------|---------------|--------------------------|
| Cook Inlet Alternative Risk, LLC        | Risk management services                                     | Senior secured loan (\$40,000 par due 4/2013)                            | 8.50%                        | 4/1/2010             | 25,124         | 24,423        |                          |
|   |  | Senior secured loan (\$44,346 par due 4/2013)<br>Member interest (3.17%) | 8.50%                        | 4/1/2010<br>4/1/2010 | 26,665         | 27,077        |                          |
|   |  |  |                              |                      | 51,789         | 51,500        |                          |
| Coverall North America, Inc.            | Commercial janitorial service provider                       | Senior subordinated loan (\$9,291 par due 2/2016)                        | 10.00% Cash, 2.00% PIK       | 2/22/2011            | 9,291          | 9,291(4)      |                          |
| Digital Videostream, LLC                | Media content supply chain services company                  | Senior secured loan (\$253 par due 2/2012)                               | 10.00% Cash, 1.00% PIK       | 4/1/2010             | 253            | 253(4)        |                          |
|   |  | Senior secured loan (\$10 par due 2/2012)                                | 10.00% Cash, 1.00% PIK       | 4/1/2010             | 10             | 10(2)(4)      |                          |
|   |  | Senior secured loan (\$4,179 par due 2/2012)                             | 10.00% Cash, 1.00% PIK       | 4/1/2010             | 4,159          | 4,179(2)(4)   |                          |
|   |  | Convertible subordinated loan (\$5,676 par due 2/2016)                   | 10.00% PIK                   | 4/1/2010             | 6,116          | 5,772(4)      |                          |
|   |  |  |                              |                      | 10,538         | 10,214        |                          |
| Diversified Collections Services, Inc.  | Collections services   | Senior secured loan (\$6,921 par due 3/2012)                             | 7.50%<br>(Libor + 5.50%/Q)   | 4/1/2010             | 6,921          | 6,921(3)(14)  |                          |
|   |  | Senior secured loan (\$34,000 par due 9/2012)                            | 13.75%<br>(Libor + 11.75%/Q) | 4/1/2010             | 34,000         | 34,000(2)(14) |                          |
|   |  | Senior secured loan (\$2,000 par due 9/2012)                             | 13.75%<br>(Libor + 11.75%/Q) | 4/1/2010             | 2,000          | 2,000(3)(14)  |                          |
|   |  | Preferred stock (14,927 shares)  |                              | 5/18/2006            | 169            | 294           |                          |
|   |  | Common stock (478,816 shares)  |                              | 4/1/2010             | 1,478          | 1,537         |                          |
|   |  | Common stock (114,004 shares)  |                              | 2/5/2005             | 295            | 426           |                          |
|   |  |  |                              |                      |                | 44,863        | 45,178                   |
| Diversified Mercury Communications, LLC | Business media consulting services                           | Senior secured loan (\$1,590 par due 3/2013)                             | 8.00% (Base Rate + 4.50%/Q)  | 4/1/2010             | 1,460          | 1,431(14)     |                          |
| Impact Innovations Group, LLC(7)        | IT consulting and outsourcing services                       | Member interest (50% interest)   |                              | 4/1/2010             |                |               |                          |
| Investor Group Services, LLC(6)         | Business consulting for private equity and corporate clients | Limited liability company membership interest (10.00% interest)          |                              | 6/22/2006            |                | 558           |                          |
| Multi-Ad Services, Inc.(6)              | Marketing services and software provider                     | Preferred stock (1,725,280 units)  |                              | 4/1/2010             | 788            | 2,159         |                          |

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Common stock  
(1,725,280 units)

4/1/2010

788 2,159

|                    |                             |  |                        |          |        |           |
|--------------------|-----------------------------|--|------------------------|----------|--------|-----------|
| MVL Group, Inc.(7) | Marketing research provider | Senior secured loan (\$22,772 par due 7/2012)      | 12.00%                 | 4/1/2010 | 22,772 | 22,772    |
|                    |                             | Senior subordinated loan (\$35,180 par due 7/2012) | 12.00% Cash, 2.50% PIK | 4/1/2010 | 34,280 | 35,180(4) |

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| Company(1)  | Industry                                       | Investment  | Interest(5)(10)         | Acquisition Date | Amortized Cost | Fair Value | Percentage of Net Assets |
|---|--|---|-------------------------|------------------|----------------|------------|--------------------------|
|   |  | Junior subordinated loan (\$144 par due 7/2012)     | 8.00%                   | 4/1/2010         |                | 105        |                          |
|   |  | Common stock (560,716 shares)                       |                         | 4/1/2010         |                |            |                          |
|   |  |   |                         |                  | 57,052         | 58,057     |                          |
| PC Helps Support, LLC   | Technology support provider                    | Senior secured loan (\$6,106 par due 12/2013)       | 3.56% (Libor + 3.25%/Q) | 4/1/2010         | 6,106          | 6,106(3)   |                          |
|   |  | Senior subordinated loan (\$19,956 par due 12/2013) | 12.76%                  | 4/1/2010         | 19,956         | 19,956     |                          |
|   |  |   |                         |                  | 26,062         | 26,062     |                          |
| Pillar Processing LLC and PHL Holding Co.(6)  | Mortgage services                              | Senior secured loan (\$1,875 par due 5/2014)        | 14.50%                  | 7/31/2008        | 1,875          | 1,875      |                          |
|   |  | Senior secured loan (\$5,500 par due 5/2014)        | 14.50%                  | 7/31/2008        | 5,500          | 5,500      |                          |
|   |  | Senior secured loan (\$9,730 par due 11/2013)       | 5.81% (Libor + 5.50%/Q) | 11/20/2007       | 9,730          | 9,730(2)   |                          |
|   |  | Senior secured loan (\$6,074 par due 11/2013)       | 5.81% (Libor + 5.50%/Q) | 11/20/2007       | 6,074          | 6,074(2)   |                          |
|   |  | Common stock (85 shares)                            |                         | 11/20/2007       | 3,768          | 4,256      |                          |
|   |  |   |                         |                  | 26,947         | 27,435     |                          |
| Primis Marketing Group, Inc. and Primis Holdings, LLC(6)  | Database marketing services                    | Senior subordinated loan (\$10,222 par due 2/2013)  |                         | 8/24/2006        | 10,222         | 102(13)    |                          |
|   |  | Preferred units (4,000 units)                       |                         | 8/24/2006        | 3,600          |            |                          |
|   |  | Common units (4,000,000 units)                      |                         | 8/24/2006        | 400            |            |                          |
|   |  |   |                         |                  | 14,222         | 102        |                          |
| Prommis Solutions, LLC, E-Default Services, LLC, Statewide Tax and Title Services, LLC & Statewide Publishing Services, LLC (formerly known as MR Processing Holding Corp.) | Bankruptcy and foreclosure processing services | Senior subordinated loan (\$16,788 par due 2/2014)  |                         | 2/8/2007         | 16,788         | 15,109(13) |                          |
|   |  | Senior subordinated loan (\$27,032 par due 2/2014)  |                         | 2/8/2007         | 27,032         | 24,328(13) |                          |
|   |  | Preferred units (30,000 units)                      |                         | 4/11/2006        | 3,000          |            |                          |
|   |  |   |                         |                  | 46,820         | 39,437     |                          |
| Promo Works, LLC  | Marketing services                             | Senior secured loan (\$8,498 par due 12/2013)       |                         | 4/1/2010         | 4,949          | 4,630(13)  |                          |
| R2 Acquisition Corp.  | Marketing services                             | Common stock (250,000 shares)                       |                         | 5/29/2007        | 250            | 281        |                          |
| Summit Business Media, LLC  | Business media consulting services             | Junior secured loan (\$11,930 par due 7/2014)       |                         | 8/3/2007         | 10,276         | 239(3)(13) |                          |

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|                              |                                       |                               |          |       |       |
|------------------------------|---------------------------------------|-------------------------------|----------|-------|-------|
| Summit Energy Services, Inc. | Energy management consulting services | Common stock (38,796 shares)  | 4/1/2010 | 222   | 2,088 |
|                              |                                       | Common stock (385,608 shares) | 4/1/2010 | 2,336 | 1,897 |
|                              |                                       |                               |          | 2,558 | 3,985 |

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| Company(1)                                    | Industry  | Investment  | Interest(5)(10)             | Acquisition Date | Amortized Cost | Fair Value     | Percentage of Net Assets |
|---|---|---|-----------------------------|------------------|----------------|----------------|--------------------------|
| Tradesmen International, Inc.                 | Construction labor support                                      | Junior secured loan (\$20,000 par due 5/2014)           | 10.00%                      | 4/1/2010         | 14,648         | 20,000         |                          |
|   |   | Warrants to purchase up to 771,036 shares               |                             | 4/1/2010         |                | 2,818          |                          |
|   |   |   |                             |                  | 14,648         | 22,818         |                          |
| Venturehouse-Cibernet Investors, LLC          | Financial settlement services for intercarrier wireless roaming | Equity interest   |                             | 4/1/2010         |                |                |                          |
|   |   | Equity interest   |                             | 4/1/2010         |                |                |                          |
| VSS-Tranzact Holdings, LLC(6)                 | Management consulting services                                  | Common membership interest (8.51% interest)             |                             | 10/26/2007       | 10,204         | 6,650          |                          |
|   |   |   |                             |                  | <b>491,997</b> | <b>461,051</b> | <b>14.58%</b>            |
| <b>Restaurants and Food Services</b>          |   |   |                             |                  |                |                |                          |
| ADF Capital, Inc. & ADF Restaurant Group, LLC | Restaurant owner and operator                                   | Senior secured revolving loan (\$2,010 par due 11/2012) | 6.50% (Libor + 3.50%/Q)     | 11/27/2006       | 2,010          | 2,010(14)      |                          |
|   |   | Senior secured revolving loan (\$108 par due 11/2012)   | 6.50% (Base Rate + 2.50%/Q) | 11/27/2006       | 108            | 108(14)        |                          |
|   |   | Senior secured loan (\$12,598 par due 11/2013)          | 12.50% (Libor + 9.50%/Q)    | 11/27/2006       | 12,601         | 12,598(2)(14)  |                          |
|   |   | Senior secured loan (\$10,504 par due 11/2013)          | 12.50% (Libor + 9.50%/Q)    | 11/27/2006       | 10,504         | 10,504(3)(14)  |                          |
|   |   | Promissory note (\$14,897 par due 11/2016)              |                             | 6/1/2006         | 14,886         | 15,069(4)      |                          |
|   |   | Warrants to purchase up to 0.61 shares                  |                             | 6/1/2006         |                |                |                          |
|   |   |   |                             |                  |                | 40,109         | 40,289                   |
| Encanto Restaurants, Inc.                     | Restaurant owner and operator                                   | Junior secured loan (\$20,997 par due 8/2013)           | 11.00%                      | 8/16/2006        | 20,997         | 20,997(2)      |                          |
|   |   | Junior secured loan (\$3,999 par due 8/2013)            | 11.00%                      | 8/16/2006        | 3,999          | 3,999(3)       |                          |
|   |   |   |                             |                  | 24,996         | 24,996         |                          |
| Fulton Holdings Corp.                         | Airport restaurant operator                                     | Senior secured loan (\$40,000 par due 5/2016)           | 12.50%                      | 5/28/2010        | 40,000         | 40,000(2)(11)  |                          |
|   |   | Common stock (19,672 shares)                            |                             | 5/28/2010        | 1,967          | 2,076          |                          |
|   |   |   |                             |                  | 41,967         | 42,076         |                          |

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|  |                                   |  |  |                                  |                           |                               |
|--|-----------------------------------|--|--|----------------------------------|---------------------------|-------------------------------|
| Huddle House, Inc.(7)                          | Restaurant owner and operator     | Senior subordinated loan (\$20,455 par due 12/2015)<br>Common stock (358,428 shares)   | 12.00% Cash,<br>3.00% PIK  | 4/1/2010<br><br>4/1/2010         | 20,172                    | 16,325(4)                     |
|  |                                   |  |  |                                  | 20,172                    | 16,325                        |
| Orion Foods, LLC (fka Hot Stuff Foods, LLC)(7) | Convenience food service retailer | Senior secured revolving loan (\$2,000 par due 9/2014)<br>Senior secured loan (\$34,247 par due 9/2014)<br>Junior secured loan (\$37,552 par due 9/2014) | 10.75% (Base Rate + 7.50%/M)<br>10.00% (Libor + 8.50%/Q)<br>14.00% | 4/1/2010<br>4/1/2010<br>4/1/2010 | 2,000<br>34,247<br>25,146 | 2,000<br>34,247(14)<br>35,864 |

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| Company(1)                                     | Industry                      | Investment  | Interest(5)(10)                           | Acquisition Date | Amortized Cost | Fair Value    | Percentage of Net Assets |
|--|-------------------------------|---|---|------------------|----------------|---------------|--------------------------|
|  |                               | Preferred units (10,000 units)                            |   | 10/28/2010       |                |               |                          |
|  |                               | Class A common units (25,001 units)                       |   | 4/1/2010         |                |               |                          |
|  |                               | Class B common units (1,122,452 units)                    |   | 4/1/2010         |                |               |                          |
|  |                               |   |   |                  | 61,393         | 72,111        |                          |
| OTG Management, Inc.                           | Airport restaurant operator   | Junior secured loan (\$17,678 par due 6/2013)             | 16.00% (Libor + 11.00% Cash, 2.00% PIK/M) | 6/19/2008        | 17,678         | 17,678(4)(14) |                          |
|  |                               | Junior secured loan (\$42,452 par due 6/2013)             | 18.00% (Libor + 11.00% Cash, 4.00% PIK/M) | 6/19/2008        | 42,452         | 42,452(4)(14) |                          |
|  |                               | Common stock (1,500,000 shares)                           |   | 1/5/2011         | 1,500          | 1,523         |                          |
|  |                               | Warrants to purchase up to 100,857 shares of common stock |   | 6/19/2008        | 100            | 5,303         |                          |
|  |                               | Warrants to purchase up to 9 shares of common stock       |   | 6/19/2008        |                |               |                          |
|  |                               |   |   |                  | 61,730         | 66,956        |                          |
| PMI Holdings, Inc.                             | Restaurant owner and operator | Senior secured loan (\$9,470 par due 5/2015)              | 10.00% (Libor + 8.00%/M)                  | 5/5/2010         | 9,470          | 9,470(2)(14)  |                          |
|  |                               | Senior secured loan (\$9,470 par due 5/2015)              | 10.00% (Libor + 8.00%/M)                  | 5/5/2010         | 9,470          | 9,470(3)(14)  |                          |
|  |                               | Senior secured loan (\$88 par due 5/2015)                 | 10.25% (Base Rate + 7.00%/M)              | 5/5/2010         | 88             | 88(2)         |                          |
|  |                               | Senior secured loan (\$88 par due 5/2015)                 | 10.25% (Base Rate + 7.00%/M)              | 5/5/2010         | 88             | 88(3)         |                          |
|  |                               |   |   |                  | 19,116         | 19,116        |                          |
| S.B. Restaurant Company                        | Restaurant owner and operator | Senior secured loan (\$35,203 par due 7/2012)             | 13.00% (Libor + 11.00%/Q)                 | 4/1/2010         | 27,838         | 35,203(14)    |                          |
|  |                               | Preferred stock (46,690 shares)                           |   | 4/1/2010         |                | 148           |                          |
|  |                               | Warrants to purchase up to 257,429 shares of common stock |   | 4/1/2010         |                |               |                          |
|  |                               |   |   |                  | 27,838         | 35,351        |                          |
| Vistar Corporation and Wellspring Distribution | Food service distributor      | Senior subordinated loan (\$31,625 par due 5/2015)        | 13.50%                                    | 5/23/2008        | 31,625         | 31,625        |                          |

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|                                 |  |  |        |            |                |                |               |
|---------------------------------|--|--|--------|------------|----------------|----------------|---------------|
| Corp.                           |  | Senior subordinated loan (\$30,000 par due 5/2015)       | 13.50% | 5/23/2008  | 30,000         | 30,000(2)      |               |
|                                 |  | Class A non-voting common stock (1,366,120 shares)       |        | 5/3/2008   | 7,500          | 6,184          |               |
|                                 |  |  |        |            | 69,125         | 67,809         |               |
|                                 |  |  |        |            | <b>366,446</b> | <b>385,029</b> | <b>12.17%</b> |
| <b>Financial Services</b>       |  |  |        |            |                |                |               |
| AllBridge Financial, LLC(7)     | Asset management services                    | Equity interests   |        | 4/1/2010   | 11,395         | 15,552         |               |
| Callidus Capital Corporation(7) | Asset management services                    | Common stock (100 shares)                                |        | 4/1/2010   | 6,000          | 2,655          |               |
| Ciena Capital LLC(7)            | Real estate and small business loan servicer | Senior secured revolving loan (\$14,000 par due 12/2013) | 6.00%  | 11/23/2010 | 14,000         | 14,000         |               |
|                                 |  | Senior secured loan (\$10,000 par due 12/2015)           | 12.00% | 11/29/2010 | 10,000         | 10,000         |               |
|                                 |  |  | F-86   |            |                |                |               |



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| Company(1)                                  | Industry   | Investment  | Interest(5)(10)             | Acquisition Date | Amortized Cost | Fair Value | Percentage of Net Assets |
|---|--|---|-----------------------------|------------------|----------------|------------|--------------------------|
|   |  | Senior secured loan (\$2,000 par due 12/2015)         | 12.00%                      | 11/29/2010       | 2,000          | 2,000      |                          |
|   |  | Senior secured loan (\$20,000 par due 12/2015)        | 12.00%                      | 11/29/2010       | 20,000         | 20,000     |                          |
|   |  | Equity interests                                      |                             | 11/29/2010       | 53,374         | 39,312     |                          |
|   |  |   |                             |                  | 99,374         | 85,312     |                          |
| Commercial Credit Group, Inc.               | Commercial equipment finance and leasing company | Senior subordinated loan (\$6,000 par due 6/2015)     | 15.00%                      | 4/1/2010         | 6,000          | 6,000      |                          |
|   |  | Senior subordinated loan (\$4,000 par due 6/2015)     | 15.00%                      | 4/1/2010         | 4,000          | 4,000      |                          |
|   |  | Senior subordinated loan (\$9,500 par due 6/2015)     | 15.00%                      | 4/1/2010         | 9,500          | 9,500      |                          |
|   |  |   |                             |                  | 19,500         | 19,500     |                          |
| Compass Group Diversified Holdings, LLC(16) | Middle market business manager                   | Senior secured revolving loan (\$515 par due 12/2012) | 4.75% (Base Rate + 1.50%/M) | 4/1/2010         | 515            | 515        |                          |
| Financial Pacific Company                   | Commercial finance leasing                       | Preferred stock (6,500 shares)                        | 8.00% PIK                   | 10/13/2010       | 6,743          | 7,292(4)   |                          |
|   |  | Common stock (650,000 shares)                         |                             | 10/13/2010       |                |            |                          |
|   |  |   |                             |                  | 6,743          | 7,292      |                          |
| Imperial Capital Group, LLC(6)              | Investment services                              | Common units (2,526 units)                            |                             | 5/10/2007        | 3              | 4,824      |                          |
|   |  | Common units (315 units)                              |                             | 5/10/2007        |                | 602        |                          |
|   |  | Common units (7,710 units)                            |                             | 5/10/2007        | 14,997         | 14,724     |                          |
|   |  |   |                             |                  | 15,000         | 20,150     |                          |
| Ivy Hill Asset Management, L.P.(7)(9)       | Asset management services                        | Member interest (100%)                                |                             | 6/15/2009        | 112,876        | 170,462    |                          |

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|  |  |  | interest)                    |            |        | 271,403    | 321,438 | 10.16% |
|--|--|--|------------------------------|------------|--------|------------|---------|--------|
| <b>Education</b>   |  |  |                              |            |        |            |         |        |
| American Academy Holdings, LLC                                     | Provider of education, training, certification, networking, and consulting services to medical coders and other healthcare professionals | Senior secured revolving loan (\$1,000 par due 3/2016) | 9.50% (Libor + 8.50%/Q)      | 3/18/2011  | 1,000  | 1,000(14)  |         |        |
|  |  | Senior secured revolving loan (400 par due 3/2016)     | 10.75% (Base Rate + 7.50%/Q) | 3/18/2011  | 400    | 400(14)    |         |        |
|  |  | Senior secured loan (\$82,100 par due 3/2016)          | 9.50% (Libor + 8.50%/Q)      | 3/18/2011  | 82,100 | 82,100(14) |         |        |
|  |  |  |                              |            | 83,500 | 83,500     |         |        |
| Campus Management Corp. and Campus Management Acquisition Corp.(6) | Education software developer   | Preferred stock (485,159 shares)                       |                              | 2/8/2008   | 10,520 | 14,516     |         |        |
| Community Education Centers, Inc.                                  | Offender re-entry and in-prison treatment services provider  | Senior secured loan (\$20,000 par due 12/2014)         | 6.25% (Libor + 5.25%/Q)      | 12/10/2010 | 20,000 | 20,000(14) |         |        |
|  |  | Junior secured loan (\$31,084 par due 12/2015)         | 15.26% (Libor + 15.00%/M)    | 12/10/2010 | 31,084 | 31,084     |         |        |
|  |  | Junior secured loan (\$9,297 par due 12/2015)          | 15.31% (Libor + 15.00%/M)    | 12/10/2010 | 9,297  | 9,297      |         |        |

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| Company(1)  | Industry   | Investment   | Interest(5)(10)         | Acquisition Date | Amortized Cost | Fair Value | Percentage of Net Assets |
|---|--|--|-------------------------|------------------|----------------|------------|--------------------------|
|   |  | Warrants to purchase up to 578,427 shares          |                         | 12/13/2010       |                | 1,863      |                          |
|   |  |  |                         |                  | 60,381         | 62,244     |                          |
| eInstruction Corporation                                      | Developer, manufacturer and retailer of educational products | Junior secured loan (\$17,000 par due 7/2014)      | 7.81% (Libor + 7.50%/Q) | 4/1/2010         | 15,002         | 13,600     |                          |
|   |  | Senior subordinated loan (\$24,221 par due 1/2015) | 16.00% PIK              | 4/1/2010         | 22,163         | 20,104(4)  |                          |
|   |  | Common stock (2,406 shares)                        |                         | 4/1/2010         | 926            | 547        |                          |
|   |  |  |                         |                  | 38,091         | 34,251     |                          |
| ELC Acquisition Corporation                                   | Developer, manufacturer and retailer of educational products | Senior secured loan (\$160 par due 11/2012)        | 3.50% (Libor + 3.25%/M) | 11/30/2006       | 160            | 160(3)     |                          |
|   |  | Junior secured loan (\$8,333 par due 11/2013)      | 7.25% (Libor + 7.00%/M) | 11/30/2006       | 8,333          | 8,333(3)   |                          |
|   |  |  |                         |                  | 8,493          | 8,493      |                          |
| Instituto de Banca y Comercio, Inc. & Leeds IV Advisors, Inc. | Private school operator                                      | Series B preferred stock (1,401,385 shares)        |                         | 8/5/2010         | 4,004          | 4,403      |                          |
|   |  | Series B preferred stock (348,615 shares)          |                         | 8/5/2010         | 996            | 1,095      |                          |
|   |  | Series C preferred stock (1,994,644 shares)        |                         | 6/7/2010         | 547            | 1,799      |                          |
|   |  | Series C preferred stock (517,942 shares)          |                         | 6/7/2010         | 142            | 467        |                          |
|   |  | Common stock (16 shares)                           |                         | 6/7/2010         |                |            |                          |
|   |  | Common stock (4 shares)                            |                         | 6/7/2010         |                |            |                          |
|   |  |  |                         |                  | 5,689          | 7,764      |                          |
|   |  |  |                         | 12/31/2009       | 1,250          | 1,250      |                          |

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|   |                               |   |                              |            |        |               |
|---|-------------------------------|---|------------------------------|------------|--------|---------------|
| JTC Education Holdings, Inc.  | Postsecondary school operator | Senior secured revolving loan (\$1,250 par due 12/2014) | 12.75% (Base Rate + 9.50%/Q) |            |        |               |
|   |                               | Senior secured loan (\$18,574 par due 12/2014)          | 12.50% (Libor + 9.50%/M)     | 12/31/2009 | 18,574 | 18,574(14)    |
|   |                               | Senior secured loan (\$10,090 par due 12/2014)          | 12.50% (Libor + 9.50%/M)     | 12/31/2009 | 10,090 | 10,090(3)(14) |
|   |                               |   |                              | 29,914     | 29,914 |               |
| R3 Education, Inc. (formerly known as Equinox EIC Partners, LLC and MUA Management Company) and EIC Acquisitions Corp.(8) | Medical school operator       | Senior secured loan (\$10,113 par due 4/2013)           | 9.00% (Libor + 6.00%/Q)      | 9/21/2007  | 10,113 | 15,788(14)    |
|   |                               | Senior secured loan (\$5,775 par due 4/2013)            | 9.00% (Libor + 6.00%/Q)      | 4/3/2007   | 5,775  | 9,016(3)(14)  |
|   |                               | Senior secured loan (\$4,000 par due 4/2013)            | 9.00% (Libor + 6.00%/Q)      | 9/21/2007  | 4,000  | 6,245(3)(14)  |
|   |                               | Senior secured loan (\$5,913 par due 4/2013)            | 13.00% PIK                   | 12/8/2009  | 2,698  | 9,231(4)      |
|   |                               | Preferred stock (800 shares)                            |                              | 7/30/2008  | 200    | 100           |
|   |                               | Preferred stock (8,000 shares)                          |                              | 7/30/2008  | 2,000  | 1,000         |
|   |                               | Common membership interest (26.27% interest)            |                              | 9/21/2007  | 15,800 | 19,875        |

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| Company(1)                                    | Industry   | Investment<br>Warrants to<br>purchase up<br>to 27,890<br>shares | Interest(5)(10)                             | Acquisition<br>Date<br>12/8/2009 | Amortized<br>Cost | Fair<br>Value  | Percentage<br>of Net<br>Assets |
|---|--|---|---|----------------------------------|-------------------|----------------|--------------------------------|
|   |  |   |   |                                  | 40,586            | 61,255         |                                |
|   |  |   |   |                                  | <b>277,174</b>    | <b>301,937</b> | <b>9.55%</b>                   |
| <b>Services-Other</b>                         |  |   |   |                                  |                   |                |                                |
| The Dwyer Group                               | Operator of multiple franchise concepts primarily related to home maintenance or repairs | Senior subordinated loan (\$27,100 par due 12/2016)             | 14.50%                                      | 12/22/2010                       | 27,100            | 27,100         |                                |
|   |  | Series A preferred units (13,292,377 units)                     | 8.00% PIK                                   | 12/22/2010                       | 13,292            | 13,292(4)      |                                |
|   |  |   |   |                                  | 40,392            | 40,392         |                                |
| Growing Family, Inc. and GFH Holdings, LLC(6) | Photography services   | Senior secured revolving loan (\$206 par due 8/2011)            | 9.00% (Libor + 2.00% Cash, 4.00% PIK/M)     | 3/16/2007                        | 201               | 112(4)(14)     |                                |
|   |  | Senior secured revolving loan (\$2,252 par due 8/2011)          | 9.00% (Base Rate + 1.75% Cash, 4.00% PIK/M) | 3/16/2007                        | 2,197             | 1,220(4)(14)   |                                |
|   |  | Senior secured loan (\$6,498 par due 3/2013)                    | 9.00% (Libor + 2.00% Cash, 4.00% PIK/M)     | 3/16/2007                        | 6,350             | 3,520(4)(14)   |                                |
|   |  | Senior secured loan (\$594 par due 3/2013)                      | 9.00% (Libor + 2.00% Cash, 4.00% PIK/M)     | 3/16/2007                        | 581               | 322(4)(14)     |                                |
|   |  | Preferred stock (8,750 shares)                                  |   | 3/16/2007                        |                   |                |                                |
|   |  | Common stock (552,430 shares)                                   |   | 3/16/2007                        | 872               |                |                                |
|   |  | Warrants to purchase up to 11,313,678 Class B units             |   | 3/16/2007                        |                   |                |                                |
|   |  |   |   |                                  | 10,201            | 5,174          |                                |
| PODS Funding Corp.                            | Storage and warehousing  | Senior subordinated loan (\$25,125 par due 6/2015)              | 15.00%                                      | 12/23/2009                       | 25,125            | 25,125         |                                |

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|   |  |   |  |            |                |                |              |
|---|--|---|--|------------|----------------|----------------|--------------|
|   |  | Senior subordinated loan (\$7,582 par due 12/2015)                                  | 16.64%                                   | 12/23/2009 | 6,326          | 7,582          |              |
|   |  |   |  |            | 31,451         | 32,707         |              |
| United Road Towing, Inc.  | Towing company                         | Junior secured loan (\$18,889 par due 1/2014) Warrants to purchase up to 607 shares | 14.75% (Libor + 11.25 Cash, 1.00% PIK/Q) | 4/1/2010   | 18,670         | 18,889(4)(14)  |              |
|   |  |   |  | 4/1/2010   |                | 20             |              |
|   |  |   |  |            | 18,670         | 18,909         |              |
| Wash Multifamily Laundry Systems, LLC (fka Web Services Company, LLC) | Laundry service and equipment provider | Senior secured loan (\$4,875 par due 8/2014)  | 7.00% (Base Rate + 3.75%/Q)              | 6/15/2009  | 4,716          | 4,875(3)       |              |
|   |  | Junior secured loan (\$101,900 par due 8/2015)                                      | 10.88% (Libor + 9.38%/Q)                 | 1/25/2011  | 101,900        | 101,900(14)    |              |
|   |  | Junior secured loan (\$3,100 par due 8/2015)  | 10.88% (Libor + 9.38%/Q)                 | 1/25/2011  | 3,100          | 3,100(3)(14)   |              |
|   |  |   |  |            | 109,716        | 109,875        |              |
|   |  |   |  |            | <b>210,430</b> | <b>207,057</b> | <b>6.55%</b> |
| <b>Consumer Products-Non-durable</b>                                  |  |   |  |            |                |                |              |
| Augusta Sportswear, Inc.  | Manufacturer of athletic apparel       | Senior secured loan (\$9,158 par due 7/2015)  | 8.50% (Libor + 7.50%/Q)                  | 9/3/2010   | 9,158          | 9,158(3)(14)   |              |

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| Company(1)                             | Industry                                   | Investment  | Interest(5)(10)             | Acquisition Date | Amortized Cost | Fair Value | Percentage of Net Assets |
|--|--|---|-----------------------------|------------------|----------------|------------|--------------------------|
|  |  | Senior secured loan (\$1 par due 7/2015)                | 9.50% (Base Rate + 6.25%/Q) | 9/3/2010         | 1              |            | 1(3)                     |
|  |  |   |                             |                  | 9,159          | 9,159      |                          |
| Gilchrist & Soames, Inc.               | Personal care manufacturer                 | Senior secured revolving loan (\$1,000 par due 10/2013) | 4.04% (Libor + 3.75%/S)     | 4/1/2010         | 1,000          | 1,000      |                          |
|  |  | Senior secured revolving loan (\$750 par due 10/2013)   | 4.03% (Libor + 3.75%/S)     | 4/1/2010         | 750            | 750        |                          |
|  |  | Senior secured loan (\$22,902 par due 10/2013)          | 13.44%                      | 4/1/2010         | 22,185         | 22,902     |                          |
|  |  |   |                             |                  | 23,935         | 24,652     |                          |
| Insight Pharmaceuticals Corporation(6) | OTC drug products manufacturer             | Senior subordinated loan (\$25,704 par due 12/2017)     | 13.00% Cash, 2.00% PIK      | 4/1/2010         | 25,704         | 25,704(4)  |                          |
|  |  | Common stock (155,000 shares)                           |                             | 4/1/2010         | 12,070         | 14,675     |                          |
|  |  |   |                             |                  | 37,774         | 40,379     |                          |
| Making Memories Wholesale, Inc.(7)     | Scrapbooking branded products manufacturer | Senior secured revolving loan (\$1,750 par due 8/2014)  | 10.00% (Libor + 6.50%/S)    | 8/21/2009        | 1,750          | 1,750(14)  |                          |
|  |  | Senior secured loan (\$9,148 par due 8/2014)            |                             | 8/21/2009        | 7,193          | 2,090(13)  |                          |
|  |  | Senior secured loan (\$5,024 par due 8/2014)            |                             | 8/21/2009        | 3,874          | (13)       |                          |
|  |  | Common stock (100 shares)                               |                             | 8/21/2009        |                |            |                          |
|  |  |   |                             |                  | 12,817         | 3,840      |                          |
| The Step2 Company, LLC                 | Toy manufacturer                           | Junior secured loan (\$27,000 par due 4/2015)           | 10.00%                      | 4/1/2010         | 25,557         | 27,000(4)  |                          |
|  |  |   | 15.00%                      | 4/1/2010         | 28,396         | 30,000(4)  |                          |

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|  |  |  |                              |            |                |                |              |
|--|--|--|------------------------------|------------|----------------|----------------|--------------|
|  |  | Junior secured loan (\$30,000 par due 4/2015)      |                              | 4/1/2010   | 24             | 237            |              |
|  |  | Common units (1,114,343 units)                     |                              |            |                |                |              |
|  |  | Warrants to purchase up to 3,157,895 units         |                              | 4/1/2010   |                | 676            |              |
|  |  |  |                              |            | 53,977         | 57,913         |              |
| The Thymes, LLC(7)   | Cosmetic products manufacturer                       | Preferred units (6,283 units)                      | 8.00% PIK                    | 6/21/2007  | 5,956          | 6,636(4)       |              |
|  |  | Common units (5,400 units)                         |                              | 6/21/2007  |                | 383            |              |
|  |  |  |                              |            | 5,956          | 7,019          |              |
| Woodstream Corporation   | Pet products manufacturer                            | Senior subordinated loan (\$4,743 par due 2/2015)  | 12.00%                       | 1/22/2010  | 4,743          | 4,600          |              |
|  |  | Senior subordinated loan (\$50,257 par due 2/2015) | 12.00%                       | 1/22/2010  | 43,578         | 48,750         |              |
|  |  | Common stock (4,254 shares)                        |                              | 1/22/2010  | 1,222          | 2,685          |              |
|  |  |  |                              |            | 49,543         | 56,035         |              |
|  |  |  |                              |            | <b>193,161</b> | <b>198,997</b> | <b>6.29%</b> |
| <b>Manufacturing</b>   |  |  |                              |            |                |                |              |
| Bundy Refrigeration International Holding B.V. (aka Tyde Group Worldwide)(8) | Refrigeration and cooling systems parts manufacturer | Senior secured loan (\$8,756 par due 4/2012)       | 13.13% (Base Rate + 5.63%/M) | 12/15/2010 | 8,756          | 8,756(14)      |              |
|  |  | Senior secured loan (\$15,651 par due 4/2012)      | 15.38% (Base Rate + 7.88%/Q) | 12/15/2010 | 15,651         | 15,651(14)     |              |
|  |  |  |                              |            | 24,407         | 24,407         |              |

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| Company(1)                                   | Industry  | Investment  | Interest(5)(10)             | Acquisition Date | Amortized Cost | Fair Value   | Percentage of Net Assets |
|--|---|---|-----------------------------|------------------|----------------|--------------|--------------------------|
| Component Hardware Group, Inc.               | Commercial equipment manufacturer               | Junior secured loan (\$3,037 par due 12/2014)               | 7.00% Cash, 3.00% PIK       | 8/4/2010         | 3,037          | 3,037(4)     |                          |
|  |   | Senior subordinated loan (\$10,206 par due 12/2014)         | 7.50% Cash, 5.00% PIK       | 4/1/2010         | 6,046          | 10,206(4)    |                          |
|  |   | Warrants to purchase up to 1,462,500 shares of common stock |                             | 8/4/2010         |                | 1,932        |                          |
|  |   |   |                             |                  | 9,083          | 15,175       |                          |
| Emerald Performance Materials, LLC           | Polymers and performance materials manufacturer | Senior secured loan (\$375 par due 11/2013)                 | 8.25% (Libor + 4.25%/M)     | 5/16/2006        | 375            | 375(14)      |                          |
|  |   | Senior secured loan (\$536 par due 11/2013)                 | 8.25% (Libor + 4.25%/M)     | 5/16/2006        | 536            | 536(3)(14)   |                          |
|  |   | Senior secured loan (\$5,359 par due 11/2013)               | 8.25% (Libor + 4.25%/M)     | 5/16/2006        | 5,359          | 5,359(14)    |                          |
|  |   | Senior secured loan (\$7,665 par due 11/2013)               | 8.25% (Libor + 4.25%/M)     | 5/16/2006        | 7,665          | 7,665(3)(14) |                          |
|  |   | Senior secured loan (\$331 par due 11/2013)                 | 8.50% (Base Rate + 1.75%/Q) | 5/16/2006        | 331            | 331(14)      |                          |
|  |   | Senior secured loan (\$474 par due 11/2013)                 | 8.50% (Base Rate + 1.75%/Q) | 5/16/2006        | 474            | 474(3)(14)   |                          |
|  |   | Senior secured loan (\$3,806 par due 11/2013)               | 10.00% (Libor + 6.00%/M)    | 5/16/2006        | 3,806          | 3,806(14)    |                          |
|  |   | Senior secured loan (\$1,579 par due 11/2013)               | 10.00% (Libor + 6.00%/M)    | 5/16/2006        | 1,579          | 1,579(3)(14) |                          |
|  |   | Senior secured loan (\$3,585 par due 11/2013)               | 13.00% Cash, 3.00% PIK      | 5/16/2006        | 3,585          | 3,585(4)     |                          |
|  |   | Senior secured loan (\$5,128 par due 11/2013)               | 13.00% Cash, 3.00% PIK      | 5/16/2006        | 5,128          | 5,128(2)(4)  |                          |
|  |   |   |                             |                  | 28,838         | 28,838       |                          |
| Industrial Air Tool, LP and Affiliates d/b/a | Industrial products                             | Class B common units (37,125)                               |                             | 4/1/2010         | 6,000          | 16,216       |                          |

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|                                |  |   |                            |           |        |                 |
|--------------------------------|--|---|----------------------------|-----------|--------|-----------------|
| Industrial Air Tool(7)         |  | units)<br>Member<br>interest (375<br>units)   |                            | 4/1/2010  | 7,419  | 164             |
|                                |  |   |                            |           | 13,419 | 16,380          |
| NetShape<br>Technologies, Inc. | Metal precision<br>engineered<br>components<br>manufacturer                | Senior<br>secured<br>revolving<br>loan (\$972<br>par due<br>2/2013)<br>Common<br>units (1,000<br>units) | 4.00%<br>(Libor + 3.75%/M) | 4/1/2010  | 521    | 602             |
|                                |  |   |                            | 1/30/2007 | 1,000  |                 |
|                                |  |   |                            |           | 1,521  | 602             |
| Reflexite<br>Corporation(7)    | Developer and<br>manufacturer of<br>high-visibility<br>reflective products | Senior<br>subordinated<br>loan (\$3,282<br>par due<br>11/2014)  | 12.50% Cash, 5.50%<br>PIK  | 2/26/2008 | 3,282  | 3,282(4)(14)    |
|                                |  | Senior<br>subordinated<br>loan (\$5,999<br>par due<br>11/2014)  | 12.50% Cash, 5.50%<br>PIK  | 2/26/2008 | 5,999  | 5,999(3)(4)(14) |
|                                |  | Common<br>stock<br>(1,821,860<br>shares)  |                            | 3/28/2006 | 27,435 | 30,523          |
|                                |  |   |                            |           | 36,716 | 39,804          |
| STS Operating, Inc.            | Hydraulic systems<br>equipment and<br>supplies provider                    | Senior<br>subordinated<br>loan<br>(\$30,386 par<br>due 1/2013)  | 11.00%                     | 4/1/2010  | 29,562 | 30,386(2)       |
| UL Holding Co., LLC            | Petroleum product<br>manufacturer  | Junior<br>secured loan<br>(\$5,000 par<br>due 12/2012)  | 15.00%                     | 8/13/2010 | 5,000  | 5,000           |
|                                |  | Junior<br>secured loan<br>(\$2,103 par<br>due 12/2012)  | 9.69%<br>(Libor + 9.38%/Q) | 2/13/2009 | 2,103  | 2,103           |
|                                |  | Junior<br>secured loan<br>(\$837 par<br>due 12/2012)  | 9.69%<br>(Libor + 9.38%/Q) | 2/13/2009 | 837    | 837(3)          |

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| Company(1)                                     | Industry                                       | Investment                                     | Interest(5)(10)             | Acquisition Date | Amortized Cost | Fair Value     | Percentage of Net Assets |
|--|--|--|-----------------------------|------------------|----------------|----------------|--------------------------|
|  |  | Junior secured loan (\$2,114 par due 12/2012)  | 14.50%                      | 2/13/2009        | 2,114          | 2,114          |                          |
|  |  | Junior secured loan (\$842 par due 12/2012)    | 14.50%                      | 2/13/2009        | 842            | 842(3)         |                          |
|  |  | Junior secured loan (\$10,782 par due 12/2012) | 9.69%<br>(Libor + 9.38%/Q)  | 2/13/2009        | 10,782         | 10,782(3)      |                          |
|  |  | Junior secured loan (\$2,956 par due 12/2012)  | 14.50%                      | 2/13/2009        | 2,956          | 2,956(2)       |                          |
|  |  | Junior secured loan (\$985 par due 12/2012)    | 14.50%                      | 2/13/2009        | 985            | 985(3)         |                          |
|  |  | Common units (50,000 units)                    |                             | 4/25/2008        | 500            | 109            |                          |
|  |  | Common units (207,843 units)                   |                             | 4/25/2008        |                | 452            |                          |
|  |  |  |                             |                  | 26,119         | 26,180         |                          |
|  |  |  |                             |                  | <b>169,665</b> | <b>181,772</b> | <b>5.75%</b>             |
| <b>Food and Beverage</b>                       |  |  |                             |                  |                |                |                          |
| Apple & Eve, LLC and US Juice Partners, LLC(6) | Juice manufacturer                             | Senior secured loan (\$13,440 par due 10/2013) | 12.00%<br>(Libor + 9.00%/M) | 10/5/2007        | 13,440         | 13,440(14)     |                          |
|  |  | Senior secured loan (\$14,140 par due 10/2013) | 12.00%<br>(Libor + 9.00%/M) | 10/5/2007        | 14,140         | 14,140(3)(14)  |                          |
|  |  | Senior units (50,000 units)                    |                             | 10/5/2007        | 5,000          | 4,984          |                          |
|  |  |  |                             |                  | 32,580         | 32,564         |                          |
| Border Foods, Inc.(7)                          | Green chile and jalapeno products manufacturer | Senior secured loan (\$28,526 par due 3/2012)  | 13.50%                      | 4/1/2010         | 28,526         | 28,526         |                          |
|  |  | Preferred stock (100,000 shares)               |                             | 4/1/2010         | 21,346         | 23,293         |                          |
|  |  | Common stock (148,838 shares)                  |                             | 4/1/2010         | 13,472         | 6,795          |                          |
|  |  | Common stock (87,707 shares)                   |                             | 4/1/2010         |                | 4,004          |                          |
|  |  |  |                             | 4/1/2010         |                | 1,092          |                          |

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Common  
stock (23,922  
shares)

|                              |                          |  |                             |          |                |                |              |
|------------------------------|--------------------------|--|-----------------------------|----------|----------------|----------------|--------------|
|                              |                          |  |                             |          | 63,344         | 63,710         |              |
| Charter Baking Company, Inc. | Baked goods manufacturer | Senior subordinated loan (\$7,111 par due 2/2013)      | 13.00% PIK                  | 2/6/2008 | 7,111          | 7,111(4)       |              |
|                              |                          | Preferred stock (6,258 shares)                         |                             | 9/1/2006 | 2,500          | 1,650          |              |
|                              |                          |  |                             |          | 9,611          | 8,761          |              |
| Distant Lands Trading Co.    | Coffee manufacturer      | Common stock (1,294 shares)                            |                             | 4/1/2010 | 980            | 850            |              |
|                              |                          | Common stock (2,157 shares)                            |                             | 4/1/2010 |                |                |              |
|                              |                          |  |                             |          | 980            | 850            |              |
| Ideal Snacks Corporation     | Snacks manufacturer      | Senior secured revolving loan (\$1,071 par due 6/2011) | 8.50% (Base Rate + 4.00%/M) | 4/1/2010 | 1,071          | 910(14)        |              |
|                              |                          |  |                             |          | <b>107,586</b> | <b>106,795</b> | <b>3.38%</b> |

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| Company(1)  | Industry                         | Investment  | Interest(5)(10)         | Acquisition Date | Amortized Cost | Fair Value   | Percentage of Net Assets |
|---|----------------------------------|---|-------------------------|------------------|----------------|--------------|--------------------------|
| American Broadband Communications, LLC and American Broadband Holding Company | Broadband communication services | Senior secured loan (\$523 par due 9/2013)          | 7.50% (Libor + 5.50%/Q) | 9/1/2010         | 555            | 523(14)      |                          |
|   |                                  | Senior secured loan (\$17,550 par due 9/2013)       | 7.50% (Libor + 5.50%/Q) | 9/1/2010         | 16,752         | 17,550(2)    |                          |
|   |                                  | Senior secured loan (\$9,165 par due 9/2013)        | 7.50% (Libor + 5.50%/Q) | 9/1/2010         | 9,165          | 9,165(3)     |                          |
|   |                                  | Senior subordinated loan (\$32,932 par due 11/2014) | 12.00% Cash, 2.00% PIK  | 2/8/2008         | 32,932         | 32,932(2)(4) |                          |
|   |                                  | Senior subordinated loan (\$10,372 par due 11/2014) | 12.00% Cash, 2.00% PIK  | 11/7/2007        | 10,372         | 10,372(4)    |                          |
|   |                                  | Senior subordinated loan (\$26,010 par due 11/2014) | 10.00% Cash, 4.00% PIK  | 9/1/2010         | 26,010         | 26,010(4)    |                          |
|   |                                  | Warrants to purchase up to 378 shares               |                         | 9/1/2010         |                | 7,330        |                          |
|   |                                  | Warrants to purchase up to 200 shares               |                         | 11/7/2007        |                |              |                          |
|   |                                  |   |                         |                  | 95,786         | 103,882      |                          |
| Startec Equity, LLC(7)  | Communication services           | Member interest                                     |                         | 4/1/2010         |                |              |                          |
|   |                                  |   |                         |                  | 95,786         | 103,882      | 3.28%                    |
| <b>Environmental Services</b>   |                                  |   |                         |                  |                |              |                          |
| AWTP, LLC   | Water treatment services         | Junior secured loan (\$4,755 par due 12/2012)       |                         | 12/21/2005       | 4,755          | 1,517(13)    |                          |
|   |                                  | Junior secured loan (\$2,086 par due 12/2012)       |                         | 12/21/2005       | 2,086          | 666(3)(13)   |                          |
|   |                                  | Junior secured loan (\$4,755 par due 12/2012)       |                         | 12/21/2005       | 4,755          | 1,517(13)    |                          |
|   |                                  | Junior secured loan (\$2,086 par due 12/2012)       |                         | 12/21/2005       | 2,086          | 666(3)(13)   |                          |

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|   |  |   |                              |                            |        |              |
|---|--|---|------------------------------|----------------------------|--------|--------------|
|   |  |   |                              |                            | 13,682 | 4,366        |
| Mactec, Inc.  | Engineering and environmental services     | Class B-4 stock (16 shares)<br>Class C stock (5,556 shares) |                              | 11/3/2004<br><br>11/3/2004 |        | 165          |
|   |  |   |                              |                            |        | 165          |
| RE Community Holdings II, Inc. and Pegasus Community Energy, LLC. | Operator of municipal recycling facilities | Senior secured loan (\$36,700 par due 3/2016)               | 11.50% (Libor + 9.75%/M)     | 3/1/2011                   | 36,700 | 36,700(14)   |
|   |  | Senior secured loan (\$8,300 par due 3/2016)                | 11.50% (Libor + 9.75%/M)     | 3/1/2011                   | 8,300  | 8,300(3)(14) |
|   |  | Senior secured loan (\$5,000 par due 3/2016)                | 11.50% (Libor + 9.75%/Q)     | 3/1/2011                   | 5,000  | 5,000(14)    |
|   |  | Preferred stock (1,000 shares)                              |                              | 3/1/2011                   | 7,500  | 7,500        |
|   |  |   |                              |                            | 57,500 | 57,500       |
| Sigma International Group, Inc.(8)                                | Water treatment parts manufacturer         | Junior secured loan (\$1,827 par due 10/2013)               | 16.00% (Libor + 8.00%/Q)     | 10/11/2007                 | 1,823  | 1,279(14)    |
|   |  | Junior secured loan (\$3,986 par due 10/2013)               | 16.00% (Libor + 8.00%/Q)     | 10/11/2007                 | 3,978  | 2,790(3)(14) |
|   |  | Junior secured loan (\$2,796 par due 10/2013)               | 16.00% (Base Rate + 6.50%/M) | 10/11/2007                 | 2,790  | 1,957(14)    |
|   |  | Junior secured loan (\$926 par due 10/2013)                 | 16.00% (Base Rate + 6.50%/M) | 10/11/2007                 | 924    | 648(14)      |
|   |  | Junior secured loan (\$6,100 par due 10/2013)               | 16.00% (Base Rate + 6.50%/M) | 10/11/2007                 | 6,086  | 4,270(3)(14) |

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| Company(1)  | Industry   | Investment   | Interest(5)(10)              | Acquisition Date | Amortized Cost | Fair Value    | Percentage of Net Assets |
|---|--|--|------------------------------|------------------|----------------|---------------|--------------------------|
|   |  | Junior secured loan (\$2,020 par due 10/2013)      | 16.00% (Base Rate + 6.50%/M) | 10/11/2007       | 2,015          | 1,414(3)(14)  |                          |
|   |  |  |                              |                  | 17,616         | 12,358        |                          |
| Waste Pro USA, Inc  | Waste management services                            | Preferred Class A Common Equity (611,615 shares)   |                              | 11/9/2006        | 12,263         | 17,781        |                          |
| Wastequip, Inc.   | Waste management equipment                           | Senior subordinated loan (\$12,669 par due 2/2015) |                              | 2/5/2007         | 12,581         | 760(13)       |                          |
|   | manufacturer   | Common stock (13,889 shares)                       |                              | 2/2/2007         | 1,389          |               |                          |
|   |  |  |                              |                  | 13,970         | 760           |                          |
|   |  |  |                              |                  | <b>115,031</b> | <b>92,930</b> | <b>2.94%</b>             |
| <b>Consumer Products Durable</b>                          |  |  |                              |                  |                |               |                          |
| Bushnell Inc.   | Sports optics manufacturer                           | Junior secured loan (\$41,325 par due 2/2014)      | 6.80% (Libor + 6.50%/Q)      | 4/1/2010         | 31,344         | 35,126        |                          |
| Carlisle Wide Plank Floors, Inc.                          | Hardwood floor manufacturer                          | Senior secured loan (\$1,545 par due 6/2011)       |                              | 4/1/2010         | 1,450          | 773(13)       |                          |
|   |  | Common stock (345,056 shares)                      |                              | 4/1/2010         |                |               |                          |
|   |  |  |                              |                  | 1,450          | 773           |                          |
| Direct Buy Holdings, Inc. and Direct Buy Investors, LP(6) | Membership based buying club franchisor and operator | Junior secured note (\$32,000 par due 2/2017)      | 12.00%                       | 1/21/2011        | 31,069         | 24,640        |                          |
|   |  | Partnership interests (83,333 shares)              |                              | 11/30/2007       | 8,333          | 1,794         |                          |
|   |  | Limited partnership interest (66,667 shares)       |                              | 4/1/2010         | 2,594          | 1,436         |                          |
|   |  |  |                              |                  | 41,996         | 27,870        |                          |

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|  |                              |   |                       | 74,790   | 63,769 | 2.02%     |
|--|------------------------------|---|-----------------------|----------|--------|-----------|
| <b>Commercial Real Estate Finance</b>            |                              |   |                       |          |        |           |
| 10th Street, LLC(6)                              | Real estate holding company  | Senior subordinated loan (\$23,489 par due 11/2014) | 8.93% Cash, 4.07% PIK | 4/1/2010 | 23,489 | 23,489(4) |
|  |                              | Member interest (10.00% interest)                   |                       | 4/1/2010 | 594    | 565       |
|  |                              | Option (25,000 units)                               |                       | 4/1/2010 | 25     | 25        |
|  |                              |   |                       | 24,108   | 24,079 |           |
| Allied Capital REIT, Inc.(7)                     | Real estate investment trust | Real estate equity interests                        |                       | 4/1/2010 | 50     | 54        |
|  |                              | Real estate equity interests                        |                       | 4/1/2010 |        | 1,075     |
|  |                              |   |                       |          | 50     | 1,129     |
| American Commercial Coatings, Inc.               | Real estate property         | Commercial mortgage loan (\$2,000 par due 12/2025)  |                       | 4/1/2010 | 1,834  | 1,822(13) |
| Aquila Binks Forest Development, LLC             | Real estate developer        | Commercial mortgage loan (\$12,942 par due 6/2011)  |                       | 4/1/2010 | 11,365 | 4,913(13) |
|  |                              | Real estate equity interests                        |                       | 4/1/2010 |        |           |
|  |                              |   |                       |          | 11,365 | 4,913     |
| Cleveland East Equity, LLC                       | Hotel operator               | Real estate equity interests                        |                       | 4/1/2010 | 1,026  | 2,158     |
| Commons R-3, LLC                                 | Real estate developer        | Real estate equity interests                        |                       | 4/1/2010 |        |           |
| Crescent Hotels & Resorts, LLC and affiliates(7) | Hotel operator               | Senior secured loan (\$433 par due 6/2010)          | 10.00%                | 4/1/2010 | 433    | 444       |
|  |                              | Senior subordinated loan (\$4,124 par due 1/2012)   |                       | 4/1/2010 | 1,475  | 596(13)   |



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| Company(1)      | Industry       | Investment  | Interest(5)(10) | Acquisition Date | Amortized Cost | Fair Value | Percentage of Net Assets |
|-----------------|----------------|---|-----------------|------------------|----------------|------------|--------------------------|
|                 |                | Senior subordinated loan (\$4,348 par due 6/2017) |                 | 4/1/2010         | 1,482          | 628(13)    |                          |
|                 |                | Senior subordinated loan (\$2,722 par due 6/2017) |                 | 4/1/2010         | 928            | 393(13)    |                          |
|                 |                | Senior subordinated loan (\$5,974 par due 9/2012) |                 | 4/1/2010         | 2,051          | 863(13)    |                          |
|                 |                | Senior subordinated loan (\$263 par due 3/2013)   |                 | 4/1/2010         | 263            | 38(13)     |                          |
|                 |                | Senior subordinated loan (\$2.112 par due 9/2011) |                 | 4/1/2010         |                | (13)       |                          |
|                 |                | Senior subordinated loan (\$3,078 par due 1/2012) |                 | 4/1/2010         |                | (13)       |                          |
|                 |                | Senior subordinated loan (\$2,926 par due 6/2017) |                 | 4/1/2010         |                | (13)       |                          |
|                 |                | Senior subordinated loan (\$2,050 par due 6/2017) |                 | 4/1/2010         |                | (13)       |                          |
|                 |                | Senior subordinated loan (\$4,826 par due 9/2012) |                 | 4/1/2010         |                | (13)       |                          |
|                 |                | Preferred equity interest                         |                 | 4/1/2010         |                | 18         |                          |
|                 |                | Preferred equity interest                         |                 | 4/1/2010         |                | 16         |                          |
|                 |                | Common equity interest                            |                 | 4/1/2010         | 35             |            |                          |
|                 |                | Member interests                                  |                 | 4/1/2010         |                |            |                          |
|                 |                |   |                 |                  | 6,667          | 2,996      |                          |
| DI Safford, LLC | Hotel operator | Commercial mortgage loan (\$5,311 par due 5/2032) |                 | 4/1/2010         | 2,757          | 2,750(13)  |                          |

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|  |                             |   |                         |               |               |              |
|--|-----------------------------|---|-------------------------|---------------|---------------|--------------|
| Hot Light Brands, Inc.(7)                            | Real estate holding company | Senior secured loan (\$27,393 par due 2/2011)       | 4/1/2010                | 4,875         | 4,543(13)     |              |
|  |                             | Common stock (93,500 shares)                        | 4/1/2010                |               |               |              |
|  |                             |   |                         | 4,875         | 4,543         |              |
| MGP Park Place Equity, LLC                           | Office building operator    | Commercial mortgage loan (\$6,000 par due 5/2011)   | 4/1/2010                | 150           | (13)          |              |
| NPH, Inc.  | Hotel property              | Real estate equity interests                        | 4/1/2010                | 5,291         | 7,838         |              |
| Van Ness Hotel, Inc.                                 | Hotel operator              | Commercial mortgage loan (\$3,750 par due 8/2013)   | 4/1/2010                | 1,027         | (13)          |              |
|  |                             | Commercial mortgage loan (\$13,579 par due 12/2011) | 4/1/2010                | 13,579        | 11,513(13)    |              |
|  |                             | Real estate equity interests                        | 4/1/2010                |               |               |              |
|  |                             |   |                         | 14,606        | 11,513        |              |
|  |                             |   |                         | <b>72,729</b> | <b>63,741</b> | <b>2.02%</b> |
| <b>Retail</b>  |                             |   |                         |               |               |              |
| Savers, Inc. and SAI Acquisition Corporation         | For-profit thrift retailer  | Common stock (1,218,481 shares)                     | 8/8/2006                | 4,909         | 9,907         |              |
| Things Remembered, Inc. and TRM Holdings Corporation | Personalized gifts retailer | Senior secured loan (\$915 par due 3/2014)          | 9.00% (Libor + 7.00%/M) | 9/28/2006     | 913           | 915(3)(14)   |
|  |                             | Senior secured loan (\$36,433 par due 3/2014)       | 9.00% (Libor + 7.00%/M) | 9/28/2006     | 36,400        | 36,433(14)   |
|  |                             | Senior secured loan (\$7,311 par due 3/2014)        | 9.00% (Libor + 7.00%/M) | 9/28/2006     | 7,389         | 7,311(3)(14) |
|  |                             | Preferred stock (73 shares)                         |                         | 3/19/2009     |               | 2,042        |
|  |                             | Preferred stock (80 shares)                         |                         | 9/28/2006     | 1,800         | 2,234        |
|  |                             | Common stock (800 shares)                           |                         | 9/28/2006     | 200           |              |

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| Company(1)                            | Industry  | Investment   | Interest(5)(10)             | Acquisition Date | Amortized Cost | Fair Value    | Percentage of Net Assets |
|---------------------------------------|---|--|-----------------------------|------------------|----------------|---------------|--------------------------|
|                                       |   | Warrants to purchase up to 859 shares of preferred stock |                             | 3/19/2009        |                |               |                          |
|                                       |   |  |                             |                  | 46,702         | 48,935        |                          |
|                                       |   |  |                             |                  | <b>51,611</b>  | <b>58,842</b> | <b>1.86%</b>             |
| <b>Wholesale Distribution</b>         |   |  |                             |                  |                |               |                          |
| BECO Holding Company, Inc.            | Wholesale distributor of first response fire protection equipment and related parts | Common stock (25,000 shares)                             |                             | 7/30/2010        | 2,500          | 2,561         |                          |
| Stag-Parkway, Inc.(7)                 | Automotive aftermarket components supplier  | Senior secured loan (\$34,500 par due 12/2014)           | 12.50% (Libor + 11.00%/Q)   | 9/30/2010        | 34,500         | 34,500(14)    |                          |
|                                       |   | Preferred stock (4,200 shares)                           | 16.50%                      | 9/30/2010        | 2,345          | 4,200         |                          |
|                                       |   | Common stock (10,200 shares)                             |                             | 9/30/2010        |                | 15,336        |                          |
|                                       |   |  |                             |                  | 36,845         | 54,036        |                          |
|                                       |   |  |                             |                  | <b>39,345</b>  | <b>56,597</b> | <b>1.79%</b>             |
| <b>Computers and Electronics</b>      |   |  |                             |                  |                |               |                          |
| Interactive Technology Solutions, LLC | IT services provider  | Senior secured loan (\$7,884 par due 6/2015)             | 9.50% (Libor + 5.50%/Q)     | 10/21/2010       | 7,884          | 7,884(14)     |                          |
|                                       |   | Senior secured loan (\$8,833 par due 6/2015)             | 9.50% (Libor + 5.50%/Q)     | 10/21/2010       | 8,833          | 8,833(3)(14)  |                          |
|                                       |   |  |                             |                  | 16,717         | 16,717        |                          |
| Network Hardware Resale, Inc.         | Networking equipment resale provider  | Senior secured loan (\$12,024 par due 12/2011)           | 12% (Base Rate + 6.00%/Q)   | 4/1/2010         | 12,024         | 12,024(2)(14) |                          |
|                                       |   | Senior subordinated loan (\$19,221 par due 12/2015)      | 9.75% PIK                   | 4/1/2010         | 19,383         | 21,063(4)     |                          |
|                                       |   |  |                             |                  | 31,407         | 33,087        |                          |
| TZ Merger Sub, Inc.                   | Healthcare enterprise software developer  | Senior secured loan (\$4,678 par due 8/2015)             | 6.75% (Base Rate + 3.50%/Q) | 6/15/2009        | 4,601          | 4,678(3)      |                          |

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|                                       |   |  |   |                         | 52,725        | 54,482        | 1.72%        |
|---------------------------------------|---|--|---|-------------------------|---------------|---------------|--------------|
| <b>Automotive Services</b>            |   |  |   |                         |               |               |              |
| Driven Brands, Inc.(6)                | Automotive aftermarket car care                               | Senior secured loan (\$3,200 par due 10/2014)          | 6.50% (Libor + 5.00%/Q)                     | 5/12/2010               | 3,121         | 3,200(3)(14)  |              |
|                                       |   | franchisor   | Senior secured loan (\$480 par due 10/2014) | 6.50% (Libor + 5.00%/Q) | 4/1/2010      | 468           | 480(3)(14)   |
|                                       |   | Senior secured loan (\$148 par due 10/2014)            | 7.00% (Base Rate + 3.75%/Q)                 | 4/1/2010                | 144           | 148(3)        |              |
|                                       |   | Common stock (3,772,098 shares)                        |   | 4/1/2010                | 4,939         | 6,931         |              |
|                                       |   |  |   |                         | 8,672         | 10,759        |              |
| Penn Detroit Diesel Allison, LLC(7)   | Diesel engine manufacturer                                    | Member interest (70,249 shares)                        |   | 4/1/2010                | 20,069        | 25,553        |              |
|                                       |   |  |   |                         | <b>28,741</b> | <b>36,312</b> | <b>1.15%</b> |
| <b>Containers-Packaging</b>           |   |  |   |                         |               |               |              |
| Industrial Container Services, LLC(6) | Industrial container manufacturer, reconditioner and servicer | Senior secured revolving loan (\$1,033 par due 9/2011) | 5.75% (Base Rate + 2.50%/Q)                 | 9/30/2005               | 1,033         | 1,033         |              |
|                                       |   | Senior secured loan (\$20 par due 9/2011)              | 4.25% (Libor + 4.00%/Q)                     | 6/21/2006               | 20            | 20(2)         |              |
|                                       |   | Senior secured loan (\$54 par due 9/2011)              | 4.25% (Libor + 4.00%/Q)                     | 6/21/2006               | 54            | 54(2)         |              |
|                                       |   | Senior secured loan (\$80 par due 9/2011)              | 4.25% (Libor + 4.00%/Q)                     | 6/21/2006               | 80            | 80(2)         |              |

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| Company(1)                            | Industry                     | Investment                                     | Interest(5)(10)             | Acquisition Date | Amortized Cost | Fair Value    | Percentage of Net Assets |
|---------------------------------------|------------------------------|--|-----------------------------|------------------|----------------|---------------|--------------------------|
|                                       |                              | Senior secured loan (\$308 par due 9/2011)     | 4.25% (Libor + 4.00%/Q)     | 6/21/2006        | 308            | 308(3)        |                          |
|                                       |                              | Senior secured loan (\$821 par due 9/2011)     | 4.25% (Libor + 4.00%/Q)     | 6/21/2006        | 821            | 821(3)        |                          |
|                                       |                              | Senior secured loan (\$1,231 par due 9/2011)   | 4.25% (Libor + 4.00%/Q)     | 6/21/2006        | 1,231          | 1,231(3)      |                          |
|                                       |                              | Senior secured loan (\$24 par due 9/2011)      | 5.75% (Base Rate + 2.50%/Q) | 6/21/2006        | 24             | 24(2)         |                          |
|                                       |                              | Senior secured loan (\$368 par due 9/2011)     | 5.75% (Base Rate + 2.50%/Q) | 6/21/2006        | 368            | 368(3)        |                          |
|                                       |                              | Common units (1,800,000 units)                 |                             | 9/29/2005        | 1,800          | 17,138        |                          |
|                                       |                              |  |                             |                  | 5,739          | 21,077        |                          |
|                                       |                              |  |                             |                  | <b>5,739</b>   | <b>21,077</b> | <b>0.67%</b>             |
| <b>Health Clubs</b>                   |                              |  |                             |                  |                |               |                          |
| Athletic Club Holdings, Inc.          | Premier health club operator | Senior secured loan (\$7,250 par due 10/2013)  | 4.75% (Libor + 4.50%/M)     | 10/11/2007       | 7,250          | 6,670(2)(12)  |                          |
|                                       |                              | Senior secured loan (\$11,500 par due 10/2013) | 4.75% (Libor + 4.50%/M)     | 10/11/2007       | 11,500         | 10,580(3)(12) |                          |
|                                       |                              |  |                             |                  | 18,750         | 17,250        |                          |
|                                       |                              |  |                             |                  | <b>18,750</b>  | <b>17,250</b> | <b>0.55%</b>             |
| <b>Printing, Publishing and Media</b> |                              |  |                             |                  |                |               |                          |
| EarthColor, Inc.(7)                   | Printing management services | Common stock (89,435 shares)                   |                             | 4/1/2010         |                |               |                          |
| LVCG Holdings LLC(7)                  | Commercial printer           | Membership interests (56.53% interest)         |                             | 10/12/2007       | 6,600          |               |                          |
| National Print Group, Inc.            | Printing management services | Senior secured revolving loan (\$1,141 par due | 9.00% (Libor + 6.00%/Q)     | 3/2/2006         | 1,141          | 1,027(14)     |                          |

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|   |  |   |  |            |               |  |                 |              |
|---|--|---|--|------------|---------------|--|-----------------|--------------|
|   |  | 10/2012)  |  |            |               |  |                 |              |
|   |  | Senior secured revolving loan (\$1,924 par due 10/2012) | 9.00% (Base Rate + 5.00%/Q)                  | 3/2/2006   | 1,924         |  | 1,732(14)       |              |
|   |  | Senior secured loan (\$7,786 par due 10/2012)           | 14.00% (Libor + 6.00% Cash, 5.00% PIK/Q)     | 3/2/2006   | 7,458         |  | 7,631(3)(4)(14) |              |
|   |  | Senior secured loan (\$32 par due 10/2012)              | 14.00% (Base Rate + 5.00% Cash, 5.00% PIK/Q) | 3/2/2006   | 30            |  | 31(3)(4)(14)    |              |
|   |  | Preferred stock (9,344 shares)                          |  | 3/2/2006   | 2,000         |  |                 |              |
|   |  |   |  |            | 12,553        |  | 10,421          |              |
| The Teaching Company, LLC and The Teaching Company Holdings, Inc. | Education publications provider  | Preferred stock (21,711 shares)                         |  | 9/29/2006  | 2,171         |  | 3,659           |              |
|   |  | Common stock (15,393 shares)                            |  | 9/29/2006  | 3             |  | 9               |              |
|   |  |   |  |            | 2,174         |  | 3,668           |              |
|   |  |   |  |            | <b>21,327</b> |  | <b>14,089</b>   | <b>0.45%</b> |
| <b>Aerospace and Defense</b>                                      |  |   |  |            |               |  |                 |              |
| AP Global Holdings, Inc.  | Safety and security equipment manufacturer                             | Senior secured loan (\$6,274 par due 10/2013)           | 4.02% (Libor + 3.75%/M)                      | 11/18/2007 | 6,246         |  | 6,274(3)        |              |
| Wyle Laboratories, Inc. and Wyle Holdings, Inc.                   | Provider of specialized engineering, scientific and technical services | Senior preferred stock (775 shares)                     | 8.00% PIK                                    | 1/17/2008  | 89            |  | 89(4)           |              |

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| Company(1)                        | Industry                                | Investment   | Interest(5)(10) | Acquisition Date | Amortized Cost      | Fair Value          | Percentage of Net Assets |
|-----------------------------------|---|--|-----------------|------------------|---------------------|---------------------|--------------------------|
|                                   |   | Common stock (1,885,195 shares)                              |                 | 1/17/2008        | 2,291               | 1,984               |                          |
|                                   |   |  |                 |                  | 2,380               | 2,073               |                          |
|                                   |   |  |                 |                  | <b>8,626</b>        | <b>8,347</b>        | <b>0.26%</b>             |
| <b>Oil and Gas</b>                |   |  |                 |                  |                     |                     |                          |
| Geotrace Technologies, Inc.       | Reservoir processing, development       | Warrants to purchase up to 43,356 shares of common stock     |                 | 4/1/2010         | 54                  |                     |                          |
|                                   |   | Warrants to purchase up to 26,622 shares of common stock     |                 | 4/1/2010         | 33                  |                     |                          |
|                                   |   | Warrants to purchase up to 80,063 shares of preferred stock  |                 | 4/1/2010         | 1,738               | 177                 |                          |
|                                   |   | Warrants to purchase up to 130,390 shares of preferred stock |                 | 4/1/2010         | 1,067               | 289                 |                          |
|                                   |   |  |                 |                  | 2,892               | 466                 |                          |
|                                   |   |  |                 |                  | <b>2,892</b>        | <b>466</b>          | <b>0.01%</b>             |
| <b>Housing Building Materials</b> |   |  |                 |                  |                     |                     |                          |
| HB&G Building Products            | Synthetic and wood product manufacturer | Senior subordinated loan (\$8,956 par due 3/2013)            |                 | 10/8/2004        | 8,991               | 179(13)             |                          |
|                                   |   | Common stock (2,743 shares)                                  |                 | 10/8/2004        | 753                 |                     |                          |
|                                   |   | Warrants to purchase up to 4,464 shares of common stock      |                 | 10/8/2004        | 653                 |                     |                          |
|                                   |   |  |                 |                  | 10,397              | 179                 |                          |
|                                   |   |  |                 |                  | <b>10,397</b>       | <b>179</b>          | <b>0.01%</b>             |
|                                   |   |  |                 |                  | <b>\$ 4,214,764</b> | <b>\$ 4,263,033</b> | <b>134.78%</b>           |

- (1) Other than our investments listed in footnote 7 below, we do not "Control" any of our portfolio companies, as defined in the Investment Company Act of 1940 (the "Investment Company Act"). In general, under the Investment Company Act, we would "Control" a portfolio company if we owned more than 25% of its outstanding voting securities and/or had the power to exercise control over the management or policies of such portfolio company. All of our portfolio company investments are subject to legal restrictions on sales which as of March 31, 2011 represented 135% of the Company's net assets or 91% of the Company's total assets.
- The investments not otherwise pledged as collateral in respect of the Debt Securitization (as defined below) or the Revolving Funding Facility (as defined below) by the respective obligors thereunder are pledged as collateral by the Company and certain of its other subsidiaries for the Revolving Credit Facility (as defined below)(except for a limited number of exceptions as provided in the credit agreement governing the Revolving Credit Facility).
- (2) These assets are owned by the Company's wholly owned subsidiary Ares Capital CP Funding LLC ("Ares Capital CP"), are pledged as collateral for the Revolving Funding Facility and, as a result, are not directly available to the creditors of the Company to satisfy any obligations of the Company other than Ares Capital CP's obligations under the Revolving Funding Facility (see Note 5 to the consolidated financial statements).
- (3) Pledged as collateral for the Debt Securitization.
- (4) Has a payment-in-kind interest feature (see Note 2 to the consolidated financial statements).
- (5) Investments without an interest rate are non-income producing.



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(6)

As defined in the Investment Company Act, we are deemed to be an "Affiliated Person" of this portfolio company because we own 5% or more of the portfolio company's outstanding voting securities or we have the power to exercise control over the management or policies of such portfolio company (including through a management agreement). Transactions during the three months ended March 31, 2011 in which the issuer was an Affiliated company (but not a portfolio company that we "Control") are as follows:

| Company   | Purchases | Redemptions<br>(cost) | Sales<br>(cost) | Interest<br>income | Capital<br>structuring<br>service<br>fees | Dividend<br>Income | Other<br>income | Net<br>realized<br>gains<br>(losses) | Net<br>unrealized<br>gains<br>(losses) |
|---|-----------|-----------------------|-----------------|--------------------|---|--------------------|-----------------|--------------------------------------|--|
| 10th Street LLC   | \$        | \$                    | \$              | \$ 759             | \$  | \$                 | \$              | \$                                   | \$ (12)                                |
| Apple & Eve, LLC and US Juice<br>Partners, LLC                                      | \$        | \$ 2,682              | \$              | \$ 856             | \$  | \$                 | \$ 12           | \$                                   | \$ (52)                                |
| BB&T Capital Partners   | \$        | \$ 1,792              | \$              | \$                 | \$  | \$                 | \$              | \$                                   | \$ 64                                  |
| Carador, PLC  | \$        | \$                    | \$              | \$                 | \$  | \$                 | \$              | \$                                   | \$ 1,280                               |
| Campus Management Corp. and<br>Campus Management Acquisition<br>Corp.               | \$ 571    | \$                    | \$              | \$                 | \$  | \$                 | \$              | \$                                   | \$ 111                                 |
| CT Technologies Intermediate<br>Holdings, Inc. and CT Technologies<br>Holdings, LLC | \$        | \$                    | \$ 8,763        | \$ 61              | \$  | \$ 2,087           | \$              | \$ 1,561                             | \$ (218)                               |
| Direct Buy Holdings, Inc. and Direct<br>Buy Investors LP                            | \$ 38,800 | \$ 79,995             | \$ 9,946        | \$ 1,677           | \$  | \$                 | \$              | \$ 2,770                             | \$ (12,555)                            |
| Driven Brands, Inc.   | \$        | \$                    | \$              | \$ 69              | \$  | \$                 | \$              | \$ 3                                 | \$ 614                                 |
| DSI Renal, Inc.   | \$        | \$                    | \$              | \$ 3,138           | \$  | \$                 | \$ 10           | \$                                   | \$ 2,431                               |
| Dwyer Group, Inc.   | \$        | \$                    | \$ 1,708        | \$ 969             | \$  | \$ 15              | \$              | \$                                   | \$                                     |
| Firstlight Financial Corporation  | \$        | \$                    | \$              | \$ 131             | \$  | \$                 | \$ 63           | \$                                   | \$ 2,481                               |
| Growing Family, Inc. and GFH<br>Holdings, LLC                                       | \$        | \$                    | \$              | \$ 171             | \$  | \$                 | \$              | \$                                   | \$ 962                                 |
| Imperial Capital Group, LLC   | \$        | \$                    | \$              | \$                 | \$  | \$ 172             | \$              | \$                                   | \$ 371                                 |
| Industrial Container Services, LLC  | \$ 1,652  | \$ 2,900              | \$              | \$ 39              | \$  | \$                 | \$ 28           | \$                                   | \$ 1,934                               |
| InSight Pharmaceuticals Corporation   | \$        | \$ 30,139             | \$              | \$ 1,650           | \$  | \$                 | \$ 640          | \$                                   | \$ 1,243                               |
| Investor Group Services, LLC  | \$        | \$                    | \$              | \$                 | \$  | \$ 102             | \$ 3            | \$                                   | \$ (6)                                 |
| Multi-Ad Services, Inc.   | \$        | \$                    | \$              | \$                 | \$  | \$                 | \$              | \$                                   | \$ 793                                 |
| Pillar Processing LLC and PHL<br>Holding Co.  | \$        | \$ 8,120              | \$              | \$ 612             | \$  | \$                 | \$ 8            | \$                                   | \$ (1,445)                             |
| Primis Marketing Group, Inc. and<br>Primis Holdings, LLC                            | \$        | \$                    | \$              | \$                 | \$  | \$                 | \$              | \$                                   | \$                                     |
| Regency Equity Corp.  | \$        | \$                    | \$              | \$                 | \$  | \$                 | \$              | \$                                   | \$ 639                                 |
| Soteria Imaging Services, LLC   | \$        | \$ 802                | \$              | \$                 | \$  | \$                 | \$              | \$                                   | \$ (193)                               |
| VSS-Tranzact Holdings, LLC  | \$        | \$                    | \$              | \$                 | \$  | \$                 | \$              | \$                                   | \$ 175                                 |
| Universal Environmental<br>Services, LLC  | \$        | \$                    | \$              | \$                 | \$  | \$                 | \$              | \$                                   | \$                                     |
| Universal Trailer Corporation   | \$        | \$                    | \$ 7,930        | \$                 | \$  | \$                 | \$              | \$ (7,930)                           | \$ 7,930                               |

(7)

As defined in the Investment Company Act, we are deemed to be an "Affiliated Person" of this portfolio company because we own 5% or more of the portfolio company's outstanding voting securities or we have the power to exercise control over the management or policies of such portfolio company (including through a management agreement). In addition, as defined in the Investment Company Act, we "Control" this portfolio company because we own more than 25% of the portfolio company's outstanding voting securities or we have the power to exercise control over the management or policies of such

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portfolio company (including through a management agreement). Transactions during the period for the three months ended March 31, 2011 in which the issuer was both an Affiliated company and a portfolio company that we Control are as follows:

| Company                                  | Purchases  | Redemptions (cost) | Sales (cost) | Interest income | Capital structuring service fees | Dividend Income | Other income | Net realized gains (losses) | Net unrealized gains (losses) |
|--|------------|--------------------|--------------|-----------------|----------------------------------|-----------------|--------------|-----------------------------|-------------------------------|
| AGILE Fund I, LLC                        | \$         | \$                 | \$           | \$              | \$                               | \$ 3            | \$           | \$                          | \$ (67)                       |
| Allied Capital REIT, Inc.                | \$         | \$ 115             | \$           | \$              | \$                               | \$              | \$           | \$ 585                      | \$ 510                        |
| AllBridge Financial, LLC                 | \$         | \$                 | \$           | \$              | \$                               | \$              | \$           | \$                          | \$ 2,441                      |
| Aviation Properties Corporation          | \$         | \$                 | \$           | \$              | \$                               | \$              | \$           | \$                          | \$                            |
| BenefitMall Holdings, Inc.               | \$         | \$                 | \$           | \$ 1,815        | \$                               | \$              | \$ 125       | \$                          | \$ 871                        |
| Border Foods, Inc.                       | \$         | \$                 | \$           | \$ 963          | \$                               | \$              | \$           | \$                          | \$ 3,968                      |
| Callidus Capital Corporation             | \$ 6,000   | \$                 | \$           | \$              | \$                               | \$              | \$           | \$                          | \$ (3,591)                    |
| Ciena Capital LLC                        | \$         | \$                 | \$           | \$ 1,170        | \$                               | \$              | \$           | \$                          | \$ (7,751)                    |
| Citipostal, Inc.                         | \$ 900     | \$ 1,210           | \$           | \$ 1,648        | \$                               | \$              | \$ 89        | \$                          | \$ (5,564)                    |
| Coverall North America, Inc.             | \$         | \$ 30,907          | \$           | \$ 356          | \$                               | \$              | \$ 75        | \$ (6,832)                  | \$ 7,624                      |
| Crescent Equity Corp.                    | \$         | \$                 | \$           | \$ 180          | \$                               | \$              | \$           | \$                          | \$ (741)                      |
| EarthColor, Inc.                         | \$         | \$                 | \$           | \$              | \$                               | \$              | \$           | \$                          | \$                            |
| HCI Equity, LLC                          | \$         | \$                 | \$           | \$              | \$                               | \$              | \$           | \$                          | \$ (51)                       |
| HCP Acquisition Holdings, LLC            | \$         | \$                 | \$           | \$              | \$                               | \$              | \$           | \$                          | \$ (383)                      |
| Hot Light Brands, Inc.                   | \$         | \$                 | \$           | \$              | \$                               | \$              | \$           | \$                          | \$ (86)                       |
| Huddle House Inc.                        | \$         | \$                 | \$           | \$ 749          | \$                               | \$              | \$ 187       | \$                          | \$ (16)                       |
| IAT Equity, LLC                          | \$         | \$                 | \$           | \$              | \$                               | \$              | \$ 92        | \$                          | \$ 1,443                      |
| Ivy Hill Asset Management, L.P.          | \$ 9,419   | \$                 | \$           | \$              | \$                               | \$ 4,762        | \$           | \$                          | \$ 24,809                     |
| Ivy Hill Middle Market Credit Fund, Ltd. | \$         | \$                 | \$           | \$ 1,173        | \$                               | \$              | \$           | \$                          | \$ 1,499                      |
| Knightsbridge CLO 2007-1 Ltd.            | \$         | \$                 | \$           | \$ 468          | \$                               | \$              | \$           | \$                          | \$ 2,779                      |
| Knightsbridge CLO 2008-1 Ltd.            | \$         | \$                 | \$           | \$ 676          | \$                               | \$              | \$           | \$                          | \$ 3,147                      |
| LVCG Holdings, LLC                       | \$         | \$                 | \$           | \$              | \$                               | \$              | \$           | \$                          | \$                            |
| Making Memories Wholesale, Inc.          | \$ 1,250   | \$ 345             | \$           | \$ 23           | \$                               | \$              | \$ 2         | \$                          | \$ (3,613)                    |
| MVL Group, Inc.                          | \$         | \$                 | \$           | \$ 2,105        | \$                               | \$              | \$           | \$                          | \$ (81)                       |
| Orion Foods, LLC                         | \$ 2,000   | \$                 | \$           | \$ 2,440        | \$                               | \$              | \$ 19        | \$                          | \$ (487)                      |
| PENN Detroit Diesel Allison LLC          | \$         | \$                 | \$           | \$              | \$                               | \$              | \$ 125       | \$                          | \$ 3,497                      |
| Reflexite Corporation                    | \$         | \$                 | \$           | \$ 456          | \$                               | \$              | \$ 9         | \$                          | \$                            |
| Senior Secured Loan Fund LLC*            | \$ 123,273 | \$                 | \$           | \$ 23,321       | \$ 5,593                         | \$              | \$ 2,389     | \$                          | \$ (3,693)                    |
| Stag-Parkway, Inc.                       | \$         | \$                 | \$           | \$ 1,078        | \$                               | \$ 17           | \$ 63        | \$                          | \$ 1,332                      |
| Startec Equity, LLC                      | \$         | \$                 | \$           | \$              | \$                               | \$              | \$           | \$                          | \$                            |
| The Thymes, LLC                          | \$         | \$ 947             | \$           | \$              | \$                               | \$ 118          | \$           | \$                          | \$ 945                        |

\*

Together with GE Commercial Finance Investment Advisory Services LLC ("GE"), we serve as co-managers of the Senior Secured Loan Fund LLC d/b/a the "Senior Secured Loan Program" (the "SSLP"). Investments and portfolio decisions made by the SSLP, as well as decisions relating to the operations of the SSLP, must generally be approved by both the Company and GE; therefore, although the Company owns more than 25% of the voting securities of the SSLP, the Company does not believe that it has control over the SSLP (for purposes of the Investment Company Act or otherwise).

(8)

Non-U.S. company or principal place of business outside the U.S. and as a result is not a qualifying asset under Section 55(a) of the Investment Company Act. Under the Investment Company Act, we may not acquire any non-qualifying asset unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets.

(9)

Non-registered investment company under Section 3(c) of the Investment Company Act and as a result is not a qualifying asset under Section 55(a) of the Investment Company Act. Under the Investment Company Act, we may not acquire any non-qualifying asset unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets.

(10)

Variable rate loans to our portfolio companies bear interest at a rate that may be determined by reference to either LIBOR or an alternate base rate (commonly based on the Federal Funds Rate or the Prime Rate), at the borrower's option, which reset annually (A), semi-annually (S), quarterly (Q), bi-monthly (B), monthly (M) or daily (D). For each such loan, we have provided the interest rate in effect on the date presented.

(11)

In addition to the interest earned based on the stated interest rate of this security, we are entitled to receive an additional interest amount of 5.00% on \$40 million aggregate principal amount outstanding of the portfolio company's senior term debt previously syndicated by us.

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- (12) In addition to the interest earned based on the stated interest rate of this security, we are entitled to receive an additional interest amount of 2.50% on \$25 million aggregate principal amount outstanding of the portfolio company's senior term debt previously syndicated by us.
- (13) Loan was on non-accrual status as of March 31, 2011.
- (14) Loan includes interest rate floor feature.
- (15) In addition to the interest earned based on the contractual stated interest rate of this security, the notes entitle us to receive a portion of the excess cash flow from the SSLP's loan portfolio, which may result in a return to the Company greater than the contractual stated interest rate.
- (16) Public company with outstanding equity with a market value in excess of \$250 million and as a result is not a qualifying asset under Section 55(a) of the Investment Company Act. Under the Investment Company Act, we may not acquire any non-qualifying asset unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets.

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(17)

In the first quarter of 2011, the staff of the Securities and Exchange Commission (the "Staff") informally communicated to certain business development companies the Staff's belief that certain entities, which would be classified as an "investment company" under the Investment Company Act but for the exception from the definition of "investment company" set forth in Rule 3a-7 promulgated under the Investment Company Act, could not be treated as eligible portfolio companies (as defined in Section 2(a)(46) of the Investment Company Act). Ares Capital continues to believe that the language of Section 2(a)(46) of the Investment Company Act permits a business development company to treat as "eligible portfolio companies" entities that rely on the 3a-7 exception. However, given the current uncertainty in this area, Ares Capital has, solely for purposes of calculating the composition of its portfolio pursuant to Section 55(a) of the Investment Company Act, identified these entities in our schedule of investments as "non-qualifying assets" should the Staff ultimately disagree with Ares Capital's position.

See accompanying notes to consolidated financial statements.

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Table of Contents**ARES CAPITAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS**

As of December 31, 2010

(dollar amounts in thousands)

| Company(1)  | Industry               | Investment  | Interest(5)(10)             | Acquisition Date | Amortized Cost | Fair Value | Percentage of Net Assets |
|---|------------------------|---|-----------------------------|------------------|----------------|------------|--------------------------|
| <b>Investment Funds</b>                                 |                        |   |                             |                  |                |            |                          |
| AGILE Fund I, LLC(7)(9)                                 | Investment partnership | Member interest (0.50% interest)  |                             | 4/1/2010         | \$ 264         | \$ 217     |                          |
| BB&T Capital Partners/Windsor Mezzanine Fund, LLC(6)(9) | Investment company     | Member interest (32.59% interest)   |                             | 4/1/2010         | 11,900         | 15,704     |                          |
| Callidus Debt Partners CDO Fund I, Ltd.(8)(9)           | Investment company     | Class C notes (\$18,800 par due 12/2013)<br>Class D notes (\$9,400 par due 12/2013)       |                             | 4/1/2010         | 2,669          | 1,239      |                          |
|   |                        |   |                             | 4/1/2010         |                | (13)       |                          |
|   |                        |   |                             |                  | 2,669          | 1,239      |                          |
| Callidus Debt Partners CLO Fund III, Ltd.(8)(9)         | Investment company     | Preferred shares (23,600,000 shares)  | 7.18%                       | 4/1/2010         | 4,343          | 7,324      |                          |
| Callidus Debt Partners CLO Fund IV, Ltd.(8)(9)          | Investment company     | Class D notes (\$3,000 par due 4/2020)<br>Subordinated notes (\$17,500 par due 4/2020)    | 4.84%                       | 4/1/2010         | 1,824          | 1,817      |                          |
|   |                        |   | (Libor + 4.55%/Q)<br>14.92% | 4/1/2010         | 6,935          | 11,720     |                          |
|   |                        |   |                             |                  | 8,759          | 13,537     |                          |
| Callidus Debt Partners CLO Fund V, Ltd.(8)(9)           | Investment company     | Subordinated notes (\$14,150 par due 11/2020)   | 23.49%                      | 4/1/2010         | 8,586          | 11,995     |                          |
| Callidus Debt Partners CLO Fund VI, Ltd.(8)(9)          | Investment company     | Class D notes (\$9,000 par due 10/2021)<br>Subordinated notes (\$25,500 par due 10/2021)  | 6.29%                       | 4/1/2010         | 4,039          | 5,538      |                          |
|   |                        |   | (Libor + 6.00%/Q)<br>20.14% | 4/1/2010         | 11,572         | 22,711     |                          |
|   |                        |   |                             |                  | 15,611         | 28,249     |                          |
| Callidus Debt Partners CLO Fund VII, Ltd.(8)(9)         | Investment company     | Subordinated notes (\$28,000 par due 1/2021)  | 11.94%                      | 4/1/2010         | 10,216         | 17,197     |                          |
| Callidus MAPS CLO Fund I LLC                            | Investment company     | Class E notes (\$17,000 par due 12/2017)<br>Subordinated notes (\$47,900 par due 12/2017) | 5.79%                       | 4/1/2010         | 11,863         | 11,535     |                          |
|   |                        |   | (Libor + 5.5%/Q)<br>8.62%   | 4/1/2010         | 12,652         | 19,156     |                          |
|   |                        |   |                             |                  | 24,515         | 30,691     |                          |
| Callidus MAPS CLO Fund II, Ltd.(8)(9)                   | Investment company     | Class D notes (\$7,700 par due 7/2022)<br>Subordinated notes (\$17,900 par due 7/2022)    | 4.54%                       | 4/1/2010         | 3,428          | 4,364      |                          |
|   |                        |   | (Libor + 4.25%/Q)<br>18.41% | 4/1/2010         | 8,857          | 13,624     |                          |

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|  |                        |  |        |            |        |        |
|--|------------------------|--|--------|------------|--------|--------|
|  |                        |  |        |            | 12,285 | 17,988 |
| Carador PLC(6)(8)(9)(16)                       | Investment company     | Ordinary shares<br>(7,110,525 shares)          |        | 12/15/2006 | 9,033  | 5,333  |
| CIC Flex, LP(9)                                | Investment partnership | Limited partnership units<br>(0.94 unit)       |        | 9/7/2007   | 2,553  | 2,500  |
| Covestia Capital Partners, LP(9)               | Investment partnership | Limited partnership interest (47.00% interest) |        | 6/17/2008  | 1,059  | 1,041  |
| Dryden XVIII Leveraged Loan 2007 Limited(8)(9) | Investment company     | Class B notes                                  | 4.79%  | 4/1/2010   | 3,816  | 4,823  |
|  |                        | Subordinated notes                             | 23.01% | 4/1/2010   | 12,266 | 19,436 |

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| Company(1)  | Industry               | Investment   | Interest(5)(10)         | Acquisition Date | Amortized Cost | Fair Value | Percentage of Net Assets |
|---|------------------------|--|-------------------------|------------------|----------------|------------|--------------------------|
| Dynamic India Fund IV, LLC(9)                     | Investment company     | Member interest (5.44% interest)                             |                         | 4/1/2010         | 4,822          | 4,822      |                          |
| Fidus Mezzanine Capital, L.P.(9)                  | Investment partnership | Limited partnership interest (29.12% interest)               |                         | 4/1/2010         | 9,206          | 7,499      |                          |
| Firstlight Financial Corporation(6)(9)            | Investment company     | Senior subordinated loan (\$73,811 par due 12/2016)          | 1.00% PIK               | 12/31/2006       | 73,569         | 54,050(4)  |                          |
|   |                        | Common stock (10,000 shares)                                 |                         | 12/31/2006       | 10,000         |            |                          |
|   |                        | Common stock (30,000 shares)                                 |                         | 12/31/2006       | 30,000         |            |                          |
|   |                        |  |                         |                  | 113,569        | 54,050     |                          |
| HCI Equity, LLC(7)(8)(9)                          | Investment company     | Member interest (100% interest)                              |                         | 4/1/2010         | 808            | 993        |                          |
| Imperial Capital Private Opportunities, LP(6)(9)  | Investment partnership | Limited partnership interest (80% interest)                  |                         | 5/10/2007        | 6,643          | 5,300      |                          |
| Ivy Hill Middle Market Credit Fund, Ltd.(7)(8)(9) | Investment company     | Class B deferrable interest notes (\$40,000 par due 11/2018) | 6.25% (Libor + 6.00%/Q) | 11/20/2007       | 40,000         | 37,200     |                          |
|   |                        | Subordinated notes (\$15,351 par due 11/2018)                | 15.50%                  | 11/20/2007       | 15,351         | 14,737     |                          |
|   |                        |  |                         |                  | 55,351         | 51,937     |                          |
| Knightsbridge CLO 2007-1 Ltd.(7)(8)(9)            | Investment company     | Class E notes (\$20,350 par due 1/2022)                      | 9.29% (Libor + 9.00%/Q) | 3/24/2010        | 14,852         | 14,545     |                          |
| Knightsbridge CLO 2008-1 Ltd.(7)(8)(9)            | Investment company     | Class C notes (\$14,400 par due 6/2018)                      | 7.80% (Libor + 7.50%/Q) | 3/24/2010        | 14,400         | 14,400     |                          |
|   |                        | Class D notes (\$9,000 par due 6/2018)                       | 8.79% (Libor + 8.50%/Q) | 3/24/2010        | 9,000          | 9,000      |                          |
|   |                        | Class E notes (\$14,850 par due 6/2018)                      | 5.29% (Libor + 5.00%/Q) | 3/24/2010        | 13,596         | 10,488     |                          |
|   |                        |  |                         |                  | 36,996         | 33,888     |                          |
| Kodiak Funding, LP(9)                             | Investment partnership | Limited partnership interest (1.52% interest)                |                         | 4/1/2010         | 918            | 788        |                          |
| Novak Biddle Venture Partners III, L.P.(9)        | Investment partnership | Limited partnership interest (2.47% interest)                |                         | 4/1/2010         | 221            | 254        |                          |
| Pangaea CLO 2007-1 Ltd.(8)(9)                     | Investment company     | Class D notes (\$15,000 par due 1/2021)                      | 5.04% (Libor + 4.75%/Q) | 4/1/2010         | 9,061          | 8,307      |                          |
| Partnership Capital Growth Fund I, LP(9)          | Investment partnership | Limited partnership interest (25% interest)                  |                         | 6/16/2006        | 2,370          | 2,393      |                          |
| Senior Secured Loan Fund LLC(7)(15)               | Investment company     | Subordinated certificates (\$548,161 par due 12/2015)        | 8.30% (Libor + 8.00%/Q) | 10/30/2009       | 537,439        | 561,674    |                          |
| Trivergance Capital Partners, LP(9)               | Investment partnership | Limited partnership interest (100% interest)                 |                         | 6/5/2008         | 3,162          |            |                          |
| VSC Investors LLC(9)                              | Investment company     | Membership interest (4.63% interest)                         |                         | 1/24/2008        | 994            | 699        |                          |

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924,287 924,423 30.30%

**Healthcare-Services**

|                                 |   |   |       |           |       |          |
|---------------------------------|---|---|-------|-----------|-------|----------|
| Axium Healthcare Pharmacy, Inc. | Specialty pharmacy provider               | Senior subordinated loan (\$3,160 par due 3/2015) | 8.00% | 4/1/2010  | 2,915 | 3,002(4) |
| CCS Group Holdings, LLC         | Correctional facility healthcare operator | Class A units (1,000,000 units)                   |       | 8/19/2010 | 1,000 | 1,000    |

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| Company(1)   | Industry   | Investment   | Interest(5)(10)         | Acquisition Date | Amortized Cost | Fair Value    | Percentage of Net Assets |
|--|--|--|-------------------------|------------------|----------------|---------------|--------------------------|
| CT Technologies Intermediate Holdings, Inc. and CT Technologies Holdings, LLC(6)     | Healthcare analysis services                         | Preferred stock (7,427 shares)                     |                         | 6/15/2007        | 8,763          | 8,325         |                          |
|  |  | Common stock (9,679 shares)                        |                         | 6/15/2007        | 4,000          | 9,656         |                          |
|  |  | Common stock (1,546 shares)                        |                         | 6/15/2007        |                | 1,542         |                          |
|  |  |  |                         |                  | 12,763         | 19,523        |                          |
| DSI Renal Inc.(6)  | Dialysis provider                                    | Senior secured loan (\$9,359 par due 3/2013)       | 8.50% (Libor + 6.50%/M) | 4/4/2006         | 9,284          | 9,359(14)     |                          |
|  |  | Senior subordinated loan (\$69,009 par due 4/2014) | 6.00% Cash, 10.00% PIK  | 4/4/2006         | 68,523         | 69,006(4)     |                          |
|  |  | Common units (19,726 units)                        |                         | 4/4/2006         | 19,684         | 40,687        |                          |
|  |  |  |                         |                  | 97,491         | 119,052       |                          |
| GG Merger Sub I, Inc.  | Drug testing services                                | Senior secured loan (\$11,330 par due 12/2014)     | 4.31% (Libor + 4.0%/Q)  | 12/14/2007       | 10,944         | 10,764(2)     |                          |
|  |  | Senior secured loan (\$12,000 par due 12/2014)     | 4.31% (Libor + 4.0%/Q)  | 12/14/2007       | 11,586         | 11,400(3)     |                          |
|  |  |  |                         |                  | 22,530         | 22,164        |                          |
| HCP Acquisition Holdings, LLC(7)   | Healthcare compliance advisory services              | Class A units (10,044,176 units)                   |                         | 6/26/2008        | 10,044         | 5,070         |                          |
| Heartland Dental Care, Inc.  | Dental services                                      | Senior subordinated loan (\$27,717 par due 7/2014) | 14.25%                  | 7/31/2008        | 27,717         | 28,548        |                          |
| INC Research, Inc.   | Pharmaceutical and biotechnology consulting services | Senior subordinated loan (\$10,039 par due 9/2017) | 13.50%                  | 9/27/2010        | 10,039         | 10,039        |                          |
|  |  | Common stock (1,000,000 shares)                    |                         | 9/27/2010        | 1,000          | 1,000         |                          |
|  |  |  |                         |                  | 11,039         | 11,039        |                          |
| Magnacare Holdings, Inc., Magnacare Administrative Services, LLC, and Magnacare, LLC | Healthcare professional provider                     | Senior secured loan (\$66,169 par due 9/2016)      | 9.75% (Libor + 8.75%/Q) | 9/13/2010        | 66,169         | 66,169(14)    |                          |
|  |  | Senior secured loan (\$48,511 par due 9/2016)      | 9.75% (Libor + 8.75%/Q) | 9/13/2010        | 48,511         | 48,511(2)(14) |                          |
|  |  | Senior secured loan (\$9,023 par due 9/2016)       | 9.75% (Libor + 8.75%/Q) | 9/13/2010        | 9,023          | 9,023(3)(14)  |                          |
|  |  |  |                         |                  | 123,703        | 123,703       |                          |
| MPBP Holdings, Inc., Cohr Holdings, Inc. and MPBP Acquisition Co., Inc.              | Healthcare equipment services                        | Junior secured loan (\$18,851 par due 1/2014)      |                         | 1/31/2007        | 18,851         | 943(13)       |                          |
|  |  | Junior secured loan (\$11,310 par due 1/2014)      |                         | 1/31/2007        | 11,310         | 566(3)(13)    |                          |

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|  |                                      |  |                            |           |        |          |
|--|--------------------------------------|--|----------------------------|-----------|--------|----------|
|  |                                      | Common stock<br>(50,000 shares)                    |                            | 1/31/2007 | 5,000  |          |
|  |                                      |  |                            |           | 35,161 | 1,509    |
| MWD Acquisition<br>Sub, Inc.                 | Dental services                      | Junior secured loan<br>(\$5,000 par due 5/2013)    | 6.51%<br>(Libor + 6.25%/M) | 5/3/2007  | 5,000  | 4,800(3) |
| NS Merger Sub. Inc. and<br>NS Holdings, Inc. | Healthcare<br>technology<br>provider | Senior subordinated loan<br>(\$579 par due 6/2017) | 13.50%                     | 6/21/2010 | 579    | 579      |

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| Company(1)   | Industry   | Investment  | Interest(5)(10)        | Acquisition Date | Amortized Cost | Fair Value    | Percentage of Net Assets |
|--|--|---|------------------------|------------------|----------------|---------------|--------------------------|
|  |  | Senior subordinated loan (\$50,000 par due 6/2017)      | 13.50%                 | 6/21/2010        | 50,000         | 50,000(2)     |                          |
|  |  | Common stock (2,500,000 shares)                         |                        | 6/21/2010        | 2,500          | 2,500         |                          |
|  |  |   |                        |                  | 53,079         | 53,079        |                          |
| OnCURE Medical Corp.   | Radiation oncology care provider   | Common stock (857,143 shares)                           |                        | 8/18/2006        | 3,000          | 2,910         |                          |
| Passport Health Communications, Inc., Passport Holding Corp. and Prism Holding Corp. | Healthcare technology provider   | Senior secured loan (\$11,287 par due 5/2014)           | 8.25% (Libor + 7.0%/Q) | 5/9/2008         | 11,287         | 11,287(2)(14) |                          |
|  |  | Senior secured loan (\$10,419 par due 5/2014)           | 8.25% (Libor + 7.0%/Q) | 5/9/2008         | 10,419         | 10,419(3)(14) |                          |
|  |  | Series A preferred stock (1,594,457 shares)             |                        | 7/30/2008        | 11,156         | 10,978(4)     |                          |
|  |  | Common stock (16,106 shares)                            |                        | 7/30/2008        | 100            |               |                          |
|  |  |   |                        |                  | 32,962         | 32,684        |                          |
| PG Mergersub, Inc.   | Provider of patient surveys, management reports and national databases for integrated healthcare delivery system | Senior secured loan (\$1,100 par due 11/3/2015)         | 6.75% (Libor + 5.0%/Q) | 11/3/2010        | 1,098          | 1,100(14)     |                          |
|  |  | Senior secured loan (\$9,200 par due 11/3/2015)         | 6.75% (Libor + 5.0%/Q) | 11/3/2010        | 9,171          | 9,200(3)(14)  |                          |
|  |  | Senior subordinated loan (\$4,000 par due 3/2016)       | 12.50%                 | 3/12/2008        | 3,948          | 4,000         |                          |
|  |  | Preferred stock (333 shares)                            |                        | 3/12/2008        | 125            | 9             |                          |
|  |  | Common stock (16,667 shares)                            |                        | 3/12/2008        | 167            | 471           |                          |
|  |  |   |                        |                  | 14,509         | 14,780        |                          |
| Reed Group, Ltd.   | Medical disability management services provider  | Senior secured loan (\$10,755 par due 12/2013)          |                        | 4/1/2010         | 9,129          | 9,142(13)     |                          |
|  |  | Senior secured revolving loan (\$1,250 par due 12/2013) |                        | 4/1/2010         | 1,097          | 1,063(13)     |                          |
|  |  | Senior subordinated loan (\$19,625 par due 12/2013)     |                        | 4/1/2010         | 15,918         | 10,714(13)    |                          |
|  |  | Equity interests  |                        | 4/1/2010         | 203            |               |                          |
|  |  |   |                        |                  | 26,347         | 20,919        |                          |
| Regency Healthcare Group, LLC(6)   | Hospice provider   | Preferred member interest (1,293,960 shares)            |                        | 4/1/2010         | 2,007          | 1,672         |                          |
|  |  |   |                        | 4/1/2010         | 1,644          | 1,383(13)     |                          |

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|                                  |                                     |   |          |       |           |
|----------------------------------|-------------------------------------|---|----------|-------|-----------|
| Soteria Imaging Services, LLC(6) | Outpatient medical imaging provider | Junior secured loan (\$1,687 par due 11/2010) |          |       |           |
|                                  |                                     | Junior secured loan (\$2,422 par due 11/2010) | 4/1/2010 | 2,361 | 1,986(13) |
|                                  |                                     | Preferred member interest (1,881,234 units)   | 4/1/2010 |       |           |
|                                  |                                     |   |          | 4,005 | 3,369     |

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| Company(1)                         | Industry                                    | Investment  | Interest(5)(10)             | Acquisition Date | Amortized Cost | Fair Value    | Percentage of Net Assets |
|------------------------------------|---|---|-----------------------------|------------------|----------------|---------------|--------------------------|
| Sunquest Information Systems, Inc. | Laboratory software solutions provider      | Junior secured loan (\$95,000 par due 6/2017)           | 9.75% (Libor + 8.50%/M)     | 12/16/2010       | 95,000         | 95,000(14)    |                          |
|                                    |   | Junior secured loan (\$50,000 par due 6/2017)           | 9.75% (Libor + 8.50%/M)     | 12/16/2010       | 50,000         | 50,000(2)(14) |                          |
|                                    |   |   |                             |                  | 145,000        | 145,000       |                          |
| U.S. Renal Care, Inc.              | Dialysis provider                           | Senior subordinated loan (\$20,235 par due 5/2017)      | 11.25% Cash, 2.00% PIK      | 5/24/2010        | 20,235         | 20,235(4)     |                          |
| Univita Health Inc.                | Outsourced services provider                | Senior subordinated loan (\$21,094 par due 12/2014)     | 12.00% Cash, 3.00% PIK      | 12/22/2009       | 21,094         | 21,094(4)     |                          |
| VOTC Acquisition Corp.             | Radiation oncology care provider            | Senior secured loan (\$7,580 par due 7/2012)            | 11.00% Cash, 2.00% PIK      | 6/30/2008        | 7,580          | 7,580(4)      |                          |
|                                    |   | Preferred stock (3,888,222 shares)                      |                             | 7/14/2008        | 8,748          | 11,624        |                          |
|                                    |   |   |                             |                  | 16,328         | 19,204        |                          |
|                                    |   |   |                             |                  | 687,929        | 674,356       | 22.11%                   |
| <b>Business Services</b>           |   |   |                             |                  |                |               |                          |
| Aviation Properties Corporation(7) | Aviation services                           | Common stock (100 shares)                               |                             | 4/1/2010         |                |               |                          |
| BenefitMall Holdings Inc.(7)       | Employee benefits broker services           | Senior subordinated loan (\$40,326 par due 6/2014)      | 18.00%                      | 4/1/2010         | 40,326         | 40,326        |                          |
|                                    |   | Common stock (39,274,290 shares)                        |                             | 4/1/2010         | 53,510         | 50,450        |                          |
|                                    |   | Warrants  |                             | 4/1/2010         |                |               |                          |
|                                    |   |   |                             |                  | 93,836         | 90,776        |                          |
| Booz Allen Hamilton, Inc.          | Strategy and technology consulting services | Senior secured loan (\$733 par due 7/2015)              | 7.50% (Libor + 4.50%/M)     | 7/31/2008        | 721            | 733(3)(14)    |                          |
|                                    |   | Senior subordinated loan (\$101 par due 7/2016)         | 13.00%                      | 7/31/2008        | 90             | 104           |                          |
|                                    |   | Senior subordinated loan (\$5,007 par due 7/2016)       | 13.00%                      | 7/31/2008        | 4,983          | 5,157(2)      |                          |
|                                    |   |   |                             |                  | 5,794          | 5,994         |                          |
| CitiPostal Inc.(7)                 | Document storage and management services    | Senior secured revolving loan (\$691 par due 12/2013)   | 6.50% (Libor + 4.50%/M)     | 4/1/2010         | 691            | 691(14)       |                          |
|                                    |   | Senior secured revolving loan (\$700 par due 12/2013)   | 6.50% (Libor + 4.50%/Q)     | 4/1/2010         | 700            | 700(14)       |                          |
|                                    |   | Senior secured revolving loan (\$1,250 par due 12/2013) | 6.75% (Base Rate + 3.25%/Q) | 4/1/2010         | 1,250          | 1,250(14)     |                          |
|                                    |   | Senior secured loan (\$49,333 par due 12/2013)          | 11.00% Cash, 2.00% PIK      | 4/1/2010         | 49,333         | 49,333(2)(4)  |                          |
|                                    |   |   |                             |                  | 4/1/2010       | 482           | 482(4)                   |

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|                                     |                                |  |                           |          |        |           |
|-------------------------------------|--------------------------------|--|---------------------------|----------|--------|-----------|
|                                     |                                | Senior secured loan<br>(\$482 par due 12/2013)         | 11.00% Cash,<br>2.00% PIK |          |        |           |
|                                     |                                | Senior subordinated loan<br>(\$12,526 par due 12/2015) | 16.00% PIK                | 4/1/2010 | 12,526 | 12,022(4) |
|                                     |                                | Common stock<br>(37,024 shares)                        |                           | 4/1/2010 |        |           |
|                                     |                                |  |                           |          | 64,982 | 64,478    |
| Cook Inlet Alternative<br>Risk, LLC | Risk<br>management<br>services | Senior secured loan<br>(\$40,000 par due 4/2013)       | 8.50%                     | 4/1/2010 | 25,124 | 26,083    |

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| Company(1)                              | Industry   | Investment  | Interest(5)(10)             | Acquisition Date | Amortized Cost | Fair Value    | Percentage of Net Assets |
|---|--|---|-----------------------------|------------------|----------------|---------------|--------------------------|
|   |  | Senior secured loan (\$44,346 par due 4/2013)                   | 8.50%                       | 4/1/2010         | 26,622         | 28,917        |                          |
|   |  | Member interest (3.17%)   |                             | 4/1/2010         |                |               |                          |
|   |  |   |                             |                  | 51,746         | 55,000        |                          |
| Coverall North America, Inc.(7)         | Commercial janitorial service provider               | Senior secured loan (\$15,763 par due 7/2011)                   | 12.00%                      | 4/1/2010         | 15,763         | 15,763(2)     |                          |
|   |  | Senior secured loan (\$15,864 par due 7/2011)                   | 12.00%                      | 4/1/2010         | 15,864         | 15,864(2)     |                          |
|   |  | Senior subordinated loan (\$5,557 par due 7/2011)               |                             | 4/1/2010         | 5,554          | 928(13)       |                          |
|   |  | Common stock (763,333 shares)                                   |                             | 4/1/2010         | 2,999          |               |                          |
|   |  |   |                             |                  | 40,180         | 32,555        |                          |
| Digital Videostream, LLC                | Media content supply chain services company          | Senior secured loan (\$256 par due 2/2012)                      | 10.00% Cash, 1.00% PIK      | 4/1/2010         | 256            | 256(4)        |                          |
|   |  | Senior secured loan (\$9 par due 2/2012)                        | 10.00% Cash, 1.00% PIK      | 4/1/2010         | 9              | 9(2)(4)       |                          |
|   |  | Senior secured loan (\$10,403 par due 2/2012)                   | 10.00% Cash, 1.00% PIK      | 4/1/2010         | 10,345         | 10,403(2)(4)  |                          |
|   |  | Convertible subordinated loan (\$5,538 par due 2/2016)          | 10.00% PIK                  | 4/1/2010         | 5,978          | 6,025(4)      |                          |
|   |  |   |                             |                  | 16,588         | 16,693        |                          |
| Diversified Collections Services, Inc.  | Collections services                                 | Senior secured loan (\$6,921 par due 3/2012)                    | 7.50% (Libor + 5.50%/Q)     | 4/1/2010         | 6,921          | 6,921(3)(14)  |                          |
|   |  | Senior secured loan (\$79 par due 3/2012)                       | 7.50% (Libor + 5.50%/Q)     | 4/1/2010         | 79             | 79(3)(14)     |                          |
|   |  | Senior secured loan (\$34,000 par due 9/2012)                   | 13.75% (Libor + 11.75%/Q)   | 4/1/2010         | 34,000         | 34,000(2)(14) |                          |
|   |  | Senior secured loan (\$2,000 par due 9/2012)                    | 13.75% (Libor + 11.75%/Q)   | 4/1/2010         | 2,000          | 2,000(2)(14)  |                          |
|   |  | Preferred stock (14,927 shares)                                 |                             | 5/18/2006        | 169            | 289           |                          |
|   |  | Common stock (114,004 shares)                                   |                             | 2/5/2005         | 295            | 445           |                          |
|   |  | Common stock (478,816 shares)                                   |                             | 4/1/2010         | 1,478          | 1,586         |                          |
|   |  |   |                             |                  | 44,942         | 45,320        |                          |
| Diversified Mercury Communications, LLC | Business media consulting services                   | Senior secured loan (\$1,774 par due 3/2013)                    | 8.00% (Base Rate + 4.50%/M) | 4/1/2010         | 1,613          | 1,596(14)     |                          |
| Impact Innovations Group, LLC(7)        | IT consulting and outsourcing services               | Member interest (50% interest)                                  |                             | 4/1/2010         |                |               |                          |
| Investor Group Services, LLC(6)         | Business consulting for private equity and corporate | Limited liability company membership interest (10.00% interest) |                             | 6/22/2006        |                | 564           |                          |

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| clients                    |  |                                      |          |     |       |
|----------------------------|--|--------------------------------------|----------|-----|-------|
| Multi-Ad Services, Inc.(6) | Marketing services and software provider | Preferred units<br>(1,725,280 units) | 4/1/2010 | 788 | 1,366 |
|                            |  | Common units<br>(1,725,280 units)    | 4/1/2010 |     |       |
|                            |  |                                      |          | 788 | 1,366 |

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| Company(1)  | Industry                                       | Investment  | Interest(5)(10)         | Acquisition Date | Amortized Cost | Fair Value   | Percentage of Net Assets |
|---|--|---|-------------------------|------------------|----------------|--------------|--------------------------|
| MVL Group, Inc.(7)  | Marketing research provider                    | Senior secured loan (\$22,772 par due 7/2012)       | 12.00%                  | 4/1/2010         | 22,772         | 22,772       |                          |
|   |  | Senior subordinated loan (\$34,937 par due 7/2012)  | 12.00% Cash, 2.50% PIK  | 4/1/2010         | 33,884         | 34,937(4)    |                          |
|   |  | Junior subordinated loan (\$144 par due 7/2012)     | 10.00%                  | 4/1/2010         |                | 33           |                          |
|   |  | Common stock (554,091 shares)                       |                         | 4/1/2010         |                |              |                          |
|   |  | Common stock (560,716 shares)                       |                         | 4/1/2010         |                |              |                          |
|   |  |   |                         |                  | 56,656         | 57,742       |                          |
| PC Helps Support, LLC   | Technology support provider                    | Senior secured loan (\$7,153 par due 12/2013)       | 3.54% (Libor + 3.25%/Q) | 4/1/2010         | 7,153          | 7,153(3)     |                          |
|   |  | Senior subordinated loan (\$23,377 par due 12/2013) | 12.76%                  | 4/1/2010         | 23,377         | 23,377       |                          |
|   |  |   |                         |                  |                |              | 30,530                   |
| Pillar Processing LLC and PHL Holding Co.(6)  | Mortgage services                              | Senior secured loan (\$1,875 par due 5/2014)        | 14.50%                  | 7/31/2008        | 1,875          | 1,875        |                          |
|   |  | Senior secured loan (\$5,500 par due 5/2014)        | 14.50%                  | 7/31/2008        | 5,500          | 5,500(2)     |                          |
|   |  | Senior secured loan (\$14,730 par due 11/2013)      | 5.80% (Libor + 5.50%/Q) | 11/20/2007       | 14,730         | 14,730(2)    |                          |
|   |  | Senior secured loan (\$9,194 par due 11/2013)       | 5.80% (Libor + 5.50%/Q) | 11/20/2007       | 9,194          | 9,194(3)     |                          |
|   |  | Common stock (85 shares)                            |                         | 11/20/2007       | 3,768          | 5,701        |                          |
|   |  |   |                         |                  | 35,067         | 37,000       |                          |
| Primis Marketing Group, Inc. and Primis Holdings, LLC(6)  | Database marketing services                    | Senior subordinated loan (\$10,222 par due 2/2013)  |                         | 8/24/2006        | 10,222         | 102(13)      |                          |
|   |  | Preferred units (4,000 units)                       |                         | 8/24/2006        | 3,600          |              |                          |
|   |  | Common units (4,000,000 units)                      |                         | 8/24/2006        | 400            |              |                          |
|   |  |   |                         |                  |                |              | 14,222                   |
| Prommis Solutions, LLC, E-Default Services, LLC, Statewide Tax and Title Services, LLC & Statewide Publishing Services, LLC (formerly known as MR Processing Holding Corp.) | Bankruptcy and foreclosure processing services | Senior subordinated loan (\$16,788 par due 2/2014)  | 11.50% Cash, 2.00% PIK  | 2/8/2007         | 16,788         | 16,788(4)    |                          |
|   |  | Senior subordinated loan (\$27,032 par due 2/2014)  | 11.50% Cash, 2.00% PIK  | 2/8/2007         | 27,032         | 27,032(2)(4) |                          |
|   |  | Preferred units (30,000 units)                      |                         | 4/11/2006        | 3,000          | 4,661        |                          |
|   |  |   |                         |                  |                |              | 46,820                   |
| Promo Works, LLC  | Marketing services                             | Senior secured loan (\$8,655 par due 12/2013)       | 11.00%                  | 4/1/2010         | 5,105          | 5,438        |                          |

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|                              |                                       |   |           |        |            |
|------------------------------|---------------------------------------|---|-----------|--------|------------|
| R2 Acquisition Corp.         | Marketing services                    | Common stock (250,000 shares)                 | 5/29/2007 | 250    | 257        |
| Summit Business Media, LLC   | Business media consulting services    | Junior secured loan (\$11,930 par due 7/2014) | 8/3/2007  | 10,276 | 239(3)(13) |
| Summit Energy Services, Inc. | Energy management consulting services | Common stock (38,778 shares)                  | 4/1/2010  | 222    | 287        |

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| Company(1)                                    | Industry  | Investment  | Interest(5)(10)             | Acquisition Date     | Amortized Cost | Fair Value      | Percentage of Net Assets |
|---|---|---|-----------------------------|----------------------|----------------|-----------------|--------------------------|
|   |   | Common stock<br>(385,608 shares)  |                             | 4/1/2010             | 2,336          | 2,850           |                          |
|   |   |   |                             |                      | 2,558          | 3,137           |                          |
| Tradesmen International, Inc.                 | Construction labor support                                      | Senior subordinated loan (\$20,000 par due 5/2014)<br>Warrants to purchase up to 771,036 shares | 10.00%                      | 4/1/2010<br>4/1/2010 | 14,364         | 20,000<br>2,086 |                          |
|   |   |   |                             |                      | 14,364         | 22,086          |                          |
| VSS-Tranzact Holdings, LLC(6)                 | Management consulting services                                  | Common membership interest (8.51% interest)   |                             | 10/26/2007           | 10,204         | 6,475           |                          |
| Venturehouse-Cibernet Investors, LLC          | Financial settlement services for intercarrier wireless roaming | Equity interest   |                             | 4/1/2010             |                |                 |                          |
|   |   | Equity interest   |                             | 4/1/2010             |                |                 |                          |
|   |   |   |                             |                      | 546,521        | 525,829         | 17.24%                   |
| <b>Restaurants and Food Services</b>          |   |   |                             |                      |                |                 |                          |
| ADF Capital, Inc. & ADF Restaurant Group, LLC | Restaurant owner and operator                                   | Senior secured revolving loan (\$2,010 par due 11/2012)   | 6.50%<br>(Libor + 3.50%/Q)  | 11/27/2006           | 2,010          | 2,010(14)       |                          |
|   |   | Senior secured revolving loan (\$108 par due 11/2012)   | 6.50% (Base Rate + 2.50%/Q) | 11/27/2006           | 108            | 108(14)         |                          |
|   |   | Senior secured loan (\$22,839 par due 11/2013)  | 12.50%<br>(Libor + 9.50%/Q) | 11/27/2006           | 22,845         | 22,839(2)(14)   |                          |
|   |   | Senior secured loan (\$10,705 par due 11/2013)  | 12.50%<br>(Libor + 9.50%/Q) | 11/27/2006           | 10,705         | 10,705(3)(14)   |                          |
|   |   | Promissory note (\$14,897 par due 11/2016)  |                             | 6/1/2006             | 14,886         | 10,957(4)       |                          |
|   |   | Warrants to purchase up to 0.61 shares  |                             | 6/1/2006             |                |                 |                          |
|   |   |   |                             |                      | 50,554         | 46,619          |                          |
| Encanto Restaurants, Inc.                     | Restaurant owner and operator                                   | Junior secured loan (\$20,997 par due 8/2013)   | 11.00%                      | 8/16/2006            | 20,997         | 19,947(2)       |                          |
|   |   | Junior secured loan (\$3,999 par due 8/2013)  | 11.00%                      | 8/16/2006            | 3,999          | 3,799(3)        |                          |
|   |   |   |                             |                      | 24,996         | 23,746          |                          |
| Fulton Holdings Corp                          | Airport restaurant operator                                     | Senior secured loan (\$40,000 par due 5/2016)   | 12.50%                      | 5/28/2010            | 40,000         | 40,000(2)(11)   |                          |

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|  |                                   |  |                             |           |        |            |
|--|-----------------------------------|--|-----------------------------|-----------|--------|------------|
|  |                                   | Common stock<br>(19,672 shares)                  |                             | 5/28/2010 | 1,967  | 2,430      |
|  |                                   |  |                             |           | 41,967 | 42,430     |
| Orion Foods, LLC (fka Hot Stuff Foods, LLC)(7) | Convenience food service retailer | Senior secured loan<br>(\$34,357 par due 9/2014) | 10.00%<br>(Libor + 8.50%/Q) | 4/1/2010  | 34,357 | 34,357(14) |
|  |                                   | Junior secured loan<br>(\$37,552 par due 9/2014) | 14.00%                      | 4/1/2010  | 24,881 | 36,085     |
|  |                                   | Preferred stock<br>(\$10,000 par due)            |                             | 4/1/2010  |        |            |
|  |                                   | Class A common units<br>(25,001 units)           |                             | 4/1/2010  |        |            |

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| Company(1)   | Industry                      | Investment  | Interest(5)(10)                                 | Acquisition Date | Amortized Cost | Fair Value    | Percentage of Net Assets |
|--|-------------------------------|---|---|------------------|----------------|---------------|--------------------------|
|  |                               | Class B common units<br>(1,122,452 units)                       |   | 4/1/2010         |                |               |                          |
|  |                               |   |   |                  | 59,238         | 70,442        |                          |
| Huddle House, Inc.(7)                                      | Restaurant owner and operator | Senior subordinated loan<br>(\$20,300 par due 12/2015)          | 12.00% Cash,<br>3.00% PIK                       | 4/1/2010         | 20,032         | 16,202(4)     |                          |
|  |                               | Common stock<br>(358,428 shares)                                |   | 4/1/2010         |                |               |                          |
|  |                               |   |   |                  | 20,032         | 16,202        |                          |
| OTG Management, Inc.                                       | Airport restaurant operator   | Junior secured loan<br>(\$12,603 par due 6/2013)                | 16.00%<br>(Libor + 11.00% Cash,<br>2.00% PIK/M) | 6/19/2008        | 12,603         | 12,603(4)(14) |                          |
|  |                               | Junior secured loan<br>(\$42,030 par due 6/2013)                | 18.00%<br>(Libor + 11.00% Cash,<br>4.00% PIK/M) | 6/19/2008        | 42,030         | 42,030(4)(14) |                          |
|  |                               | Warrants to purchase up to<br>100,857 shares of<br>common stock |   | 6/19/2008        | 100            | 4,939         |                          |
|  |                               | Warrants to purchase up to<br>9 shares of common stock          |   | 6/19/2008        |                |               |                          |
|  |                               |   |   |                  | 54,733         | 59,572        |                          |
| PMI Holdings, Inc.   | Restaurant owner and operator | Senior secured revolving<br>loan (\$575 par due<br>5/2015)      | 10.00%<br>(Libor + 8.00%/Q)                     | 5/5/2010         | 575            | 575(14)       |                          |
|  |                               | Senior secured loan<br>(\$9,918 par due 5/2015)                 | 10.00%<br>(Libor + 8.00%/M)                     | 5/5/2010         | 9,918          | 9,918(2)(14)  |                          |
|  |                               | Senior secured loan<br>(\$9,918 par due 5/2015)                 | 10.00%<br>(Libor + 8.00%/M)                     | 5/5/2010         | 9,918          | 9,918(3)(14)  |                          |
|  |                               | Senior secured loan<br>(\$7 par due 5/2015)                     | 10.25% (Base Rate +<br>7.00%/M)                 | 5/5/2010         | 7              | 7(2)          |                          |
|  |                               | Senior secured loan<br>(\$7 par due 5/2015)                     | 10.25% (Base Rate +<br>7.00%/M)                 | 5/5/2010         | 7              | 7(3)          |                          |
|  |                               |   |   |                  | 20,425         | 20,425        |                          |
| S.B. Restaurant Company                                    | Restaurant owner and operator | Senior secured loan<br>(\$35,406 par due 7/2012)                | 13.00%<br>(Libor + 11.00%/Q)                    | 4/1/2010         | 26,872         | 33,635(14)    |                          |
|  |                               | Preferred stock<br>(46,690 shares)                              |   | 4/1/2010         |                |               |                          |
|  |                               | Warrants to purchase up to<br>257,429 shares of<br>common stock |   | 4/1/2010         |                |               |                          |
|  |                               |   |   |                  | 26,872         | 33,635        |                          |
| Vistar Corporation and<br>Wellspring Distribution<br>Corp. | Food service distributor      | Senior subordinated loan<br>(\$31,625 par due 5/2015)           | 13.50%  | 5/23/2008        | 31,625         | 31,625        |                          |
|  |                               | Senior subordinated loan<br>(\$30,000 par due 5/2015)           | 13.50%  | 5/23/2008        | 30,000         | 30,000(2)     |                          |
|  |                               | Class A non-voting<br>common stock<br>(1,366,120 shares)        |   | 5/3/2008         | 7,500          | 5,287         |                          |
|  |                               |   |   |                  | 69,125         | 66,912        |                          |

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367,942      379,983      12.46%

**Financial Services**

|                                 |                           |                           |          |        |        |
|---------------------------------|---------------------------|---------------------------|----------|--------|--------|
| AllBridge Financial, LLC(7)     | Asset management services | Equity interests          | 4/1/2010 | 11,395 | 13,112 |
| Callidus Capital Corporation(7) | Asset management services | Common stock (100 shares) | 4/1/2010 |        | 246    |

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| Company(1)                                  | Industry   | Investment  | Interest(5)(10)           | Acquisition Date | Amortized Cost | Fair Value | Percentage of Net Assets |
|---|--|---|---------------------------|------------------|----------------|------------|--------------------------|
| Ciena Capital LLC(7)                        | Real estate and small business loan servicer     | Senior secured loan (\$14,000 par due 12/2013)        | 6.00%                     | 11/23/2010       | 14,000         | 14,000     |                          |
|   |  | Senior secured loan (\$2,000 par due 12/2015)         | 12.00%                    | 11/29/2010       | 2,000          | 2,000      |                          |
|   |  | Senior secured loan (\$20,000 par due 12/2015)        | 12.00%                    | 11/29/2010       | 20,000         | 20,000     |                          |
|   |  | Senior secured loan (\$10,000 par due 12/2015)        | 12.00%                    | 11/29/2010       | 10,000         | 10,000     |                          |
|   |  | Equity interests                                      |                           | 11/29/2010       | 53,374         | 47,063     |                          |
|   |  |   |                           |                  | 99,374         | 93,063     |                          |
| Commercial Credit Group, Inc.               | Commercial equipment finance and leasing company | Senior subordinated loan (\$6,000 par due 6/2015)     | 15.00%                    | 4/1/2010         | 6,000          | 6,000      |                          |
|   |  | Senior subordinated loan (\$4,000 par due 6/2015)     | 15.00%                    | 4/1/2010         | 4,000          | 4,000      |                          |
|   |  | Senior subordinated loan (\$9,500 par due 6/2015)     | 15.00%                    | 4/1/2010         | 9,500          | 9,500      |                          |
|   |  |   |                           |                  | 19,500         | 19,500     |                          |
| Compass Group Diversified Holdings, LLC(16) | Middle market business manager                   | Senior secured revolving loan (\$735 par due 12/2012) | 2.76% (Libor + 2.50%/M)   | 4/1/2010         | 735            | 735        |                          |
|   |  | Senior secured revolving loan (\$882 par due 12/2012) | 2.76% (L libor + 2.50%/M) | 4/1/2010         | 882            | 882        |                          |
|   |  |   |                           |                  | 1,617          | 1,617      |                          |
| Financial Pacific Company(7)                | Commercial finance leasing                       | Preferred stock (6,500 shares)                        | 8.00% PIK                 | 10/13/2010       | 6,500          | 6,543      |                          |
|   |  | Common stock (650,000 shares)                         |                           | 10/13/2010       |                |            |                          |
|   |  |   |                           |                  | 6,500          | 6,543      |                          |
| Imperial Capital Group, LLC(6)              | Investment services                              | Common units (2,526 units)                            |                           | 5/10/2007        | 3              | 4,735      |                          |
|   |  | Common units (315 units)                              |                           | 5/10/2007        |                | 590        |                          |
|   |  | Common units (7,710 units)                            |                           | 5/10/2007        | 14,997         | 14,453     |                          |
|   |  |   |                           |                  | 15,000         | 19,778     |                          |
| Ivy Hill Asset Management, L.P.(7)          | Asset management services                        | Member interest (100% interest)                       |                           | 6/15/2009        | 103,458        | 136,235    |                          |
|   |  |   |                           |                  | 256,844        | 290,094    | 9.51%                    |

**Consumer Products Non-durable**

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|  |                                  |   |                         |          |        |                  |
|--|----------------------------------|---|-------------------------|----------|--------|------------------|
| Augusta Sportswear, Inc.               | Manufacturer of athletic apparel | Senior secured loan (\$6,556 par due 7/2015)        | 8.50% (Libor + 7.50%/Q) | 9/3/2010 | 6,556  | 6,556(2)(14)     |
|  |                                  | Senior secured loan (\$9,353 par due 7/2015)        | 8.50% (Libor + 7.50%/Q) | 9/3/2010 | 9,353  | 9,353(3)(14)     |
|  |                                  |   |                         |          | 15,909 | 15,909           |
| Gilchrist & Soames, Inc.               | Personal care manufacturer       | Senior subordinated loan (\$22,902 par due 10/2013) | 13.44%                  | 4/1/2010 | 22,128 | 22,902           |
| Insight Pharmaceuticals Corporation(6) | OTC drug products manufacturer   | Senior subordinated loan (\$50,255 par due 9/2012)  | 13.00% Cash, 2.00% PIK  | 4/1/2010 | 50,255 | 50,255(2)(4)(14) |
|  |                                  | Senior subordinated loan (\$5,298 par due 9/2012)   | 13.00% Cash, 2.00% PIK  | 4/1/2010 | 5,298  | 5,298(4)(14)     |
|  |                                  | Common stock (155,000 shares)                       |                         | 4/1/2010 | 12,070 | 13,432           |
|  |                                  |   |                         |          | 67,623 | 68,985           |

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| Company(1)   | Industry  | Investment   | Interest(5)(10)           | Acquisition Date | Amortized Cost | Fair Value          | Percentage of Net Assets |       |
|--|---|--|---------------------------|------------------|----------------|---------------------|--------------------------|-------|
| Making Memories Wholesale, Inc.(7)                                 | Scrapbooking branded products manufacturer                  | Senior secured revolving loan (\$250 par due 8/2014) | 10.00% (Libor + 6.50%/Q)  | 8/21/2009        | 250            | 250 <sup>(14)</sup> |                          |       |
|  |   | Senior secured revolving loan (\$250 par due 8/2014) | 10.00% (Libor + 6.50%/Q)  | 8/21/2009        | 250            | 250(14)             |                          |       |
|  |   | Senior secured loan (\$9,388 par due 8/2014)         |                           | 8/21/2009        | 7,433          | 6,048(13)(14)       |                          |       |
|  |   | Senior secured loan (\$5,129 par due 8/2014)         |                           | 8/21/2009        | 3,979          | (13)                |                          |       |
|  |   | Common stock (100 shares)                            |                           | 8/21/2009        |                |                     |                          |       |
|  |   |  |                           |                  |                |                     | 11,912                   | 6,548 |
| The Step2 Company, LLC   | Toy manufacturer  | Senior secured loan (\$27,000 par due 4/2015)        | 10.00%                    | 4/1/2010         | 25,557         | 27,000(4)           |                          |       |
|  |   | Senior subordinated loan (\$30,000 par due 4/2015)   | 15.00%                    | 4/1/2010         | 28,396         | 30,000(4)           |                          |       |
|  |   | Common units (1,114,343 units)                       |                           | 4/1/2010         | 24             | 1,010               |                          |       |
|  |   | Warrants to purchase up to 3,157,895 shares          |                           | 4/1/2010         |                |                     |                          |       |
|  |   |  |                           |                  | 53,977         | 58,010              |                          |       |
| The Thymes, LLC(7)   | Cosmetic products manufacturer                              | Preferred units (6,283 units)                        | 8.00% PIK                 | 6/21/2007        | 6,784          | 6,902(4)            |                          |       |
|  |   | Common units (5,400 units)                           |                           | 6/21/2007        |                |                     |                          |       |
|  |   |  |                           |                  | 6,784          | 6,902               |                          |       |
| Woodstream Corporation   | Pet products manufacturer                                   | Senior subordinated loan (\$4,743 par due 2/2015)    | 12.00%                    | 1/22/2010        | 4,772          | 4,505               |                          |       |
|  |   | Senior subordinated loan (\$50,257 par due 2/2015)   | 12.00%                    | 1/22/2010        | 43,287         | 47,745              |                          |       |
|  |   | Common stock (4,254 shares)                          |                           | 1/22/2010        | 1,222          | 2,194               |                          |       |
|  |   |  |                           |                  | 49,281         | 54,444              |                          |       |
|  |   |  |                           |                  | 227,614        | 233,700             | 7.66%                    |       |
| <b>Education</b>   |   |  |                           |                  |                |                     |                          |       |
| Campus Management Corp. and Campus Management Acquisition Corp.(6) | Education software developer                                | Preferred stock (465,509 shares)                     |                           | 2/8/2008         | 9,949          | 13,834              |                          |       |
| Community Education Centers, Inc.                                  | Offender re-entry and in-prison treatment services provider | Senior secured loan (\$20,000 par due 12/2014)       | 6.25% (Libor + 5.25%/M)   | 12/10/2010       | 20,000         | 20,000(14)          |                          |       |
|  |   | Junior secured loan (\$9,231 par due 12/2015)        | 15.28% (Libor + 15.00%/M) | 12/10/2010       | 9,231          | 9,231               |                          |       |

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|  |                              |            |        |        |
|--|------------------------------|------------|--------|--------|
| Junior secured loan<br>(\$30,769 par due<br>12/2015) | 15.30%<br>(Libor + 15.00%/M) | 12/10/2010 | 30,769 | 30,769 |
| Warrants to purchase up<br>to 578,407 shares         |                              | 12/13/2010 |        | 1,009  |
|  |                              |            | 60,000 | 61,009 |
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| Company(1)  | Industry   | Investment   | Interest(5)(10)          | Acquisition Date | Amortized Cost | Fair Value    | Percentage of Net Assets |
|---|--|--|--------------------------|------------------|----------------|---------------|--------------------------|
| eInstruction Corporation  | Developer, manufacturer and retailer of educational products | Senior subordinated loan (\$23,270 par due 1/2015) | 16.00% PIK               | 4/1/2010         | 21,290         | 22,106(4)     |                          |
|   |  | Junior secured loan (\$17,000 par due 7/2014)      | 7.80% (Libor + 7.50%/Q)  | 4/1/2010         | 14,881         | 14,960        |                          |
|   |  | Common stock (2,406 shares)                        |                          | 4/1/2010         | 926            | 1,326         |                          |
|   |  |  |                          |                  | 37,097         | 38,392        |                          |
| ELC Acquisition Corporation   | Developer, manufacturer and retailer of educational products | Senior secured loan (\$160 par due 11/2012)        | 3.51% (Libor + 3.25%/M)  | 11/30/2006       | 160            | 160(3)        |                          |
|   |  | Junior secured loan (\$8,333 par due 11/2013)      | 7.26% (Libor + 7.00%/M)  | 11/30/2006       | 8,333          | 8,333(3)      |                          |
|   |  |  |                          |                  | 8,493          | 8,493         |                          |
| Instituto de Banca y Comercio, Inc. & Leeds IV Advisors, Inc.   | Private school operator                                      | Series B preferred stock (1,401,385 shares)        |                          | 8/5/2010         | 4,004          | 4,244         |                          |
|   |  | Series B preferred stock (348,615 shares)          |                          | 8/5/2010         | 996            | 1,056         |                          |
|   |  | Series C preferred stock (1,994,644 shares)        |                          | 6/7/2010         | 547            | 2,586         |                          |
|   |  | Series C preferred stock (517,942 shares)          |                          | 6/7/2010         | 142            | 672           |                          |
|   |  | Common stock (16 shares)                           |                          | 6/7/2010         |                |               |                          |
|   |  | Common stock (4 shares)                            |                          | 6/7/2010         |                |               |                          |
|   |  |  |                          |                  | 5,689          | 8,558         |                          |
| JTC Education Holdings, Inc.  | Postsecondary school operator                                | Senior secured loan (\$19,997 par due 12/2014)     | 12.50% (Libor + 9.50%/M) | 12/31/2009       | 19,997         | 19,997(14)    |                          |
|   |  | Senior secured loan (\$10,863 par due 12/2014)     | 12.50% (Libor + 9.50%/M) | 12/31/2009       | 10,863         | 10,863(3)(14) |                          |
|   |  |  |                          |                  | 30,860         | 30,860        |                          |
| R3 Education, Inc. (formerly known as Equinox EIC Partners, LLC and MUA Management Company) and EIC Acquisitions Corp.(8) | Medical school operator                                      | Senior secured loan (\$6,275 par due 4/2013)       | 9.00% (Libor + 6.00%/Q)  | 4/3/2007         | 6,275          | 9,652(3)(14)  |                          |
|   |  | Senior secured loan (\$10,113 par due 4/2013)      | 9.00% (Libor + 6.00%/Q)  | 9/21/2007        | 10,113         | 15,555(14)    |                          |
|   |  | Senior secured loan (\$4,000 par due 4/2013)       | 9.00% (Libor + 6.00%/Q)  | 9/21/2007        | 4,000          | 6,153(3)(14)  |                          |
|   |  | Senior secured loan (\$5,727 par due 4/2013)       | 13.00% PIK               | 12/8/2009        | 2,335          | 8,809(4)      |                          |
|   |  | Preferred stock (800 shares)                       |                          | 7/30/2008        | 200            | 100           |                          |
|   |  | Preferred stock (8,000 shares)                     |                          | 7/30/2008        | 2,000          | 1,000         |                          |
|   |  | Common membership interest (26.27% interest)       |                          | 9/21/2007        | 15,800         | 20,734        |                          |
|   |  |  |                          | 12/8/2009        |                |               |                          |
|   |  |  |                          |                  |                |               |                          |

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Warrants to purchase up  
to 27,890 shares

40,723 62,003

192,811 223,149 7.32%

**Manufacturing**

|                                   |   |  |                          |          |       |          |
|-----------------------------------|---|--|--------------------------|----------|-------|----------|
| Component Hardware<br>Group, Inc. | Commercial<br>equipment<br>manufacturer | Senior secured loan<br>(\$3,014 par due 12/2014) | 7.00% Cash,<br>3.00% PIK | 8/4/2010 | 3,014 | 3,014(4) |
|-----------------------------------|---|--|--------------------------|----------|-------|----------|

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| Company(1)  | Industry  | Investment  | Interest(5)(10)                               | Acquisition Date | Amortized Cost | Fair Value      | Percentage of Net Assets |
|---|---|---|---|------------------|----------------|-----------------|--------------------------|
|   |   | Senior subordinated loan (\$10,078 par due 12/2014)         | 7.50% Cash, 5.00% PIK                         | 4/1/2010         | 5,775          | 10,078(4)       |                          |
|   |   | Warrants to purchase up to 1,462,500 shares of common stock |   | 8/4/2010         |                | 1,240           |                          |
|   |   |   |   |                  | 8,789          | 14,332          |                          |
| Emerald Performance Materials, LLC                                  | Polymers and performance materials manufacturer                   | Senior secured loan (\$375 par due 5/2011)                  | 8.25% (Libor + 4.25%/M)                       | 5/16/2006        | 375            | 375(14)         |                          |
|   |   | Senior secured loan (\$5,801 par due 5/2011)                | 8.25% (Libor + 4.25%/M)                       | 5/16/2006        | 5,801          | 5,801(14)       |                          |
|   |   | Senior secured loan (\$536 par due 5/2011)                  | 8.25% (Libor + 4.25%/M)                       | 5/16/2006        | 536            | 536(3)(14)      |                          |
|   |   | Senior secured loan (\$8,296 par due 5/2011)                | 8.25% (Libor + 4.25%/M)                       | 5/16/2006        | 8,296          | 8,296(3)(14)    |                          |
|   |   | Senior secured loan (\$3,806 par due 5/2011)                | 10.00% (Libor + 6.00%/M)                      | 5/16/2006        | 3,806          | 3,806(14)       |                          |
|   |   | Senior secured loan (\$1,579 par due 5/2011)                | 10.00% (Libor + 6.00%/M)                      | 5/16/2006        | 1,579          | 1,579(3)(14)    |                          |
|   |   | Senior secured loan (\$3,558 par due 5/2011)                | 13.00% Cash, 3.00% PIK                        | 5/16/2006        | 3,558          | 3,558(4)        |                          |
|   |   | Senior secured loan (\$5,089 par due 5/2011)                | 13.00% Cash, 3.00% PIK                        | 5/16/2006        | 5,089          | 5,089(2)(4)     |                          |
|   |   |   |   |                  | 29,040         | 29,040          |                          |
| Industrial Air Tool, LP and Affiliates d/b/a Industrial Air Tool(7) | Industrial products   | Class B common units (37,125 units)                         |   | 4/1/2010         | 6,000          | 14,787          |                          |
|   |   | Member interest (375 units)                                 |   | 4/1/2010         | 7,419          | 149             |                          |
|   |   |   |   |                  | 13,419         | 14,936          |                          |
| NetShape Technologies, Inc.   | Metal precision engineered components manufacturer                | Senior secured revolving loan (\$972 par due 2/2013)        | 4.06% (Libor + 3.75%/M)                       | 4/1/2010         | 521            | 602             |                          |
|   |   | Common units (1,000 units)                                  |   | 1/30/2007        | 1,000          |                 |                          |
|   |   |   |   |                  | 1,521          | 602             |                          |
| Reflexite Corporation(7)  | Developer and manufacturer of high-visibility reflective products | Senior subordinated loan (\$3,282 par due 11/2014)          | 20.00% (Base Rate + 12.25% Cash, 7.50% PIK/Q) | 2/26/2008        | 3,282          | 3,282(4)(14)    |                          |
|   |   | Senior subordinated loan (\$5,999 par due 11/2014)          | 20.00% (Base Rate + 12.25% Cash, 7.50% PIK/Q) | 2/26/2008        | 5,999          | 5,999(3)(4)(14) |                          |
|   |   | Common stock (1,821,860 shares)                             |   | 3/28/2006        | 27,435         | 30,523          |                          |
|   |   |   |   |                  | 36,716         | 39,804          |                          |
| STS Operating, Inc.   | Hydraulic systems equipment and supplies                          | Senior subordinated loan (\$30,386 par due 1/2013)          | 11.00%  | 4/1/2010         | 29,461         | 30,386(2)       |                          |

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provider

|  |  |   |                               |            |        |        |
|--|--|---|-------------------------------|------------|--------|--------|
| Bundy Refrigeration International Holding B.V. (aka Tyde Group Worldwide)(8) | Refrigeration and cooling systems parts manufacturer | Senior secured loan (\$9,010 par due 4/2012)  | 13.13% (Base Rate + 9.88%/Q)  | 12/15/2010 | 9,010  | 9,010  |
|  |  | Senior secured loan (\$15,592 par due 4/2012) | 15.38% (Base Rate + 12.13%/Q) | 12/15/2010 | 15,592 | 15,592 |
|  |  |   |                               |            | 24,602 | 24,602 |

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| Company(1)                                    | Industry   | Investment   | Interest(5)(10)                              | Acquisition Date             | Amortized Cost | Fair Value   | Percentage of Net Assets |  |
|---|--|--|--|------------------------------|----------------|--------------|--------------------------|--|
| UL Holding Co., LLC                           | Petroleum product manufacturer   | Senior secured loan (\$5,000 par due 12/2012)          | 15.00%                                       | 8/13/2010                    | 5,000          | 5,000        |                          |  |
|   |  | Junior secured loan (\$2,108 par due 12/2012)          | 9.66% (Libor + 9.38%/Q)                      | 2/13/2009                    | 2,108          | 2,108        |                          |  |
|   |  | Junior secured loan (\$839 par due 12/2012)            | 9.66% (Libor + 9.38%/Q)                      | 2/13/2009                    | 839            | 839(3)       |                          |  |
|   |  | Junior secured loan (\$2,119 par due 12/2012)          | 14.50%                                       | 2/13/2009                    | 2,119          | 2,119        |                          |  |
|   |  | Junior secured loan (\$844 par due 12/2012)            | 14.50%                                       | 2/13/2009                    | 844            | 844(3)       |                          |  |
|   |  | Junior secured loan (\$10,809 par due 12/2012)         | 9.66% (Libor + 9.38%/Q)                      | 2/13/2009                    | 10,809         | 10,809(3)    |                          |  |
|   |  | Junior secured loan (\$2,963 par due 12/2012)          | 14.50%                                       | 2/13/2009                    | 2,963          | 2,963(2)     |                          |  |
|   |  | Junior secured loan (\$988 par due 12/2012)            | 14.50%                                       | 2/13/2009                    | 988            | 988(3)       |                          |  |
|   |  | Common units (50,000 units)                            |  | 4/25/2008                    | 500            | 97           |                          |  |
|   |  | Common units (207,843 units)                           |  | 4/25/2008                    |                | 403          |                          |  |
|   |  |  |  |                              |                | 26,170       | 26,170                   |  |
|   |  |  |  |                              |                |              |                          |  |
|   |  | Universal Trailer Corporation(6)                       | Livestock and specialty trailer manufacturer | Common stock (74,920 shares) |                | 10/8/2004    | 7,930                    |  |
|   |  |  |  |                              | 177,648        | 179,872      | 5.90%                    |  |
| <b>Services-Other</b>                         |  |  |  |                              |                |              |                          |  |
| The Dwyer Group                               | Operator of multiple franchise concepts primarily related to home maintenance or repairs | Senior subordinated loan (\$27,100 par due 12/2016)    | 14.50%                                       | 12/22/2010                   | 27,100         | 27,100       |                          |  |
|   |  | Series A preferred units (15,000,000 units)            | 8.00% PIK                                    | 12/22/2010                   | 15,000         | 15,000       |                          |  |
|   |  |  |  |                              | 42,100         | 42,100       |                          |  |
| Growing Family, Inc. and GFH Holdings, LLC(6) | Photography services   | Senior secured revolving loan (\$182 par due 8/2011)   | 9.00% (Base Rate + 1.75% Cash, 4.00% PIK/M)  | 3/16/2007                    | 178            | 80(4)(14)    |                          |  |
|   |  | Senior secured revolving loan (\$2,252 par due 8/2011) | 9.00% (Base Rate + 1.75% Cash, 4.00% PIK/M)  | 3/16/2007                    | 2,207          | 991(4)(14)   |                          |  |
|   |  | Senior secured loan (\$524 par due 3/2013)             | 9.00% (Base Rate + 1.75% Cash, 4.00% PIK/M)  | 3/16/2007                    | 514            | 230(4)(14)   |                          |  |
|   |  | Senior secured loan (\$6,498 par due 3/2013)           | 9.00% (Base Rate + 1.75% Cash, 4.00% PIK/M)  | 3/16/2007                    | 6,378          | 2,859(4)(14) |                          |  |
|   |  | Preferred stock (8,750 shares)                         |  | 3/16/2007                    |                |              |                          |  |
|   |  | Common stock (552,430 shares)                          |  | 3/16/2007                    |                | 872          |                          |  |
|   |  | Warrants to purchase up to 11,313,678 Class B units    |  | 3/16/2007                    |                |              |                          |  |

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|                    |                         |  |            |            |        |          |
|--------------------|-------------------------|--|------------|------------|--------|----------|
|                    |                         |  |            |            | 10,149 | 4,160    |
| PODS Funding Corp. | Storage and warehousing | Senior subordinated loan (\$25,125 par due 6/2015) | 15.00%     | 12/23/2009 | 25,125 | 25,125   |
|                    |                         | Senior subordinated loan (\$7,582 par due 12/2015) | 16.64% PIK | 12/23/2009 | 6,290  | 7,430(4) |
|                    |                         |  |            |            | 31,415 | 32,555   |
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| Company(1)  | Industry   | Investment   | Interest(5)(10)                           | Acquisition Date | Amortized Cost | Fair Value    | Percentage of Net Assets |
|---|--|--|---|------------------|----------------|---------------|--------------------------|
| United Road Towing, Inc.  | Towing company                                       | Junior secured loan (\$18,840 par due 1/2014)        | 14.75% (Libor + 11.25% Cash, 1.00% PIK/Q) | 4/1/2010         | 18,606         | 18,840(4)(14) |                          |
|   |  | Warrants to purchase up to 607 shares                |   | 4/1/2010         |                | 4             |                          |
|   |  |  |   |                  | 18,606         | 18,844        |                          |
| Web Services Company, LLC   | Laundry service and equipment provider               | Senior secured loan (\$4,888 par due 8/2014)         | 7.00% (Base Rate + 3.75%/Q)               | 6/15/2009        | 4,718          | 4,888(3)      |                          |
|   |  | Senior subordinated loan (\$13,563 par due 8/2016)   | 11.50% Cash, 2.50% PIK                    | 8/29/2008        | 13,563         | 13,563(4)     |                          |
|   |  | Senior subordinated loan (\$26,462 par due 8/2016)   | 11.50% Cash, 2.50% PIK                    | 8/29/2008        | 26,462         | 26,462(2)(4)  |                          |
|   |  |  |   |                  | 44,743         | 44,913        |                          |
|   |  |  |   |                  | 147,013        | 142,572       | 4.67%                    |
| <b>Consumer Products Durable</b>  |  |  |   |                  |                |               |                          |
| Bushnell Inc.   | Sports optics manufacturer                           | Senior subordinated loan (\$41,325 par due 2/2014)   | 6.80% (Libor + 6.50%/Q)                   | 4/1/2010         | 30,708         | 30,994        |                          |
| Carlisle Wide Plank Floors, Inc.  | Hardwood floor manufacturer                          | Senior secured loan (\$1,545 par due 6/2011)         |   | 4/1/2010         | 1,449          | 773(4)(13)    |                          |
|   |  | Common stock (345,056 shares)                        |   | 4/1/2010         |                |               |                          |
|   |  |  |   |                  | 1,449          | 773           |                          |
| Direct Buy Holdings, Inc. and Direct Buy Investors, LP(6)                     | Membership based buying club franchisor and operator | Senior secured loan (\$1,897 par due 11/2012)        | 8.25% (Base Rate + 5.00%/Q)               | 12/14/2007       | 1,858          | 1,897(2)(14)  |                          |
|   |  | Senior subordinated loan (\$81,634 par due 5/2013)   | 12.00% Cash, 4.00% PIK                    | 4/1/2010         | 77,892         | 81,634(4)     |                          |
|   |  | Limited partnership interest (80,000 shares)         |   | 4/1/2010         | 3,112          | 3,414         |                          |
|   |  | Partnership interests (100,000 shares)               |   | 11/30/2007       | 10,000         | 4,347         |                          |
|   |  |  |   |                  | 92,862         | 91,292        |                          |
|   |  |  |   |                  | 125,019        | 123,059       | 4.03%                    |
| <b>Telecommunications</b>   |  |  |   |                  |                |               |                          |
| American Broadband Communications, LLC and American Broadband Holding Company | Broadband communication services                     | Senior secured loan (\$5,530 par due 9/2013)         | 7.50% (Libor + 5.50%/Q)                   | 9/1/2010         | 5,861          | 5,530(14)     |                          |
|   |  | Senior secured loan (\$17,775 par due 9/2013)        | 7.50% (Libor + 5.50%/Q)                   | 9/1/2010         | 16,924         | 17,775(2)(14) |                          |
|   |  | Senior secured loan (\$9,283 par due 9/2013)         | 7.50% (Libor + 5.50%/Q)                   | 9/1/2010         | 9,283          | 9,283(3)(14)  |                          |
|   |  | Senior subordinated loan (\$30,594 par due 11/2014)  | 12.00% Cash, 4.00% PIK                    | 9/1/2010         | 30,594         | 30,594(4)     |                          |
|   |  | Senior subordinated loan (\$32,768 par due 2/8/2008) | 12.00% Cash, 4.00% PIK                    | 2/8/2008         | 32,768         | 32,768(2)(4)  |                          |

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|                        |               |                          |              |           |         |           |
|------------------------|---------------|--------------------------|--------------|-----------|---------|-----------|
|                        |               | 11/2014)                 |              |           |         |           |
|                        |               | Senior subordinated loan | 12.00% Cash, | 11/7/2007 | 10,321  | 10,321(4) |
|                        |               | (\$10,321 par due        | 4.00% PIK    |           |         |           |
|                        |               | 11/2014)                 |              |           |         |           |
|                        |               | Warrants to purchase up  |              | 11/7/2007 |         | 3,915     |
|                        |               | to 200 shares            |              |           |         |           |
|                        |               | Warrants to purchase up  |              | 9/1/2010  |         |           |
|                        |               | to 208 shares            |              |           |         |           |
|                        |               |                          |              |           | 105,751 | 110,186   |
| Startec Equity, LLC(7) | Communication | Member interest          |              | 4/1/2010  |         |           |
|                        | services      |                          |              |           |         |           |
|                        |               |                          |              |           | 105,751 | 110,186   |
|                        |               |                          |              |           |         | 3.59%     |

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| Company(1)                                     | Industry                                       | Investment  | Interest(5)(10)              | Acquisition Date | Amortized Cost | Fair Value    | Percentage of Net Assets |
|--|--|---|------------------------------|------------------|----------------|---------------|--------------------------|
| <b>Food and Beverage</b>                       |  |   |                              |                  |                |               |                          |
| Apple & Eve, LLC and US Juice Partners, LLC(6) | Juice manufacturer                             | Senior secured revolving loan (\$1,200 par due 10/1/2013) | 12.00% (Base Rate + 8.00%/Q) | 10/5/2007        | 1,200          | 1,200(14)     |                          |
|  |  | Senior secured loan (\$14,162 par due 10/2013)            | 12.00% (Libor + 9.00%/M)     | 10/5/2007        | 14,162         | 14,162(14)    |                          |
|  |  | Senior secured loan (\$14,900 par due 10/2013)            | 12.00% (Libor + 9.00%/M)     | 10/5/2007        | 14,900         | 14,900(3)(14) |                          |
|  |  | Senior units (50,000 units)                               |                              | 10/5/2007        | 5,000          | 5,036         |                          |
|  |  |   |                              |                  |                | 35,262        | 35,298                   |
| Border Foods, Inc.(7)                          | Green chile and jalapeno products manufacturer | Senior secured loan (\$28,526 par due 3/2012)             | 13.50%                       | 4/1/2010         | 28,526         | 28,526        |                          |
|  |  | Preferred stock (100,000 shares)                          |                              | 4/1/2010         | 21,346         | 22,801        |                          |
|  |  | Common stock (148,838 shares)                             |                              | 4/1/2010         | 13,472         | 4,809         |                          |
|  |  | Common stock (87,707 shares)                              |                              | 4/1/2010         |                | 2,834         |                          |
|  |  | Common stock (23,922 shares)                              |                              | 4/1/2010         |                | 773           |                          |
|  |  |   |                              |                  | 63,344         | 59,743        |                          |
| Charter Baking Company, Inc.                   | Baked goods manufacturer                       | Senior subordinated loan (\$6,673 par due 2/2013)         | 13.00% PIK                   | 2/6/2008         | 6,673          | 6,673(4)      |                          |
|  |  | Preferred stock (6,258 shares)                            |                              | 9/1/2006         | 2,500          | 1,650         |                          |
|  |  |   |                              |                  | 9,173          | 8,323         |                          |
| Distant Lands Trading Co.                      | Coffee manufacturer                            | Common stock (1,294 shares)                               |                              | 4/1/2010         | 980            | 1,048         |                          |
|  |  | Common stock (2,157 shares)                               |                              | 4/1/2010         |                |               |                          |
|  |  |   |                              |                  | 980            | 1,048         |                          |
| Ideal Snacks Corporation                       | Snacks manufacturer                            | Senior secured revolving loan (\$1,084 par due 6/2011)    | 8.50% (Base Rate + 4.00%/M)  | 4/1/2010         | 1,084          | 922(14)       |                          |
|  |  |   |                              |                  | 109,843        | 105,334       | 3.45%                    |
| <b>Retail</b>                                  |  |   |                              |                  |                |               |                          |
| Apogee Retail, LLC                             | For-profit thrift retailer                     | Senior secured revolving loan (\$780 par due 3/2012)      | 7.25% (Base Rate + 4.00%/Q)  | 3/27/2007        | 780            | 765           |                          |
|  |  | Senior secured loan (\$11,523 par due 9/2012)             | 12.00% Cash, 4.00% PIK       | 5/28/2008        | 11,523         | 11,523(4)     |                          |
|  |  | Senior secured loan (\$2,939 par due 3/2012)              | 5.51% (Libor + 5.25%/M)      | 3/27/2007        | 2,939          | 2,880(2)      |                          |
|  |  | Senior secured loan (\$3,420 par due 9/2012)              | 12.00% Cash, 4.00% PIK       | 5/28/2008        | 3,420          | 3,420(4)      |                          |
|  |  | Senior secured loan (\$25,841 par due 3/2012)             | 5.51% (Libor + 5.25%/M)      | 3/27/2007        | 25,841         | 25,324(2)     |                          |

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|  |                                |  |  |           |        |                 |
|--|--------------------------------|--|--|-----------|--------|-----------------|
|  |                                | Senior secured loan<br>(\$11,307 par due 3/2012) | 5.51%<br>(Libor + 5.25%/M)                                 | 3/27/2007 | 11,307 | 11,081(3)       |
|  |                                |  |  |           | 55,810 | 54,993          |
| Savers, Inc. and SAI<br>Acquisition Corporation            | For-profit thrift<br>retailer  | Common stock<br>(1,170,182 shares)               |  | 8/8/2006  | 4,500  | 7,238           |
| Things Remembered, Inc.<br>and TRM Holdings<br>Corporation | Personalized<br>gifts retailer | Senior secured loan<br>(\$2,413 par due 9/2012)  | 6.50% (Base Rate +<br>1.25% Cash,<br>1.00% PIK/M)          | 9/28/2006 | 2,409  | 2,364(3)(4)(14) |
|  |                                | Senior secured loan<br>(\$28,122 par due 9/2012) | 6.50% (Base Rate +<br>1.25% Cash,<br>1.00% PIK/M)<br>F-117 | 9/28/2006 | 28,089 | 27,560(4)(14)   |

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| Company(1)                                       | Industry                     | Investment   | Interest(5)(10)                             | Acquisition Date | Amortized Cost | Fair Value      | Percentage of Net Assets |
|--|------------------------------|--|---|------------------|----------------|-----------------|--------------------------|
|  |                              | Senior secured loan (\$7,110 par due 9/2012)             | 6.50% (Base Rate + 1.25% Cash, 1.00% PIK/M) | 9/28/2006        | 7,188          | 6,968(3)(4)(14) |                          |
|  |                              | Preferred stock (73 shares)                              |   | 3/19/2009        |                | 1,939           |                          |
|  |                              | Preferred stock (80 shares)                              |   | 9/28/2006        | 1,800          | 2,121           |                          |
|  |                              | Common stock (800 shares)                                |   | 9/28/2006        | 200            |                 |                          |
|  |                              | Warrants to purchase up to 859 shares of preferred stock |   | 3/19/2009        |                |                 |                          |
|  |                              |  |   |                  | 39,686         | 40,952          |                          |
|  |                              |  |   |                  | 99,996         | 103,183         | 3.38%                    |
| <b>Commercial Real Estate Finance</b>            |                              |  |   |                  |                |                 |                          |
| 10th Street, LLC(6)                              | Real estate holding company  | Senior subordinated loan (\$23,247 par due 11/2014)      | 8.93% Cash, 4.07% PIK                       | 4/1/2010         | 23,247         | 23,247(4)       |                          |
|  |                              | Member interest (10.00% interest)                        |   | 4/1/2010         | 594            | 578             |                          |
|  |                              | Option (25,000 units)                                    |   | 4/1/2010         | 25             | 25              |                          |
|  |                              |  |   |                  | 23,866         | 23,850          |                          |
| Allied Capital REIT, Inc.(7)                     | Real estate investment trust | Real estate equity interests                             |   | 4/1/2010         | 50             | 35              |                          |
|  |                              | Real estate equity interests                             |   | 4/1/2010         | 115            | 699             |                          |
|  |                              |  |   |                  | 165            | 734             |                          |
| American Commercial Coatings, Inc.               | Real estate property         | Commercial mortgage loan (\$2,000 par due 12/2025)       |   | 4/1/2010         | 1,927          | 1,875(13)       |                          |
| Aquila Binks Forest Development, LLC             | Real estate developer        | Commercial mortgage loan (\$12,870 par due 6/2011)       |   | 4/1/2010         | 11,293         | 4,812(13)       |                          |
|  |                              | Real estate equity interest                              |   | 4/1/2010         |                |                 |                          |
|  |                              |  |   |                  | 11,293         | 4,812           |                          |
| Cleveland East Equity, LLC                       | Hotel operator               | Real estate equity interest (2,522,748 shares)           |   | 4/1/2010         | 1,026          | 2,051           |                          |
| Commons R-3, LLC                                 | Real estate developer        | Real estate equity interest                              |   | 4/1/2010         |                |                 |                          |
| Crescent Hotels & Resorts, LLC and affiliates(7) | Hotel operator               | Senior subordinated loan (\$433 par due 6/2010)          |   | 4/1/2010         | 433            | 444(13)         |                          |
|  |                              | Senior subordinated loan (\$4,124 par due 1/2012)        |   | 4/1/2010         | 1,475          | (13)            |                          |
|  |                              | Senior subordinated loan (\$4,348 par due 6/2017)        |   | 4/1/2010         | 1,482          | 1,288(13)       |                          |
|  |                              | Senior subordinated loan (\$2,722 par due 6/2017)        |   | 4/1/2010         | 928            | 1,963(13)       |                          |

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|  |          |       |      |
|--|----------|-------|------|
| Senior subordinated loan<br>(\$5,974 par due 9/2012) | 4/1/2010 | 2,051 | (13) |
| Senior subordinated loan<br>(\$263 par due 3/2013)   | 4/1/2010 | 263   | (13) |
| Senior subordinated loan<br>(\$2,112 par due 9/2011) | 4/1/2010 |       | (13) |
| Senior subordinated loan<br>(\$3,078 par due 1/2012) | 4/1/2010 |       | (13) |
| Senior subordinated loan<br>(\$2,926 par due 6/2017) | 4/1/2010 |       | (13) |
| Senior subordinated loan<br>(\$2,050 par due 6/2017) | 4/1/2010 |       | (13) |
| Senior subordinated loan<br>(\$4,826 par due 9/2012) | 4/1/2010 |       | (13) |
| Preferred equity interest                            | 4/1/2010 |       |      |
| Preferred equity interest                            | 4/1/2010 |       | 43   |

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| Company(1)                    | Industry  | Investment  | Interest(5)(10)              | Acquisition Date     | Amortized Cost | Fair Value | Percentage of Net Assets |
|-------------------------------|---|---|------------------------------|----------------------|----------------|------------|--------------------------|
|                               |   | Common equity interest<br>Member interests          |                              | 4/1/2010<br>4/1/2010 | 35             |            |                          |
|                               |   |   |                              |                      | 6,667          | 3,738      |                          |
| DI Safford, LLC               | Hotel operator  | Commercial mortgage loan (\$5,311 par due 5/2032)   |                              | 4/1/2010             | 2,757          | 2,750(13)  |                          |
| Holiday Inn West Chester      | Hotel property  | Real estate owned                                   |                              | 4/1/2010             | 3,513          | 3,330      |                          |
| Hot Light Brands, Inc.(7)     | Real estate holding company   | Senior secured loan (\$27,393 par due 2/2011)       |                              | 4/1/2010             | 4,875          | 4,629(13)  |                          |
|                               |   | Common stock (93,500 shares)                        |                              | 4/1/2010             |                |            |                          |
|                               |   |   |                              |                      | 4,875          | 4,629      |                          |
| MGP Park Place Equity, LLC    | Office building operator  | Commercial mortgage loan (\$6,170 par due 5/2011)   |                              | 4/1/2010             | 320            | 163(13)    |                          |
| NPH, Inc.                     | Hotel property  | Real estate equity interest                         |                              | 4/1/2010             | 5,291          | 6,907      |                          |
| Van Ness Hotel, Inc.          | Hotel operator  | Commercial mortgage loan (\$3,750 par due 8/2013)   |                              | 4/1/2010             | 1,027          | (13)       |                          |
|                               |   | Commercial mortgage loan (\$13,702 par due 12/2011) | 5.50%                        | 4/1/2010             | 13,702         | 11,291     |                          |
|                               |   | Real estate equity interests                        |                              | 4/1/2010             |                |            |                          |
|                               |   |   |                              |                      | 14,729         | 11,291     |                          |
|                               |   |   |                              |                      | 76,429         | 66,130     | 2.17%                    |
| <b>Wholesale Distribution</b> |   |   |                              |                      |                |            |                          |
| BECO Holding Company, Inc.    | Wholesale distributor of first response fire protection equipment and related parts | Common stock (25,000 shares)                        |                              | 7/30/2010            | 2,500          | 2,500      |                          |
| Stag-Parkway, Inc.(7)         | Automotive aftermarket components supplier  | Senior secured loan (\$34,500 par due 12/2014)      | 12.50%<br>(Libor + 11.00%/Q) | 9/30/2010            | 34,500         | 34,500(14) |                          |
|                               |   | Preferred stock (4,200 shares)                      | 16.50%                       | 9/30/2010            | 2,328          | 4,200      |                          |
|                               |   | Common stock (10,200 shares)                        |                              | 9/30/2010            |                | 13,987     |                          |
|                               |   |   |                              |                      | 36,828         | 52,687     |                          |
|                               |   |   |                              |                      | 39,328         | 55,187     | 1.81%                    |

**Computers and Electronics**

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|                                       |                                      |   |                              |            |        |               |
|---------------------------------------|--------------------------------------|---|------------------------------|------------|--------|---------------|
| Interactive Technology Solutions, LLC | IT services provider                 | Senior secured loan (\$7,944 par due 6/2015)                    | 9.50% (Libor + 6.50%/Q)      | 10/21/2010 | 7,944  | 7,944(14)     |
|                                       |                                      | Senior secured loan (\$8,900 par due 6/2015)                    | 9.50% (Libor + 6.50%/Q)      | 10/21/2010 | 8,900  | 8,900(3)(14)  |
|                                       |                                      |   |                              |            | 16,844 | 16,844        |
| Network Hardware Resale, Inc.         | Networking equipment resale provider | Senior subordinated loan (\$12,343 par due 12/2011)             | 12.00% (Base Rate + 6.00%/A) | 4/1/2010   | 12,343 | 12,343(2)(14) |
|                                       |                                      | Convertible junior subordinated loan (\$17,518 par due 12/2015) | 9.75% PIK                    | 4/1/2010   | 17,680 | 21,039(4)     |
|                                       |                                      |   |                              |            | 30,023 | 33,382        |

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| Company(1)                            | Industry   | Investment                                       | Interest(5)(10)             | Acquisition Date | Amortized Cost | Fair Value   | Percentage of Net Assets |
|---------------------------------------|--|--|-----------------------------|------------------|----------------|--------------|--------------------------|
| TZ Merger Sub, Inc.                   | Healthcare enterprise software developer                                 | Senior secured loan (\$4,678 par due 8/2015)     | 6.75% (Base Rate + 3.50%/Q) | 6/15/2009        | 4,597          | 4,678(3)     |                          |
|                                       |  |  |                             |                  | 51,464         | 54,904       | 1.79%                    |
| <b>Environmental Services</b>         |  |  |                             |                  |                |              |                          |
| AWTP, LLC                             | Water treatment services   | Junior secured loan (\$4,755 par due 12/2012)    |                             | 12/21/2005       | 4,755          | 1,517(13)    |                          |
|                                       |  | Junior secured loan (\$2,086 par due 12/2012)    |                             | 12/21/2005       | 2,086          | 666(3)(13)   |                          |
|                                       |  | Junior secured loan (\$4,755 par due 12/2012)    |                             | 12/21/2005       | 4,755          | 1,517(13)    |                          |
|                                       |  | Junior secured loan (\$2,086 par due 12/2012)    |                             | 12/21/2005       | 2,086          | 666(3)(13)   |                          |
|                                       |  |  |                             |                  | 13,682         | 4,366        |                          |
| Mactec, Inc.                          | Engineering and environmental services                                   | Class B-4 stock (16 shares)                      |                             | 11/3/2004        |                |              |                          |
|                                       |  | Class C stock (5,556 shares)                     |                             | 11/3/2004        |                | 162          |                          |
|                                       |  |  |                             |                  |                | 162          |                          |
| Sigma International Group, Inc.(8)    | Water treatment parts manufacturer                                       | Junior secured loan (\$1,833 par due 10/2013)    | 16.00% (Libor + 8.00%/Q)    | 10/11/2007       | 1,833          | 1,283(14)    |                          |
|                                       |  | Junior secured loan (\$917 par due 10/2013)      | 16.00% (Libor + 8.00%/Q)    | 10/11/2007       | 917            | 642(14)      |                          |
|                                       |  | Junior secured loan (\$2,778 par due 10/2013)    | 16.00% (Libor + 8.00%/Q)    | 10/11/2007       | 2,778          | 1,944(14)    |                          |
|                                       |  | Junior secured loan (\$4,000 par due 10/2013)    | 16.00% (Libor + 8.00%/Q)    | 10/11/2007       | 4,000          | 2,800(3)(14) |                          |
|                                       |  | Junior secured loan (\$2,000 par due 10/2013)    | 16.00% (Libor + 8.00%/Q)    | 10/11/2007       | 2,000          | 1,400(3)(14) |                          |
|                                       |  | Junior secured loan (\$6,060 par due 10/2013)    | 16.00% (Libor + 8.00%/Q)    | 10/11/2007       | 6,060          | 4,242(3)(14) |                          |
|                                       |  |  |                             |                  | 17,588         | 12,311       |                          |
| Universal Environmental Services, LLC | Hydrocarbon recycling and related waste management services and products | Preferred member interest (15.00% interest)      |                             | 4/1/2010         |                |              |                          |
|                                       |  | Preferred member interest (850,242 shares)       |                             | 4/1/2010         |                |              |                          |
|                                       |  | Preferred member interest (7,099 shares)         |                             | 4/1/2010         |                |              |                          |
|                                       |  | Preferred member interest (763,889 shares)       |                             | 4/1/2010         |                |              |                          |
| Waste Pro USA, Inc                    | Waste management services  | Preferred Class A Common Equity (611,615 shares) |                             | 11/9/2006        | 12,263         | 16,861       |                          |

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|                    |   |  |          |        |         |       |
|--------------------|---|--|----------|--------|---------|-------|
| Wastequip, Inc.(6) | Waste management equipment manufacturer | Senior subordinated loan (\$12,669 par due 2/2015) | 2/5/2007 | 12,581 | 760(13) |       |
|                    |   | Common stock (13,889 shares)                       | 2/2/2007 | 1,389  |         |       |
|                    |   |  |          | 13,970 | 760     |       |
|                    |   |  |          | 57,503 | 34,460  | 1.13% |

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| Company(1)                            | Industry  | Investment                                     | Interest(5)(10)             | Acquisition Date | Amortized Cost | Fair Value    | Percentage of Net Assets |
|---------------------------------------|---|--|-----------------------------|------------------|----------------|---------------|--------------------------|
| <b>Automotive Services</b>            |   |  |                             |                  |                |               |                          |
| Driven Brands, Inc.(6)                | Automotive aftermarket car care franchisor                    | Senior secured loan (\$3,200 par due 10/2014)  | 6.50% (Libor + 5.00%/M)     | 5/12/2010        | 3,116          | 3,200(3)(14)  |                          |
|                                       |   | Senior secured loan (\$520 par due 10/2014)    | 6.50% (Libor + 5.00%/M)     | 4/1/2010         | 506            | 520(3)(14)    |                          |
|                                       |   | Senior secured loan (\$213 par due 10/2014)    | 7.00% (Base Rate + 3.75%/M) | 4/1/2010         | 207            | 213(3)        |                          |
|                                       |   | Common stock (3,772,098 shares)                |                             | 4/1/2010         | 4,939          | 6,308         |                          |
|                                       |   |  |                             |                  | 8,768          | 10,241        |                          |
| Penn Detroit Diesel Allison, LLC(7)   | Diesel engine manufacturer                                    | Member interest (70,249 shares)                |                             | 4/1/2010         | 20,069         | 22,057        |                          |
|                                       |   |  |                             |                  | 28,837         | 32,298        | 1.06%                    |
| <b>Containers Packaging</b>           |   |  |                             |                  |                |               |                          |
| Industrial Container Services, LLC(6) | Industrial container manufacturer, reconditioner and servicer | Senior secured loan (\$1,033 par due 9/2011)   | 5.75% (Base Rate + 2.50%/Q) | 9/30/2005        | 1,033          | 1,033         |                          |
|                                       |   | Senior secured loan (\$20 par due 9/2011)      | 4.26% (Libor + 4.00%/Q)     | 6/21/2006        | 20             | 20(2)         |                          |
|                                       |   | Senior secured loan (\$101 par due 9/2011)     | 4.26% (Libor + 4.00%/Q)     | 6/21/2006        | 101            | 101(2)        |                          |
|                                       |   | Senior secured loan (\$308 par due 9/2011)     | 4.26% (Libor + 4.00%/Q)     | 6/21/2006        | 308            | 308(3)        |                          |
|                                       |   | Senior secured loan (\$1,539 par due 9/2011)   | 4.26% (Libor + 4.00%/Q)     | 6/21/2006        | 1,539          | 1,539(3)      |                          |
|                                       |   | Senior secured loan (\$107 par due 9/2011)     | 4.26% (Libor + 4.00%/Q)     | 6/21/2006        | 107            | 107(2)        |                          |
|                                       |   | Senior secured loan (\$1,642 par due 9/2011)   | 4.26% (Libor + 4.00%/Q)     | 6/21/2006        | 1,642          | 1,642(3)      |                          |
|                                       |   | Senior secured loan (\$27 par due 9/2011)      | 5.75% (Base Rate + 2.50%/Q) | 6/21/2006        | 27             | 27(2)         |                          |
|                                       |   | Senior secured loan (\$410 par due 9/2011)     | 5.75% (Base Rate + 2.50%/Q) | 6/21/2006        | 410            | 410(3)        |                          |
|                                       |   | Common units (1,800,000 units)                 |                             | 9/29/2005        | 1,800          | 15,203        |                          |
|                                       |   |  |                             |                  | 6,987          | 20,390        |                          |
|                                       |   |  |                             |                  | 6,987          | 20,390        | 0.67%                    |
|                                       |   | <b>Health Clubs</b>                            |                             |                  |                |               |                          |
| Athletic Club Holdings, Inc.          | Premier health club operator                                  | Senior secured loan (\$7,250 par due 10/2013)  | 4.76% (Libor + 4.50%/M)     | 10/11/2007       | 7,250          | 6,453(2)(12)  |                          |
|                                       |   | Senior secured loan (\$11,500 par due 10/2013) | 4.76% (Libor + 4.50%/M)     | 10/11/2007       | 11,500         | 10,235(3)(12) |                          |
|                                       |   |  |                             |                  | 18,750         | 16,688        |                          |
|                                       |   |  |                             |                  | 18,750         | 16,688        | 0.55%                    |
| <b>Printing, Publishing and Media</b> |   |  |                             |                  |                |               |                          |
| EarthColor, Inc.(7)                   | Printing management services                                  | Common stock (89,435 shares)                   |                             | 4/1/2010         |                |               |                          |
| LVCG Holdings LLC(7)                  |   |  |                             | 10/12/2007       | 6,600          |               |                          |

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|                            | Commercial printer           | Membership interests (56.53% interest)                  |                             |          |       |           |
|----------------------------|------------------------------|---|-----------------------------|----------|-------|-----------|
| National Print Group, Inc. | Printing management services | Senior secured revolving loan (\$1,141 par due 10/2012) | 9.00% (Libor + 6.00%/Q)     | 3/2/2006 | 1,141 | 965(14)   |
|                            |                              | Senior secured revolving loan (\$1,250 par due 10/2012) | 9.00% (Base Rate + 5.00%/Q) | 3/2/2006 | 1,250 | 1,057(14) |

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| Company(1)  | Industry   | Investment   | Interest(5)(10)                              | Acquisition Date | Amortized Cost | Fair Value      | Percentage of Net Assets |
|---|--|--|--|------------------|----------------|-----------------|--------------------------|
|   |  | Senior secured loan (\$7,685 par due 10/2012)                | 14.00% (Libor + 6.00% Cash, 5.00% PIK/Q)     | 3/2/2006         | 7,359          | 7,091(3)(4)(14) |                          |
|   |  | Senior secured loan (\$187 par due 10/2012)                  | 14.00% (Base Rate + 5.00% Cash, 5.00% PIK/Q) | 3/2/2006         | 179            | 173(3)(4)(14)   |                          |
|   |  | Preferred stock (9,344 shares)                               |  | 3/2/2006         | 2,000          |                 |                          |
|   |  |  |  |                  | 11,929         | 9,286           |                          |
| The Teaching Company, LLC and The Teaching Company Holdings, Inc. | Education publications provider  | Preferred stock (29,969 shares)                              |  | 9/29/2006        | 2,997          | 3,851           |                          |
|   |  | Common stock (15,393 shares)                                 |  | 9/29/2006        | 3              | 4               |                          |
|   |  |  |  |                  | 3,000          | 3,855           |                          |
|   |  |  |  |                  | 21,529         | 13,141          | 0.43%                    |
| <b>Aerospace and Defense</b>                                      |  |  |  |                  |                |                 |                          |
| AP Global Holdings, Inc.  | Safety and security equipment manufacturer                             | Senior secured loan (\$6,274 par due 10/2013)                | 4.02% (Libor + 3.75%/M)                      | 11/18/2007       | 6,243          | 6,274(3)        |                          |
| Wyle Laboratories, Inc. and Wyle Holdings, Inc.                   | Provider of specialized engineering, scientific and technical services | Senior preferred stock (775 shares)                          | 8.00%  | 1/17/2008        | 87             | 87              |                          |
|   |  | Common stock (1,885,195 shares)                              |  | 1/17/2008        | 2,291          | 1,968           |                          |
|   |  |  |  |                  | 2,378          | 2,055           |                          |
|   |  |  |  |                  | 8,621          | 8,329           | 0.27%                    |
| <b>Oil and Gas</b>  |  |  |  |                  |                |                 |                          |
| Geotrace Technologies, Inc.                                       | Reservoir processing, development                                      | Warrants to purchase up to 43,356 shares of common stock     |  | 4/1/2010         | 54             |                 |                          |
|   |  | Warrants to purchase up to 26,622 shares of common stock     |  | 4/1/2010         | 33             |                 |                          |
|   |  | Warrants to purchase up to 80,063 shares of preferred stock  |  | 4/1/2010         | 1,738          | 207             |                          |
|   |  | Warrants to purchase up to 130,390 shares of preferred stock |  | 4/1/2010         | 1,067          | 337             |                          |
|   |  |  |  |                  | 2,892          | 544             |                          |
|   |  |  |  |                  | 2,892          | 544             | 0.02%                    |

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**Housing Building  
Materials**

|                        |   |   |           |       |         |
|------------------------|---|---|-----------|-------|---------|
| HB&G Building Products | Synthetic and wood product manufacturer | Senior subordinated loan (\$8,956 par due 3/2013) | 10/8/2004 | 8,991 | 179(13) |
|                        |   | Common stock (2,743 shares)                       | 10/8/2004 | 753   |         |

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| Company(1) | Industry | Investment  | Interest(5)(10) | Acquisition Date | Amortized Cost | Fair Value   | Percentage of Net Assets |
|------------|----------|---|-----------------|------------------|----------------|--------------|--------------------------|
|            |          | Warrants to purchase up to 4,464 shares of common stock |                 | 10/8/2004        | 653            |              |                          |
|            |          |   |                 |                  | 10,397         | 179          |                          |
|            |          |   |                 |                  | 10,397         | 179          | 0.01%                    |
|            |          |   |                 |                  | \$ 4,291,955   | \$ 4,317,990 | 141.55%                  |

(1) Other than our investments listed in footnote 7 below, we do not "Control" any of our portfolio companies, as defined in the Investment Company Act of 1940 (the "Investment Company Act"). In general, under the Investment Company Act, we would "Control" a portfolio company if we owned more than 25% of its outstanding voting securities and/or had the power to exercise control over the management or policies of such portfolio company. All of our portfolio company investments are subject to legal restrictions on sales which as of March 31, 2011 represented 135% of the Company's net assets or 91% of the Company's total assets.

The investments not otherwise pledged as collateral in respect of the Debt Securitization (as defined below) or the Revolving Funding Facility (as defined below) by the respective obligors thereunder are pledged as collateral by the Company and certain of its other subsidiaries for the Revolving Credit Facility (as defined below) (except for a limited number of exceptions as provided in the credit agreement governing the Revolving Credit Facility).

(2) These assets are owned by the Company's wholly owned subsidiary Ares Capital CP Funding LLC ("Ares Capital CP"), are pledged as collateral for the Revolving Funding Facility and, as a result, are not directly available to the creditors of the Company to satisfy any obligations of the Company other than Ares Capital CP's obligations under the Revolving Funding Facility (see Note 5 to the consolidated financial statements).

(3) Pledged as collateral for the Debt Securitization.

(4) Has a payment-in-kind interest feature (see Note 2 to the consolidated financial statements).

(5) Investments without an interest rate are non-income producing.

(6) As defined in the Investment Company Act, we are deemed to be an "Affiliated Person" of this portfolio company because we own 5% or more of the portfolio company's outstanding voting securities or we have the power to exercise control over the management or policies of such portfolio company (including through a management agreement). Transactions during the year ended December 31, 2010 in which the issuer was an Affiliated company (but not a portfolio company that we "Control") are as follows:

| Company   | Purchases  | Redemptions (cost) | Sales (cost) | Interest income | Capital structuring service fees | Dividend Income | Other income | Net realized gains (losses) | Net unrealized gains (losses) |
|---|------------|--------------------|--------------|-----------------|----------------------------------|-----------------|--------------|-----------------------------|-------------------------------|
| 10th Street LLC   | \$ 23,171  | \$                 | \$           | \$ 2,465        | \$                               | \$              | \$           | \$                          | \$ (16)                       |
| Air Medical Group   | \$ 30,065  | \$ 11,955          | \$ 18,205    | \$ 106          | \$                               | \$              | \$ 13        | \$ 14,909                   | \$                            |
| Apple & Eve, LLC and US Juice Partners, LLC                                   | \$ 3,500   | \$ 5,022           | \$ 2,816     | \$ 3,753        | \$                               | \$              | \$ 47        | \$                          | \$ 36                         |
| BB&T Capital Partners   | \$ 13,943  | \$ 2,043           | \$           | \$              | \$                               | \$              | \$           | \$                          | \$ 3,804                      |
| Carador, PLC  | \$         | \$                 | \$           | \$              | \$                               | \$ 616          | \$           | \$                          | \$ 2,844                      |
| Campus Management Corp. and Campus Management Acquisition Corp.               | \$         | \$ 43,462          | \$           | \$ 4,829        | \$                               | \$              | \$ 1         | \$                          | \$ (197)                      |
| CT Technologies Intermediate Holdings, Inc. and CT Technologies Holdings, LLC | \$         | \$                 | \$           | \$ 297          | \$                               | \$              | \$           | \$                          | \$ 3,070                      |
| Direct Buy Holdings, Inc. and Direct Buy Investors LP                         | \$ 78,350  | \$ 219             | \$           | \$ 10,767       | \$                               | \$              | \$           | \$ 6                        | \$ 826                        |
| Driven Brands, Inc.   | \$ 103,157 | \$ 41              | \$ 96,643    | \$ 3,032        | \$                               | \$              | \$           | \$ 843                      | \$ 1,473                      |

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|   |           |           |           |           |        |          |        |            |            |
|---|-----------|-----------|-----------|-----------|--------|----------|--------|------------|------------|
| DSI Renal, Inc.                                       | \$ 1,505  | \$ 5,346  | \$ 7,991  | \$ 13,449 | \$     | \$       | \$ 57  | \$ 3,863   | \$ 24,699  |
| Dwyer Group, Inc.                                     | \$ 42,100 | \$        | \$        | \$ 97     | \$ 813 | \$       | \$     | \$         | \$         |
| Firstlight Financial Corporation                      | \$        | \$        | \$        | \$ 545    | \$     | \$       | \$ 312 | \$         | \$ (1,295) |
| Growing Family, Inc. and GFH Holdings, LLC            | \$        | \$        | \$        | \$ 1,097  | \$     | \$       | \$     | \$ (7,659) | \$ 1,668   |
| Imperial Capital Group, LLC                           | \$        | \$        | \$ 151    | \$        | \$     | \$ 1,509 | \$     | \$         | \$ 464     |
| Industrial Container Services, LLC                    | \$ 1,446  | \$ 10,692 | \$        | \$ 391    | \$     | \$       | \$ 148 | \$         | \$ 7,049   |
| InSight Pharmaceuticals Corporation                   | \$ 66,790 | \$        | \$        | \$ 6,325  | \$     | \$       | \$ 375 | \$         | \$ 1,362   |
| Investor Group Services, LLC                          | \$ 100    | \$ 100    | \$        | \$ 203    | \$     | \$       | \$ 20  | \$         | \$ 64      |
| Multi-Ad Services, Inc.                               | \$ 2,666  | \$ 1,886  | \$        | \$ 149    | \$     | \$       | \$ 17  | \$         | \$ 578     |
| Pillar Processing LLC and PHL Holding Co.             | \$        | \$ 4,597  | \$        | \$ 2,564  | \$     | \$       | \$ 36  | \$         | \$ (2,116) |
| Primis Marketing Group, Inc. and Primis Holdings, LLC | \$        | \$        | \$        | \$        | \$     | \$       | \$     | \$         | \$ (409)   |
| Regency Equity Corp.                                  | \$ 2,007  | \$        | \$        | \$        | \$     | \$       | \$     | \$         | \$ (335)   |
| Service Champ, Inc.                                   | \$ 28,463 | \$ 26,585 | \$ 28,463 | \$ 969    | \$     | \$       | \$ 75  | \$         | \$         |
| Soteria Imaging Services, LLC                         | \$ 4,080  | \$        | \$ 142    | \$ 348    | \$     | \$       | \$     | \$         | \$ (636)   |
| VSS-Tranzact Holdings, LLC                            | \$ 204    | \$        | \$        | \$        | \$     | \$       | \$     | \$         | \$ (1,579) |
| Universal Corporation                                 | \$        | \$        | \$        | \$        | \$     | \$       | \$     | \$         | \$         |
| Universal Trailer Corporation                         | \$        | \$        | \$        | \$        | \$     | \$       | \$     | \$         | \$         |
| Wastequip, Inc.                                       | \$        | \$        | \$ 449    | \$        | \$     | \$       | \$ 281 | \$ 3       | \$ (759)   |

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(7)

As defined in the Investment Company Act, we are deemed to be an "Affiliated Person" of this portfolio company because we own 5% or more of the portfolio company's outstanding voting securities or we have the power to exercise control over the management or policies of such portfolio company (including through a management agreement). In addition, as defined in the Investment Company Act, we "Control" this portfolio company because we own more than 25% of the portfolio company's outstanding voting securities or we have the power to exercise control over the management or policies of such portfolio company (including through a management agreement). Transactions during the period for the year ended December 31, 2010 in which the issuer was both an Affiliated company and a portfolio company that we Control are as follows:

| Company                                  | Purchases  | Redemptions<br>(cost) | Sales<br>(cost) | Interest<br>income | Capital<br>structuring<br>service<br>fees | Dividend<br>Income | Other<br>income | Net<br>realized<br>gains<br>(losses) | Net<br>unrealized<br>gains<br>(losses) |
|--|------------|-----------------------|-----------------|--------------------|---|--------------------|-----------------|--------------------------------------|--|
| AGILE Fund I, LLC                        | \$ 264     | \$                    | \$              | \$                 | \$  | \$ 124             | \$              | \$                                   | \$ (47)                                |
| Allied Capital REIT, Inc.                | \$ 765     | \$ 600                | \$              | \$                 | \$  | \$ 40              | \$              | \$                                   | \$ 569                                 |
| AllBridge Financial, LLC                 | \$ 11,370  | \$                    | \$              | \$                 | \$  | \$                 | \$ 29           | \$                                   | \$ 1,717                               |
| Avborne, Inc.                            | \$ 39      | \$                    | \$ 39           | \$                 | \$  | \$                 | \$              | \$ 41                                | \$                                     |
| Aviation Properties Corporation          | \$         | \$                    | \$              | \$                 | \$  | \$                 | \$              | \$                                   | \$                                     |
| BenefitMall Holdings, Inc.               | \$ 93,837  | \$                    | \$              | \$ 5,525           | \$  | \$                 | \$ 375          | \$                                   | \$ (3,060)                             |
| Border Foods, Inc.                       | \$ 68,944  | \$ 5,600              | \$              | \$ 3,107           | \$  | \$                 | \$ 25           | \$                                   | \$ (3,601)                             |
| Callidus Capital Corporation             | \$ 20,120  | \$ 16,000             | \$ 4,120        | \$                 | \$  | \$                 | \$              | \$ 2,580                             | \$ (2,354)                             |
| Ciena Capital LLC                        | \$ 98,012  | \$                    | \$              | \$ 429             | \$  | \$                 | \$              | \$                                   | \$ (6,058)                             |
| Citipostal, Inc.                         | \$ 63,961  | \$ 1,020              | \$              | \$ 7,308           | \$  | \$                 | \$ 282          | \$                                   | \$ (504)                               |
| Coverall North America, Inc.             | \$ 40,189  | \$                    | \$              | \$ 3,541           | \$  | \$                 | \$ 225          | \$                                   | \$ (7,624)                             |
| Crescent Equity Corp.                    | \$ 6,653   | \$                    | \$              | \$ 532             | \$  | \$                 | \$              | \$ 216                               | \$ (2,894)                             |
| Direct Capital Corporation               | \$ 10,109  | \$                    | \$              | \$                 | \$  | \$                 | \$              | \$ (31)                              | \$                                     |
| EarthColor, Inc.                         | \$         | \$                    | \$              | \$                 | \$  | \$                 | \$              | \$                                   | \$                                     |
| Financial Pacific Company                | \$ 32,800  | \$                    | \$ 32,899       | \$ 3,191           | \$  | \$                 | \$ 500          | \$ 1,592                             | \$ 1,543                               |
| HCI Equity, LLC                          | \$ 808     | \$                    | \$              | \$                 | \$  | \$                 | \$              | \$                                   | \$ 186                                 |
| HCP Acquisition Holdings, LLC            | \$         | \$                    | \$              | \$                 | \$  | \$                 | \$              | \$                                   | \$ 814                                 |
| Hot Light Brands, Inc.                   | \$ 6,746   | \$ 1,896              | \$              | \$ 2               | \$  | \$                 | \$              | \$ 266                               | \$ (246)                               |
| Hot Stuff Foods, LLC                     | \$ 69,167  | \$ 10,230             | \$              | \$ 3,201           | \$  | \$                 | \$ 71           | \$                                   | \$ 11,203                              |
| Huddle House Inc.                        | \$ 19,607  | \$                    | \$              | \$ 2,265           | \$  | \$                 | \$ 564          | \$                                   | \$ (3,830)                             |
| IAT Equity, LLC                          | \$ 13,419  | \$                    | \$              | \$                 | \$  | \$                 | \$ 130          | \$                                   | \$ 1,432                               |
| Ivy Hill Asset Management, L.P.          | \$ 71,116  | \$ 4,834              | \$              | \$                 | \$  | \$ 7,320           | \$              | \$                                   | \$ 21,633                              |
| Ivy Hill Middle Market Credit Fund, Ltd. | \$         | \$                    | \$ 330          | \$ 6,859           | \$  | \$                 | \$              | \$                                   | \$ 884                                 |
| Knightsbridge CLO 2007-1 Ltd.            | \$ 14,852  | \$                    | \$              | \$ 1,823           | \$  | \$                 | \$              | \$                                   | \$ (307)                               |
| Knightsbridge CLO 2008-1 Ltd.            | \$ 36,996  | \$                    | \$              | \$ 2,189           | \$  | \$                 | \$              | \$                                   | \$ (3,108)                             |
| LVCG Holdings, LLC                       | \$         | \$                    | \$              | \$                 | \$  | \$                 | \$              | \$                                   | \$ (330)                               |
| Making Memories Wholesale, Inc.          | \$ 1,250   | \$ 1,007              | \$              | \$ 1,062           | \$  | \$                 | \$ 188          | \$ 73                                | \$ (3,883)                             |
| MVL Group, Inc.                          | \$ 60,707  | \$ 4,837              | \$              | \$ 6,686           | \$  | \$                 | \$              | \$ 80                                | \$ 1,086                               |
| PENN Detroit Diesel Allison LLC          | \$ 20,069  | \$                    | \$              | \$                 | \$  | \$                 | \$ 375          | \$                                   | \$ 1,987                               |
| Reflexite Corporation                    | \$         | \$                    | \$ 8,450        | \$ 3,568           | \$  | \$                 | \$ 141          | \$ 950                               | \$ 5,928                               |
| Senior Secured Loan Fund LLC*            | \$ 391,571 | \$ 15,410             | \$              | \$ 50,013          | \$ 29,946                                 | \$                 | \$ 6,096        | \$ 796                               | \$ 24,235                              |
| Stag-Parkway, Inc.                       | \$ 36,810  | \$                    | \$              | \$ 2,131           | \$  | \$ 18              | \$ 229          | \$                                   | \$ 15,513                              |
| Startec Equity, LLC                      | \$         | \$                    | \$              | \$                 | \$  | \$                 | \$              | \$                                   | \$                                     |
| The Thymes, LLC                          | \$         | \$                    | \$              | \$ 421             | \$  | \$ 401             | \$              | \$                                   | \$ 797                                 |

\*

Together with GE Commercial Finance Investment Advisory Services LLC ("GE"), we serve as co-managers of the Senior Secured Loan Fund LLC d/b/a the "Senior Secured Loan Program" (the "SSLP"). Investments and portfolio decisions made by the SSLP, as well as decisions relating to the operations of the SSLP, must generally be approved by both the Company and GE; therefore, although the Company owns more than 25% of the voting securities of the SSLP, the Company does not believe that it has control over the SSLP (for purposes of the Investment Company Act or otherwise).

(8)

Non-U.S. company or principal place of business outside the U.S. and as a result is not a qualifying asset under Section 55(a) of the Investment Company Act. Under the Investment Company Act, we may not acquire any non-qualifying asset unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets.

(9)

Non-registered investment company under Section 3(c) of the Investment Company Act and as a result is not a qualifying asset under Section 55(a) of the Investment Company Act. Under the Investment Company Act, we may not acquire any non-qualifying asset unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets.

(10)

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Variable rate loans to our portfolio companies bear interest at a rate that may be determined by reference to either LIBOR or an alternate base rate (commonly based on the Federal Funds Rate or the Prime Rate), at the borrower's option, which reset annually (A), semi-annually (S), quarterly (Q), bi-monthly (B), monthly (M) or daily (D). For each such loan, we have provided the interest rate in effect on the date presented.

- (11) In addition to the interest earned based on the stated interest rate of this security, we are entitled to receive an additional interest amount of 5% on \$40 million aggregate principal amount outstanding of the portfolio company's senior term debt previously syndicated by us.
- (12) In addition to the interest earned based on the stated interest rate of this security, we are entitled to receive an additional interest amount of 2.50% on \$25 million aggregate principal amount outstanding of the portfolio company's senior term debt previously syndicated by us.
- (13) Loan was on non-accrual status as of December 31, 2010.

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- (14) Loan includes interest rate floor feature.
- (15) In addition to the interest earned based on the stated contractual interest rate of this security, the notes entitle us to receive a portion of the excess cash flow from the SSLP's loan portfolio, which may result in a return to the Company greater than the contractual stated interest rate.
- (16) Public company with outstanding equity with a market value in excess of \$250 million and as a result is not a qualifying asset under Section 55(a) of the Investment Company Act. Under the Investment Company Act, we may not acquire any non-qualifying asset unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets.

See accompanying notes to consolidated financial statements.

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**ARES CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**

**For the Three Months Ended March 31, 2011 (unaudited)**

**(in thousands, except per share data)**

|   | Common Stock |        |                                      | Accumulated<br>Net<br>Investment<br>Income | Accumulated<br>Net Realized<br>Loss on<br>Investments,<br>Foreign<br>Currency<br>Transactions,<br>Extinguishment<br>of<br>Debt and<br>Other Assets | Net<br>Unrealized<br>Gain on<br>Investments<br>and Foreign<br>Currency<br>Transactions | Total<br>Stockholders'<br>Equity |
|---|--------------|--------|--------------------------------------|--|--|--|----------------------------------|
|   | Shares       | Amount | Capital in<br>Excess of<br>Par Value |  |  |  |                                  |
| Balance at December 31, 2010                                      | 204,419      | \$ 204 | \$ 3,205,326                         | \$ (11,336)                                | \$ (169,696)   | \$ 26,035  | \$ 3,050,533                     |
| Shares issued in connection with<br>dividend reinvestment plan    | 333          | 1      | 5,468                                |  |  |  | 5,469                            |
| Issuance of the Convertible Notes (see<br>Note 5)                 |              |        | 54,787                               |  |  |  | 54,787                           |
| Net increase in stockholders' equity<br>resulting from operations |              |        |                                      | 47,823                                     | 53,709   | 22,234   | 123,766                          |
| Dividend declared (\$0.35 per share)                              |              |        |                                      | (71,547)                                   |  |  | (71,547)                         |
| Balance at March 31, 2011   | 204,752      | \$ 205 | \$ 3,265,581                         | \$ (35,060)                                | \$ (115,987)   | \$ 48,269  | \$ 3,163,008                     |

See accompanying notes to consolidated financial statements.

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(in thousands)

|  | For the three months ended |                |
|--|----------------------------|----------------|
|  | March 31, 2011             | March 31, 2010 |
|  | (unaudited)                | (unaudited)    |
| <b>OPERATING ACTIVITIES:</b>   |                            |                |
| Net increase in stockholders' equity resulting from operations                           | \$ 123,766                 | \$ 76,415      |
| Adjustments to reconcile net increase in stockholders' equity resulting from operations: |                            |                |
| Realized loss from extinguishment of debt  | 8,860                      |                |
| Net realized (gains) losses from investment and foreign currency transactions            | (62,569)                   | 4,881          |
| Net unrealized (gains) from investment and foreign currency transactions                 | (22,234)                   | (49,591)       |
| Net accretion of discount on securities  | (3,999)                    | (993)          |
| Increase in accrued payment-in-kind interest and dividends                               | (11,038)                   | (7,134)        |
| Collections of payment-in-kind interest and dividends                                    | 14,273                     | 8,158          |
| Amortization of debt issuance costs  | 2,799                      | 2,687          |
| Accretion of discount on the Allied Unsecured Notes                                      | 2,303                      |                |
| Accretion of discount on the Convertible Notes   | 1,252                      |                |
| Depreciation   | 304                        | 163            |
| Proceeds from sales and repayments of investments  | 579,774                    | 280,335        |
| Purchases of investments   | (490,032)                  | (305,174)      |
| Changes in operating assets and liabilities:   |                            |                |
| Interest receivable  | 71                         | 2,697          |
| Other assets   | (4,932)                    | (1,818)        |
| Management and incentive fees payable  | 10,882                     | (49,895)       |
| Accounts payable and accrued expenses  | (2,403)                    | 3,041          |
| Interest and facility fees payable   | (4,230)                    | 521            |
| Net provided by (used in) operating activities   | 142,847                    | (35,707)       |
| <b>FINANCING ACTIVITIES:</b>   |                            |                |
| Net proceeds from issuance of common stock   |                            | 277,207        |
| Borrowings on debt   | 976,958                    | 195,000        |
| Repayments and repurchases of debt   | (885,051)                  | (392,947)      |
| Debt issuance costs  | (23,195)                   | (16,439)       |
| Dividends paid in cash   | (66,078)                   | (42,528)       |
| Net cash provided by financing activities  | 2,634                      | 20,293         |
| CHANGE IN CASH AND CASH EQUIVALENTS  | 145,481                    | (15,414)       |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD   | 100,752                    | 99,227         |

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|  |    |         |    |        |
|--|----|---------|----|--------|
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ | 246,233 | \$ | 83,813 |
|--|----|---------|----|--------|

Supplemental Information:

|   |    |        |    |        |
|---|----|--------|----|--------|
| Interest paid during the period                     | \$ | 24,077 | \$ | 4,953  |
| Taxes, including excise tax, paid during the period | \$ | 7,395  | \$ | 14     |
| Dividends declared during the period                | \$ | 71,547 | \$ | 46,516 |

See accompanying notes to consolidated financial statements.

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**ARES CAPITAL CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**As of March 31, 2011 (unaudited)**

**(in thousands, except per share data, percentages and as otherwise indicated; for example, with the words "million," "billion," or otherwise)**

**1. ORGANIZATION**

Ares Capital Corporation (the "Company" or "ARCC" or "we") is a specialty finance company that is a closed-end, non-diversified management investment company incorporated in Maryland. We have elected to be regulated as a business development company under the Investment Company Act of 1940 (the "Investment Company Act"). We were incorporated on April 16, 2004 and were initially funded on June 23, 2004. On October 8, 2004, we completed our initial public offering. On the same date, we commenced substantial investment operations.

On April 1, 2010, we consummated our acquisition of Allied Capital Corporation ("Allied Capital"), in an all stock merger where each existing share of common stock of Allied Capital was exchanged for 0.325 shares of our common stock (the "Allied Acquisition"). The Allied Acquisition was valued at approximately \$908 million as of April 1, 2010. In connection therewith, we issued approximately 58.5 million shares of our common stock to Allied Capital's then-existing stockholders, thereby resulting in our then-existing stockholders owning approximately 69% of the combined company and then-existing Allied Capital stockholders owning approximately 31% of the combined company (see Note 15).

The Company has elected to be treated as a regulated investment company, or a "RIC", under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code") and operates in a manner so as to qualify for the tax treatment applicable to RICs. Our investment objective is to generate both current income and capital appreciation through debt and equity investments. We invest primarily in first and second lien senior loans and mezzanine debt, which in some cases includes an equity component. To a lesser extent, we also make equity investments. Also, as a result of the Allied Acquisition, Allied Capital's equity investments, including equity investments larger than those we have traditionally made and controlled portfolio company equity investments became part of our portfolio.

We are externally managed by Ares Capital Management LLC ("Ares Capital Management" or our "investment adviser"), a wholly owned subsidiary of Ares Management LLC ("Ares Management"), a global alternative asset manager and a Securities and Exchange Commission ("SEC") registered investment adviser. Ares Operations LLC ("Ares Operations" or our "administrator"), a wholly owned subsidiary of Ares Management, provides the administrative services necessary for us to operate.

Interim financial statements are prepared in accordance with United States generally accepted accounting principles ("GAAP") for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Articles 6 or 10 of Regulation S-X. In the opinion of management, all adjustments, consisting solely of normal recurring accruals considered necessary for the fair presentation of financial statements for the interim period presented, have been included. The current period's results of operations will not necessarily be indicative of results that ultimately may be achieved for the fiscal year ending December 31, 2011.

**2. SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with GAAP, and include the accounts of the Company and its wholly

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owned subsidiaries. The consolidated financial statements reflect all adjustments and reclassifications that, in the opinion of management, are necessary for the fair presentation of the results of the operations and financial condition as of and for the periods presented. All significant intercompany balances and transactions have been eliminated.

***Cash and Cash Equivalents***

Cash and cash equivalents include funds from time to time deposited with financial institutions and short-term, liquid investments in a money market fund. Cash and cash equivalents are carried at cost which approximates fair value.

***Concentration of Credit Risk***

The Company places its cash and cash equivalents with financial institutions and, at times, cash held in money market accounts may exceed the Federal Deposit Insurance Corporation insured limit.

***Investments***

Investment transactions are recorded on the trade date. Realized gains or losses are measured by the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment without regard to unrealized gains or losses previously recognized, and include investments charged off during the period, net of recoveries. Unrealized gains or losses primarily reflect the change in investment values, including the reversal of previously recorded unrealized gains or losses when gains or losses are realized.

Investments for which market quotations are readily available are typically valued at such market quotations. In order to validate market quotations, we look at a number of factors to determine if the quotations are representative of fair value, including the source and nature of the quotations. Debt and equity securities that are not publicly traded or whose market prices are not readily available (i.e., substantially all of our investments) are valued at fair value as determined in good faith by our board of directors, based on the input of our investment adviser, audit committee and independent third-party valuation firms that have been engaged at the direction of our board of directors to assist in the valuation of each portfolio investment without a readily available market quotation at least once during a trailing 12 month period and under a valuation policy and a consistently applied valuation process. The valuation process is conducted at the end of each fiscal quarter, and a minimum of 50% of our portfolio at fair value is subject to review by an independent valuation firm each quarter.

As part of the valuation process, we may take into account the following types of factors, if relevant, in determining the fair value of our investments: the enterprise value of a portfolio company (an estimate of the total fair value of the portfolio company's debt and equity), 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, a comparison of the portfolio company's securities to any similar publicly traded securities, changes in the interest rate environment and the credit markets generally that may affect the price at which similar investments may be made in the future and other relevant factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we consider the pricing indicated by the external event to corroborate our valuation.

Because there is not a readily available market value for most of the investments in our portfolio, we value substantially all of our portfolio investments at fair value as determined in good faith by our board of directors, as described herein. 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 fluctuate from period to period. Additionally, the fair value of our investments may differ significantly from the values that would have been used had a ready market existed for such



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investments and may differ materially from the values that we may ultimately realize. Further, such investments are generally subject to legal and other restrictions on resale or otherwise are less liquid than publicly traded securities. If we were required to liquidate a portfolio investment in a forced or liquidation sale, we could realize significantly less than the value at which we have recorded it.

In addition, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the gains or losses reflected in the valuations currently assigned.

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 in conjunction with our portfolio management team.

Preliminary valuations are reviewed and discussed with our investment adviser's management and investment professionals, and then valuation recommendations are presented to our board of directors.

The audit committee of our board of directors reviews these valuations, as well as the input of independent third-party valuation firms with respect to the valuations of a minimum of 50% of our portfolio at fair value.

Our board of directors discusses valuations and determines the fair value of each investment in our portfolio without a readily available market quotation in good faith based on the input of our investment adviser, audit committee and, where applicable, independent third-party valuation firms.

Effective January 1, 2008, the Company adopted Accounting Standards Codification ("ASC") 820-10 (previously Statement of Financial Accounting Standards ("SFAS") No. 157, Fair Value Measurements), which expands the application of fair value accounting for investments (see Note 8). Investments acquired as part of the Allied Acquisition were accounted for in accordance with ASC 805-10 (previously SFAS No. 141(R), Business Combinations), which requires that all assets be recorded at fair value. As a result, the initial amortized cost basis and fair value for the acquired investments were the same at April 1, 2010 (see Note 15).

***Interest and Dividend Income Recognition***

Interest income is recorded on an accrual basis and includes the accretion of discounts and amortization of premiums. Discounts and premiums to par value on securities purchased are accreted/amortized into interest income over the life of the respective security using the effective yield method. The amortized cost of investments represents the original cost adjusted for the accretion of discounts and amortization of premiums, if any.

Loans are generally placed on non-accrual status when principal or interest payments are past due 30 days or more or when there is reasonable doubt that principal or interest will be collected in full. Accrued and unpaid interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment regarding collectability. Non-accrual loans are restored to accrual status when past due principal and interest is paid and, in management's judgment, are likely to remain current. The Company may make exceptions to this if the loan has sufficient collateral value and is in the process of collection.

Dividend income on preferred equity securities is recorded as dividend income on an accrual basis to the extent that such amounts are payable by the portfolio company and are expected to be

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collected. Dividend income on common equity securities is recorded on the record date for private portfolio companies or on the ex-dividend date for publicly traded portfolio companies.

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

The Company has loans in its portfolio that contain payment-in-kind ("PIK") provisions. The PIK interest, computed at the contractual rate specified in each loan agreement, is added to the principal balance of the loan and recorded as interest income. To maintain the Company's status as a RIC, this non-cash source of income must be paid out to stockholders in the form of dividends, even though the Company has not yet collected the cash. For the three months ended March 31, 2011 and 2010, \$11,038 and \$7,134, respectively, in PIK income were recorded. Of the PIK income recorded for the three months ended March 31, 2011, \$6,667 was PIK income from investments acquired as part of the Allied Acquisition. For the three months ended March 31, 2011 and 2010, \$14,273 and \$8,158, respectively, of PIK income was collected. Of the \$14,273 of PIK income collected for the three months ended March 31, 2011, \$6,754 was from investments acquired as part of the Allied Acquisition.

***Capital Structuring Service Fees and Other Income***

The Company's investment adviser seeks to provide assistance to our portfolio companies in connection with the Company's investments and in return the Company may receive fees for capital structuring services. These fees are generally only available to the Company as a result of the Company's underlying investments, are normally paid at the closing of the investments, are generally non-recurring and are recognized as revenue when earned upon closing of the investment. The services that the Company's investment adviser provides vary by investment, but generally include reviewing existing credit facilities, arranging bank financing, arranging equity financing, structuring financing from multiple lenders, structuring financing from multiple equity investors, restructuring existing loans, raising equity and debt capital, and providing general financial advice, which concludes upon closing of the investment. Any services of the above nature subsequent to the closing would generally generate a separate fee payable to the Company. In certain instances where the Company is invited to participate as a co-lender in a transaction and does not provide significant services in connection with the investment, a portion of loan fees paid to the Company in such situations will be deferred and amortized over the estimated life of the loan. The Company's investment adviser may also take a seat on the board of directors of a portfolio company, or observe the meetings of the board of directors without taking a formal seat.

Other income includes fees for asset management, management and consulting services, loan guarantees, commitments, amendments and other services rendered by the Company to portfolio companies. Such fees are recognized as income when earned or the services are rendered.

***Foreign Currency Translation***

The Company's books and records are maintained in U.S. dollars. Any foreign currency amounts are translated into U.S. dollars on the following basis:

- (1) Fair value of investment securities, other assets and liabilities at the exchange rates prevailing at the end of the period.
- (2) Purchases and sales of investment securities, income and expenses at the exchange rates prevailing on the respective dates of such transactions, income or expenses.

Results of operations based on changes in foreign exchange rates are separately disclosed in the statement of operations. Foreign security and currency translations may involve certain considerations and risks not typically associated with investing in U.S. companies and U.S. government securities. These risks include, but are not limited to, currency fluctuation and revaluations and future

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adverse political, social and economic developments, which could cause investments in foreign markets to be less liquid and prices more volatile than those of comparable U.S. companies or U.S. government securities.

***Accounting for Derivative Instruments***

The Company does not utilize hedge accounting and marks its derivatives to market through unrealized gains (losses) in the accompanying statement of operations.

***Equity Offering Expenses***

The Company's offering costs, excluding underwriters' fees, are charged against the proceeds from equity offerings when received.

***Debt Issuance Costs***

Debt issuance costs are being amortized over the life of the related debt instrument using the straight line method, which closely approximates the effective yield method.

***U.S. Federal Income Taxes***

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

Depending on the level of taxable income earned in a tax year, we may choose to carry forward taxable income in excess of current year dividend distributions into the next tax year and pay a 4% excise tax on such income, as required. To the extent that the Company determines that its estimated current year annual taxable income will be in excess of estimated current year dividend distributions, the Company accrues excise tax, if any, on estimated excess taxable income. For the three months ended March 31, 2011 a net expense of \$770 was recorded for U.S. federal excise tax. For the three months ended March 31, 2010, a net benefit of \$70 was recorded for U.S. federal excise tax.

Certain of our wholly owned subsidiaries are subject to U.S. federal and state income taxes. For the three months ended March 31, 2011, we recorded a tax expense of approximately \$1,277 for these subsidiaries, and for the three months ended March 31, 2010, we recorded a tax benefit of approximately \$92 for these subsidiaries.

***Dividends to Common Stockholders***

Dividends and distributions to common stockholders are recorded on the record date. The amount to be paid out as a dividend is determined by our board of directors each quarter and is generally based upon the earnings estimated by management. Net realized capital gains, if any, are generally distributed at least annually, although we may decide to retain such capital gains for investment.

We have adopted a dividend reinvestment plan that provides for reinvestment of any distributions we declare in cash on behalf of our stockholders, unless a stockholder elects to receive cash. As a result, if our board of directors authorizes, and we declare, a cash dividend, then our stockholders who have not "opted out" of our dividend reinvestment plan will have their cash dividends automatically reinvested in additional shares of our common stock, rather than receiving the cash dividend. While we generally use primarily newly issued shares to implement the dividend reinvestment

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plan (especially if our shares are trading at a premium to net asset value), we may purchase shares in the open market in connection with our obligations under the dividend reinvestment plan. In particular, if our shares are trading at a significant enough discount to net asset value and we are otherwise permitted under applicable law to purchase such shares, we intend to purchase shares in the open market in connection with our obligations under our dividend reinvestment plan.

*Use of Estimates in the Preparation of Financial Statements*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of actual and contingent assets and liabilities at the date of the financial statements and the reported amounts of income or loss and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the valuation of investments.

*New Accounting Pronouncements*

In January 2010, the Financial Accounting Standards Board issued Accounting Standard Update 2010-06, Fair Value Measurements and Disclosures (Topic 820), Improving Disclosures About Fair Value Measurements ("ASU 2010-06"). ASU 2010-06 adds new requirements for disclosures about transfers into and out of Level 1 and 2 inputs and separate disclosures about fair value measurements (see Note 8), particularly with respect to purchases, sales, issuances and settlements relating to Level 3 inputs. It also clarifies existing fair value disclosures about the level of disaggregation, will require that entities provide fair value measurement disclosures for each class of assets and liabilities, and adds requirements relating to inputs and valuation techniques used to measure fair value. Generally, ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, however, the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 inputs will not be required until fiscal years beginning after December 15, 2010. The adoption of ASU 2010-06 did not have a significant impact on the Company's financial condition and results of operations.

**3. AGREEMENTS**

*Investment Advisory and Management Agreement*

The Company is party to an investment advisory and management agreement (the "investment advisory and management agreement") with Ares Capital Management. Subject to the overall supervision of our board of directors, Ares Capital Management provides investment advisory and management services to the Company. For providing these services, Ares Capital Management receives a fee from us, consisting of two components a base management fee and an incentive fee. Ares Capital Management has committed to defer up to \$15,000 in base management and incentive fees for each of the first two fiscal years following the Allied Acquisition if certain earnings targets are not met.

The base management fee is calculated at an annual rate of 1.5% based on the average value of our total assets (other than cash or cash equivalents but including assets purchased with borrowed funds) at the end of the two most recently completed calendar quarters. The base management fee is payable quarterly in arrears.

The incentive fee has two parts. The first part is calculated and payable quarterly in arrears based on our pre-incentive fee net investment income for the quarter. Pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees such as commitment, origination, structuring, diligence and consulting fees or other fees that we receive from portfolio companies but excluding fees for providing managerial assistance) accrued during the calendar quarter, minus operating expenses for the quarter (including the base management fee, any expenses payable under the administration agreement, and any interest expense and dividends paid on any

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outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature such as market discount, debt instruments with PIK interest, preferred stock with PIK dividends and zero coupon securities, accrued income that we have not yet received in cash. Our investment adviser is not under any obligation to reimburse us for any part of the incentive fee it received that was based on accrued interest that we never actually receive.

Pre-incentive fee net investment income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Because of the structure of the incentive fee, it is possible that we may pay an incentive fee in a quarter where we incur a loss. For example, if we receive pre-incentive fee net investment income in excess of the hurdle rate (as defined below) for a quarter, we will pay the applicable incentive fee even if we have incurred a loss in that quarter due to realized and/or unrealized capital losses.

Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets (defined as total assets less indebtedness and before taking into account any incentive fees payable during the period) at the end of the immediately preceding calendar quarter, is compared to a fixed "hurdle rate" of 2.0% per quarter. If market credit spreads rise, we may be able to invest our funds in debt instruments that provide for a higher return, which may increase our pre-incentive fee net investment income and make it easier for our investment adviser to surpass the fixed hurdle rate and receive an incentive fee based on such net investment income. To the extent we have retained pre-incentive fee net investment income that has been used to calculate this part of the incentive fee, it is also included in the amount of our total assets (other than cash and cash equivalents but including assets purchased with borrowed funds) used to calculate the 1.5% base management fee.

We pay our investment adviser an incentive fee with respect to our pre-incentive fee net investment income in each calendar quarter as follows:

no incentive fee in any calendar quarter in which the pre-incentive fee net investment income does not exceed the hurdle rate;

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 rate but is less than 2.5% in any calendar quarter. We refer to this portion of our pre-incentive fee net investment income (which exceeds the hurdle rate but is less than 2.5%) as the "catch-up" provision. The "catch-up" is meant to provide our investment adviser with 20% of the pre-incentive fee net investment income as if a hurdle rate did not apply if this net investment income exceeds 2.5% in any calendar quarter; and

20% of the amount of our pre-incentive fee net investment income, if any, that exceeds 2.5% in any calendar quarter.

These calculations are adjusted for any share issuances or repurchases during the quarter.

The second part of the incentive fee (the "Capital Gains Fee"), is determined and payable in arrears as of the end of each calendar year (or, upon termination of the investment advisory and management agreement, as of the termination date) and is calculated at the end of each applicable year by subtracting (a) the sum of our cumulative aggregate realized capital losses and aggregate unrealized capital depreciation from (b) our cumulative aggregate realized capital gains, in each case calculated from October 8, 2004. Realized capital gains and losses include gains and losses on investments and foreign currencies, as well as gains and losses on extinguishment of debt and other assets. If such amount is positive at the end of such year, then the Capital Gains Fee for such year is equal to 20% of such amount, less the aggregate amount of Capital Gains Fees paid in all prior years. If such amount is negative, then there is no Capital Gains Fee for such year.

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The cumulative aggregate realized capital gains are calculated as the sum of the differences, if positive, between (a) the net sales price of each investment in our portfolio when sold and (b) the accreted or amortized cost basis of such investment.

The cumulative aggregate realized capital losses are calculated as the sum of the amounts by which (a) the net sales price of each investment in our portfolio when sold is less than (b) the accreted or amortized cost basis of such investment.

The aggregate unrealized capital depreciation is calculated as the sum of the differences, if negative, between (a) the valuation of each investment in our portfolio as of the applicable Capital Gains Fee calculation date and (b) the accreted or amortized cost basis of such investment.

We defer cash payment of any incentive fee otherwise earned by our investment adviser if during the most recent four full calendar quarter period ending on or prior to the date such payment is to be made the sum of (a) the aggregate distributions to our stockholders and (b) the change in net assets (defined as total assets less indebtedness and before taking into account any incentive fees payable during the period) is less than 8.0% of our net assets (defined as total assets less indebtedness) at the beginning of such period. These calculations are adjusted for any share issuances or repurchases. Any deferred incentive fees are carried over for payment in subsequent calculation periods to the extent such payment is payable under the investment advisory and management agreement.

The Capital Gains Fee due to our investment adviser as calculated under the investment advisory and management agreement (as described above) for the three months ended March 31, 2011 was \$0. However, in accordance with GAAP, the Company accrued a capital gains incentive fee of \$15,115 for the three months ended March 31, 2011 bringing the total GAAP accrual to \$30,724 as of March 31, 2011. GAAP requires that the capital gains incentive fee accrual consider the cumulative aggregate unrealized capital appreciation in the calculation, as a capital gains incentive fee would be payable if such unrealized capital appreciation were realized, even though such unrealized capital appreciation is not permitted to be considered in calculating the fee actually payable under the investment advisory and management agreement. This GAAP accrual is calculated using the aggregate cumulative realized capital gains and losses and aggregate cumulative unrealized capital depreciation included in the calculation of the Capital Gains Fee plus the aggregate cumulative unrealized capital appreciation. If such amount is positive at the end of a period, then GAAP requires us to record a capital gains incentive fee equal to 20% of such amount, less the aggregate amount of actual Capital Gains Fees paid in all prior years. If such amount is negative, then there is no accrual for such year. There can be no assurance that such unrealized capital appreciation will be realized in the future. There was no similar GAAP accrual for the three months ended March 31, 2010.

For the three months ended March 31, 2011, base management fees were \$16,730, incentive management fees related to pre-incentive fee net investment income were \$15,826 and incentive management fees related to realized capital gains were \$15,115.

As of March 31, 2011, \$63,280 was included in "management and incentive fees payable" in the accompanying consolidated balance sheet, of which \$32,556 is currently payable to the Company's investment adviser under the investment advisory and management agreement.

For the three months ended March 31, 2010, base management fees were \$8,456, incentive management fees related to realized pre-incentive fee net investment income were \$8,144 and there were no incentive management fees related to capital gains.

***Administration Agreement***

We are party to a separate administration agreement, referred to herein as the "administration agreement", with our administrator, Ares Operations an affiliate of our investment adviser and a wholly owned subsidiary of Ares Management. Pursuant to the administration agreement, Ares Operations

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furnishes us with office equipment and clerical, bookkeeping and record keeping services at our office facilities. Under the administration agreement, Ares Operations also performs, or oversees the performance of, our required administrative services, which include, among other things, providing assistance in accounting, legal, compliance, operations, technology, and investor relations, being responsible for the financial records that we are required to maintain and preparing reports to our stockholders and reports filed with the SEC. In addition, Ares Operations assists us in determining and publishing our net asset value, oversees the preparation and filing of our tax returns and the printing and dissemination of reports to our stockholders, and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. Payments under our administration agreement are equal to an amount based upon our allocable portion of Ares Operations' overhead and other expenses (including travel expenses) incurred by Ares Operations in performing its obligations under the administration agreement, including our allocable portion of the cost of certain of our officers (including our chief compliance officer, chief financial officer, general counsel, secretary and treasurer) and their respective staffs. The administration agreement may be terminated by either party without penalty upon 60 days' written notice to the other party.

For the three months ended March 31, 2011 and 2010, we incurred \$2,425 and \$1,231, respectively, in administrative fees. As of March 31, 2011, \$2,425 was unpaid and included in "accounts payable and accrued expenses" in the accompanying consolidated balance sheet.

**4. INVESTMENTS**

As of March 31, 2011 and December 31, 2010, investments consisted of the following:

|                                 | March 31, 2011      |                     | December 31, 2010   |                     |
|---------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                 | Amortized Cost(1)   | Fair Value          | Amortized Cost(1)   | Fair Value          |
| Senior term debt                | \$ 1,835,550        | \$ 1,830,962        | \$ 1,722,130        | \$ 1,695,532        |
| Senior subordinated debt        | 876,394             | 822,852             | 1,055,441           | 1,014,514           |
| Subordinated Notes of SSLP      | 660,712             | 681,255             | 537,438             | 561,674             |
| Collateralized loan obligations | 107,362             | 107,958             | 219,324             | 261,156             |
| Equity securities               | 697,666             | 787,883             | 716,601             | 751,202             |
| Commercial real estate          | 37,080              | 32,123              | 41,021              | 33,912              |
| <b>Total</b>                    | <b>\$ 4,214,764</b> | <b>\$ 4,263,033</b> | <b>\$ 4,291,955</b> | <b>\$ 4,317,990</b> |

- (1) The amortized cost represents the original cost adjusted for the accretion of discounts and amortization of premiums on debt investments using the effective interest method.

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The industrial and geographic compositions of our portfolio at fair value at March 31, 2011 and December 31, 2010 were as follows:

| Industry                      | As of          |                   |
|-------------------------------|----------------|-------------------|
|                               | March 31, 2011 | December 31, 2010 |
| Investment Funds(1)           | 20.8%          | 21.4%             |
| Healthcare Services           | 16.5           | 15.6              |
| Business Services             | 10.8           | 12.2              |
| Restaurants and Food Services | 9.0            | 8.8               |
| Financial Services            | 7.5            | 6.7               |
| Consumer Products             | 6.2            | 8.3               |
| Education                     | 5.1            | 5.2               |
| Other Services                | 4.9            | 3.3               |
| Manufacturing                 | 4.3            | 4.2               |
| Food and Beverage             | 2.5            | 2.4               |
| Telecommunications            | 2.4            | 2.5               |
| Environmental Services        | 2.2            | 0.8               |
| Commercial Real Estate        | 1.5            | 1.5               |
| Retail                        | 1.4            | 2.4               |
| Wholesale Distribution        | 1.3            | 1.3               |
| Other                         | 3.6            | 3.4               |
| <b>Total</b>                  | <b>100.0%</b>  | <b>100.0%</b>     |

(1)

Includes our investment in the SSLP (as defined below), which represented 16.0% and 13.0% of the Company's total portfolio at fair value as of March 31, 2011 and December 31, 2010, respectively. The SSLP had issued loans to 22 and 20 different issuers as of March 31, 2011 and December 31, 2010, respectively. The portfolio companies in the SSLP are in industries similar to the companies in our portfolio.

| Geographic Region | As of          |                   |
|-------------------|----------------|-------------------|
|                   | March 31, 2011 | December 31, 2010 |
| West              | 40.3%          | 34.5%             |
| Mid-Atlantic      | 19.3           | 24.4              |
| Southeast         | 19.1           | 16.5              |
| Midwest           | 17.2           | 20.2              |
| International     | 3.0            | 3.0               |
| Northeast         | 1.1            | 1.4               |
| <b>Total</b>      | <b>100.0%</b>  | <b>100.0%</b>     |

As of March 31, 2011, 4.8% of total investments at amortized cost (or 2.6% of total investments at fair value), were on non-accrual status, including 2.2% of total investments at amortized cost (or 1.5% of total investments at fair value) of investments acquired as part of the Allied Acquisition. As of December 31, 2010, 3.8% of total investments at amortized cost (or 1.3% of total investments at fair value), were on non-accrual status, including 1.5% of total investments at amortized cost (or 1.0% of total investments at fair value) of investments acquired as part of the Allied Acquisition.



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**SSLP**

In October 2009, the Company completed its acquisition from Allied Capital of subordinated notes (the "SSLP Notes") issued by the Senior Secured Loan Fund LLC, now called the "Senior Secured Loan Program" (the "SSLP"). The SSLP was formed in December 2007 to invest in "stretch senior" or "unitranche" loans (loans that combine both senior and subordinated debt, generally in a first lien position) of middle-market companies.

The SSLP has committed capital of approximately \$5.1 billion, approximately \$2.9 billion in aggregate principal amount of which was funded at March 31, 2011. At March 31, 2011, the Company's total commitment to the SSLP was \$958,794, of which \$287,359 was unfunded. The SSLP is capitalized as transactions are completed. Together with GE Commercial Finance Investment Advisory Services LLC ("GE"), we serve as co-managers of the SSLP and both investment and portfolio management decisions made by the SSLP as well as decisions relating to the operations of the SSLP must generally be approved by both the Company and GE. The amortized cost and fair value of the SSLP Notes was \$660,712 and \$681,255, respectively, at March 31, 2011, and \$537,439 and \$561,674, respectively, at December 31, 2010. The SSLP Notes pay a weighted average coupon of approximately LIBOR plus 8.0% and also entitle the Company to receive a portion of the excess cash flow from the loan portfolio, which may result in a return greater than the contractual coupon. The Company is also entitled to certain other sourcing and management fees in connection with the SSLP. The Company's yield on its investment in the SSLP at fair value was 16.0% and 15.8% at March 31, 2011 and December 31, 2010, respectively. For the three months ended March 31, 2011 and 2010, the Company earned interest income of \$23,321 and \$7,237, respectively, on the SSLP Notes.

As of March 31, 2011 and December 31, 2010, the SSLP had total assets of \$2.9 billion and \$2.6 billion, respectively. GE's investment in the SSLP consisted of senior notes of \$2.1 billion and \$1.9 billion and subordinated notes of \$96 million and \$78 million at March 31, 2011 and December 31, 2010, respectively. The SSLP Notes owned by the Company are junior to the senior notes invested by GE and the Company owned 87.5% of the outstanding class of the subordinated notes as of March 31, 2011.

The SSLP's portfolio consisted of senior and unitranche loans to 22 and 20 different issuers as of March 31, 2011 and December 31, 2010, respectively. At March 31, 2011 and December 31, 2010, the portfolio was comprised of all first lien senior secured debt issued by U.S. middle-market companies and none of the loans were on non-accrual status. At March 31, 2011 and December 31, 2010, the single largest issuer in the SSLP's portfolio in aggregate principal amount was \$290.0 million and \$270.0 million, respectively, and the top five issuers totaled \$1.3 billion and \$1.1 billion, respectively. The portfolio companies in the SSLP are in industries similar to the companies in Ares Capital's portfolio.

**5. BORROWINGS**

In accordance with the Investment Company Act, with certain limited exceptions, the Company is only allowed to borrow amounts such that its asset coverage, as defined in the Investment Company Act, is at least 200% after such borrowing. As of March 31, 2011 our asset coverage for borrowed amounts was 321%.

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Our debt obligations consisted of the following as of March 31, 2011 and December 31, 2010:

|  | As of                |                       |                      |                       |
|--|----------------------|-----------------------|----------------------|-----------------------|
|  | March 31, 2011       |                       | December 31, 2010    |                       |
|  | Carrying<br>Value(1) | Total<br>Available(2) | Carrying<br>Value(1) | Total<br>Available(2) |
| Revolving Funding Facility   | \$                   | \$ 400,000            | \$ 242,050           | \$ 400,000            |
| Revolving Credit Facility  |                      | 810,000(3)            | 146,000              | 810,000(3)            |
| Debt Securitization  | 138,595              | 170,248               | 155,297              | 183,190               |
| 2011 Notes (principal amount outstanding of \$0 and \$300,584, respectively) |                      |                       | 296,258(4)           | 300,584               |
| 2012 Notes (principal amount outstanding of \$161,210)                       | 158,705(4)           | 161,210               | 158,108(4)           | 161,210               |
| February 2016 Convertible Notes (principal amount outstanding of \$575,000)  | 535,973(5)           | 575,000               |                      |                       |
| June 2016 Convertible Notes (principal amount outstanding of \$230,000)      | 213,929(5)           | 230,000               |                      |                       |
| 2040 Notes (principal amount outstanding of \$200,000)                       | 200,000              | 200,000               | 200,000              | 200,000               |
| 2047 Notes (principal amount outstanding of \$230,000)                       | 180,842(4)           | 230,000               | 180,795(4)           | 230,000               |
|  | \$ 1,428,044(6)      | \$ 2,776,458          | \$ 1,378,508(6)      | \$ 2,284,984          |

- 
- (1) Except for the Allied Unsecured Notes and the Convertible Notes (as defined below), all carrying values are the same as the principal amounts outstanding.
- (2) Subject to borrowing base and leverage restrictions.
- (3) Includes an "accordion" feature that allows us, under certain circumstances, to increase the size of the facility to a maximum of \$1,050,000.
- (4) Represents the aggregate principal amount outstanding of the applicable series of notes less the unaccreted discount initially recorded as a part of the Allied Acquisition. The total unaccreted discount on the Allied Unsecured Notes was \$51,663 and \$56,633 at March 31, 2011 and December 31, 2010, respectively.
- (5) Represents the aggregate principal amount outstanding of the Convertible Notes (as defined below) less the unaccreted discount initially recorded upon issuance of the Convertible Notes. The total unaccreted discount for the February 2016 Convertible Notes and the June 2016 Convertible Notes was \$39,027 and \$16,071, respectively, at March 31, 2011.
- (6) Total principal amount of debt outstanding totaled \$1,534,805 and \$1,435,141 at March 31, 2011 and December 31, 2010, respectively.

The weighted average stated interest rate of all our debt obligations at principal as of March 31, 2011 and December 31, 2010 was 5.7% and 5.2%, respectively.

### ***Revolving Funding Facility***

In October 2004, we formed Ares Capital CP Funding LLC ("Ares Capital CP"), a wholly owned subsidiary of the Company, through which we established a revolving securitized facility (as amended, the "Revolving Funding Facility"). The Revolving Funding Facility allows Ares Capital CP to borrow up to \$400 million. In connection with the January 22, 2010 amendment, we entered into an Amended and Restated Purchase and Sale Agreement with Ares Capital CP Funding Holdings LLC,



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our wholly owned subsidiary ("CP Holdings"), pursuant to which we may sell to CP Holdings certain loans that we have originated or acquired (the "Loans") from time to time, which CP Holdings will subsequently sell to Ares Capital CP, which is a wholly owned subsidiary of CP Holdings. The Revolving Funding Facility is secured by all of the assets held by, and the membership interest in, Ares Capital CP.

The January 22, 2010 amendment to the Revolving Funding Facility, among other things, extended the maturity date of the facility to January 22, 2013. On January 18, 2011, we and Ares Capital CP amended the Revolving Funding Facility to, among other things, provide for a three year reinvestment period until January 18, 2014 (with two one-year extension options, subject to our and our lenders' consent) and extend the stated maturity date to January 18, 2016 (with two one-year extension options, subject to our and our lenders' consent).

As part of the Revolving Funding Facility, we and Ares Capital CP are subject to limitations as to how borrowed funds may be used including restrictions on geographic concentrations, sector concentrations, loan size, payment frequency and status, average life, collateral interests and investment ratings as well as regulatory restrictions on leverage which may affect the amount of VFC that we may issue from time to time. There are also certain requirements relating to portfolio performance, including required minimum portfolio yield and limitations on delinquencies and charge offs, violation of which could result in the early amortization of the Revolving Funding Facility and limit further advances under the Revolving Funding Facility and in some cases could be an event of default. The Revolving Funding Facility is also subject to a borrowing base that applies different advance rates to assets held in Ares Capital CP. Such limitations, requirements, and associated defined terms are as provided for in the documents governing the Revolving Funding Facility. As of March 31, 2011, the Company and Ares Capital CP were in material compliance with the terms of the Revolving Funding Facility.

As of March 31, 2011, there were no amounts outstanding under the Revolving Funding Facility and as of December 31, 2010, there was \$242,050 outstanding under the Revolving Funding Facility. The Revolving Funding Facility is secured by all the assets held by Ares Capital CP.

Prior to the January 22, 2010 amendment, the interest rate charged on the Revolving Funding Facility was the commercial paper rate plus 3.50%. After January 22, 2010, subject to certain exceptions, the interest charged on the Revolving Funding Facility is based on LIBOR plus an applicable spread of between 2.25% and 3.75% or on a "base rate" (which is the higher of a prime rate, or the federal funds rate plus 0.50%) plus an applicable spread of between 1.25% to 2.75%, in each case, based on a pricing grid depending upon our credit rating. As of March 31, 2011, for the three months ended March 31, 2011 and for the period from January 22, 2010 through March 31, 2010, the effective LIBOR spread under the Revolving Funding Facility was 2.75%. As of March 31, 2011 and December 31, 2010, the rate in effect was one month LIBOR, which was 0.24% and 0.26%, respectively.

We are also required to pay a commitment fee of between 0.50% and 2.00% depending on the usage level on any unused portion of the Revolving Funding Facility.

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The components of interest and credit facility fees expense, cash paid for interest expense, average interest rates (i.e., rate in effect plus the spread) and average outstanding balances for the Revolving Funding Facility were as follows:

|   | For the three months<br>ended March 31, |              |
|---|---|--------------|
|   | 2011                                    | 2010         |
| Stated interest expense                             | \$ 677                                  | \$ 1,710     |
| Facility fees                                       | 1,012                                   | 657          |
| Amortization of debt issuance costs                 | 525                                     | 429          |
| <br>Total interest and credit facility fees expense | <br>\$ 2,214                            | <br>\$ 2,796 |
| <br>Cash paid for interest expense                  | <br>\$ 2,352                            | <br>\$ 2,119 |
| Average stated interest rate                        | 3.0%                                    | 3.2%         |
| Average outstanding balance                         | \$ 89,919                               | \$ 216,575   |

***Revolving Credit Facility***

In December 2005, we entered into a senior secured revolving credit facility (as amended and restated, the "Revolving Credit Facility"), under which, as amended, the lenders agreed to extend credit to the Company. The Revolving Credit Facility matures on January 22, 2013 and has commitments totaling \$810,000. The Revolving Credit Facility also includes an "accordion" feature that allows the Company under certain circumstances, to increase the size of the facility to a maximum of \$1,050,000. The Revolving Credit Facility generally requires payments of interest at the end of each LIBOR interest period, but no less frequently than quarterly, on LIBOR-based loans, and monthly payments of interest on other loans. All principal is due upon maturity.

Under the Revolving Credit Facility, we are required to comply with various covenants, reporting requirements and other customary requirements for similar revolving credit facilities, including, without limitation, covenants related to: (a) limitations on the incurrence of additional indebtedness and liens, (b) limitations on certain investments, (c) limitations on certain restricted payments, (d) maintaining a certain minimum stockholders' equity, (e) maintaining a ratio of total assets (less total liabilities) to total indebtedness, of the Company and its subsidiaries, of not less than 2.0:1.0, (f) maintaining minimum liquidity, and (g) limitations on the creation or existence of agreements that prohibit liens on certain properties of the Company and its subsidiaries. As of March 31, 2011, the Company was in material compliance with the terms of the Revolving Credit Facility.

In addition to the asset coverage ratio described above, borrowings under the Revolving Credit Facility (and the incurrence of certain other permitted debt) will be subject to compliance with a borrowing base that will apply different advance rates to different types of assets in our portfolio.

As of March 31, 2011, there were no amounts outstanding under the Revolving Credit Facility and December 31, 2010, there was \$146,000 outstanding under the Revolving Credit Facility. The Revolving Credit Facility also provides for a sub-limit for the issuance of letters of credit for up to an aggregate amount of \$100,000 as of March 31, 2011 and December 31, 2010. As of March 31, 2011 and December 31, 2010, the Company had \$4,724 and \$7,281 in standby letters of credit issued through the Revolving Credit Facility. The amount available for borrowing under the Revolving Credit Facility is reduced by any standby letters of credit issued. At March 31, 2011, subject to borrowing base availability, there was \$805,276 available for borrowing (net of standby letters of credit issued) under the Revolving Credit Facility.

Prior to amending and restating the Revolving Credit Facility on January 22, 2010, subject to certain exceptions, pricing on the Revolving Credit Facility was based on LIBOR plus 1.00% or on an

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"alternate base rate" (which was the highest of a prime rate, the federal funds rate plus 0.50%, or one month LIBOR plus 1.00%). After January 22, 2010, subject to certain exceptions, pricing under the Revolving Credit Facility is based on LIBOR plus an applicable spread of between 2.50% and 4.00% or on the "alternate base rate" plus an applicable spread of between 1.50% and 3.00%, in each case, based on a pricing grid depending upon our credit rating. As of March 31, 2011, for the three months ended March 31, 2011 and for the period from January 22, 2010 through March 31, 2010, the effective LIBOR spread under the Revolving Credit Facility was 3.00%. As of March 31, 2011, the one, two, three and six month LIBOR was 0.24%, 0.27%, 0.30% and 0.46%, respectively. As of December 31, 2010, the one, two, three and six month LIBOR was 0.26%, 0.28%, 0.30% and 0.46%, respectively.

In addition to the stated interest expense on the Revolving Credit Facility, the Company is required to pay a commitment fee of 0.50% per annum on any unused portion of the Revolving Credit Facility and a letter of credit fee of 3.25% per annum on letters of credit issued, both of which are payable quarterly. In connection with the expansion and extension of the Revolving Credit Facility in January 2010, we paid arrangement fees totaling approximately \$15,600.

With certain exceptions, the Revolving Credit Facility is secured by substantially all of the assets in our portfolio (other than investments held by Ares Capital CP under the Revolving Funding Facility, those held as a part of the Debt Securitization, discussed below, and certain other investments).

The components of interest and credit facility fees expense, cash paid for interest expense, average interest rates (i.e., rate in effect plus the spread) and average outstanding balances for the Revolving Credit Facility were as follows:

|   | For the three months<br>ended March 31, |              |
|---|---|--------------|
|   | 2011                                    | 2010         |
| Stated interest expense(1)                          | \$ 222                                  | \$ 2,633     |
| Facility fees                                       | 1,050                                   | 702          |
| Amortization of debt issuance costs                 | 1,594                                   | 1,988        |
| <br>Total interest and credit facility fees expense | <br>\$ 2,866                            | <br>\$ 5,323 |
| <br>Cash paid for interest expense(1)               | <br>\$ 563                              | <br>\$ 2,441 |
| Average stated interest rate(1)                     | 3.3%                                    | 3.2%         |
| Average outstanding balance                         | \$ 26,656                               | \$ 325,216   |

- (1) The stated interest expense, cash paid for interest expense and average stated interest rate for the three months ended March 31, 2010 reflect the impact of the interest rate swap agreement entered into by the Company in October 2008 and terminated in December 2010 whereby the Company paid a fixed interest rate of 2.985% and received a floating rate based on the prevailing three-month LIBOR. See Note 6 for more information on the interest rate swap agreement.

***Debt Securitization***

In July 2006, through ARCC Commercial Loan Trust 2006, a vehicle serviced by our wholly owned subsidiary, ARCC CLO 2006 LLC, the Company completed a \$400,000 debt securitization (the "Debt Securitization") and issued approximately \$314,000 aggregate principal amount of asset-backed notes (including revolving notes in an aggregate amount of up to \$50,000, \$18,347 of which were drawn down as of March 31, 2011) (the "CLO Notes") to third parties that were secured by a pool of middle-market loans purchased or originated by the Company. The Company initially retained approximately \$86,000 of aggregate principal amount of certain "BBB" and non-rated securities in the Debt

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Securitization and has subsequently repurchased \$34,790 of the CLO Notes, bringing our total holdings of CLO Notes to \$120,790 (the "Retained Notes"). The CLO Notes are included in the consolidated balance sheet.

During the three months ended March 31, 2011, we repaid \$5,639, \$3,760 and \$7,303 of the Class A-1-A, Class A-1A-VFN and Class A-2A Notes, respectively. The CLO Notes mature on December 20, 2019, and, as of March 31, 2011, there was \$138,595 outstanding under the Debt Securitization (excluding the Retained Notes). The blended pricing of the CLO Notes, excluding fees, is approximately 3-month LIBOR plus 37 basis points.

During the first five years from the closing date, principal collections received on the underlying collateral may be used to purchase new collateral, allowing us to maintain the initial leverage in the securitization for the entire five-year period. This reinvestment period ends on June 21, 2011.

The Class A-1A VFN Notes are a revolving class of secured notes and allow us to borrow and repay AAA/Aaa financing over the initial five-year period thereby providing more efficiency in funding costs. All of the notes are secured by the assets of ARCC Commercial Loan Trust 2006, including commercial loans totaling \$308,100 as of the closing date, which were sold to the trust by the Company, the originator and servicer of the assets. As of March 31, 2011, there were 41 investments securing the CLO Notes. Additional commercial loans have been purchased by the trust from the Company primarily using the proceeds from the Class A-1A VFN Notes as well as proceeds from loan repayments. The pool of commercial loans in the trust must meet certain requirements, including, but not limited to, asset mix and concentration, collateral coverage, term, agency rating, minimum coupon, minimum spread and sector diversity requirements. Under the terms of the Debt Securitization, up to 15% of the collateral may be subordinated loans that are neither first nor second lien loans. As of March 31, 2011, the Company was in material compliance with the terms of the Debt Securitization.

The classes, amounts and interest rates (expressed as a spread to LIBOR) of the CLO Notes as of March 31, 2011 and December 31, 2010 are as follows:

| Class          | As of             |                                   |                   |                                   |
|----------------|-------------------|-----------------------------------|-------------------|-----------------------------------|
|                | March 31, 2011    |                                   | December 31, 2010 |                                   |
|                | Amount            | LIBOR<br>Spread<br>(basis points) | Amount            | LIBOR<br>Spread<br>(basis points) |
| A-1A           | \$ 27,522         | 25                                | \$ 33,161         | 25                                |
| A-1A<br>VFN(1) | 18,347            | 28                                | 22,107            | 28                                |
| A-1B           | 14,000            | 37                                | 14,000            | 37                                |
| A-2A           | 13,516            | 22                                | 20,819            | 22                                |
| A-2B           | 33,000            | 35                                | 33,000            | 35                                |
| B              | 9,000             | 43                                | 9,000             | 43                                |
| C              | 23,210            | 70                                | 23,210            | 70                                |
| <b>Total</b>   | <b>\$ 138,595</b> |                                   | <b>\$ 155,297</b> |                                   |

(1) Revolving Notes, in an aggregate amount of up to \$50,000.

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The interest charged under the Debt Securitization is based on 3-month LIBOR, which as of March 31, 2011 was 0.30% and as of December 31, 2010 was 0.30%. The blended pricing of the CLO Notes, excluding fees, at March 31, 2011, was approximately 3-month LIBOR plus 37 basis points and at December 31, 2010, was approximately 3-month LIBOR plus 36 basis points.

The Company is also required to pay a commitment fee of 0.175% for any unused portion of the Class A-1A VFN Notes through June 21, 2011.

The components of interest and credit facility fees expense, cash paid for interest expense, average interest rates (i.e., rate in effect plus the spread) and average outstanding balances for the Debt Securitization are as follows:

|   | For the three months<br>ended March 31, |            |
|---|---|------------|
|   | 2011                                    | 2010       |
| Stated interest expense                             | \$ 255                                  | \$ 381     |
| Facility fees                                       | 11                                      |            |
| Amortization of debt issuance costs                 | 88                                      | 88         |
| <br>Total interest and credit facility fees expense | <br>\$ 354                              | <br>\$ 469 |
| Cash paid for interest expense                      | \$ 261                                  | \$ 390     |
| Average stated interest rate                        | 0.7%                                    | 0.6%       |
| Average outstanding balance                         | \$ 153,256                              | \$ 272,495 |

### *Unsecured Notes*

#### *Allied Unsecured Notes*

As part of the Allied Acquisition, the Company assumed all outstanding debt obligations of Allied Capital, including Allied Capital's unsecured notes which consisted of 6.625% Notes due on July 15, 2011 (the "2011 Notes"), 6.000% Notes due on April 1, 2012 (the "2012 Notes") and 6.875% Notes due on April 15, 2047 (the "2047 Notes" and, together with the 2011 Notes and the 2012 Notes, the "Allied Unsecured Notes").

As of March 31, 2011 and December 31, 2010, the Company had the following outstanding Allied Unsecured Notes:

|            | As of                    |                      |                          |                      |
|------------|--------------------------|----------------------|--------------------------|----------------------|
|            | March 31, 2011           |                      | December 31, 2010        |                      |
|            | Outstanding<br>Principal | Carrying<br>Value(1) | Outstanding<br>Principal | Carrying<br>Value(1) |
| 2011 Notes | \$                       | \$                   | \$ 300,584               | \$ 296,258           |
| 2012 Notes | 161,210                  | 158,705              | 161,210                  | 158,108              |
| 2047 Notes | 230,000                  | 180,842              | 230,000                  | 180,795              |
| <br>Total  | <br>\$ 391,210           | <br>\$ 339,547       | <br>\$ 691,794           | <br>\$ 635,161       |

(1) Represents the principal amount of the Allied Unsecured Notes less the unaccreted discount initially recorded as a part of the Allied Acquisition

On March 16, 2011, we redeemed the remaining balance of the 2011 Notes for a total redemption price (including a redemption premium) of approximately \$306,800, which resulted in a loss on the extinguishment of debt of \$8,860, in accordance with the terms of the indenture governing the 2011 Notes. The 2012 Notes bear interest at a rate of 6.000% and mature on April 1, 2012. The 2012 Notes require payment of interest semi-annually, and all principal is due upon maturity. On March 28,





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2011 we notified the holders of the 2012 Notes that we were redeeming the \$161,210 aggregate principal amount of the 2012 Notes remaining outstanding, together with a redemption premium, in accordance with the terms of the indenture governing the 2012 Notes (see Note 17).

The 2047 Notes bear interest at a rate of 6.875% and mature on April 15, 2047. The 2047 Notes require payment of interest quarterly, and all principal is due upon maturity. These notes are redeemable in whole or in part at any time or from time to time on or after April 15, 2012, at a par redemption price of \$25 per security plus accrued and unpaid interest and upon the occurrence of certain tax events as stipulated in the notes.

For the three months ended March 31, 2011, the Company incurred \$10,520 of stated interest expense in connection with the Allied Unsecured Notes, respectively, and the cash paid for interest on the Allied Unsecured Notes was \$17,284. In accordance with ASC 805-10, the initial carrying value of the Allied Unsecured Notes was equal to the fair value as of April 1, 2010 resulting in an initial unaccreted discount from the principal value of the Allied Unsecured Notes of approximately \$65,800. For the three months ended March 31, 2011, we recorded \$2,303 of accretion expense related to this discount which was included in "interest and credit facility fees" in the accompanying statement of operations.

*2040 Notes*

On October 21, 2010, we issued \$200,000 in aggregate principal amount of senior unsecured notes that mature on October 15, 2040 (the "2040 Notes") that may be redeemed in whole or in part at our option at any time or from time to time on or after October 15, 2015, at a par redemption price of \$25 per security plus accrued and unpaid interest. The principal amount of the 2040 Notes will be payable at maturity. The 2040 Notes bear interest at a rate of 7.75% per year, payable quarterly commencing on January 15, 2011. For the three months ended March 31, 2011, the Company incurred \$3,875 of interest expense on the 2040 Notes and the cash paid for interest on the 2040 Notes was \$3,617. Also for the three months ended March 31, 2011, the Company incurred \$58 in amortization of debt issuance costs related to the 2040 Notes.

The Allied Unsecured Notes and the 2040 Notes contain certain covenants, including covenants requiring Ares Capital to comply with Section 18(a)(1)(A) as modified by Section 61(a)(1) of the Investment Company Act and to provide financial information to the holders of such notes under certain circumstances. These covenants are subject to important limitations and exceptions. As of March 31, 2011, the Company was in material compliance with the limitations and requirements of the Allied Unsecured Notes and the 2040 Notes.

*Convertible Notes*

*February 2016 Convertible Notes.* In January 2011, we issued \$575,000 of unsecured convertible senior notes that mature on February 1, 2016 (the "February 2016 Convertible Notes"), unless previously converted or repurchased in accordance with their terms. We do not have the right to redeem the February 2016 Convertible Notes prior to maturity. The February 2016 Convertible Notes bear interest at a rate of 5.75% per year, payable semi-annually. In certain circumstances, the February 2016 Convertible Notes will be convertible into cash, shares of Ares Capital's common stock or a combination of cash and shares our common stock, at our election, at an initial conversion rate of 52.2766 shares of common stock per one thousand dollar principal amount of the February 2016 Convertible Notes, which is equivalent to an initial conversion price of approximately \$19.13 per share of our common stock, subject to customary anti-dilution adjustments. The initial conversion price was approximately 17.5% above the \$16.28 per share closing price of our common stock on January 19, 2011. At March 31, 2011, the principal amount of the February 2016 Convertible Notes exceeded the value of the underlying shares multiplied times the per share closing price of our common stock.

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The February 2016 Convertible Notes are Ares Capital's senior unsecured obligations and rank senior in right of payment to our existing and future indebtedness that is expressly subordinated in right of payment to the February 2016 Convertible Notes; equal in right of payment to our existing and future unsecured indebtedness that is not so subordinated; effectively junior in right of payment to any of our secured indebtedness (including existing unsecured indebtedness that we later secure) to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness (including trade payables) incurred by our subsidiaries, financing vehicles or similar facilities.

Prior to the close of business on the business day immediately preceding August 15, 2015, holders may convert their February 2016 Convertible Notes only under certain circumstances set forth in the indenture governing the terms of the February 2016 Convertible Notes (the "February 2016 Indenture"). On or after August 15, 2015 until the close of business on the scheduled trading day immediately preceding February 1, 2016, holders may convert their February 2016 Convertible Notes at any time. Upon conversion, we will pay or deliver, as the case may be, at our election, cash, shares of our common stock or a combination of cash and shares of our common stock, subject to the requirements of the February 2016 Indenture.

In addition, if we engage in certain corporate events as described in the February 2016 Indenture, holders of the February 2016 Convertible Notes may require us to repurchase for cash all or part of their February 2016 Convertible Notes at a repurchase price equal to 100% of the principal amount of the February 2016 Convertible Notes to be repurchased, plus accrued and unpaid interest through, but excluding, the required repurchase date.

The February 2016 Indenture contains certain covenants, including covenants requiring us to comply with Section 18(a)(1)(A) as modified by Section 61(a)(1) of the Investment Company Act and to provide financial information to the holders of the February 2016 Convertible Notes under certain circumstances. These covenants are subject to important limitations and exceptions that are described in the February 2016 Indenture. As of March 31, 2011, the Company was in material compliance with the covenants of the February 2016 Indenture.

The February 2016 Convertible Notes are accounted for in accordance with ASC 470-20 (previously FASB Staff Position No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)"). Upon conversion of any February 2016 Convertible Note, we intend to pay the outstanding principal amount in cash and to the extent that the conversion value exceeds the principal amount, we have the option to pay in cash or shares of our common stock (or a combination of cash and shares) in respect of the excess amount, subject to the requirements of the February 2016 Indenture. The Company has determined that the embedded conversion option in the February 2016 Convertible Notes is not required to be separately accounted for as a derivative under GAAP. In accounting for the February 2016 Convertible Notes, we estimated at the time of issuance that the values of the debt and equity components of the February 2016 Convertible Notes were approximately 93% and 7%, respectively. The original issue discount equal to the equity component of 7% of the February 2016 Convertible Notes was recorded in "capital in excess of par value" in the accompanying consolidated balance sheet. As a result, we will record interest expense comprised of both stated interest expense as well as accretion of the original issue discount. Additionally, the issuance costs associated with the February 2016 Convertible Notes were allocated to the debt and equity components in proportion to the allocation of the proceeds and accounted for as debt issuance costs and equity issuance costs, respectively. At the time of issuance, the debt issuance costs and equity issuance costs were \$14,672 and \$1,104, respectively. At the time of issuance and as of March 31, 2011, the equity component, net of issuance costs, as recorded in the

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"capital in excess of par value" in the balance sheet was \$40,250. As of March 31, 2011, the components of the carrying value of the February 2016 Convertible Notes were as follows:

|   | <b>As of<br/>March 31, 2011</b> |
|---|---------------------------------|
| Principal amount of debt                  | \$ 575,000                      |
| Original issue discount, net of accretion | (39,027)                        |
| <b>Carrying value of debt</b>             | <b>\$ 535,973</b>               |

For the three months ended March 31, 2011, the components of interest expense and cash paid for interest expense for the February 2016 Convertible Notes were as follows:

|                                       | <b>For the three<br/>months ended<br/>March 31, 2011</b> |
|---------------------------------------|--|
| Stated interest expense               | \$ 6,061   |
| Accretion of original issue discount  | 1,223  |
| Amortization of debt issuance cost    | 532  |
| <b>Total interest expense</b>         | <b>\$ 7,816</b>  |
| <b>Cash paid for interest expense</b> | <b>\$</b>  |

The estimated effective interest rate of the debt component of the February 2016 Convertible Notes, equal to the stated interest of 5.75% plus the accretion of the original issue discount, was approximately 7.4% for the three months ended March 31, 2011.

*June 2016 Convertible Notes.* In March 2011, we issued \$230,000 of unsecured convertible senior notes that mature on June 1, 2016 (the "June 2016 Convertible Notes" and, together with the February 2016 Convertible Notes, the "Convertible Notes"), unless previously converted or repurchased in accordance with their terms. We do not have the right to redeem the June 2016 Convertible Notes prior to maturity. The June 2016 Convertible Notes bear interest at a rate of 5.125% per year, payable semi-annually. In certain circumstances, the June 2016 Convertible Notes will be convertible into cash, shares of Ares Capital's common stock or a combination of cash and shares of our common stock, at our election, at an initial conversion rate of 52.5348 shares of common stock per one thousand dollar principal amount of the June 2016 Convertible Notes, which is equivalent to an initial conversion price of approximately \$19.04 per share of our common stock, subject to customary anti-dilution adjustments. The initial conversion price was approximately 17.5% above the \$16.20 per share closing price of our common stock on March 22, 2011. At March 31, 2011, the principal amount of the June 2016 Convertible Notes exceeded the value of the underlying shares multiplied times the per share closing price of our common stock.

The June 2016 Convertible Notes are our senior unsecured obligations and rank senior in right of payment to our existing and future indebtedness that is expressly subordinated in right of payment to the June 2016 Convertible Notes; equal in right of payment to our existing and future unsecured indebtedness that is not so subordinated; effectively junior in right of payment to any of our secured indebtedness (including existing unsecured indebtedness that we later secure) to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness (including trade payables) incurred by our subsidiaries, financing vehicles or similar facilities.

Prior to the close of business on the business day immediately preceding December 15, 2015, holders may convert their June 2016 Convertible Notes only under certain circumstances set forth in the indenture governing the terms of the June 2016 Convertible Notes (the "June 2016 Indenture"). On or after December 15, 2015 until the close of business on the scheduled trading day immediately

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preceding June 1, 2016, holders may convert their June 2016 Convertible Notes at any time. Upon conversion, we will pay or deliver, as the case may be, at our election, cash, shares of our common stock or a combination of cash and shares of our common stock, subject to the requirements of the June 2016 Indenture.

In addition, if we engage in certain corporate events as described in the June 2016 Indenture, holders of the June 2016 Convertible Notes may require us to repurchase for cash all or part of their June 2016 Convertible Notes at a repurchase price equal to 100% of the principal amount of the June 2016 Convertible Notes to be repurchased, plus accrued and unpaid interest through, but excluding, the required repurchase date.

The June 2016 Indenture contains certain covenants, including covenants requiring us to comply with Section 18(a)(1)(A) as modified by Section 61(a)(1) of the Investment Company Act and to provide financial information to the holders of the June 2016 Convertible Notes under certain circumstances. These covenants are subject to important limitations and exceptions that are described in the June 2016 Indenture. As of March 31, 2011, the Company was in material compliance with the covenants of the June 2016 Indenture.

The June 2016 Convertible Notes are accounted for in accordance with ASC 470-20 (previously FASB Staff Position No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)"). Upon conversion of any June 2016 Convertible Note, we intend to pay the outstanding principal amount in cash and to the extent that the conversion value exceeds the principal amount, we have the option to pay in cash or shares of our common stock (or a combination of cash and shares) in respect of the excess amount, subject to the requirements of the June 2016 Indenture. The Company has determined that the embedded conversion option in the June 2016 Convertible Notes is not required to be separately accounted for as a derivative under GAAP. In accounting for the June 2016 Convertible Notes, we estimated at the time of issuance that the values of the debt and equity components of the June 2016 Convertible Notes were approximately 93% and 7%, respectively. The original issue discount equal to the equity component of 7% of the June 2016 Convertible Notes was recorded in "capital in excess of par value" in the accompanying consolidated balance sheet. As a result, we will record interest expense comprised of both stated interest expense as well as accretion of the original issue discount. Additionally, the debt issuance costs associated with the June 2016 Convertible Notes were allocated to the debt and equity components in proportion to the allocation of the proceeds and accounted for as debt issuance costs and equity issuance costs, respectively. At the time of issuance, the debt issuance costs and equity issuance costs were \$5,348 and \$403, respectively. At the time of issuance and as of March 31, 2011, the equity component, net of issuance costs as recorded in the "capital in excess of par value" in the balance sheet was \$16,100. As of March 31, 2011, the components of the carrying value of the June 2016 Convertible Notes were as follows:

|   | <b>As of</b>          |
|---|-----------------------|
|   | <b>March 31, 2011</b> |
| Principal amount of debt                  | \$ 230,000            |
| Original issue discount, net of accretion | (16,071)              |
| <b>Carrying value of debt</b>             | <b>\$ 213,929</b>     |

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For the three months ended March 31, 2011, the components of interest expense and cash paid for interest expense for the June 2016 Convertible Notes were as follows:

|                                      | <b>For the three<br/>months ended<br/>March 31, 2011</b> |         |
|--------------------------------------|--|---------|
| Stated interest expense              | \$   | 131     |
| Accretion of original issue discount |  | 29      |
| Amortization of debt issuance cost   |  | 9       |
| <br>Total interest expense           | <br>\$   | <br>169 |
| <br>Cash paid for interest expense   | <br>\$   |         |

The estimated effective interest rate of the debt component of the June 2016 Convertible Notes equal to the stated interest of 5.125% plus the accretion of the original issue discount, was approximately 6.7% for the three months ended March 31, 2011.

**6. DERIVATIVE INSTRUMENTS**

In October 2008, we entered into an interest rate swap agreement that terminated on December 20, 2010 to mitigate our exposure to adverse fluctuations in interest rates for a total notional amount of \$75,000. Under the interest rate swap agreement, we paid a fixed interest rate of 2.985% and receive a floating rate based on the prevailing three-month LIBOR. For the three months ended March 31, 2010, we recognized \$333 in unrealized appreciation related to this swap agreement. Upon termination of this swap agreement in 2010, no realized gain or loss was recognized.

**7. COMMITMENTS AND CONTINGENCIES***Portfolio Company Commitments*

The Company has various commitments to fund investments in its portfolio, including commitments to fund revolving senior and subordinated loans, subordinated notes in the SSLP, and private equity investment partnerships.

As of March 31, 2011 and December 31, 2010, the Company had the following commitments to fund various revolving senior secured and subordinated loans:

|  | <b>As of</b>          |                          |
|--|-----------------------|--------------------------|
|  | <b>March 31, 2011</b> | <b>December 31, 2010</b> |
| Total revolving commitments  | \$ 288,475            | \$ 260,691               |
| Less: funded commitments   | (63,106)              | (59,980)                 |
| <br>Total unfunded commitments   | <br>225,369           | <br>200,711              |
| Less: commitments substantially at discretion of the Company                       | (16,648)              | (19,922)                 |
| Less: unavailable commitments due to borrowing base or other covenant restrictions | (5,106)               | (6,738)                  |
| <br>Total net adjusted unfunded revolving commitments                              | <br>\$ 203,615        | <br>\$ 174,051           |

Of the total net adjusted unfunded commitments as of March 31, 2011 and December 31, 2010, \$31,500 and \$33,837, respectively, are from commitments for investments acquired as part of the Allied Acquisition. Also, as of March 31, 2011, \$219,500 of the total revolving commitments extend beyond the maturity date for our Revolving Credit Facility. Included within the total revolving commitments as of March 31, 2011 are commitments to issue up to \$2,658 in standby letters of credit through a

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financial intermediary on behalf of certain portfolio companies. Under these arrangements, if the standby letters of credit were to be issued, the Company would be required to make payments to third parties if the portfolio companies were to default on their related payment obligations. As of March 31, 2011, the Company had \$2,045 in standby letters of credit issued and outstanding on behalf of the portfolio companies, of which no amounts were recorded as a liability on our balance sheet as such letters of credit are considered in the valuation of the investments in the portfolio company. Of these letters of credit, \$50 expire in February 2011, \$5 expire in April 2011, \$1,660 expire in September 2011, \$170 expire in December 2011, and \$160 expire in January 2012.

As of March 31, 2011 and December 31, 2010, the Company had the following commitments to fund subordinated notes in the SSLP:

|  | As of          |                   |
|--|----------------|-------------------|
|  | March 31, 2011 | December 31, 2010 |
| Total SSLP commitments   | \$ 958,794     | \$ 958,794        |
| Less: funded SSLP commitments  | (671,435)      | (548,161)         |
| Total unfunded SSLP commitments                                      | 287,359        | 410,633           |
| Less: SSLP commitments substantially at discretion of the Company(1) | (287,359)      | (410,633)         |
| Total net adjusted unfunded SSLP commitments                         | \$             | \$                |

(1) Investments made by the SSLP must be approved by both GE and the Company.

See Note 4 for more information on the Company's commitment to the SSLP.

As of March 31, 2011 and December 31, 2010, the Company was subject to subscription agreements to fund equity investments in private equity investment partnerships:

|   | As of          |                   |
|---|----------------|-------------------|
|   | March 31, 2011 | December 31, 2010 |
| Total private equity commitments  | \$ 514,936     | \$ 537,600        |
| Less: funded private equity commitments                                     | (90,420)       | (104,300)         |
| Total unfunded private equity commitments                                   | 424,516        | 433,300           |
| Less: private equity commitments substantially at discretion of the Company | (412,926)      | (400,400)         |
| Total net adjusted unfunded private equity commitments                      | \$ 11,590      | \$ 32,900         |

Of the total net adjusted unfunded private equity commitments as of March 31, 2011 and December 31, 2010, \$3,487 and \$11,500, respectively, are for investments acquired as part of the Allied Acquisition.

In the ordinary course of business, Allied Capital had issued guarantees on behalf of certain portfolio companies. Under these arrangements, payments would be required to be made to third parties if the portfolio companies were to default on their related payment. As part of the Allied Acquisition, the Company assumed such outstanding guarantees or similar obligations. As a result, as of March 31, 2011 and December 31, 2010, the Company had outstanding guarantees or similar obligations totaling \$800.

Further in the ordinary course of business, we may sell certain of our investments to third party purchasers. In particular, since the Allied Acquisition we have sold and currently continue to seek

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opportunities to sell, certain of Allied Capital's equity investments larger than those we have historically made and controlled portfolio company equity investments. In connection with these sales (as well as certain other sales) we have, and may continue to do so in the future, agreed to indemnify such purchasers for future liabilities arising from the investments and the related sale transaction. Such indemnification provisions may give rise to future liabilities.

As of March 31, 2011, one of the Company's portfolio companies, Ciena Capital LLC ("Ciena"), had one non-recourse securitization Small Business Administration ("SBA") loan warehouse facility, which has reached its maturity date but remains outstanding. Ciena is working with the providers of the SBA loan warehouse facility with regard to the repayment of that facility. Allied Capital had previously issued a performance guaranty (which Ares Capital succeeded to as a result of the Allied Acquisition) whereby Ares Capital must indemnify the warehouse providers for any damages, losses, liabilities and related costs and expenses that they may incur as a result of Ciena's failure to perform any of its obligations as loan originator, loan seller or loan servicer under the warehouse facility. As of March 31, 2011, there are no known issues or claims with respect to this performance guaranty.

## **8. FAIR VALUE OF FINANCIAL INSTRUMENTS**

Effective January 1, 2008, the Company adopted ASC 825-10 (previously SFAS No. 159, the Fair Value Option for Financial Assets and Liabilities), which provides companies the option to report selected financial assets and liabilities at fair value. ASC 825-10 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to more easily understand the effect of the company's choice to use fair value on its earnings. ASC 825-10 also requires entities to display the fair value of the selected assets and liabilities on the face of the balance sheet. The Company has not elected the ASC 825-10 option to report selected financial assets and liabilities at fair value. With the exception of the line items entitled "other assets" and "debt," which are reported at amortized cost, all assets and liabilities approximate fair value on the balance sheet. The carrying value of the line items entitled "interest receivable," "receivable for open trades," "payable for open trades," "accounts payable and accrued expenses," "management and incentive fees payable" and "interest and facility fees payable" approximate fair value due to their short maturity.

Effective January 1, 2008, the Company adopted ASC 820-10 (previously SFAS No. 157, Fair Value Measurements), which expands the application of fair value accounting. ASC 820-10 defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosure of fair value measurements. ASC 820-10 determines fair value to be the price that would be received for an investment in a current sale, which assumes an orderly transaction between market participants on the measurement date. ASC 820-10 requires the Company to assume that the portfolio investment is sold in its principal market to market participants or, in the absence of a principal market, the most advantageous market, which may be a hypothetical market. Market participants are defined as buyers and sellers in the principal or most advantageous market that are independent, knowledgeable, and willing and able to transact. In accordance with ASC 820-10, the Company has considered its principal market as the market in which the Company exits its portfolio investments with the greatest volume and level of activity. ASC 820-10 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. In accordance with ASC 820-10, these inputs are summarized in the three broad levels listed below:

Level 1 Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2 Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.



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Level 3 Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

In addition to using the above inputs in investment valuations, we continue to employ the net asset valuation policy approved by our board of directors that is consistent with ASC 820-10 (see Note 2). Consistent with our valuation policy, we evaluate the source of inputs, including any markets in which our investments are trading (or any markets in which securities with similar attributes are trading), in determining fair value. Our valuation policy considers the fact that because there is not a readily available market value for most of the investments in our portfolio, the fair value of the investments must typically be determined using unobservable inputs.

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 fluctuate from period to period. Additionally, the fair value of our investments may differ significantly from the values that would have been used had a ready market existed for such investments and may differ materially from the values that we may ultimately realize. Further, such investments are generally subject to legal and other restrictions on resale or otherwise are less liquid than publicly traded securities. If we were required to liquidate a portfolio investment in a forced or liquidation sale, we could realize significantly less than the value at which we have recorded it.

In addition, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the gains or losses reflected in the valuations currently assigned.

The following table presents fair value measurements of cash and cash equivalents and investments as of March 31, 2011:

|                           | <b>Fair Value Measurements Using</b> |                |                |                |
|---------------------------|--------------------------------------|----------------|----------------|----------------|
|                           | <b>Total</b>                         | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
| Cash and cash equivalents | \$ 246,233                           | \$ 246,233     | \$             | \$             |
| Investments               | \$ 4,263,033                         | \$             | \$ 6,613       | \$ 4,256,420   |

The following table presents changes in investments that use Level 3 inputs as of and for the three months ended March 31, 2011:

|  | <b>As of and<br/>for the three<br/>months ended<br/>March 31, 2011</b> |
|--|--|
| Balance as of December 31, 2010            | \$ 4,312,657   |
| Net realized and unrealized gains (losses) | 83,524   |
| Purchases                                  | 468,269  |
| Sales                                      | (290,549)  |
| Redemptions                                | (332,518)  |
| Payment-in-kind interest and dividends     | 11,038   |
| Accretion of discount on securities        | 3,999  |
| Net transfers in and/or out of Level 3     |  |
| Balance as of March 31, 2011               | \$ 4,256,420   |

As of March 31, 2011, the net unrealized appreciation on the investments that use Level 3 inputs was \$50,689.

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The following table presents changes in investments that use Level 3 inputs as of and for the three months ended March 31, 2010:

|  | <b>As of and for the<br/>three months ended<br/>March 31, 2010</b> |                  |
|--|--|------------------|
| Balance as of December 31, 2009            | \$   | 2,166,687        |
| Net realized and unrealized gains (losses) |  | 43,844           |
| Net purchases, sales or redemptions        |  | 6,783            |
| Net transfers in and/or out of Level 3     |  |                  |
| <b>Balance as of March 31, 2010</b>        | <b>\$</b>  | <b>2,217,314</b> |

As of March 31, 2010, the net unrealized depreciation on the investments that use Level 3 inputs was \$147,745.

Following are the carrying and fair values of our debt instruments as of March 31, 2011 and December 31, 2010. Fair value is estimated by discounting remaining payment using applicable current market rates, which take into account changes in the Company's marketplace credit ratings, or market quotes, if available.

|  | <b>As of</b>             |                     |                          |                     |
|--|--------------------------|---------------------|--------------------------|---------------------|
|  | <b>March 31, 2011</b>    |                     | <b>December 31, 2010</b> |                     |
|  | <b>Carrying value(1)</b> | <b>Fair value</b>   | <b>Carrying value(1)</b> | <b>Fair value</b>   |
| Revolving Funding Facility   | \$                       | \$                  | \$ 242,050               | \$ 242,000          |
| Revolving Credit Facility  |                          |                     | 146,000                  | 146,000             |
| Debt Securitization  | 138,595                  | 125,063             | 155,297                  | 133,000             |
| 2011 Notes (principal amount outstanding of \$0 and \$300,584, respectively) |                          |                     | 296,258(2)               | 297,290             |
| 2012 Notes (principal amount outstanding of \$161,210)                       | 158,705(2)               | 161,711             | 158,108(2)               | 164,595             |
| February 2016 Convertible Notes (principal amount outstanding of \$575,000)  | 535,973(3)               | 606,222             |                          |                     |
| June 2016 Convertible Notes (principal amount outstanding of \$230,000)      | 213,929(3)               | 238,816             |                          |                     |
| 2040 Notes (principal amount outstanding of \$200,000)                       | 200,000                  | 194,248             | 200,000                  | 184,986             |
| 2047 Notes (principal amount outstanding of \$230,000)                       | 180,842(2)               | 209,826             | 180,795(2)               | 197,314             |
|  | <b>\$ 1,428,044(4)</b>   | <b>\$ 1,535,886</b> | <b>\$ 1,378,508(4)</b>   | <b>\$ 1,365,185</b> |

(1) Except for the Allied Unsecured Notes and the Convertible Notes, all carrying values are the same as the principal amounts outstanding.

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- (2) Represents the aggregate principal amount of the applicable series of notes less the unaccreted discount initially recorded as a part of the Allied Acquisition.
- (3) Represents the aggregate principal amount outstanding of the Convertible Notes less the unaccreted discount initially recorded upon issuance of the Convertible Notes.
- (4) Total principal amount of debt outstanding totaled \$1,534,805 and \$1,435,141 as of March 31, 2011 and December 31, 2010, respectively.

**9. STOCKHOLDERS' EQUITY**

There were no sales of our equity securities during the three months ended March 31, 2011.

The following table summarizes the total shares issued and proceeds we received in an underwritten public offering of the Company's common stock net of underwriter and offering costs for the three months ended March 31, 2010:

|   | Shares issued | Offering price<br>per share | Proceeds net of<br>underwriting<br>and<br>offering costs |
|---|---------------|-----------------------------|--|
| February 2010 public offering                   | 22,958        | \$ 12.75                    | \$ 277,207   |
| Total for the three months ended March 31, 2010 | 22,958        |                             | \$ 277,207   |

Part of the proceeds from the above public offering were used to repay outstanding indebtedness. The remaining unused portions of the proceeds were used to fund investments in portfolio companies in accordance with our investment objective and strategies and market conditions.

**10. EARNINGS PER SHARE**

The following information sets forth the computations of basic and diluted net increase in stockholders' equity per share resulting from operations for the three months ended March 31, 2011 and 2010:

|  | For the three months ended<br>March 31, |           |
|--|---|-----------|
|  | 2011                                    | 2010      |
| Net increase in stockholders' equity resulting from operations available to common stockholders: | \$ 123,766                              | \$ 76,415 |
| Weighted average shares of common stock outstanding basic and diluted:                           | 204,419                                 | 124,544   |
| Basic and diluted net increase in stockholders' equity resulting from operations per share:      | \$ 0.61                                 | \$ 0.61   |

For the purposes of calculating diluted earnings per share, since the average closing price of the Company's common stock for the period from the time of issuance of both the February 2016 Convertible Notes and the June 2016 Convertible Notes through March 31, 2011 was less than the current conversion price for each respective series of the Convertible Notes, the underlying shares for the intrinsic value of the embedded options had no impact.

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The following table summarizes our dividends declared during the three months ended March 31, 2011 and 2010:

| <b>Date Declared</b>                                     | <b>Record Date</b> | <b>Payment Date</b> | <b>Per Share Amount</b> | <b>Total Amount</b> |
|--|--------------------|---------------------|-------------------------|---------------------|
| March 1, 2011  | March 15, 2011     | March 31, 2011      | \$ 0.35                 | \$ 71,547           |
| Total declared for the three months ended March 31, 2011 |                    |                     | \$ 0.35                 | \$ 71,547           |
| February 25, 2010  | March 15, 2010     | March 31, 2010      | \$ 0.35                 | \$ 46,516           |
| Total declared for the three months ended March 31, 2010 |                    |                     | \$ 0.35                 | \$ 46,516           |

The Company has a dividend reinvestment plan, whereby the Company may buy shares of its common stock in the open market or issue new shares in order to satisfy dividend reinvestment requests. If the Company issues new shares, the issue price is equal to closing price on the record date. Dividend reinvestment plan activity for the three months ended March 31, 2011 and 2010, was as follows:

|   | <b>For the three months ended March 31,</b> |             |
|---|---|-------------|
|   | <b>2011</b>                                 | <b>2010</b> |
| Shares issued                                   | 333   | 293         |
| Average price per share                         | \$ 16.39                                    | \$ 13.62    |
| Shares purchased by plan agent for shareholders |   |             |
| Average price per share                         |   |             |

**12. RELATED PARTY TRANSACTIONS**

In accordance with the investment advisory and management agreement, we bear all costs and expenses of the operation of the Company and reimburse our investment adviser for certain of such costs and expenses incurred in the operation of the Company. For the three months ended March 31, 2011 and 2010, the investment adviser incurred such expenses totaling \$643 and \$685, respectively. As of March 31, 2011, \$119 was unpaid and such payable is included in "accounts payable and accrued expenses" in the accompanying consolidated balance sheet.

We rent office space from a third party pursuant to a lease that expires in February 2026. We also entered into separate subleases with Ares Management and Ivy Hill Asset Management, L.P. ("IHAM"), a wholly owned portfolio company, pursuant to which Ares Management and IHAM sublease approximately 15% and 20%, respectively, of the office space for a fixed rent equal to 15% and 20%, respectively, of the base annual rent payable by us under this lease, plus certain additional costs and expenses. For the three months ended March 31, 2011, there were no amounts payable to the Company. Under our previous lease that expired on February 27, 2011, we were party to a sublease agreement with Ares Management whereby Ares Management subleased approximately 25% of such office space for a fixed rent equal to 25% of the basic annual rent payable by us under this lease, plus certain additional costs and expenses. For the three months ended March 31, 2011 and 2010, such amounts payable to the Company totaled \$396 and \$125, respectively.

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As of March 31, 2011, Ares Investments, a wholly owned subsidiary of Ares Management, (the sole member of our investment adviser) owned approximately 2.9 million shares of the Company's common stock representing approximately 1.4% of the total shares outstanding as of March 31, 2011.

See Notes 3 and 13 for descriptions of other related party transactions.

**13. IVY HILL ASSET MANAGEMENT, L.P. AND OTHER MANAGED FUNDS**

In November 2007, the Company established IHAM to serve as a manager for a middle-market credit fund, Ivy Hill Middle Market Credit Fund, Ltd. ("Ivy Hill I"), an unconsolidated investment vehicle focusing on investments in middle-market loans. From inception until the second quarter of 2009, IHAM's financial results were consolidated with those of the Company. In June 2009, because of a shift in activity from being primarily a manager, with no dedicated employees, of funds in which the Company has invested debt and equity, to a manager with individuals dedicated to managing an increasing number of third party funds, the Company concluded that GAAP requires the financial results of IHAM to be reported as a portfolio company in the schedule of investments rather than as a consolidated subsidiary in the Company's financial results. The Company made an initial equity investment of \$3,816 into IHAM in June 2009. As of March 31, 2011, the total investment in IHAM at fair value was \$170,462, including an unrealized gain of \$57,586. As of December 31, 2010, the total investment in IHAM at fair value was \$136,235, including an unrealized gain of \$32,777. For the three months ended March 31, 2011 and 2010, the Company received distributions from IHAM consisting entirely of dividend income of \$4,762 and \$378, respectively.

Ivy Hill I primarily invests in first and second lien bank debt of middle-market companies. Ivy Hill I was initially funded with \$404,000 of capital including a \$56,000 investment by the Company, consisting of \$40,000 of Class B notes and \$16,000 of subordinated notes. For the three months ended March 31, 2011 and 2010, the Company earned \$1,173 and \$1,761, respectively, from its investments in Ivy Hill I.

Ivy Hill I purchased investments from the Company of \$1,700 during the three months ended March 31, 2011, and may from time to time purchase additional investments from the Company. Any such purchases require approval by third parties unaffiliated with the Company or IHAM. A realized loss of \$17 was recorded on these transactions for the three months ended March 31, 2011.

In November 2008, the Company established a second middle-market credit fund, Ivy Hill Middle Market Credit Fund II, Ltd. ("Ivy Hill II" and, together with Ivy Hill I and Ivy Hill SDF (as defined below), the "Ivy Hill Funds"), which is also managed by IHAM.

In December 2009, the Company made an additional cash investment of approximately \$33,000 in IHAM to facilitate IHAM's acquisition of Allied Capital's management rights in respect of, and interests in, the Allied Capital Senior Debt Fund, L.P. (now referred to as Ivy Hill Senior Debt Fund, L.P. or the "Ivy Hill SDF"). In October 2010, the Company made an additional cash investment of approximately \$4,000 in IHAM to facilitate IHAM's acquisition of an equity interest in Ivy Hill SDF.

In March 2010, the Company made an additional cash investment of approximately \$48,000 in IHAM to facilitate IHAM's acquisition of Allied Capital's management rights in respect of, and equity interests in, the Knightsbridge CLO 2007-1, Ltd. and Knightsbridge CLO 2008-1, Ltd. (the "Knightsbridge Funds"). At the time, the Company also acquired from Allied Capital certain debt investments of the Knightsbridge Funds for approximately \$52,000.

The Company, through its wholly owned subsidiary, A.C. Corporation, previously managed Emporia Preferred Funding I, Ltd., Emporia Preferred Funding II, Ltd. and Emporia Preferred Funding III, Ltd. (collectively, the "Emporia Funds"). In August 2010, the Company made an additional cash investment of approximately \$8,000 in IHAM to facilitate IHAM's acquisition of an equity interest in Emporia Preferred Funding III, Ltd. In November 2010, the Company made an

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additional cash investment of \$7,900 in IHAM, which IHAM then used to purchase these management rights and related receivables in respect of the Emporia Funds from A.C. Corporation for \$7,900. This amount represented the fair value of those management rights as of the date of the sale. A realized gain of \$5,882 was recognized on this transaction. In January 2011, the Company made an additional cash investment, and approximately \$9,400 in IHAM to facilitate IHAM's acquisition of equity interests in certain of the Emporia Funds.

In addition to the Ivy Hill Funds and the Knightsbridge Funds, IHAM also serves as the sub-adviser/sub-manager to six other funds: CoLTS 2005-1 Ltd., CoLTS 2005-2 Ltd., CoLTS 2007-1 Ltd. (collectively, the "CoLTS Funds") and FirstLight Funding I, Ltd., which is affiliated with the Company's portfolio company, Firstlight Financial Corporation, Ares Private Debt Strategies Fund II, L.P. ("Ares PDS II") and Ares Private Debt Strategies Fund III, L.P. (together with Ares PDS II, the "Private Debt Strategies Funds"). The Private Debt Strategies Funds purchased \$40,158 of investments from the Company during the three months ended March 31, 2011. A realized loss of \$813 was recorded on these transactions for the three months ended March 31, 2011. The funds managed by IHAM may, from time to time, buy additional investments from the Company.

Beginning in November 2008, IHAM was party to a separate services agreement, referred to herein as the "services agreement," with Ares Capital Management. Pursuant to the services agreement, Ares Capital Management provided IHAM with office facilities, equipment, clerical, bookkeeping and record keeping services, services of investment professionals and others to perform investment advisory, research and related services, services of, and oversight of, custodians, depositories, accountants, attorneys, underwriters and such other persons in any other capacity deemed to be necessary. Under the services agreement, IHAM reimbursed Ares Capital Management for all of the actual costs associated with such services, including Ares Capital Management's allocable portion of overhead and the cost of its officers and respective staff in performing its obligations under the services agreement. The services agreement was terminated effective June 30, 2010 and replaced with a different services agreement with similar terms between IHAM and the Company's administrator.

Also as part of the Allied Acquisition, the Company acquired the management rights for an unconsolidated fund, the AGILE Fund I, LLC, which had \$67.9 million of total committed capital under management as of March 31, 2011. The Company's investment in AGILE Fund I, LLC was \$150 at fair value, including an unrealized loss of \$114 as of March 31, 2011.

Table of Contents**14. FINANCIAL HIGHLIGHTS**

The following is a schedule of financial highlights for the three months ended March 31, 2011 and 2010:

| <b>Per Share Data:</b>                                     | <b>For the three months ended</b> |                       |
|--|-----------------------------------|-----------------------|
|  | <b>March 31, 2011</b>             | <b>March 31, 2010</b> |
| Net asset value, beginning of period(1)                    | \$ 14.92                          | \$ 11.44              |
| Issuance of common stock                                   |                                   | 0.08                  |
| Issuances of the Convertible Notes                         | 0.27                              |                       |
| Net investment income for period(2)                        | 0.24                              | 0.25                  |
| Net realized and unrealized gains for period(2)            | 0.37                              | 0.36                  |
| Net increase in stockholders' equity                       | 0.88                              | 0.61                  |
| Total distributions to stockholders                        | (0.35)                            | (0.35)                |
| Net asset value at end of period(1)                        | \$ 15.45                          | \$ 11.78              |
| Per share market value at end of period                    | \$ 16.95                          | \$ 14.82              |
| Total return based on market value(3)                      | 4.96%                             | 21.85%                |
| Total return based on net asset value(4)                   | 4.06%                             | 5.33%                 |
| Shares outstanding at end of period                        | 204,752                           | 133,195               |
| <b>Ratio/Supplemental Data:</b>                            |                                   |                       |
| Net assets at end of period                                | \$ 3,163,008                      | \$ 1,568,982          |
| Ratio of operating expenses to average net assets(5)(6)    | 11.00%                            | 9.99%                 |
| Ratio of net investment income to average net assets(5)(7) | 6.13%                             | 9.05%                 |
| Portfolio turnover rate(5)                                 | 45%                               | 56%                   |

(1) The net assets used equals the total stockholders' equity on the consolidated balance sheets.

(2) Weighted average basic per share data.

(3) For the three months ended March 31, 2011, the total return based on market value equals the increase of the ending market value at March 31, 2011 of \$16.95 per share over the ending market value at December 31, 2010 of \$16.48 per share, plus the declared dividend of \$0.35 per share for the three months ended March 31, 2011, divided by the market value at December 31, 2010. For the three months ended March 31, 2010, the total return based on market value equals the increase of the ending market value at March 31, 2010 of \$14.82 per share over the ending market value at December 31, 2009 of \$12.45 per share, plus the declared dividend of \$0.35 per share for the three months ended March 31, 2010, divided by the market value at December 31, 2009. Total return based on market value is not annualized. The Company's shares fluctuate in value. The Company's performance changes over time and currently may be different than that shown. Past performance is no guarantee of future results.

(4) For the three months ended March 31, 2011, the total return based on net asset value equals the change in net asset value during the period plus the declared dividend of \$0.35 per share for the three months ended March 31, 2011, divided by the beginning net asset value at January 1, 2011. For the three months ended March 31, 2010, the total return based on net asset value equals the change in net asset value during the period plus the declared dividend of \$0.35 per share for the three months ended March 31, 2010, divided by the beginning net asset value at January 1, 2010. These calculations are adjusted for shares issued in connection with the dividend reinvestment plan and the issuance of common stock in connection with any equity offerings. Total return based on net asset value is not annualized. The Company's performance changes over time and currently may be different than that shown. Past performance is no guarantee of future results.

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- (5) The ratios reflect an annualized amount.
- (6) For the three months ended March 31, 2011, the ratio of operating expenses to average net assets consisted of 2.14% of base management fees, 3.97% of incentive management fees, 3.87% of the cost of borrowing and 1.02% of other operating expenses. For the three months ended March 31, 2010, the ratio of operating expenses to average net assets consisted of 2.41% of base management fees, 2.33% of incentive management fees, 2.45% of the cost of borrowing and 2.79% of other operating expenses. These ratios reflect annualized amounts.
- (7) The ratio of net investment income to average net assets excludes income taxes related to realized gains.

**15. ALLIED ACQUISITION**

On April 1, 2010, the Company completed the Allied Acquisition by acquiring the outstanding shares of Allied Capital in exchange for shares of our common stock in a transaction valued at approximately \$908 million as of the closing date. Concurrently with the completion of the Allied Acquisition, we repaid in full the \$137 million of remaining principal amounts outstanding on Allied Capital's \$250 million senior secured term loan. We also assumed all of Allied Capital's other outstanding debt obligations, including approximately \$745 million in aggregate principal amount outstanding of the Allied Unsecured Notes.

Under the terms of the Allied Acquisition each Allied Capital stockholder received 0.325 shares of our common stock for each share of Allied Capital common stock then owned by such stockholder. In connection with the Allied Acquisition, approximately 58.5 million shares of our common stock (including the effect of outstanding in-the money Allied Capital stock options) were issued to Allied Capital's then-existing stockholders, resulting in our then-existing stockholders owning approximately 69% of the combined company and the then-existing Allied Capital stockholders owning approximately 31% of the combined company.

The Allied Acquisition was accounted for in accordance with the acquisition method of accounting as detailed in ASC 805-10 (previously SFAS No. 141(R)), Business Combinations. The acquisition method of accounting requires an acquirer to recognize the assets acquired, the liabilities assumed and any noncontrolling interest in the acquired entity based on their fair values as of the date of acquisition. As described in more detail in ASC 805-10, if the total acquisition date fair value of the identifiable net assets acquired exceeds the fair value of the consideration transferred, the excess will be recognized as a gain. Upon completion of our determination of the fair value of Allied Capital's identifiable net assets as of April 1, 2010, the fair value of such net assets exceeded the fair value of the consideration transferred, resulting in the recognition of a gain. The valuation of the investments acquired as part of the Allied Acquisition was done in accordance with Ares Capital's valuation policy (see Notes 2 and 8).



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Set forth below is the allocation of the purchase price to the assets acquired and liabilities assumed in connection with the Allied Acquisition:

|   |           |                  |
|---|-----------|------------------|
| Common stock issued   | \$        | 872,727          |
| Payments to holders of "in-the-money"<br>Allied Capital stock options |           | 35,011(1)        |
| <b>Total purchase price</b>   | <b>\$</b> | <b>907,738</b>   |
| Assets acquired:  |           |                  |
| Investments   | \$        | 1,833,766        |
| Cash and cash equivalents   |           | 133,548          |
| Other assets  |           | 80,078           |
| <b>Total assets acquired</b>  |           | <b>2,047,392</b> |
| <b>Debt and other liabilities assumed</b>                             |           | <b>(943,778)</b> |
| <b>Net assets acquired</b>  |           | <b>1,103,614</b> |
| <b>Gain on Allied Acquisition</b>                                     |           | <b>(195,876)</b> |
|   | <b>\$</b> | <b>907,738</b>   |

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(1) Represents cash payment for holders of any "in-the-money" Allied Capital stock options that elected to receive cash.

Prior to the completion of the Allied Acquisition we purchased \$340 million of assets from Allied Capital in arm's length transactions. Additionally, during the same period of time, IHAM purchased \$69 million of assets from Allied Capital, also in arm's length transactions.

**16. LITIGATION**

The Company is party to certain lawsuits in the normal course of business. In addition, Allied Capital was involved in various other legal proceedings which the Company assumed in connection with the Allied Acquisition. Furthermore, third parties may try to seek to impose liability on the Company in connection with the activities of its portfolio companies. While the outcome of any such legal proceedings cannot at this time be predicted with certainty, the Company does not expect that these legal proceedings will materially affect its business, financial condition or results of operations.

**17. SUBSEQUENT EVENTS**

The Company's management has evaluated subsequent events through the date of issuance of these consolidated financial statements. There have been no subsequent events that occurred during such period that would require disclosure in the financial statements at the time they were initially filed in the Company's Form 10-Q for the quarter ended March 31, 2011 or would be required to be recognized in the Consolidated Financial Statements as of and for the three months ended March 31, 2011, except as disclosed below.

On April 27, 2011, we redeemed the \$161,210 in outstanding aggregate principal amount of 2012 Notes for a total redemption price (including a redemption premium) of approximately \$169,338, which resulted in a loss on the extinguishment of debt of \$10,458, in accordance with the terms of the indenture governing the 2012 Notes.

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders  
Allied Capital Corporation:

We have audited the accompanying consolidated balance sheet of Allied Capital Corporation and subsidiaries (the Company) as of December 31, 2009 and 2008, including the consolidated statements of investments as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in net assets and cash flows, and the financial highlights (included in Note 13), for each of the years in the three-year period ended December 31, 2009. These consolidated financial statements and financial highlights are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included physical inspection or confirmation of securities owned as of December 31, 2009 and 2008. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Allied Capital Corporation and subsidiaries as of December 31, 2009 and 2008, and the results of their operations, their cash flows, changes in their net assets, and financial highlights for each of the years in the three-year period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, the Company modified its method of determining the fair value of portfolio investments in 2008 due to the adoption of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*.

Washington, D.C.  
February 26, 2010

Table of Contents**ALLIED CAPITAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEET****(in thousands, except per share amounts)**

|  | December 31, |              |
|--|--------------|--------------|
|  | 2009         | 2008         |
| <b>ASSETS</b>  |              |              |
| Portfolio at value:  |              |              |
| Private finance  |              |              |
| Companies more than 25% owned (cost: 2009-\$1,747,759; 2008-\$2,167,020)   | \$ 811,736   | \$ 1,187,722 |
| Companies 5% to 25% owned (cost: 2009-\$222,981; 2008-\$392,516)   | 180,998      | 352,760      |
| Companies less than 5% owned (cost: 2009-\$1,639,193; 2008-\$2,317,856)  | 1,082,577    | 1,858,581    |
| Total private finance (cost: 2009-\$3,609,933; 2008-\$4,877,392)   | 2,075,311    | 3,399,063    |
| Commercial real estate finance (cost: 2009-\$75,180; 2008-\$85,503)  | 55,807       | 93,887       |
| Total portfolio at value (cost: 2009-\$3,685,113; 2008-\$4,962,895)  | 2,131,118    | 3,492,950    |
| Accrued interest and dividends receivable  | 43,875       | 55,638       |
| Other assets   | 88,802       | 122,909      |
| Investments in money market and other securities   | 381,020      | 287          |
| Cash   | 20,682       | 50,402       |
| Total assets   | \$ 2,665,497 | \$ 3,722,186 |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |              |              |
| Liabilities:   |              |              |
| Notes payable (maturing within one year: 2009-\$85,111; 2008-\$1,015,000)  | \$ 1,384,920 | \$ 1,895,000 |
| Bank secured term debt (former revolver)   | 41,091       | 50,000       |
| Accounts payable and other liabilities   | 41,284       | 58,786       |
| Total liabilities  | 1,467,295    | 2,003,786    |
| Commitments and contingencies  |              |              |
| Shareholders' equity:  |              |              |
| Common stock, \$0.0001 par value, 400,000 shares authorized; 179,940 and 178,692 shares issued and outstanding at December 31, 2009 and 2008, respectively | 18           | 18           |
| Additional paid-in capital   | 3,037,513    | 3,037,845    |
| Notes receivable from sale of common stock   | (301)        | (1,089)      |
| Net unrealized appreciation (depreciation)   | (1,679,778)  | (1,503,089)  |
| Undistributed (distributions in excess of) earnings  | (159,250)    | 184,715      |
| Total shareholders' equity   | 1,198,202    | 1,718,400    |
| Total liabilities and shareholders' equity   | \$ 2,665,497 | \$ 3,722,186 |
| Net asset value per common share   | \$ 6.66      | \$ 9.62      |

The accompanying notes are an integral part of these consolidated financial statements.

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Table of Contents**ALLIED CAPITAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF OPERATIONS****(in thousands, except per share amounts)**

|   | <b>For the Years Ended December 31,</b> |             |             |
|---|---|-------------|-------------|
|   | <b>2009</b>                             | <b>2008</b> | <b>2007</b> |
| <b>Interest and Related Portfolio Income:</b>         |   |             |             |
| Interest and dividends                                |   |             |             |
| Companies more than 25% owned                         | \$ 93,739                               | \$ 111,188  | \$ 105,634  |
| Companies 5% to 25% owned                             | 30,028                                  | 42,376      | 41,577      |
| Companies less than 5% owned                          | 167,219                                 | 303,854     | 270,365     |
| Total interest and dividends                          | 290,986                                 | 457,418     | 417,576     |
| Fees and other income                                 |   |             |             |
| Companies more than 25% owned                         | 23,382                                  | 28,278      | 18,505      |
| Companies 5% to 25% owned                             | 234                                     | 2,619       | 810         |
| Companies less than 5% owned                          | 4,084                                   | 12,797      | 24,814      |
| Total fees and other income                           | 27,700                                  | 43,694      | 44,129      |
| Total interest and related portfolio income           | 318,686                                 | 501,112     | 461,705     |
| Expenses:   |   |             |             |
| Interest  | 171,068                                 | 148,930     | 132,080     |
| Employee  | 42,104                                  | 76,429      | 89,155      |
| Employee stock options                                | 3,355                                   | 11,781      | 35,233      |
| Administrative  | 38,147                                  | 49,424      | 50,580      |
| Impairment of long-lived assets                       | 2,873                                   |             |             |
| Total operating expenses                              | 257,547                                 | 286,564     | 307,048     |
| Net investment income before income taxes             | 61,139                                  | 214,548     | 154,657     |
| Income tax expense, including excise tax              | 5,576                                   | 2,506       | 13,624      |
| Net investment income                                 | 55,563                                  | 212,042     | 141,033     |
| Net Realized and Unrealized Gains (Losses):           |   |             |             |
| Net realized gains (losses)                           |   |             |             |
| Companies more than 25% owned                         | (149,032)                               | (131,440)   | 226,437     |
| Companies 5% to 25% owned                             | (49,484)                                | (14,120)    | (10,046)    |
| Companies less than 5% owned                          | (162,612)                               | 16,142      | 52,122      |
| Total net realized gains (losses)                     | (361,128)                               | (129,418)   | 268,513     |
| Net change in unrealized appreciation or depreciation | (176,689)                               | (1,123,762) | (256,243)   |
| Total net gains (losses)                              | (537,817)                               | (1,253,180) | 12,270      |

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|   |              |                |            |
|---|--------------|----------------|------------|
| Gain on repurchase of debt                                      | 83,532       | 1,132          |            |
| Loss on extinguishment of debt                                  | (122,776)    |                |            |
| Net increase (decrease) in net assets resulting from operations | \$ (521,498) | \$ (1,040,006) | \$ 153,303 |
| Basic earnings (loss) per common share                          | \$ (2.91)    | \$ (6.01)      | \$ 1.00    |
| Diluted earnings (loss) per common share                        | \$ (2.91)    | \$ (6.01)      | \$ 0.99    |
| Weighted average common shares outstanding basic                | 178,994      | 172,996        | 152,876    |
| Weighted average common shares outstanding diluted              | 178,994      | 172,996        | 154,687    |

The accompanying notes are an integral part of these consolidated financial statements.

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**ALLIED CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS**  
(in thousands, except per share amounts)

|   | For the Years Ended December 31, |                    |                  |
|---|----------------------------------|--------------------|------------------|
|   | 2009                             | 2008               | 2007             |
| <b>Operations:</b>  |                                  |                    |                  |
| Net investment income   | \$ 55,563                        | \$ 212,042         | \$ 141,033       |
| Net realized gains (losses)   | (361,128)                        | (129,418)          | 268,513          |
| Net change in unrealized appreciation or depreciation                       | (176,689)                        | (1,123,762)        | (256,243)        |
| Gain on repurchase of debt  | 83,532                           | 1,132              |                  |
| Loss on extinguishment of debt  | (122,776)                        |                    |                  |
| <b>Net increase (decrease) in net assets resulting from operations</b>      | <b>(521,498)</b>                 | <b>(1,040,006)</b> | <b>153,303</b>   |
| <b>Shareholder distributions:</b>   |                                  |                    |                  |
| Common stock dividends  |                                  | (456,531)          | (407,317)        |
| Preferred stock dividends   | (10)                             | (10)               | (10)             |
| <b>Net decrease in net assets resulting from shareholder distributions</b>  | <b>(10)</b>                      | <b>(456,541)</b>   | <b>(407,327)</b> |
| <b>Capital share transactions:</b>  |                                  |                    |                  |
| Sale of common stock  |                                  | 402,478            | 171,282          |
| Issuance of common stock in lieu of cash distributions                      |                                  | 3,751              | 17,095           |
| Issuance of common stock upon the exercise of stock options                 | 918                              |                    | 14,251           |
| Cash portion of option cancellation payment                                 |                                  |                    | (52,833)         |
| Stock option expense  | 3,424                            | 11,906             | 35,810           |
| Cancellation of common stock (note receivable from common stock)            | (36)                             |                    |                  |
| Net decrease in notes receivable from sale of common stock                  | 788                              | 1,603              | 158              |
| Purchase of common stock held in deferred compensation trust                |                                  | (943)              | (12,444)         |
| Distribution of common stock held in deferred compensation trust            |                                  | 27,335             | 837              |
| Other   | (3,784)                          | (3,030)            | 10,471           |
| <b>Net increase in net assets resulting from capital share transactions</b> | <b>1,310</b>                     | <b>443,100</b>     | <b>184,627</b>   |
| <b>Total net increase (decrease) in net assets</b>                          | <b>(520,198)</b>                 | <b>(1,053,447)</b> | <b>(69,397)</b>  |
| Net assets at beginning of year   | 1,718,400                        | 2,771,847          | 2,841,244        |
| Net assets at end of year   | \$ 1,198,202                     | \$ 1,718,400       | \$ 2,771,847     |
| Net asset value per common share  | \$ 6.66                          | \$ 9.62            | \$ 17.54         |
| Common shares outstanding at end of year                                    | 179,940                          | 178,692            | 158,002          |

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**ALLIED CAPITAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF CASH FLOWS****(in thousands)**

|   | <b>For the Years Ended December 31,</b> |                  |                  |
|---|---|------------------|------------------|
|   | <b>2009</b>                             | <b>2008</b>      | <b>2007</b>      |
| <b>Cash flows from operating activities:</b>  |   |                  |                  |
| Net increase (decrease) in net assets resulting from operations                           | \$ (521,498)                            | \$ (1,040,006)   | \$ 153,303       |
| <b>Adjustments:</b>   |   |                  |                  |
| Portfolio investments   | (130,436)                               | (1,070,092)      | (1,845,973)      |
| Principal collections related to investment repayments or sales                           | 871,271                                 | 1,037,348        | 1,211,550        |
| Collections of notes and other consideration received from sale of investments            | 198,406                                 | 16,546           | 15,305           |
| Realized gains from the receipt of notes and other consideration from sale of investments | (577)                                   | (11,972)         | (33,011)         |
| Realized losses   | 413,783                                 | 279,886          | 131,997          |
| Gain on repurchase of debt  | (83,532)                                | (1,132)          |                  |
| Redemption of (investment in) U.S. Treasury bills, money market and other securities      | (380,733)                               | 200,935          | 988              |
| Payment-in-kind interest and dividends, net of cash collections                           | (33,839)                                | (53,364)         | (11,997)         |
| Change in accrued interest and dividends  | 10,653                                  | 14,860           | (11,916)         |
| Net collection (amortization) of discounts and fees                                       | (7,173)                                 | (13,083)         | (4,101)          |
| Stock option expense  | 3,424                                   | 11,906           | 35,810           |
| Impairment of long-lived asset  | 2,873                                   |                  |                  |
| Changes in other assets and liabilities   | (86,676)                                | (41,481)         | (12,466)         |
| Depreciation and amortization   | 1,536                                   | 913              | 2,064            |
| Net change in unrealized (appreciation) or depreciation                                   | 176,689                                 | 1,123,762        | 256,243          |
| <b>Net cash provided by (used in) operating activities</b>                                | <b>434,171</b>                          | <b>455,026</b>   | <b>(112,204)</b> |
| <b>Cash flows from financing activities:</b>  |   |                  |                  |
| Sale of common stock  |   | 402,478          | 171,282          |
| Sale of common stock upon the exercise of stock options                                   | 918                                     |                  | 14,251           |
| Collections of notes receivable from sale of common stock                                 | 752                                     | 1,603            | 158              |
| Borrowings under notes payable  |   | 193,000          | 230,000          |
| Repayments on notes payable   | (392,136)                               | (217,080)        |                  |
| Net borrowings under (repayments on) bank secured term debt (former revolver)             | (8,909)                                 | (317,250)        | 159,500          |
| Cash portion of option cancellation payment   |   |                  | (52,833)         |
| Purchase of common stock held in deferred compensation trust                              |   | (943)            | (12,444)         |
| Payment of deferred financing costs and other financing activities                        | (64,506)                                | (17,182)         | 1,798            |
| Common stock dividends and distributions paid   |   | (452,780)        | (397,645)        |
| Preferred stock dividends paid  | (10)                                    | (10)             | (10)             |
| <b>Net cash provided by (used in) financing activities</b>                                | <b>(463,891)</b>                        | <b>(408,164)</b> | <b>114,057</b>   |



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|                                 |           |           |          |
|---------------------------------|-----------|-----------|----------|
| Net increase (decrease) in cash | (29,720)  | 46,862    | 1,853    |
| Cash at beginning of year       | 50,402    | 3,540     | 1,687    |
| Cash at end of year             | \$ 20,682 | \$ 50,402 | \$ 3,540 |

The accompanying notes are an integral part of these consolidated financial statements.

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Table of Contents**ALLIED CAPITAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF INVESTMENTS**

December 31, 2009

(in thousands, except number of shares)

| <b>Private Finance<br/>Portfolio Company</b>              | <b>Investment(1)(2)</b>  | <b>Principal</b> | <b>Cost</b>                   | <b>Value</b>              |
|---|--|------------------|-------------------------------|---------------------------|
| <b>Companies More Than<br/>25% Owned</b>                  |  |                  |                               |                           |
| AGILE Fund I, LLC(5)<br>(Private Equity Fund)             | Equity Interests   |                  | \$ 637                        | \$ 449                    |
| <b>Total Investment</b>                                   |  |                  | <b>637</b>                    | <b>449</b>                |
| AllBridge<br>Financial, LLC<br>(Asset Management)         | Senior Loan (6.3%, Due 4/10)<br>Equity Interests   | \$ 1,500         | 1,500<br>40,118               | 1,500<br>15,805           |
| <b>Total Investment</b>                                   |  |                  | <b>41,618</b>                 | <b>17,305</b>             |
| Avborne, Inc.<br>(Business Services)                      | Common Stock (27,500 shares)   |                  |                               | 39                        |
| <b>Total Investment</b>                                   |  |                  |                               | <b>39</b>                 |
| Aviation Properties<br>Corporation<br>(Business Services) | Common Stock (100 shares)  |                  | 123                           |                           |
| <b>Total Investment</b>                                   |  |                  | <b>123</b>                    |                           |
| Border Foods, Inc.<br>(Consumer Products)                 | Senior Loan (12.9%, Due 3/12)<br>Preferred Stock (100,000 shares)<br>Common Stock (260,467 shares)               | 34,126           | 29,064<br>12,721<br>3,847     | 34,126<br>20,901<br>9,663 |
| <b>Total Investment</b>                                   |  |                  | <b>45,632</b>                 | <b>64,690</b>             |
| Callidus Capital<br>Corporation<br>(Asset Management)     | Subordinated Debt (18.0%,<br>Due 8/13)<br>Common Stock (100 shares)  | 21,782           | 21,782                        | 19,108                    |
| <b>Total Investment</b>                                   |  |                  | <b>21,782</b>                 | <b>19,108</b>             |
| Ciena Capital LLC<br>(Financial Services)                 | Guaranty (\$3,189)<br>Senior Loan (5.5%,<br>Due 3/09)(6)<br>Class B Equity Interests<br>Class C Equity Interests | 319,031          | 319,031<br>119,436<br>109,097 | 100,051                   |

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|                                 |   |        |                |                |
|---------------------------------|---|--------|----------------|----------------|
|                                 | <b>Total Investment</b>                 |        | <b>547,564</b> | <b>100,051</b> |
|                                 | Guaranty (\$5,000 See Note 3)           |        |                |                |
| CitiPostal Inc.                 |   |        |                |                |
|                                 | Senior Loan (3.7%, Due 12/13)           | 692    | 683            | 683            |
| (Business Services)             | Unitranche Debt (12.0%,<br>Due 12/13)   | 50,801 | 50,633         | 50,633         |
|                                 | Subordinated Debt (16.0%,<br>Due 12/15) | 10,685 | 10,685         | 10,685         |
|                                 | Common Stock (37,024 shares)            |        | 12,726         | 1,432          |
|                                 | <b>Total Investment</b>                 |        | <b>74,727</b>  | <b>63,433</b>  |
| Coverall North<br>America, Inc. |   |        |                |                |
| (Business Services)             | Unitranche Debt (12.0%,<br>Due 7/11)    | 31,627 | 31,573         | 31,573         |
|                                 | Subordinated Debt (15.0%,<br>Due 7/11)  | 5,563  | 5,555          | 5,555          |
|                                 | Common Stock (763,333 shares)           |        | 14,361         | 11,386         |
|                                 | <b>Total Investment</b>                 |        | <b>51,489</b>  | <b>48,514</b>  |

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| Private Finance   |  |           |                |               |  |
|---|--|-----------|----------------|---------------|--|
| Portfolio Company   | Investment(1)(2)                               | Principal | Cost           | Value         |  |
| Crescent Equity Corp.(8)<br>(Business Services)   | Senior Loan (10.0%, Due 6/10)                  | \$ 433    | \$ 433         | \$ 433        |  |
|   | Subordinated Debt (11.0%,<br>Due 9/11 6/17)(6) | 32,161    | 32,072         | 4,132         |  |
|   | Common Stock (174 shares)                      |           | 82,818         |               |  |
| <b>Total Investment</b>   |  |           | <b>115,323</b> | <b>4,565</b>  |  |
| Guaranty (\$900)  |  |           |                |               |  |
| Direct Capital<br>Corporation<br>(Financial Services)                                   | Senior Loan (8.0%, Due 1/14)(6)                | 8,175     | 8,175          | 8,744         |  |
|   | Subordinated Debt (16.0%,<br>Due 3/13)(6)      | 55,671    | 55,496         | 6,797         |  |
|   | Common Stock (2,317,020<br>shares)             |           | 25,732         |               |  |
| <b>Total Investment</b>   |  |           | <b>89,403</b>  | <b>15,541</b> |  |
| Financial Pacific<br>Company<br>(Financial Services)                                    | Subordinated Debt (17.4%,<br>Due 2/12 8/12)    | 68,967    | 68,880         | 34,780        |  |
|   | Preferred Stock (9,458 shares)                 |           | 8,865          |               |  |
|   | Common Stock (12,711 shares)                   |           | 12,783         |               |  |
| <b>Total Investment</b>   |  |           | <b>90,528</b>  | <b>34,780</b> |  |
| HCI Equity, LLC(4)(5)<br>(Private Equity Fund)  | Equity Interests                               |           | 1,100          | 877           |  |
| <b>Total Investment</b>   |  |           | <b>1,100</b>   | <b>877</b>    |  |
| Hot Light Brands, Inc.<br>(Real Estate)   | Senior Loan (9.0%, Due 2/11)(6)                | 29,257    | 29,257         | 9,116         |  |
|   | Common Stock (93,500 shares)                   |           | 5,151          |               |  |
| <b>Total Investment</b>   |  |           | <b>34,408</b>  | <b>9,116</b>  |  |
| Hot Stuff Foods, LLC<br>(Consumer Products)   | Senior Loan (3.7%, Due 2/12)                   | 44,697    | 44,602         | 44,697        |  |
|   | Subordinated Debt (12.3%,<br>Due 8/12 2/13)(6) | 83,692    | 83,387         | 48,240        |  |
|   | Common Stock (1,147,453<br>shares)             |           | 56,187         |               |  |
| <b>Total Investment</b>   |  |           | <b>184,176</b> | <b>92,937</b> |  |
| Huddle House, Inc.<br>(Retail)  | Subordinated Debt (15.0%,<br>Due 12/15)        | 19,694    | 19,646         | 19,646        |  |
|   | Common Stock (358,428 shares)                  |           | 36,348         | 3,919         |  |
| <b>Total Investment</b>   |  |           | <b>55,994</b>  | <b>23,565</b> |  |
| IAT Equity, LLC and<br>Affiliates<br>d/b/a Industrial Air Tool<br>(Industrial Products) | Subordinated Debt (9.0%,<br>Due 6/14)          | 6,000     | 6,000          | 6,000         |  |
|   | Equity Interests                               |           | 7,500          | 5,485         |  |
| <b>Total Investment</b>   |  |           | <b>13,500</b>  | <b>11,485</b> |  |

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|   |   |        |               |               |
|---|---|--------|---------------|---------------|
| Impact Innovations<br>Group, LLC<br>(Business Services)       | Equity Interests in Affiliate             |        |               | 215           |
| <b>Total Investment</b>                                       |   |        |               | <b>215</b>    |
| Insight Pharmaceuticals<br>Corporation<br>(Consumer Products) | Subordinated Debt (15.0%,<br>Due 9/12)    | 54,443 | 54,385        | 54,023        |
|   | Common Stock (155,000 shares)             |        | 40,413        | 9,400         |
| <b>Total Investment</b>                                       |   |        | <b>94,798</b> | <b>63,423</b> |
| Jakel, Inc.<br>(Industrial Products)                          | Subordinated Debt (15.5%,<br>Due 3/08)(6) | 748    | 748           |               |
| <b>Total Investment</b>                                       |   |        | <b>748</b>    |               |

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| Private Finance Portfolio Company          | Investment(1)(2)                      | Principal | Cost                | Value             |
|--|---------------------------------------|-----------|---------------------|-------------------|
| Knightsbridge CLO                          |                                       |           |                     |                   |
| 2007-1 Ltd.(4)                             | Class E Notes (9.3%, Due 1/22)        | \$ 18,700 | \$ 18,700           | \$ 11,360         |
| (CLO)                                      | Income Notes (4.4%)(7)                |           | 39,174              | 16,220            |
|  | <b>Total Investment</b>               |           | <b>57,874</b>       | <b>27,580</b>     |
| Knightsbridge CLO                          |                                       |           |                     |                   |
| 2008-1 Ltd.(4)                             | Class C Notes (7.8%, Due 6/18)        | 12,800    | 12,800              | 12,289            |
| (CLO)                                      | Class D Notes (8.8%, Due 6/18)        | 8,000     | 8,000               | 7,160             |
|  | Class E Notes (5.3%, Due 6/18)        | 13,200    | 11,291              | 10,091            |
|  | Income Notes (20.8%)(7)               |           | 21,893              | 20,637            |
|  | <b>Total Investment</b>               |           | <b>53,984</b>       | <b>50,177</b>     |
| MVL Group, Inc.                            | Senior Loan (12.0%, Due 7/12)         | 25,260    | 25,256              | 25,260            |
| (Business Services)                        | Subordinated Debt (14.5%, Due 7/12)   | 35,607    | 35,578              | 34,306            |
|  | Subordinated Debt (8.0%, Due 7/12)(6) | 144       | 139                 |                   |
|  | Common Stock (560,716 shares)         |           | 555                 |                   |
|  | <b>Total Investment</b>               |           | <b>61,528</b>       | <b>59,566</b>     |
| Penn Detroit Diesel Allison, LLC           | Equity Interests                      |           | 20,081              | 15,258            |
| (Business Services)                        |                                       |           |                     |                   |
|  | <b>Total Investment</b>               |           | <b>20,081</b>       | <b>15,258</b>     |
| Service Champ, Inc.                        | Subordinated Debt (15.5%, Due 4/12)   | 27,742    | 27,696              | 27,696            |
| (Business Services)                        | Common Stock (55,112 shares)          |           | 11,145              | 28,071            |
|  | <b>Total Investment</b>               |           | <b>38,841</b>       | <b>55,767</b>     |
| Stag-Parkway, Inc.                         | Subordinated Debt (10.0%, Due 7/12)   | 19,044    | 19,004              | 19,004            |
| (Business Services)                        | Common Stock (25,000 shares)          |           | 32,686              | 14,226            |
|  | <b>Total Investment</b>               |           | <b>51,690</b>       | <b>33,230</b>     |
| Startec Equity, LLC                        | Equity Interests                      |           | 211                 | 65                |
| (Telecommunications)                       |                                       |           |                     |                   |
|  | <b>Total Investment</b>               |           | <b>211</b>          | <b>65</b>         |
| <b>Total companies more than 25% owned</b> |                                       |           | <b>\$ 1,747,759</b> | <b>\$ 811,736</b> |
| <b>Companies 5% to 25% Owned</b>           |                                       |           |                     |                   |
| 10 <sup>th</sup> Street, LLC               | Subordinated Debt (13.0%, Due 11/14)  | 22,325    | 22,234              | 22,325            |
| (Business Services)                        | Equity Interests                      |           | 422                 | 475               |

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|  |                                     |        |                |               |
|--|-------------------------------------|--------|----------------|---------------|
|  | Option                              |        | 25             | 25            |
|  | <b>Total Investment</b>             |        | <b>22,681</b>  | <b>22,825</b> |
| Air Medical Group Holdings LLC (Healthcare Services)                       | Senior Loan (2.8%, Due 3/11)        | 6,075  | 6,056          | 5,845         |
|  | Equity Interests                    |        | 2,993          | 19,500        |
|  | <b>Total Investment</b>             |        | <b>9,049</b>   | <b>25,345</b> |
| BB&T Capital Partners/Windsor Mezzanine Fund, LLC(5) (Private Equity Fund) | Equity Interests                    |        | 11,789         | 10,379        |
|  | <b>Total Investment</b>             |        | <b>11,789</b>  | <b>10,379</b> |
| Driven Brands, Inc. (Consumer Services)                                    | Subordinated Debt (16.6%, Due 7/15) | 91,991 | 91,647         | 91,899        |
|  | Common Stock (3,772,098 shares)     |        | 9,516          | 3,000         |
|  | <b>Total Investment</b>             |        | <b>101,163</b> | <b>94,899</b> |
| Multi-Ad Services, Inc. (Business Services)                                | Unitranche Debt (11.3%, Due 11/11)  | 2,500  | 2,485          | 2,491         |
|  | Equity Interests                    |        | 1,737          | 1,418         |
|  | <b>Total Investment</b>             |        | <b>4,222</b>   | <b>3,909</b>  |

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| <b>Private Finance</b>                                       |   |                  |                   |                   |
|--|---|------------------|-------------------|-------------------|
| <b>Portfolio Company</b>                                     | <b>Investment(1)(2)</b>                   | <b>Principal</b> | <b>Cost</b>       | <b>Value</b>      |
| Pendum Acquisition, Inc.<br>(Business Services)              | Common Stock (8,872 shares)               |                  | \$                | \$ 200            |
|  | <b>Total Investment</b>                   |                  |                   | <b>200</b>        |
| Postle Aluminum Company, LLC<br>(Industrial Products)        | Senior Loan (6.0%,<br>Due 10/12)(6)       | \$ 35,000        | 34,876            | 16,054            |
|  | Subordinated Debt (3.0%,<br>Due 10/12)(6) | 23,953           | 23,868            |                   |
|  | Equity Interests                          |                  | 2,174             |                   |
|  | <b>Total Investment</b>                   |                  | <b>60,918</b>     | <b>16,054</b>     |
| Regency Healthcare Group, LLC<br>(Healthcare Services)       | Equity Interests                          |                  | 1,302             | 1,898             |
|  | <b>Total Investment</b>                   |                  | <b>1,302</b>      | <b>1,898</b>      |
| SGT India Private Limited(4)<br>(Business Services)          | Common Stock (150,596 shares)             |                  | 4,161             |                   |
|  | <b>Total Investment</b>                   |                  | <b>4,161</b>      |                   |
| Soteria Imaging Services, LLC<br>(Healthcare Services)       | Subordinated Debt (13.3%,<br>Due 11/10)   | 4,250            | 4,216             | 4,210             |
|  | Equity Interests                          |                  | 1,881             | 1,279             |
|  | <b>Total Investment</b>                   |                  | <b>6,097</b>      | <b>5,489</b>      |
| Universal Environmental Services, LLC<br>(Business Services) | Equity Interests                          |                  | 1,599             |                   |
|  | <b>Total Investment</b>                   |                  | <b>1,599</b>      |                   |
| <b>Total companies 5% to 25% owned</b>                       |   |                  | <b>\$ 222,981</b> | <b>\$ 180,998</b> |
| <b>Companies Less Than 5% Owned</b>                          |   |                  |                   |                   |
| 3SI Security Systems, Inc.<br>(Consumer Products)            | Subordinated Debt (16.6%,<br>Due 8/13)(6) | 29,548           | 29,473            | 9,542             |
|  | <b>Total Investment</b>                   |                  | <b>29,473</b>     | <b>9,542</b>      |
| Axiom Healthcare Pharmacy, Inc.<br>(Healthcare Services)     | Subordinated Debt (8.0%,<br>Due 3/15)     | 3,036            | 3,036             | 2,641             |
|  | <b>Total Investment</b>                   |                  | <b>3,036</b>      | <b>2,641</b>      |
| BenefitMall Holdings Inc.                                    |   | 40,326           | 40,254            | 40,254            |



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|  |   |        |               |                |
|--|---|--------|---------------|----------------|
| (Business Services)  | Subordinated Debt (18.0%,<br>Due 6/14)                |        |               |                |
|  | Common Stock (39,274,290<br>shares)(3)<br>Warrants(3) |        | 39,274        | 68,822         |
| <b>Total Investment</b>                                      |   |        | <b>79,528</b> | <b>109,076</b> |
| Bushnell, Inc.<br>(Consumer Products)                        | Subordinated Debt (6.8%,<br>Due 2/14)                 | 41,325 | 40,217        | 30,456         |
|  | <b>Total Investment</b>                               |        | <b>40,217</b> | <b>30,456</b>  |
| Callidus Debt Partners<br>CDO Fund I, Ltd.(4)(10)<br>(CDO)   | Class C Notes (12.9%,<br>Due 12/13)(6)                | 19,420 | 19,527        | 2,163          |
|  | Class D Notes (17.0%,<br>Due 12/13)(6)                | 9,400  | 9,454         |                |
| <b>Total Investment</b>                                      |   |        | <b>28,981</b> | <b>2,163</b>   |
| Callidus Debt Partners<br>CLO Fund III, Ltd.(4)(10)<br>(CLO) | Preferred Shares (23,600,000<br>shares)               |        | 20,138        | 4,112          |
|  | <b>Total Investment</b>                               |        | <b>20,138</b> | <b>4,112</b>   |

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| <b>Private Finance</b>                                     |   |                  |               |               |
|--|---|------------------|---------------|---------------|
| <b>Portfolio Company</b>                                   | <b>Investment(1)(2)</b>                     | <b>Principal</b> | <b>Cost</b>   | <b>Value</b>  |
| Callidus Debt Partners                                     | Class D Notes (4.8%, Due 4/20)              | \$ 3,000         | \$ 2,206      | \$ 1,710      |
| CLO Fund IV, Ltd.(4)(10)<br>(CLO)                          | Income Notes (0.0%)(7)                      |                  | 14,859        | 5,433         |
|  | <b>Total Investment</b>                     |                  | <b>17,065</b> | <b>7,143</b>  |
| Callidus Debt Partners                                     | Income Notes (1.4%)(7)                      |                  | 13,432        | 5,012         |
| CLO Fund V, Ltd.(4)(10)<br>(CLO)                           |   |                  |               |               |
|  | <b>Total Investment</b>                     |                  | <b>13,432</b> | <b>5,012</b>  |
| Callidus Debt Partners                                     | Class D Notes (6.3%,<br>Due 10/21)          | 9,480            | 7,809         | 4,256         |
| CLO Fund VI, Ltd.(4)(10)<br>(CLO)                          | Income Notes (0.0%)(7)                      |                  | 29,144        | 4,978         |
|  | <b>Total Investment</b>                     |                  | <b>36,953</b> | <b>9,234</b>  |
| Callidus Debt Partners                                     | Income Notes (0.0%)(7)                      |                  | 24,824        | 7,148         |
| CLO Fund VII, Ltd.(4)(10)<br>(CLO)                         |   |                  |               |               |
|  | <b>Total Investment</b>                     |                  | <b>24,824</b> | <b>7,148</b>  |
| Callidus MAPS CLO<br>Fund I LLC(10)<br>(CLO)               | Class E Notes (5.8%,<br>Due 12/17)          | 17,000           | 17,000        | 11,695        |
|  | Income Notes (0.0%)(7)                      |                  | 38,509        | 14,119        |
|  | <b>Total Investment</b>                     |                  | <b>55,509</b> | <b>25,814</b> |
| Callidus MAPS CLO<br>Fund II, Ltd.(4)(10)<br>(CLO)         | Class D Notes (4.5%, Due 7/22)              | 7,700            | 3,880         | 3,215         |
|  | Income Notes (2.5%)(7)                      |                  | 17,824        | 6,310         |
|  | <b>Total Investment</b>                     |                  | <b>21,704</b> | <b>9,525</b>  |
| Carlisle Wide Plank<br>Floors, Inc.<br>(Consumer Products) | Unitranche Debt (12.0%,<br>Due 6/11)        | 1,644            | 1,638         | 1,544         |
|  | Common Stock (345,056<br>Shares)            |                  | 345           |               |
|  | <b>Total Investment</b>                     |                  | <b>1,983</b>  | <b>1,544</b>  |
| Catterton Partners<br>VI, L.P.(5)<br>(Private Equity Fund) | Limited Partnership Interest                |                  | 3,327         | 2,014         |
|  | <b>Total Investment</b>                     |                  | <b>3,327</b>  | <b>2,014</b>  |
| Commercial Credit<br>Group, Inc.<br>(Financial Services)   | Subordinated Debt (15.0%,<br>Due 6/15)      | 22,000           | 21,970        | 21,970        |
|  | Preferred Stock (64,679 shares)<br>Warrants |                  | 15,543        | 6,005         |

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|   |  |        |               |               |
|---|--|--------|---------------|---------------|
|   | <b>Total Investment</b>                                  |        | <b>37,513</b> | <b>27,975</b> |
| Community Education Centers, Inc.<br>(Education Services) | Subordinated Debt (21.5%,<br>Due 11/13)                  | 37,357 | 37,307        | 35,869        |
|   | <b>Total Investment</b>                                  |        | <b>37,307</b> | <b>35,869</b> |
| Component Hardware Group, Inc.<br>(Industrial Products)   | Subordinated Debt (13.5%,<br>Due 1/13)(6)                | 18,992 | 18,947        | 16,695        |
|   | <b>Total Investment</b>                                  |        | <b>18,947</b> | <b>16,695</b> |
| Cook Inlet Alternative Risk, LLC<br>(Business Services)   | Unitranche Debt (13.0%,<br>Due 4/13)<br>Equity Interests | 87,600 | 87,309<br>552 | 62,100        |
|   | <b>Total Investment</b>                                  |        | <b>87,861</b> | <b>62,100</b> |
| Cortec Group Fund IV, L.P.(5)<br>(Private Equity)         | Limited Partnership Interest                             |        | 6,390         | 3,917         |
|   | <b>Total Investment</b>                                  |        | <b>6,390</b>  | <b>3,917</b>  |

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| Private Finance   |   | Investment(1)(2)   | Principal                | Cost                     | Value |
|---|---|--------------------|--------------------------|--------------------------|-------|
| Portfolio Company   |   |                    |                          |                          |       |
| Digital VideoStream, LLC<br>(Business Services)                   | Unitranche Debt (11.0%,<br>Due 2/12)<br>Convertible Subordinated Debt<br>(10.0%, Due 2/16)            | \$ 12,984<br>5,017 | \$ 12,940<br>5,006       | \$ 12,811<br>5,006       |       |
|   | <b>Total Investment</b>   |                    | <b>17,946</b>            | <b>17,817</b>            |       |
| DirectBuy Holdings, Inc.<br>(Consumer Products)                   | Subordinated Debt (16.0%,<br>Due 5/13)<br>Equity Interests  | 78,414             | 78,181<br>8,000          | 71,856<br>1,500          |       |
|   | <b>Total Investment</b>   |                    | <b>86,181</b>            | <b>73,356</b>            |       |
| Distant Lands Trading Co.<br>(Consumer Products)                  | Senior Loan (8.3%, Due 11/11)<br>Unitranche Debt (13.0%,<br>Due 11/11)<br>Common Stock (3,451 shares) | 8,300<br>43,581    | 8,284<br>43,509<br>3,451 | 7,852<br>43,026<br>1,046 |       |
|   | <b>Total Investment</b>   |                    | <b>55,244</b>            | <b>51,924</b>            |       |
| Diversified Mercury<br>Communications, LLC<br>(Business Services) | Senior Loan (6.8%, Due 3/13)  | 2,668              | 2,657                    | 2,391                    |       |
|   | <b>Total Investment</b>   |                    | <b>2,657</b>             | <b>2,391</b>             |       |
| Dryden XVIII Leveraged<br>Loan 2007 Limited(4)<br>(CLO)           | Class B Notes (4.8%,<br>Due 10/19)(6)<br>Income Notes (0.0%)(7)                                       | 8,717              | 7,497<br>23,164          | 2,115<br>2,427           |       |
|   | <b>Total Investment</b>   |                    | <b>30,661</b>            | <b>4,542</b>             |       |
| Dynamic India Fund<br>IV(4)(5)<br>(Private Equity Fund)           | Equity Interests  |                    | 9,350                    | 8,224                    |       |
|   | <b>Total Investment</b>   |                    | <b>9,350</b>             | <b>8,224</b>             |       |
| EarthColor, Inc.<br>(Business Services)                           | Subordinated Debt (15.0%,<br>Due 11/13)(6)<br>Common Stock (63,438<br>shares)(3)<br>Warrants(3)       | 123,819            | 123,385<br>63,438        |                          |       |
|   | <b>Total Investment</b>   |                    | <b>186,823</b>           |                          |       |
| eCentury Capital<br>Partners, L.P.(5)<br>(Private Equity Fund)    | Limited Partnership Interest  |                    | 7,274                    |                          |       |
|   | <b>Total Investment</b>   |                    | <b>7,274</b>             |                          |       |
| eInstruction Corporation  | Subordinated Debt (12.2%,   |                    |                          |                          |       |

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|  |   |        |                 |                 |
|--|---|--------|-----------------|-----------------|
| (Education Services)   | Due 7/14 1/15)<br>Common Stock (2,406 shares) | 36,849 | 36,737<br>2,500 | 34,174<br>1,050 |
| <b>Total Investment</b>                                      |   |        | <b>39,237</b>   | <b>35,224</b>   |
| Fidus Mezzanine<br>Capital, L.P.(5)<br>(Private Equity Fund) | Limited Partnership Interest                  |        | 14,720          | 9,921           |
| <b>Total Investment</b>                                      |   |        | <b>14,720</b>   | <b>9,921</b>    |
| Geotrace Technologies, Inc.<br>(Energy Services)             | Warrants                                      |        | 2,027           | 2,075           |
| <b>Total Investment</b>                                      |   |        | <b>2,027</b>    | <b>2,075</b>    |
| Gilchrist & Soames, Inc.<br>(Consumer Products)              | Subordinated Debt (13.4%,<br>Due 10/13)       | 24,421 | 24,310          | 23,181          |
| <b>Total Investment</b>                                      |   |        | <b>24,310</b>   | <b>23,181</b>   |
| Havco Wood Products LLC<br>(Industrial Products)             | Equity Interests                              |        | 910             |                 |
| <b>Total Investment</b>                                      |   |        | <b>910</b>      |                 |

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| <b>Private Finance</b>  |   |                  |               |               |
|---|---|------------------|---------------|---------------|
| <b>Portfolio Company</b>  | <b>Investment(1)(2)</b>                         | <b>Principal</b> | <b>Cost</b>   | <b>Value</b>  |
| The Homax Group, Inc.<br>(Consumer Products)                        | Senior Loan (8.0%, Due 10/12)                   | \$ 697           | \$ 653        | \$ 648        |
|   | Subordinated Debt (14.5%, Due 4/14)             | 14,159           | 13,649        | 9,804         |
|   | Preferred Stock (76 shares)                     |                  | 76            |               |
|   | Common Stock (24 shares)                        |                  | 5             |               |
|   | Warrants  |                  | 954           |               |
|   | <b>Total Investment</b>                         |                  | <b>15,337</b> | <b>10,452</b> |
| Ideal Snacks Corporation<br>(Consumer Products)                     | Senior Loan (8.5%, Due 6/11)                    | 967              | 967           | 958           |
|   | <b>Total Investment</b>                         |                  | <b>967</b>    | <b>958</b>    |
| Kodiak Fund LP(5)<br>(Private Equity Fund)                          | Equity Interests                                |                  | 9,323         | 1,917         |
|   | <b>Total Investment</b>                         |                  | <b>9,323</b>  | <b>1,917</b>  |
| Market Track Holdings, LLC<br>(Business Services)                   | Senior Loan (8.0%, Due 6/14)                    | 2,500            | 2,450         | 2,412         |
|   | Subordinated Debt (15.9%, Due 6/14)             | 24,600           | 24,509        | 23,680        |
|   | <b>Total Investment</b>                         |                  | <b>26,959</b> | <b>26,092</b> |
| NetShape Technologies, Inc.<br>(Industrial Products)                | Senior Loan (4.0%, Due 2/13)                    | 972              | 972           | 335           |
|   | <b>Total Investment</b>                         |                  | <b>972</b>    | <b>335</b>    |
| Network Hardware Resale, Inc.<br>(Business Services)                | Unitranche Debt (12.0%, Due 12/11)              | 16,042           | 16,088        | 16,031        |
|   | Convertible Subordinated Debt (9.8%, Due 12/15) | 15,953           | 15,998        | 15,998        |
|   | <b>Total Investment</b>                         |                  | <b>32,086</b> | <b>32,029</b> |
| Novak Biddle Venture Partners III, L.P.(5)<br>(Private Equity Fund) | Limited Partnership Interest                    |                  | 2,018         | 1,070         |
|   | <b>Total Investment</b>                         |                  | <b>2,018</b>  | <b>1,070</b>  |
| Pangaea CLO 2007-1 Ltd.(4)<br>(CLO)                                 | Class D Notes (5.0%, Due 1/21)                  | 15,000           | 12,119        | 6,651         |
|   | <b>Total Investment</b>                         |                  | <b>12,119</b> | <b>6,651</b>  |
| PC Helps Support, LLC<br>(Business Services)                        | Senior Loan (4.3%, Due 12/13)                   | 8,181            | 8,092         | 7,756         |
|   |   | 26,734           | 26,633        | 26,490        |

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|  |   |        |               |               |
|--|---|--------|---------------|---------------|
|  | Subordinated Debt (12.8%,<br>Due 12/13) |        |               |               |
|  | <b>Total Investment</b>                 |        | <b>34,725</b> | <b>34,246</b> |
| Performant Financial<br>Corporation<br>(Business Services) | Common Stock (478,816 shares)           |        | 734           | 1,400         |
|  | <b>Total Investment</b>                 |        | <b>734</b>    | <b>1,400</b>  |
| Promo Works, LLC<br>(Business Services)                    | Unitranche Debt (16.0%,<br>Due 12/12)   | 19,964 | 19,859        | 12,557        |
|  | <b>Total Investment</b>                 |        | <b>19,859</b> | <b>12,557</b> |
| Reed Group, Ltd.<br>(Healthcare Services)                  | Senior Loan (6.0%, Due 12/13)           | 12,033 | 11,903        | 10,186        |
|  | Subordinated Debt (15.8%,<br>Due 12/13) | 19,259 | 19,199        | 15,260        |
|  | Equity Interests                        |        | 1,800         | 28            |
|  | <b>Total Investment</b>                 |        | <b>32,902</b> | <b>25,474</b> |

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| Private Finance Portfolio Company                       | Investment(1)(2)  | Principal | Cost                    | Value         |
|---|---|-----------|-------------------------|---------------|
| S.B. Restaurant Company (Retail)                        | Unitranche Debt (11.8%, Due 4/11)<br>Preferred Stock (46,690 shares)<br>Warrants      | \$ 38,327 | \$ 38,207<br>117<br>534 | \$ 32,693     |
|   | <b>Total Investment</b>   |           | <b>38,858</b>           | <b>32,693</b> |
| SPP Mezzanine Funding II, L.P.(5) (Private Equity Fund) | Limited Partnership Interest  |           | 7,476                   | 7,145         |
|   | <b>Total Investment</b>   |           | <b>7,476</b>            | <b>7,145</b>  |
| STS Operating, Inc. (Industrial Products)               | Subordinated Debt (11.0%, Due 1/13)   | 30,386    | 30,318                  | 28,695        |
|   | <b>Total Investment</b>   |           | <b>30,318</b>           | <b>28,695</b> |
| Summit Energy Services, Inc. (Business Services)        | Common Stock (415,982 shares)   |           | 1,861                   | 2,200         |
|   | <b>Total Investment</b>   |           | <b>1,861</b>            | <b>2,200</b>  |
| Tappan Wire & Cable Inc. (Industrial Products)          | Unitranche Debt (15.0%, Due 8/14)(6)<br>Common Stock (12,940 shares)(3)<br>Warrant(3) | 22,346    | 22,248<br>2,043         | 5,331         |
|   | <b>Total Investment</b>   |           | <b>24,291</b>           | <b>5,331</b>  |
| The Step2 Company, LLC (Consumer Products)              | Unitranche Debt (11.0%, Due 4/12)<br>Equity Interests                                 | 94,122    | 93,937<br>2,156         | 89,614<br>705 |
|   | <b>Total Investment</b>   |           | <b>96,093</b>           | <b>90,319</b> |
| Tradesmen International, Inc. (Business Services)       | Subordinated Debt (15.0%, Due 12/12)(6)   | 40,000    | 39,793                  | 11,532        |
|   | <b>Total Investment</b>   |           | <b>39,793</b>           | <b>11,532</b> |
| Trover Solutions, Inc. (Business Services)              | Subordinated Debt (12.0%, Due 11/12)  | 53,827    | 53,674                  | 51,270        |
|   | <b>Total Investment</b>   |           | <b>53,674</b>           | <b>51,270</b> |
| United Road Towing, Inc. (Consumer Services)            | Subordinated Debt (11.8%, Due 1/14)   | 19,060    | 18,993                  | 18,367        |



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|  |                                     |        |                     |                     |
|--|-------------------------------------|--------|---------------------|---------------------|
|  | <b>Total Investment</b>             |        | <b>18,993</b>       | <b>18,367</b>       |
| Venturehouse-Cibernet Investors, LLC (Business Services) | Equity Interest                     |        |                     |                     |
|  | <b>Total Investment</b>             |        |                     |                     |
| Webster Capital II, L.P.(5) (Private Equity Fund)        | Limited Partnership Interest        |        | 1,742               | 1,235               |
|  | <b>Total Investment</b>             |        | <b>1,742</b>        | <b>1,235</b>        |
| Woodstream Corporation (Consumer Products)               | Subordinated Debt (12.0%, Due 2/15) | 90,000 | 89,693              | 77,400              |
|  | Common Stock (6,960 shares)         |        | 6,961               | 2,700               |
|  | <b>Total Investment</b>             |        | <b>96,654</b>       | <b>80,100</b>       |
| Other companies  | Other debt investments              | 37     | (130)               | (134)               |
|  | Other equity investments            |        | 41                  | 8                   |
|  | <b>Total Investment</b>             |        | <b>(89)</b>         | <b>(126)</b>        |
| <b>Total companies less than 5% owned</b>                |                                     |        | <b>\$ 1,639,193</b> | <b>\$ 1,082,577</b> |
| <b>Total private finance (100 portfolio investments)</b> |                                     |        | <b>\$ 3,609,933</b> | <b>\$ 2,075,311</b> |

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Table of Contents**Commercial Real Estate Finance**  
(in thousands, except number of loans)

|  | Stated Interest<br>Rate Ranges | Number of<br>Loans | December 31, 2009   |                     |
|--|--------------------------------|--------------------|---------------------|---------------------|
|  |                                |                    | Cost                | Value               |
| <b>Commercial Mortgage Loans</b>                             |                                |                    |                     |                     |
|  | Up to 6.99%                    | 3                  | \$ 29,660           | \$ 28,372           |
|  | 7.00% - 8.99%                  | 2                  | 1,845               | 1,819               |
|  | 9.00% - 10.99%                 | 1                  | 6,480               | 3,281               |
|  | 15.00% and above               | 2                  | 3,970               | 1,943               |
| <b>Total commercial mortgage loans(9)</b>                    |                                |                    | <b>\$ 41,955</b>    | <b>\$ 35,415</b>    |
| <b>Real Estate Owned</b>                                     |                                |                    | <b>\$ 5,962</b>     | <b>\$ 6,405</b>     |
| <b>Equity Interests(2) Companies more than<br/>25% owned</b> |                                |                    | <b>\$ 27,263</b>    | <b>\$ 13,987</b>    |
| <b>Total commercial real estate finance</b>                  |                                |                    | <b>\$ 75,180</b>    | <b>\$ 55,807</b>    |
| <b>Total portfolio</b>                                       |                                |                    | <b>\$ 3,685,113</b> | <b>\$ 2,131,118</b> |

|   | Yield | Cost              | Value             |
|---|-------|-------------------|-------------------|
| <b>Investments in<br/>Money Market and<br/>Other Securities</b> |       |                   |                   |
| First American<br>Treasury<br>Obligations Fund                  |       | \$ 381,020        | \$ 381,020        |
| <b>Total</b>  |       | <b>\$ 381,020</b> | <b>\$ 381,020</b> |

- 
- (1) Interest rates represent the weighted average annual stated interest rate on loans and debt securities, which are presented by nature of indebtedness for a single issuer. The maturity dates represent the earliest and the latest maturity dates.
- (2) Common stock, preferred stock, warrants, options, and equity interests are generally non-income producing and restricted.
- (3) Common stock is non-voting. In addition to non-voting stock ownership, the Company has an option to acquire a majority of the voting securities of the portfolio company at fair market value.
- (4) Non-U.S. company or principal place of business outside the U.S.
- (5) Non-registered investment company.
- (6)

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Loan or debt security is on non-accrual status and therefore is considered non-income producing.

- (7) Represents the effective interest yield earned on the cost basis of these preferred equity investments and income notes. The yield is included in interest income in the consolidated statement of operations.
- (8) Crescent Equity Corp. holds investments in Crescent Hotels & Resorts, LLC and affiliates.
- (9) Commercial mortgage loans totaling \$6.1 million at value were on non-accrual status and therefore were considered non-income producing.
- (10) The fund is managed by Callidus Capital, a portfolio company of Allied Capital.

The accompanying notes are an integral part of these consolidated financial statements.

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## ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF INVESTMENTS

December 31, 2008

(in thousands, except number of shares)

| Private Finance<br>Portfolio Company<br>Companies More<br>Than 25%<br>Owned | Investment(1)(2)                    | Principal | Cost          | Value         |
|---|-------------------------------------|-----------|---------------|---------------|
| AGILE<br>Fund I, LLC(5)<br>(Private Equity<br>Fund)                         | Equity Interests                    |           | \$ 694        | \$ 497        |
|   | <b>Total Investment</b>             |           | <b>694</b>    | <b>497</b>    |
| AllBridge<br>Financial, LLC<br>(Asset<br>Management)                        | Equity Interests                    |           | 33,294        | 10,960        |
|   | <b>Total Investment</b>             |           | <b>33,294</b> | <b>10,960</b> |
|   | Standby Letter of Credit (\$15,000) |           |               |               |
| Allied Capital<br>Senior Debt<br>Fund, L.P.(5)<br>(Private Debt<br>Fund)    | Limited Partnership Interests       |           | 31,800        | 31,800        |
|   | <b>Total Investment</b>             |           | <b>31,800</b> | <b>31,800</b> |
| Avborne, Inc.(7)<br>(Business<br>Services)                                  | Preferred Stock (12,500 shares)     |           |               | 942           |
|   | Common Stock (27,500 shares)        |           |               |               |
|   | <b>Total Investment</b>             |           |               | <b>942</b>    |
| Avborne Heavy<br>Maintenance, Inc.(7)<br>(Business<br>Services)             | Common Stock (2,750 shares)         |           |               |               |
|   | <b>Total Investment</b>             |           |               |               |
| Aviation<br>Properties<br>Corporation                                       | Common Stock (100 shares)           |           | 93            |               |

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|  |  |           |               |               |
|--|--|-----------|---------------|---------------|
| (Business Services)                                |  |           |               |               |
| <b>Total Investment</b>                            |  |           | <b>93</b>     |               |
| Standby Letters of Credit (\$1,000)                |  |           |               |               |
| Border Foods, Inc. (Consumer Products)             | Senior Loan (12.6%, Due 12/09 3/12)      | \$ 33,027 | 26,860        | 33,027        |
|  | Preferred Stock (100,000 shares)         |           | 12,721        | 11,851        |
|  | Common Stock (260,467 shares)            |           | 3,847         |               |
| <b>Total Investment</b>                            |  |           | <b>43,428</b> | <b>44,878</b> |
| Calder Capital Partners, LLC(5) (Asset Management) | Senior Loan (10.5%, Due 5/09)(6)         | 4,496     | 4,496         | 953           |
|  | Equity Interests                         |           | 2,453         |               |
| <b>Total Investment</b>                            |  |           | <b>6,949</b>  | <b>953</b>    |
| Callidus Capital Corporation (Asset Management)    | Subordinated Debt (18.0%, Due 8/13 2/14) | 16,068    | 16,068        | 16,068        |
|  | Common Stock (100 shares)                |           |               | 34,377        |
| <b>Total Investment</b>                            |  |           | <b>16,068</b> | <b>50,445</b> |
| Guaranty (\$6,447)                                 |  |           |               |               |

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| <b>Private Finance</b>                              |  |                  |                |                |
|---|--|------------------|----------------|----------------|
| <b>Portfolio Company</b>                            | <b>Investment(1)(2)</b>                          | <b>Principal</b> | <b>Cost</b>    | <b>Value</b>   |
| Ciena Capital LLC<br>(Financial Services)           | Senior Loan (5.5%, Due 3/09)(6)                  | \$ 319,031       | \$ 319,031     | \$ 104,883     |
|   | Class B Equity Interests                         |                  | 119,436        |                |
|   | Class C Equity Interests                         |                  | 109,301        |                |
|   | <b>Total Investment</b>                          |                  | <b>547,768</b> | <b>104,883</b> |
|   | Guaranty (\$5,000 See Note 3)                    |                  |                |                |
|   | Standby Letters of Credit (\$102,600 See Note 3) |                  |                |                |
| CitiPostal Inc.<br>(Business Services)              | Senior Loan (4.0%, Due 12/13)                    | 692              | 681            | 681            |
|   | Unitranche Debt (12.0%, Due 12/13)               | 51,758           | 51,548         | 51,548         |
|   | Subordinated Debt (16.0%, Due 12/15)             | 9,114            | 9,114          | 9,114          |
|   | Common Stock (37,024 shares)                     |                  | 12,726         | 8,616          |
| <b>Total Investment</b>                             |  | <b>74,069</b>    | <b>69,959</b>  |                |
| Coverall North America, Inc.<br>(Business Services) | Unitranche Debt (12.0%, Due 7/11)                | 32,035           | 31,948         | 31,948         |
|   | Subordinated Debt (15.0%, Due 7/11)              | 5,563            | 5,549          | 5,549          |
|   | Common Stock (763,333 shares)                    |                  | 14,361         | 17,968         |
| <b>Total Investment</b>                             |  | <b>51,858</b>    | <b>55,465</b>  |                |
| CR Holding, Inc.<br>(Consumer Products)             | Subordinated Debt (16.6%, Due 2/13)(6)           | 39,307           | 39,193         | 17,360         |
|   | Common Stock (32,090,696 shares)                 |                  | 28,744         |                |
| <b>Total Investment</b>                             |  | <b>67,937</b>    | <b>17,360</b>  |                |
| Crescent Equity Corp.(8)<br>(Business Services)     | Senior Loan (10.0%, Due 1/09)                    | 433              | 433            | 433            |
|   | Subordinated Debt (11.0%, Due 9/11 6/17)         | 22,312           | 22,247         | 14,283         |
|   | Subordinated Debt (11.0%, Due 1/12 9/12)(6)      | 10,097           | 10,072         | 4,331          |
|   | Common Stock (174 shares)                        |                  | 81,255         | 4,580          |
| <b>Total Investment</b>                             |  | <b>114,007</b>   | <b>23,627</b>  |                |
|   | Guaranty (\$900)                                 |                  |                |                |
|   | Standby Letters of Credit (\$200)                |                  |                |                |
| Direct Capital Corporation<br>(Financial Services)  | Subordinated Debt (16.0%, Due 3/13)(6)           | 55,671           | 55,496         | 13,530         |
|   | Common Stock (2,317,020 shares)                  |                  | 25,732         |                |
|   | <b>Total Investment</b>                          |                  | <b>81,228</b>  | <b>13,530</b>  |

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|   |   |        |               |               |
|---|---|--------|---------------|---------------|
| Financial Pacific<br>Company<br>(Financial<br>Services) | Subordinated Debt (17.4%,<br>Due 2/12 8/12) | 68,967 | 68,840        | 62,189        |
|   | Preferred Stock (9,458 shares)              |        | 8,865         |               |
|   | Common Stock (12,711 shares)                |        | 12,783        |               |
|   | <b>Total Investment</b>                     |        | <b>90,488</b> | <b>62,189</b> |
| ForeSite<br>Towers, LLC<br>(Tower<br>Leasing)           | Equity Interest                             |        |               | 889           |
|   | <b>Total Investment</b>                     |        |               | <b>889</b>    |
| Global<br>Communications, LLC<br>(Business<br>Services) | Senior Loan (10.0%, Due 9/02)(6)            | 1,335  | 1,335         | 1,335         |
|   | <b>Total Investment</b>                     |        | <b>1,335</b>  | <b>1,335</b>  |

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| <b>Private Finance Portfolio</b>   |   |                  |                                     |                           |
|--|---|------------------|-------------------------------------|---------------------------|
| <b>Company</b>   | <b>Investment(1)(2)</b>   | <b>Principal</b> | <b>Cost</b>                         | <b>Value</b>              |
| Hot Light Brands, Inc. (Retail)  | Senior Loan (9.0%, Due 2/11)(6)<br>Common Stock (93,500 shares)   | \$ 30,522        | \$ 30,522<br>5,151                  | \$ 13,678                 |
| <b>Total Investment</b>  |   |                  | <b>35,673</b>                       | <b>13,678</b>             |
| Standby Letter of Credit (\$105)   |   |                  |                                     |                           |
| Hot Stuff Foods, LLC (Consumer Products)                                       | Senior Loan (4.0%, Due 2/11 2/12)<br>Subordinated Debt (12.4%, Due 8/12 2/13)(6)<br>Common Stock (1,147,453 shares)                               | 53,597<br>83,692 | 53,456<br>83,387<br>56,187          | 42,378                    |
| <b>Total Investment</b>  |   |                  | <b>193,030</b>                      | <b>42,378</b>             |
| Huddle House, Inc. (Retail)  | Subordinated Debt (15.0%, Due 12/12)<br>Common Stock (358,428 shares)   | 57,244           | 57,067<br>35,828                    | 57,067<br>20,922          |
| <b>Total Investment</b>  |   |                  | <b>92,895</b>                       | <b>77,989</b>             |
| IAT Equity, LLC and Affiliates d/b/a Industrial Air Tool (Industrial Products) | Subordinated Debt (9.0%, Due 6/14)<br>Equity Interests  | 6,000            | 6,000<br>7,500                      | 6,000<br>8,860            |
| <b>Total Investment</b>  |   |                  | <b>13,500</b>                       | <b>14,860</b>             |
| Impact Innovations Group, LLC (Business Services)                              | Equity Interests in Affiliate   |                  |                                     | 321                       |
| <b>Total Investment</b>  |   |                  |                                     | <b>321</b>                |
| Insight Pharmaceuticals Corporation (Consumer Products)                        | Subordinated Debt (15.0%, Due 9/12)<br>Subordinated Debt (19.0%, Due 9/12)(6)<br>Preferred Stock (25,000 shares)<br>Common Stock (620,000 shares) | 45,827<br>16,177 | 45,738<br>16,126<br>25,000<br>6,325 | 45,827<br>17,532<br>4,068 |
| <b>Total Investment</b>  |   |                  | <b>93,189</b>                       | <b>67,427</b>             |
| Jakel, Inc. (Industrial Products)  | Subordinated Debt (15.5%, Due 3/08)(6)  | 748              | 748                                 | 374                       |
| <b>Total Investment</b>  |   |                  | <b>748</b>                          | <b>374</b>                |



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|                         |                                 |        |               |               |
|-------------------------|---------------------------------|--------|---------------|---------------|
| Knightsbridge           |                                 |        |               |               |
| CLO                     |                                 |        |               |               |
| 2007-1 Ltd.(4)          | Class E Notes (13.8%, Due 1/22) | 18,700 | 18,700        | 14,866        |
| (CLO)                   | Income Notes (14.9%)(11)        |        | 40,914        | 35,214        |
| <b>Total Investment</b> |                                 |        | <b>59,614</b> | <b>50,080</b> |
| Knightsbridge           |                                 |        |               |               |
| CLO                     |                                 |        |               |               |
| 2008-1 Ltd.(4)          | Class C Notes (9.3%, Due 6/18)  | 12,800 | 12,800        | 12,800        |
| (CLO)                   | Class D Notes (10.3%, Due 6/18) | 8,000  | 8,000         | 8,000         |
|                         | Class E Notes (6.8%, Due 6/18)  | 13,200 | 10,573        | 10,573        |
|                         | Income Notes (16.6%)(11)        |        | 21,315        | 21,315        |
| <b>Total Investment</b> |                                 |        | <b>52,688</b> | <b>52,688</b> |
| MHF Logistical          |                                 |        |               |               |
| Solutions, Inc.         |                                 |        |               |               |
| (Business               | Subordinated Debt (13.0%,       | 49,841 | 49,633        |               |
| Services)               | Due 6/12 6/13)(6)               |        |               |               |
|                         | Preferred Stock (10,000 shares) |        |               |               |
|                         | Common Stock (20,934 shares)    |        | 20,942        |               |
| <b>Total Investment</b> |                                 |        | <b>70,575</b> |               |

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| Private Finance<br>Portfolio Company                           | Investment(1)(2)                            | Principal | Cost           | Value          |
|--|---|-----------|----------------|----------------|
| MVL Group, Inc.  | Senior Loan (12.0%, Due<br>6/09 7/09)       | \$ 30,674 | \$ 30,663      | \$ 30,663      |
| (Business<br>Services)   | Subordinated Debt (14.5%, Due<br>6/09 7/09) | 41,074    | 40,994         | 40,994         |
|  | Subordinated Debt (3.0%,<br>Due 6/09)(6)    | 144       | 139            | 86             |
|  | Common Stock (560,716 shares)               |           | 555            |                |
| <b>Total Investment</b>  |   |           | <b>72,351</b>  | <b>71,743</b>  |
| Old Orchard<br>Brands, LLC<br>(Consumer<br>Products)           | Subordinated Debt (18.0%,<br>Due 7/14)      | 18,951    | 18,882         | 18,882         |
|  | Equity Interests                            |           | 16,857         | 27,763         |
| <b>Total Investment</b>  |   |           | <b>35,739</b>  | <b>46,645</b>  |
| Penn Detroit Diesel<br>Allison, LLC<br>(Business<br>Services)  | Subordinated Debt (15.5%,<br>Due 8/13)      | 37,984    | 37,869         | 37,869         |
|  | Equity Interests                            |           | 18,873         | 21,100         |
| <b>Total Investment</b>  |   |           | <b>56,742</b>  | <b>58,969</b>  |
| Service<br>Champ, Inc.<br>(Business<br>Services)               | Subordinated Debt (15.5%,<br>Due 4/12)      | 27,050    | 26,984         | 26,984         |
|  | Common Stock (55,112 shares)                |           | 11,785         | 21,156         |
| <b>Total Investment</b>  |   |           | <b>38,769</b>  | <b>48,140</b>  |
| Stag-Parkway, Inc.<br><br>(Business<br>Services)               | Unitranche Debt (14.0%,<br>Due 7/12)        | 17,975    | 17,920         | 17,962         |
|  | Common Stock (25,000 shares)                |           | 32,686         | 6,968          |
| <b>Total Investment</b>  |   |           | <b>50,606</b>  | <b>24,930</b>  |
| Startec Equity, LLC<br>(Telecommunications)                    | Equity Interests                            |           | 211            | 332            |
| <b>Total Investment</b>  |   |           | <b>211</b>     | <b>332</b>     |
| Senior Secured<br>Loan Fund LLC<br>(Private Debt<br>Fund)      | Subordinated Certificates<br>(12.0%)        |           | 125,423        | 125,423        |
|  | Equity Interests                            |           | 1              | 1              |
| <b>Total Investment</b>  |   |           | <b>125,424</b> | <b>125,424</b> |
| Worldwide Express<br>Operations, LLC<br>(Business<br>Services) | Subordinated Debt (14.0%,<br>Due 2/14)(6)   | 2,865     | 2,722          | 2,032          |
|  | Equity Interests                            |           | 11,384         |                |

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Warrants 144

|                         |               |              |
|-------------------------|---------------|--------------|
| <b>Total Investment</b> | <b>14,250</b> | <b>2,032</b> |
|-------------------------|---------------|--------------|

|  |                     |                     |
|--|---------------------|---------------------|
| <b>Total companies more than 25% owned</b> | <b>\$ 2,167,020</b> | <b>\$ 1,187,722</b> |
|--|---------------------|---------------------|

**Companies 5% to 25% Owned**

|   |   |        |        |        |
|---|---|--------|--------|--------|
| 10th Street, LLC<br><br>(Business Services) | Subordinated Debt (13.0%,<br>Due 11/14)<br><br>Equity Interests<br>Option | 21,439 | 21,329 | 21,439 |
|   |   |        | 422    | 975    |
|   |   |        | 25     | 25     |

|                         |               |               |
|-------------------------|---------------|---------------|
| <b>Total Investment</b> | <b>21,776</b> | <b>22,439</b> |
|-------------------------|---------------|---------------|

|   |  |         |         |         |
|---|--|---------|---------|---------|
| Advantage Sales &<br>Marketing, Inc.<br>(Business Services) | Subordinated Debt (12.0%,<br>Due 3/14)<br><br>Equity Interests | 158,617 | 158,132 | 135,000 |
|   |  |         |         | 5,000   |

|                         |                |                |
|-------------------------|----------------|----------------|
| <b>Total Investment</b> | <b>158,132</b> | <b>140,000</b> |
|-------------------------|----------------|----------------|

|  |  |       |       |        |
|--|--|-------|-------|--------|
| Air Medical Group<br>Holdings LLC<br>(Healthcare Services) | Senior Loan (3.3%, Due 3/11)<br><br>Equity Interests | 3,360 | 3,326 | 3,139  |
|  |  |       | 2,993 | 10,800 |

|                         |              |               |
|-------------------------|--------------|---------------|
| <b>Total Investment</b> | <b>6,319</b> | <b>13,939</b> |
|-------------------------|--------------|---------------|

|   |  |  |     |  |
|---|--|--|-----|--|
| Alpine ESP<br>Holdings, Inc.<br>(Business Services) | Preferred Stock (701 shares)<br><br>Common Stock (11,657 shares) |  | 701 |  |
|   |  |  | 13  |  |

|                         |            |  |
|-------------------------|------------|--|
| <b>Total Investment</b> | <b>714</b> |  |
|-------------------------|------------|--|

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| Private Finance Portfolio Company  | Investment(1)(2)   | Principal | Cost          | Value         |
|--|--|-----------|---------------|---------------|
| Amerex Group, LLC (Consumer Products)                                      | Subordinated Debt (12.3%, Due 1/13)<br>Equity Interests                | \$ 8,789  | \$ 8,784      | \$ 8,784      |
|  |  |           | 3,508         | 9,932         |
|  | <b>Total Investment</b>  |           | <b>12,292</b> | <b>18,716</b> |
| BB&T Capital Partners/Windsor Mezzanine Fund, LLC(5) (Private Equity Fund) | Equity Interests   |           | 11,789        | 11,063        |
|  | <b>Total Investment</b>  |           | <b>11,789</b> | <b>11,063</b> |
| Becker Underwood, Inc. (Industrial Products)                               | Subordinated Debt (14.5%, Due 8/12)<br>Common Stock (4,376 shares)     | 25,503    | 25,450        | 25,502        |
|  |  |           | 5,014         | 2,267         |
|  | <b>Total Investment</b>  |           | <b>30,464</b> | <b>27,769</b> |
| Drew Foam Companies, Inc. (Business Services)                              | Preferred Stock (622,555 shares)<br>Common Stock (6,286 shares)        |           | 623           | 512           |
|  |  |           | 6             |               |
|  | <b>Total Investment</b>  |           | <b>629</b>    | <b>512</b>    |
| Driven Brands, Inc. (Consumer Services)                                    | Subordinated Debt (16.5%, Due 7/15)<br>Common Stock (3,772,098 shares) | 84,106    | 83,698        | 83,698        |
|  |  |           | 9,516         | 4,855         |
|  | <b>Total Investment</b>  |           | <b>93,214</b> | <b>88,553</b> |
| Hilden America, Inc. (Consumer Products)                                   | Common Stock (19 shares)   |           | 454           | 76            |
|  | <b>Total Investment</b>  |           | <b>454</b>    | <b>76</b>     |
| Lydall Transport, Ltd. (Business Services)                                 | Equity Interests   |           | 432           | 345           |
|  | <b>Total Investment</b>  |           | <b>432</b>    | <b>345</b>    |
| Multi-Ad Services, Inc. (Business Services)                                | Unitranche Debt (11.3%, Due 11/11)<br>Equity Interests                 | 3,018     | 2,995         | 2,941         |
|  |  |           | 1,737         | 1,782         |

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|  |   |                         |               |               |
|--|---|-------------------------|---------------|---------------|
|  |   | <b>Total Investment</b> | <b>4,732</b>  | <b>4,723</b>  |
| Progressive International Corporation<br>(Consumer Products) | Preferred Stock (500 shares)              |                         | 500           | 1,125         |
|  | Common Stock (197 shares)<br>Warrants     |                         | 13            | 4,600         |
|  |   | <b>Total Investment</b> | <b>513</b>    | <b>5,725</b>  |
| Regency Healthcare Group, LLC<br>(Healthcare Services)       | Unitranche Debt (11.1%,<br>Due 6/12)      | 10,901                  | 10,855        | 10,825        |
|  | Equity Interests                          |                         | 1,302         | 2,050         |
|  |   | <b>Total Investment</b> | <b>12,157</b> | <b>12,875</b> |
| SGT India Private Limited(4)<br>(Business Services)          | Common Stock (150,596 shares)             |                         | 4,137         |               |
|  |   | <b>Total Investment</b> | <b>4,137</b>  |               |
| Soteria Imaging Services, LLC<br>(Healthcare Services)       | Subordinated Debt (11.3%,<br>Due 11/10)   | 4,250                   | 4,167         | 4,054         |
|  | Equity Interests                          |                         | 1,881         | 1,971         |
|  |   | <b>Total Investment</b> | <b>6,048</b>  | <b>6,025</b>  |
| Triax Holdings, LLC<br>(Consumer Products)                   | Subordinated Debt (21.0%,<br>Due 2/12)(6) | 10,625                  | 10,587        |               |
|  | Equity Interests                          |                         | 16,528        |               |
|  |   | <b>Total Investment</b> | <b>27,115</b> |               |

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| Private Finance Portfolio Company  | Investment(1)(2)                    | Principal | Cost              | Value             |
|--|-------------------------------------|-----------|-------------------|-------------------|
| Universal Environmental Services, LLC (Business Services) Equity Interests |                                     |           | \$ 1,599          | \$                |
| <b>Total Investment</b>  |                                     |           | <b>1,599</b>      |                   |
| <b>Total companies 5% to 25% owned</b>                                     |                                     |           | <b>\$ 392,516</b> | <b>\$ 352,760</b> |
| <b>Companies Less Than 5% Owned</b>  |                                     |           |                   |                   |
| 3SI Security Systems, Inc. (Consumer Products)                             | Subordinated Debt (14.6%, Due 8/13) | \$ 29,200 | 29,118            | 28,170            |
| <b>Total Investment</b>  |                                     |           | <b>29,118</b>     | <b>28,170</b>     |
| Abraxas Corporation (Business Services)                                    | Subordinated Debt (14.6%, Due 4/13) | 36,822    | 36,662            | 36,170            |
| <b>Total Investment</b>  |                                     |           | <b>36,662</b>     | <b>36,170</b>     |
| Augusta Sportswear Group, Inc. (Consumer Products)                         | Subordinated Debt (13.0%, Due 1/15) | 53,000    | 52,825            | 52,406            |
|  | Common Stock (2,500 shares)         |           | 2,500             | 1,400             |
| <b>Total Investment</b>  |                                     |           | <b>55,325</b>     | <b>53,806</b>     |
| Axium Healthcare Pharmacy, Inc. (Healthcare Services)                      | Senior Loan (14.0%, Due 12/12)      | 3,750     | 3,724             | 3,654             |
|  | Unitranche Debt (14.0%, Due 12/12)  | 8,500     | 8,471             | 7,908             |
|  | Common Stock (22,860 shares)        |           | 2,286             | 100               |
| <b>Total Investment</b>  |                                     |           | <b>14,481</b>     | <b>11,662</b>     |
| Baird Capital Partners IV Limited(5) (Private Equity Fund)                 | Limited Partnership Interest        |           | 3,636             | 2,978             |
| <b>Total Investment</b>  |                                     |           | <b>3,636</b>      | <b>2,978</b>      |

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|   |   |                 |                  |                  |
|---|---|-----------------|------------------|------------------|
| BenefitMall Holdings Inc. (Business Services)   | Subordinated Debt (18.0%, Due 6/14)<br>Common Stock (39,274,290 shares)(12)<br>Warrants(12) | 40,326          | 40,238<br>39,274 | 40,238<br>91,149 |
| <b>Total Investment</b>                         |   |                 | <b>79,512</b>    | <b>131,387</b>   |
| Broadcast Electronics, Inc. (Business Services) | Senior Loan (8.8%, Due 11/11)(6)<br>Preferred Stock (2,044 shares)                          | 4,912           | 4,884            | 773              |
| <b>Total Investment</b>                         |   |                 | <b>4,884</b>     | <b>773</b>       |
| Bushnell, Inc. (Consumer Products)              | Subordinated Debt (8.0%, Due 2/14)  | 41,325          | 40,003           | 35,794           |
| <b>Total Investment</b>                         |   |                 | <b>40,003</b>    | <b>35,794</b>    |
| Callidus Debt Partners CDO Fund I, Ltd. (CDO)   | Class C Notes (12.9%, Due 12/13)<br>Class D Notes (17.0%, Due 12/13)                        | 18,800<br>9,400 | 18,907<br>9,454  | 10,116           |
| <b>Total Investment</b>                         |   |                 | <b>28,361</b>    | <b>10,116</b>    |
| Callidus Debt Partners CLO Fund III, Ltd. (CLO) | Preferred Shares (23,600,000 shares)  |                 | 20,138           | 5,402            |
| <b>Total Investment</b>                         |   |                 | <b>20,138</b>    | <b>5,402</b>     |

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| Private Finance Portfolio Company                     | Investment(1)(2)  | Principal      | Cost                | Value              |
|---|---|----------------|---------------------|--------------------|
| Callidus Debt Partners CLO Fund IV, Ltd.(4)(10)(CLO)  | Class D Notes (9.1%, Due 4/20) Income Notes (13.2%)(11)   | \$ 3,000       | \$ 2,045<br>14,591  | \$ 1,445<br>10,628 |
| <b>Total Investment</b>                               |   |                | <b>16,636</b>       | <b>12,073</b>      |
| Callidus Debt Partners CLO Fund V, Ltd.(4)(10)(CLO)   | Income Notes (16.4%)(11)  |                | 13,388              | 10,331             |
| <b>Total Investment</b>                               |   |                | <b>13,388</b>       | <b>10,331</b>      |
| Callidus Debt Partners CLO Fund VI, Ltd.(4)(10)(CLO)  | Class D Notes (9.8%, Due 10/21) Income Notes (17.8%)(11)  | 9,000          | 7,144<br>28,314     | 3,929<br>23,090    |
| <b>Total Investment</b>                               |   |                | <b>35,458</b>       | <b>27,019</b>      |
| Callidus Debt Partners CLO Fund VII, Ltd.(4)(10)(CLO) | Income Notes (11.4%)(11)  |                | 24,026              | 15,361             |
| <b>Total Investment</b>                               |   |                | <b>24,026</b>       | <b>15,361</b>      |
| Callidus MAPS CLO Fund I LLC(10)(CLO)                 | Class E Notes (7.0%, Due 12/17) Income Notes (4.0%)(11)   | 17,000         | 17,000<br>45,053    | 9,813<br>27,678    |
| <b>Total Investment</b>                               |   |                | <b>62,053</b>       | <b>37,491</b>      |
| Callidus MAPS CLO Fund II, Ltd.(4)(10)(CLO)           | Class D Notes (8.8%, Due 7/22) Income Notes (13.3%)(11)   | 7,700          | 3,555<br>18,393     | 2,948<br>12,626    |
| <b>Total Investment</b>                               |   |                | <b>21,948</b>       | <b>15,574</b>      |
| Carlisle Wide Plank Floors, Inc. (Consumer Products)  | Senior Loan (6.1%, Due 6/11) Unitranche Debt (14.5%, Due 6/11) Preferred Stock (345,056 Shares) | 1,000<br>3,161 | 998<br>3,139<br>345 | 953<br>3,047<br>82 |
| <b>Total Investment</b>                               |   |                | <b>4,482</b>        | <b>4,082</b>       |
| Catterton Partners VI, L.P.(5)                        | Limited Partnership Interest  |                | 2,812               | 2,356              |



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(Private  
Equity  
Fund)

|                         |  |              |              |
|-------------------------|--|--------------|--------------|
| <b>Total Investment</b> |  | <b>2,812</b> | <b>2,356</b> |
|-------------------------|--|--------------|--------------|

Centre Capital  
Investors

V, L.P.(5)

(Private  
Equity  
Fund)

Limited Partnership Interest

3,049

2,344

|                         |  |              |              |
|-------------------------|--|--------------|--------------|
| <b>Total Investment</b> |  | <b>3,049</b> | <b>2,344</b> |
|-------------------------|--|--------------|--------------|

CK

Franchising, Inc.  
(Consumer  
Services)

Subordinated Debt (12.3%,

21,000

20,912

20,912

Due 7/12 7/17)

Preferred Stock (1,281,887  
shares)

1,282

1,592

Common Stock (7,585,549  
shares)

7,586

10,600

|                         |  |               |               |
|-------------------------|--|---------------|---------------|
| <b>Total Investment</b> |  | <b>29,780</b> | <b>33,104</b> |
|-------------------------|--|---------------|---------------|

Commercial

Credit  
Group, Inc.

(Financial  
Services)

Subordinated Debt (15.0%,  
Due 6/15)

19,000

18,970

18,970

Preferred Stock (64,679 shares)  
Warrants

15,543

9,073

|                         |  |               |               |
|-------------------------|--|---------------|---------------|
| <b>Total Investment</b> |  | <b>34,513</b> | <b>28,043</b> |
|-------------------------|--|---------------|---------------|

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| Private Finance Portfolio Company                              | Investment(1)(2)   | Principal       | Cost            | Value           |
|--|--|-----------------|-----------------|-----------------|
| Community Education Centers, Inc.<br>(Education Services)      | Subordinated Debt (14.5%, Due 11/13)   | \$ 35,548       | \$ 35,486       | \$ 34,056       |
| <b>Total Investment</b>  |  |                 | <b>35,486</b>   | <b>34,056</b>   |
| Component Hardware Group, Inc.<br>(Industrial Products)        | Subordinated Debt (13.5%, Due 1/13)  | 18,710          | 18,654          | 18,261          |
| <b>Total Investment</b>  |  |                 | <b>18,654</b>   | <b>18,261</b>   |
| Cook Inlet Alternative Risk, LLC<br>(Business Services)        | Unitranche Debt (10.8%, Due 4/13)<br>Equity Interests                                | 90,000          | 89,619<br>552   | 82,839          |
| <b>Total Investment</b>  |  |                 | <b>90,171</b>   | <b>82,839</b>   |
| Cortec Group Fund IV, L.P.(5)<br>(Private Equity)              | Limited Partnership Interest   |                 | 4,647           | 3,445           |
| <b>Total Investment</b>  |  |                 | <b>4,647</b>    | <b>3,445</b>    |
| Diversified Mercury Communications, LLC<br>(Business Services) | Senior Loan (4.5%, Due 3/13)   | 2,972           | 2,958           | 2,692           |
| <b>Total Investment</b>  |  |                 | <b>2,958</b>    | <b>2,692</b>    |
| Digital VideoStream, LLC<br>(Business Services)                | Unitranche Debt (11.0%, Due 2/12)<br>Convertible Subordinated Debt (10.0%, Due 2/16) | 14,097<br>4,545 | 14,032<br>4,533 | 14,003<br>4,700 |
| <b>Total Investment</b>  |  |                 | <b>18,565</b>   | <b>18,703</b>   |
| DirectBuy Holdings, Inc.<br>(Consumer Products)                | Subordinated Debt (14.5%, Due 5/13)<br>Equity Interests                              | 75,909          | 75,609<br>8,000 | 71,703<br>3,200 |
| <b>Total Investment</b>  |  |                 | <b>83,609</b>   | <b>74,903</b>   |
| Distant Lands Trading Co.                                      | Senior Loan (7.5%, Due 11/11)  | 4,825           | 4,800           | 4,501           |

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|  |   |         |                |               |
|--|---|---------|----------------|---------------|
| (Consumer Products)                                      | Unitranche Debt (12.3%, Due 11/11)      | 43,133  | 43,022         | 42,340        |
|  | Common Stock (3,451 shares)             |         | 3,451          | 984           |
| <b>Total Investment</b>                                  |   |         | <b>51,273</b>  | <b>47,825</b> |
| Dryden XVIII Leveraged Loan 2007 Limited(4) (CLO)        | Class B Notes (8.0%, Due 10/19)         | 9,000   | 7,728          | 4,535         |
|  | Income Notes (16.0%)(11)                |         | 22,080         | 17,477        |
| <b>Total Investment</b>                                  |   |         | <b>29,808</b>  | <b>22,012</b> |
| Dynamic India Fund IV(4)(5) (Private Equity Fund)        | Equity Interests                        |         | 9,350          | 8,966         |
| <b>Total Investment</b>                                  |   |         | <b>9,350</b>   | <b>8,966</b>  |
| EarthColor, Inc. (Business Services)                     | Subordinated Debt (15.0%, Due 11/13)(6) | 123,819 | 123,385        | 77,243        |
|  | Common Stock (63,438 shares)(12)        |         | 63,438         |               |
|  | Warrants(12)                            |         |                |               |
| <b>Total Investment</b>                                  |   |         | <b>186,823</b> | <b>77,243</b> |
| eCentury Capital Partners, L.P.(5) (Private Equity Fund) | Limited Partnership Interest            |         | 7,274          | 1,431         |
| <b>Total Investment</b>                                  |   |         | <b>7,274</b>   | <b>1,431</b>  |

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| <b>Private Finance Portfolio</b>                              |  |                  |               |               |
|---|--|------------------|---------------|---------------|
| <b>Company</b>  | <b>Investment(1)(2)</b>  | <b>Principal</b> | <b>Cost</b>   | <b>Value</b>  |
| eInstruction Corporation<br>(Education Services)              | Subordinated Debt (12.6%,<br>Due 7/14 1/15)<br>Common Stock (2,406 shares) | \$ 33,931        | \$ 33,795     | \$ 31,670     |
| <b>Total Investment</b>                                       |  |                  | <b>36,295</b> | <b>33,370</b> |
| Farley's & Sathers Candy Company, Inc.<br>(Consumer Products) | Subordinated Debt (10.1%,<br>Due 3/11)                                     | 2,500            | 2,493         | 2,365         |
| <b>Total Investment</b>                                       |  |                  | <b>2,493</b>  | <b>2,365</b>  |
| FCP-BHI Holdings, LLC<br>d/b/a<br>Bojangles'<br>(Retail)      | Subordinated Debt (12.0%,<br>Due 9/13)<br>Equity Interests                 | 27,284           | 27,191        | 25,640        |
| <b>Total Investment</b>                                       |  |                  | <b>28,220</b> | <b>27,340</b> |
| Fidus Mezzanine Capital, L.P.(5)<br>(Private Equity Fund)     | Limited Partnership Interest   |                  | 9,597         | 6,754         |
| <b>Total Investment</b>                                       |  |                  | <b>9,597</b>  | <b>6,754</b>  |
| Freedom Financial Network, LLC<br>(Financial Services)        | Subordinated Debt (13.5%,<br>Due 2/14)                                     | 13,000           | 12,945        | 12,811        |
| <b>Total Investment</b>                                       |  |                  | <b>12,945</b> | <b>12,811</b> |
| Geotrace Technologies, Inc.<br>(Energy Services)              | Warrants   |                  | 2,027         | 3,000         |
| <b>Total Investment</b>                                       |  |                  | <b>2,027</b>  | <b>3,000</b>  |
| Gilchrist & Soames, Inc.<br>(Consumer Products)               | Subordinated Debt (13.4%,<br>Due 10/13)                                    | 25,800           | 25,660        | 24,692        |
| <b>Total Investment</b>                                       |  |                  | <b>25,660</b> | <b>24,692</b> |

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|   |  |                  |                                    |                  |
|---|--|------------------|------------------------------------|------------------|
| Havco Wood<br>Products LLC<br>(Industrial<br>Products)              | Equity Interests   |                  | 910                                | 400              |
| <b>Total Investment</b>   |  |                  | <b>910</b>                         | <b>400</b>       |
| Higginbotham<br>Insurance<br>Agency, Inc.<br>(Business<br>Services) | Subordinated Debt (13.7%,<br>Due 8/13 8/14)<br>Common Stock (23,695<br>shares)(12)<br>Warrant(12)  | 53,305           | 53,088                             | 53,088           |
| <b>Total Investment</b>   |  |                  | <b>76,783</b>                      | <b>80,423</b>    |
| The Hillman<br>Companies, Inc.(3)<br>(Consumer<br>Products)         | Subordinated Debt (10.0%,<br>Due 9/11)   | 44,580           | 44,491                             | 44,345           |
| <b>Total Investment</b>   |  |                  | <b>44,491</b>                      | <b>44,345</b>    |
| The Homax<br>Group, Inc.<br>(Consumer<br>Products)                  | Senior Loan (7.2%, Due 10/12)<br>Subordinated Debt (14.5%,<br>Due 4/14)<br>Preferred Stock (76 shares)<br>Common Stock (24 shares)<br>Warrants | 11,785<br>14,000 | 11,742<br>13,371<br>76<br>5<br>954 | 10,689<br>12,859 |
| <b>Total Investment</b>   |  |                  | <b>26,148</b>                      | <b>23,548</b>    |
| Ideal Snacks<br>Corporation<br>(Consumer<br>Products)               | Senior Loan (5.3%, Due 6/10)   | 1,496            | 1,496                              | 1,438            |
| <b>Total Investment</b>   |  |                  | <b>1,496</b>                       | <b>1,438</b>     |

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| <b>Private Finance Portfolio</b>                                    |   |                    |                  |                  |
|---|---|--------------------|------------------|------------------|
| <b>Company</b>  | <b>Investment(1)(2)</b>   | <b>Principal</b>   | <b>Cost</b>      | <b>Value</b>     |
| Kodiak Fund LP(5)<br>(Private Equity Fund)                          | Equity Interests  |                    | \$ 9,422         | \$ 900           |
| <b>Total Investment</b>   |   |                    | <b>9,422</b>     | <b>900</b>       |
| Market Track Holdings, LLC<br>(Business Services)                   | Senior Loan (8.0%, Due 6/14)<br>Subordinated Debt (15.9%, Due 6/14)                   | \$ 2,500<br>24,600 | 2,450<br>24,488  | 2,352<br>23,785  |
| <b>Total Investment</b>   |   |                    | <b>26,938</b>    | <b>26,137</b>    |
| NetShape Technologies, Inc.<br>(Industrial Products)                | Senior Loan (5.3%, Due 2/13)  | 382                | 382              | 346              |
| <b>Total Investment</b>   |   |                    | <b>382</b>       | <b>346</b>       |
| Network Hardware Resale, Inc.<br>(Business Services)                | Unitranche Debt (12.5%, Due 12/11)<br>Convertible Subordinated Debt (9.8%, Due 12/15) | 18,734<br>14,533   | 18,809<br>14,585 | 18,703<br>14,585 |
| <b>Total Investment</b>   |   |                    | <b>33,394</b>    | <b>33,288</b>    |
| Novak Biddle Venture Partners III, L.P.(5)<br>(Private Equity Fund) | Limited Partnership Interest  |                    | 2,018            | 1,349            |
| <b>Total Investment</b>   |   |                    | <b>2,018</b>     | <b>1,349</b>     |
| Oahu Waste Services, Inc.<br>(Business Services)                    | Stock Appreciation Rights   |                    | 206              | 750              |
| <b>Total Investment</b>   |   |                    | <b>206</b>       | <b>750</b>       |
| Pangaea CLO 2007-1 Ltd.(4)<br>(CLO)                                 | Class D Notes (9.2%, Due 10/21)   | 15,000             | 11,761           | 7,114            |
| <b>Total Investment</b>   |   |                    | <b>11,761</b>    | <b>7,114</b>     |
|   | Senior Loan (4.8%, Due 12/13)   | 8,610              | 8,520            | 8,587            |

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|   |  |        |                 |                 |
|---|--|--------|-----------------|-----------------|
| PC Helps<br>Support, LLC<br>(Business<br>Services)                  | Subordinated Debt (13.3%,<br>Due 12/13)                      | 28,136 | 28,009          | 28,974          |
| <b>Total Investment</b>   |  |        | <b>36,529</b>   | <b>37,561</b>   |
| Performant<br>Financial<br>Corporation<br>(Business<br>Services)    | Common Stock (478,816 shares)                                |        | 734             | 200             |
| <b>Total Investment</b>   |  |        | <b>734</b>      | <b>200</b>      |
| Peter Brasseler<br>Holdings, LLC<br>(Business<br>Services)          | Equity Interests   |        | 3,451           | 2,900           |
| <b>Total Investment</b>   |  |        | <b>3,451</b>    | <b>2,900</b>    |
| PharMEDium<br>Healthcare<br>Corporation<br>(Healthcare<br>Services) | Senior Loan (4.3%, Due 10/13)                                | 1,910  | 1,910           | 1,747           |
| <b>Total Investment</b>   |  |        | <b>1,910</b>    | <b>1,747</b>    |
| Postle<br>Aluminum<br>Company, LLC<br>(Industrial<br>Products)      | Unitranche Debt (13.0%,<br>Due 10/12)(6)<br>Equity Interests | 58,953 | 58,744<br>2,174 | 9,978           |
| <b>Total Investment</b>   |  |        | <b>60,918</b>   | <b>9,978</b>    |
| Pro Mach, Inc.<br>(Industrial<br>Products)                          | Subordinated Debt (12.5%,<br>Due 6/12)<br>Equity Interests   | 14,616 | 14,573<br>1,294 | 14,089<br>1,900 |
| <b>Total Investment</b>   |  |        | <b>15,867</b>   | <b>15,989</b>   |

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| <b>Private Finance Portfolio</b>                           |                                      |                  |               |               |
|--|--------------------------------------|------------------|---------------|---------------|
| <b>Company</b>   | <b>Investment(1)(2)</b>              | <b>Principal</b> | <b>Cost</b>   | <b>Value</b>  |
| Promo Works, LLC<br>(Business Services)                    | Unitranche Debt (12.3%, Due 12/11)   | \$ 23,111        | \$ 22,954     | \$ 21,266     |
| <b>Total Investment</b>                                    |                                      |                  | <b>22,954</b> | <b>21,266</b> |
| Reed Group, Ltd.<br>(Healthcare Services)                  | Senior Loan (7.6%, Due 12/13)        | 12,893           | 12,758        | 11,502        |
|  | Subordinated Debt (13.8%, Due 12/13) | 18,543           | 18,469        | 16,683        |
|  | Equity Interests                     |                  | 1,800         | 300           |
| <b>Total Investment</b>                                    |                                      |                  | <b>33,027</b> | <b>28,485</b> |
| S.B. Restaurant Company<br>(Retail)                        | Unitranche Debt (9.8%, Due 4/11)     | 36,501           | 36,295        | 34,914        |
|  | Preferred Stock (46,690 shares)      |                  | 117           | 117           |
|  | Warrants                             |                  | 534           |               |
| <b>Total Investment</b>                                    |                                      |                  | <b>36,946</b> | <b>35,031</b> |
| Snow Phipps Group, L.P.(5)<br>(Private Equity Fund)        | Standby Letters of Credit (\$2,465)  |                  | 4,785         | 4,374         |
|  | Limited Partnership Interest         |                  |               |               |
| <b>Total Investment</b>                                    |                                      |                  | <b>4,785</b>  | <b>4,374</b>  |
| SPP Mezzanine Funding II, L.P.(5)<br>(Private Equity Fund) | Limited Partnership Interest         |                  | 9,362         | 9,269         |
| <b>Total Investment</b>                                    |                                      |                  | <b>9,362</b>  | <b>9,269</b>  |
| STS Operating, Inc.<br>(Industrial Products)               | Subordinated Debt (11.0%, Due 1/13)  | 30,386           | 30,296        | 29,745        |
| <b>Total Investment</b>                                    |                                      |                  | <b>30,296</b> | <b>29,745</b> |
| Summit Energy Services, Inc.<br>(Business Services)        | Subordinated Debt (11.6%, Due 8/13)  | 35,730           | 35,547        | 32,113        |
|  | Common Stock (415,982 shares)        |                  | 1,861         | 1,900         |
| <b>Total Investment</b>                                    |                                      |                  | <b>37,408</b> | <b>34,013</b> |
|  | Senior Loan (7.1%, Due 9/14)         | 30,514           | 29,539        | 25,937        |



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Tank  
Intermediate  
Holding Corp.  
(Industrial  
Products)

|                         |  |               |               |
|-------------------------|--|---------------|---------------|
| <b>Total Investment</b> |  | <b>29,539</b> | <b>25,937</b> |
|-------------------------|--|---------------|---------------|

|  |  |        |                 |        |
|--|--|--------|-----------------|--------|
| Tappan Wire & Cable Inc. (Business Services) | Unitranche Debt (15.0%, Due 8/14)<br>Common Stock (12,940 shares)(12)<br>Warrant(12) | 22,346 | 22,248<br>2,043 | 15,625 |
|--|--|--------|-----------------|--------|

|                         |  |               |               |
|-------------------------|--|---------------|---------------|
| <b>Total Investment</b> |  | <b>24,291</b> | <b>15,625</b> |
|-------------------------|--|---------------|---------------|

|  |   |        |                 |                 |
|--|---|--------|-----------------|-----------------|
| The Step2 Company, LLC (Consumer Products) | Unitranche Debt (11.0%, Due 4/12)<br>Equity Interests | 95,083 | 94,816<br>2,156 | 90,474<br>1,161 |
|--|---|--------|-----------------|-----------------|

|                         |  |               |               |
|-------------------------|--|---------------|---------------|
| <b>Total Investment</b> |  | <b>96,972</b> | <b>91,635</b> |
|-------------------------|--|---------------|---------------|

|   |                                      |        |        |        |
|---|--------------------------------------|--------|--------|--------|
| Tradesmen International, Inc. (Business Services) | Subordinated Debt (12.0%, Due 12/12) | 40,000 | 39,586 | 37,840 |
|---|--------------------------------------|--------|--------|--------|

|                         |  |               |               |
|-------------------------|--|---------------|---------------|
| <b>Total Investment</b> |  | <b>39,586</b> | <b>37,840</b> |
|-------------------------|--|---------------|---------------|

|   |   |        |                 |
|---|---|--------|-----------------|
| TransAmerican Auto Parts, LLC (Consumer Products) | Subordinated Debt (16.3%, Due 11/12)(6)<br>Equity Interests | 24,561 | 24,409<br>1,034 |
|---|---|--------|-----------------|

|                         |  |               |
|-------------------------|--|---------------|
| <b>Total Investment</b> |  | <b>25,443</b> |
|-------------------------|--|---------------|

|  |                                      |        |        |        |
|--|--------------------------------------|--------|--------|--------|
| Trover Solutions, Inc. (Business Services) | Subordinated Debt (12.0%, Due 11/12) | 60,054 | 59,847 | 57,362 |
|--|--------------------------------------|--------|--------|--------|

|                         |  |               |               |
|-------------------------|--|---------------|---------------|
| <b>Total Investment</b> |  | <b>59,847</b> | <b>57,362</b> |
|-------------------------|--|---------------|---------------|

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| Private Finance Portfolio Company   | Investment(1)(2)  | Principal | Cost              | Value           |
|---|---|-----------|-------------------|-----------------|
| United Road Towing, Inc.<br>(Consumer Services)                                       | Subordinated Debt (12.1%, Due 1/14)                                     | \$ 20,000 | \$ 19,915         | \$ 20,000       |
| <b>Total Investment</b>   |   |           | <b>19,915</b>     | <b>20,000</b>   |
| Venturehouse-Cibernet Investors, LLC<br>(Business Services)                           | Equity Interest   |           |                   |                 |
| <b>Total Investment</b>   |   |           |                   |                 |
| VICORP Restaurants, Inc.<br>(Retail)  | Warrants  |           | 33                |                 |
| <b>Total Investment</b>   |   |           | <b>33</b>         |                 |
| WMA Equity Corporation and Affiliates<br>d/b/a Wear Me Apparel<br>(Consumer Products) | Subordinated Debt (16.8%, Due 4/13 4/14)(6)<br>Common Stock (86 shares) | 139,455   | 138,559<br>39,721 | 63,823          |
| <b>Total Investment</b>   |   |           | <b>178,280</b>    | <b>63,823</b>   |
| Webster Capital II, L.P.(5)<br>(Private Equity Fund)                                  | Limited Partnership Interest  |           | 1,702             | 1,481           |
| <b>Total Investment</b>   |   |           | <b>1,702</b>      | <b>1,481</b>    |
| Woodstream Corporation<br>(Consumer Products)   | Subordinated Debt (12.0%, Due 2/15)<br>Common Stock (6,960 shares)      | 90,000    | 89,633<br>6,961   | 83,258<br>2,500 |
| <b>Total Investment</b>   |   |           | <b>96,594</b>     | <b>85,758</b>   |
| York Insurance Services Group, Inc.<br>(Business Services)                            | Common Stock (12,939 shares)  |           | 1,294             | 1,700           |
| <b>Total Investment</b>   |   |           | <b>1,294</b>      | <b>1,700</b>    |
| Other companies   | Other debt investments<br>Other equity investments                      | 155       | 74<br>30          | 72<br>8         |

|  |                     |                     |
|--|---------------------|---------------------|
| <b>Total Investment</b>                                  | <b>104</b>          | <b>80</b>           |
| <b>Total companies less than 5% owned</b>                | <b>\$ 2,317,856</b> | <b>\$ 1,858,581</b> |
| <b>Total private finance (138 portfolio investments)</b> | <b>\$ 4,877,392</b> | <b>\$ 3,399,063</b> |

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(in thousands, except number of loans)

|  | Stated Interest<br>Rate Ranges | Number of<br>Loans | December 31, 2008   |                     |
|--|--------------------------------|--------------------|---------------------|---------------------|
|  |                                |                    | Cost                | Value               |
| <b>Commercial Mortgage Loans</b>                             |                                |                    |                     |                     |
|  | Up to 6.99%                    | 4                  | \$ 30,999           | \$ 30,537           |
|  | 7.00% - 8.99%                  | 1                  | 644                 | 580                 |
|  | 9.00% - 10.99%                 | 1                  | 6,465               | 6,465               |
|  | 11.00% - 12.99%                | 1                  | 10,469              | 9,391               |
|  | 15.00% and above               | 2                  | 3,970               | 6,529               |
| <b>Total commercial mortgage loans(13)</b>                   |                                |                    | <b>\$ 52,547</b>    | <b>\$ 53,502</b>    |
| <b>Real Estate Owned</b>                                     |                                |                    | <b>\$ 18,201</b>    | <b>\$ 20,823</b>    |
| <b>Equity Interests(2) Companies more than<br/>25% owned</b> |                                |                    | <b>\$ 14,755</b>    | <b>\$ 19,562</b>    |
| Guarantees (\$6,871)   |                                |                    |                     |                     |
| Standby Letter of Credit (\$650)                             |                                |                    |                     |                     |
| <b>Total commercial real estate finance</b>                  |                                |                    | <b>\$ 85,503</b>    | <b>\$ 93,887</b>    |
| <b>Total portfolio</b>                                       |                                |                    | <b>\$ 4,962,895</b> | <b>\$ 3,492,950</b> |

|   | Yield | Cost          | Value         |
|---|-------|---------------|---------------|
| <b>Investments in Money Market and Other Securities</b> |       |               |               |
| SEI Daily Income Tr Prime Obligation Money Market Fund  | 0.9%  | \$ 5          | \$ 5          |
| Columbia Treasury Reserves Fund                         |       | 12            | 12            |
| Other Money Market Funds                                |       | 270           | 270           |
| <b>Total</b>  |       | <b>\$ 287</b> | <b>\$ 287</b> |

- 
- (1) Interest rates represent the weighted average annual stated interest rate on loans and debt securities, which are presented by nature of indebtedness for a single issuer. The maturity dates represent the earliest and the latest maturity dates.
- (2) Common stock, preferred stock, warrants, options, and equity interests are generally non-income producing and restricted.
- (3) Public company.
- (4) Non-U.S. company or principal place of business outside the U.S.
- (5) Non-registered investment company.
- (6) Loan or debt security is on non-accrual status and therefore is considered non-income producing.

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- (7) Avborne, Inc. and Avborne Heavy Maintenance, Inc. are affiliated companies.
- (8) Crescent Equity Corp. holds investments in Crescent Hotels & Resorts, LLC and affiliates.
- (10) The fund is managed by Callidus Capital, a portfolio company of Allied Capital.
- (11) Represents the effective interest yield earned on the cost basis of these preferred equity investments and income notes. The yield is included in interest income in the consolidated statement of operations.
- (12) Common stock is non-voting. In addition to non-voting stock ownership, the Company has an option to acquire a majority of the voting securities of the portfolio company at fair market value.
- (13) Commercial mortgage loans totaling \$7.7 million at value were on non-accrual status and therefore were considered non-income producing.

The accompanying notes are an integral part of these consolidated financial statements.

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**ALLIED CAPITAL CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1. Organization and Other Matters**

Allied Capital Corporation, a Maryland corporation, is a closed-end, non-diversified management investment company that has elected to be regulated as a business development company ("BDC") under the Investment Company Act of 1940 ("1940 Act"). Allied Capital Corporation ("ACC") has a real estate investment trust subsidiary, Allied Capital REIT, Inc. ("Allied REIT"), and several subsidiaries that are single member limited liability companies established for specific purposes including holding real estate properties. ACC also has a subsidiary, A.C. Corporation ("AC Corp"), that generally provides diligence and structuring services, as well as transaction, management, consulting, and other services, including underwriting and arranging senior loans, to the Company, its portfolio companies and its managed funds.

ACC and its subsidiaries, collectively, are referred to as the "Company." The Company consolidates the results of its subsidiaries for financial reporting purposes.

Pursuant to Accounting Standards Codification ("ASC") Topic 810, "*Consolidations*," the financial results of the Company's portfolio investments are not consolidated in the Company's financial statements. Portfolio investments are held for purposes of deriving investment income and future capital gains.

The investment objective of the Company is to achieve current income and capital gains. In order to achieve this objective, the Company has primarily invested in debt and equity securities of private companies in a variety of industries.

On October 26, 2009, the Company and Ares Capital Corporation, ("Ares Capital") announced a strategic business combination in which ARCC Odyssey Corp., a wholly owned subsidiary of Ares Capital Corporation ("Merger Sub") would merge with and into Allied Capital and, immediately thereafter, Allied Capital would merge with and into Ares Capital. If the merger of Merger Sub into Allied Capital is completed, holders of Allied Capital common stock will have a right to receive 0.325 shares of Ares Capital common stock for each share of Allied Capital common stock held immediately prior to such merger. In connection with such merger, Ares Capital expects to issue a maximum of approximately 58.3 million shares of its common stock (assuming that holders of all "in-the-money" Allied Capital stock options elect to be cashed out), subject to adjustment in certain limited circumstances. The closing of the merger is subject to the receipt of shareholder approvals from Allied Capital and Ares Capital shareholders, and other closing conditions. Allied Capital is holding a special meeting of its stockholders on March 26, 2010, at which Allied Capital stockholders will be asked to vote on the approval of the merger and the merger agreement described in the proxy statement dated February 11, 2010. Approval of the merger and the merger agreement requires the affirmative vote of two-thirds of Allied Capital's outstanding shares entitled to vote on the matter. The completion of the merger with Ares Capital is dependent on a number of conditions being satisfied or, where legally permissible, waived.

**Note 2. Summary of Significant Accounting Policies**

***Basis of Presentation***

The consolidated financial statements include the accounts of ACC and its subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications have been made to the 2008 and 2007 balances to conform with the 2009 financial statement presentation.

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In June 2009, the FASB issued SFAS No. 168, *"The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles,"* which was primarily codified into ASC Topic 105, *"Generally Accepted Accounting Standards."* This standard is the single source of authoritative non-governmental U.S. generally accepted accounting principles ("GAAP"), superseding existing FASB, American Institute of Certified Public Accountants ("AICPA"), Emerging Issues Task Force ("EITF"), and related accounting literature. Also included is relevant Securities and Exchange Commission guidance organized using the same topical structure in separate sections. This guidance is effective for financial statements issued for reporting periods that end after September 15, 2009. This guidance impacts the Company's consolidated financial statements and related disclosures as all references to authoritative literature reflect the newly adopted codification.

The private finance portfolio and the interest and related portfolio income and net realized gains (losses) on the private finance portfolio are presented in three categories: companies more than 25% owned, which represent portfolio companies where the Company directly or indirectly owns more than 25% of the outstanding voting securities of such portfolio company or where the Company controls the portfolio company's board of directors and, therefore, are deemed controlled by the Company under the 1940 Act; companies owned 5% to 25%, which represent portfolio companies where the Company directly or indirectly owns 5% to 25% of the outstanding voting securities of such portfolio company or where the Company holds one or more seats on the portfolio company's board of directors and, therefore, are deemed to be an affiliated person under the 1940 Act; and companies less than 5% owned which represent portfolio companies where the Company directly or indirectly owns less than 5% of the outstanding voting securities of such portfolio company and where the Company has no other affiliations with such portfolio company. The interest and related portfolio income and net realized gains (losses) from the commercial real estate finance portfolio and other sources, including investments in money market and other securities, are included in the companies less than 5% owned category on the consolidated statement of operations.

In the ordinary course of business, the Company enters into transactions with portfolio companies that may be considered related party transactions.

The Company, as a BDC, has invested in illiquid securities including debt and equity securities of portfolio companies, CLO bonds and preferred shares/income notes, CDO bonds and investment funds. The Company's investments may be subject to certain restrictions on resale and generally have no established trading market. The Company values substantially all of its investments at fair value as determined in good faith by the Board of Directors in accordance with the Company's valuation policy and the provisions of the 1940 Act and ASC Topic 820 *"Financial Instruments,"* which includes the codification of FASB Statement No. 157, *Fair Value Measurements* and related interpretations. The Company determines fair value to be the price that would be received for an investment in a current sale, which assumes an orderly transaction between market participants on the measurement date. The Company's valuation policy considers the fact that no ready market exists for substantially all of the securities in which it invests and that fair value for its investments must typically be determined using unobservable inputs. The Company's valuation policy is intended to provide a consistent basis for determining the fair value of the portfolio.

The Company adopted the standards in ASC Topic 820 on a prospective basis in the first quarter of 2008. These standards require the Company to assume that the portfolio investment is to be sold in the principal market to market participants, or in the absence of a principal market, the most advantageous market, which may be a hypothetical market. Market participants are defined as buyers and sellers in the principal or most advantageous market that are independent, knowledgeable, and willing and able to transact. In accordance with the standards, the Company has considered its principal market, or the market in which the Company exits its portfolio investments with the greatest volume and level of activity.

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The Company has determined that for its buyout investments, where the Company has control or could gain control through an option or warrant security, both the debt and equity securities of the portfolio investment would exit in the merger and acquisition ("M&A") market as the principal market generally through a sale or recapitalization of the portfolio company. The Company believes that the in-use premise of value (as defined in ASC Topic 820), which assumes the debt and equity securities are sold together, is appropriate as this would provide maximum proceeds to the seller. As a result, the Company uses the enterprise value methodology to determine the fair value of these investments. Enterprise value means the entire value of the company to a market participant, including the sum of the values of debt and equity securities used to capitalize the enterprise at a point in time. Enterprise value is determined using various factors, including cash flow from operations of the portfolio company, multiples at which private companies are bought and sold, and other pertinent factors, such as recent offers to purchase a portfolio company, recent transactions involving the purchase or sale of the portfolio company's equity securities, liquidation events, or other events. The Company allocates the enterprise value to these securities in order of the legal priority of the securities.

While the Company typically exits its securities upon the sale or recapitalization of the portfolio company in the M&A market, for investments in portfolio companies where the Company does not have control or the ability to gain control through an option or warrant security, the Company cannot typically control the exit of its investment into its principal market (the M&A market). As a result, in accordance with ASC Topic 820, the Company is required to determine the fair value of these investments assuming a sale of the individual investment (the in-exchange premise of value) in a hypothetical market to a hypothetical market participant. The Company continues to perform an enterprise value analysis for the investments in this category to assess the credit risk of the loan or debt security and to determine the fair value of its equity investment in these portfolio companies. The determined equity values are generally discounted when the Company has a minority ownership position, restrictions on resale, specific concerns about the receptivity of the capital markets to a specific company at a certain time, or other factors. For loan and debt securities, the Company performs a yield analysis assuming a hypothetical current sale of the investment. The yield analysis requires the Company to estimate the expected repayment date of the instrument and a market participant's required yield. The Company's estimate of the expected repayment date of a loan or debt security may be shorter than the legal maturity of the instruments as the Company's loans historically have been repaid prior to the maturity date. The yield analysis considers changes in interest rates and changes in leverage levels of the loan or debt security as compared to market interest rates and leverage levels. Assuming the credit quality of the loan or debt security remains stable, the Company will use the value determined by the yield analysis as the fair value for that security. A change in the assumptions that the Company uses to estimate the fair value of its loans and debt securities using a yield analysis could have a material impact on the determination of fair value. If there is deterioration in credit quality or a loan or debt security is in workout status, the Company may consider other factors in determining the fair value of a loan or debt security, including the value attributable to the loan or debt security from the enterprise value of the portfolio company or the proceeds that would be received in a liquidation analysis.

The Company's equity investments in private debt and equity funds are generally valued based on the amount that the Company believes would be received if the investments were sold and consider the fund's net asset value, observable transactions and other factors. The value of the Company's equity securities in public companies for which quoted prices in an active market are readily available is based on the closing public market price on the measurement date.

The fair value of the Company's CLO bonds and preferred shares/income notes and CDO bonds ("CLO/CDO Assets") is generally based on a discounted cash flow model that utilizes prepayment, re-investment, loss and ratings assumptions based on historical experience and projected performance, economic factors, the characteristics of the underlying cash flow, and comparable yields



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for similar bonds and preferred shares/ income notes, when available. The Company recognizes unrealized appreciation or depreciation on its CLO/CDO Assets as comparable yields in the market change and/or based on changes in estimated cash flows resulting from changes in prepayment, re-investment, loss or ratings assumptions in the underlying collateral pool, or changes in redemption assumptions for the CLO/CDO Assets, if applicable. The Company determines the fair value of its CLO/CDO Assets on an individual security-by-security basis.

The Company records unrealized depreciation on investments when it determines that the fair value of a security is less than its cost basis, and records unrealized appreciation when it determines that the fair value is greater than its cost basis. Because of the inherent uncertainty of valuation, the values determined at the measurement date may differ significantly from the values that would have been used had a ready market existed for the investments, and the differences could be material. Additionally, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the values determined at the measurement date. In accordance with ASC Topic 820 (discussed below), the Company does not consider a transaction price that is associated with a transaction that is not orderly to be indicative of fair value or market participant risk premiums, and accordingly would place little, if any, weight on transactions that are not orderly in determining fair value. When considering recent potential or completed transactions, the Company uses judgment in determining if such offers or transactions were pursuant to an orderly process for purposes of determining how much weight is placed on these data points in accordance with the applicable guidelines in ASC Topic 820.

***Net Realized Gains or Losses and Net Change in Unrealized Appreciation or Depreciation***

Realized gains or losses are measured by the difference between the net proceeds from the repayment or sale and the cost basis of the investment without regard to unrealized appreciation or depreciation previously recognized, and include investments charged off during the period, net of recoveries. Net change in unrealized appreciation or depreciation primarily reflects the change in portfolio investment values during the reporting period, including the reversal of previously recorded unrealized appreciation or depreciation when gains or losses are realized. Net change in unrealized appreciation or depreciation also reflects the change in the value of U.S. Treasury bills, when applicable, and depreciation on accrued interest and dividends receivable and other assets where collection is doubtful.

***Interest and Dividend Income***

Interest income is recorded on an accrual basis to the extent that such amounts are expected to be collected. For loans and debt securities with contractual payment-in-kind interest, which represents contractual interest accrued and added to the loan balance that generally becomes due at maturity, the Company will not accrue payment-in-kind interest if the portfolio company valuation indicates that the payment-in-kind interest is not collectible. In general, interest is not accrued on loans and debt securities if the Company has doubt about interest collection or where the enterprise value of the portfolio company may not support further accrual. Interest may not accrue on loans or debt securities to portfolio companies that are more than 50% owned by the Company depending on such company's capital requirements.

When the Company receives nominal cost warrants or free equity securities ("nominal cost equity"), the Company allocates its cost basis in its investment between its debt securities and its nominal cost equity at the time of origination. At that time, the original issue discount basis of the nominal cost equity is recorded by increasing the cost basis in the equity and decreasing the cost basis in the related debt securities. Loan origination fees, original issue discount, and market discount are capitalized and then amortized into interest income using a method that approximates the effective interest method. Upon the prepayment of a loan or debt security, any unamortized loan origination

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fees are recorded as interest income and any unamortized original issue discount or market discount is recorded as a realized gain.

The weighted average yield on loans and debt securities is computed as the (a) annual stated interest on accruing loans and debt securities plus the annual amortization of loan origination fees, original issue discount, and market discount on accruing loans and debt securities less the annual amortization of loan origination costs, divided by (b) total loans and debt securities at value. The weighted average yield is computed as of the balance sheet date.

The Company recognizes interest income on the CLO preferred shares/income notes using the effective interest method, based on the anticipated yield that is determined using the estimated cash flows over the projected life of the investment. Yields are revised when there are changes in actual or estimated cash flows due to changes in prepayments and/or re-investments, credit losses, ratings or asset pricing. Changes in estimated yield are recognized as an adjustment to the estimated yield over the remaining life of the preferred shares/income notes from the date the estimated yield was changed. CLO and CDO bonds have stated interest rates. The weighted average yield on the CLO/CDO Assets is calculated as the (a) annual stated interest or the effective interest yield on the accruing bonds or the effective yield on the preferred shares/income notes, divided by (b) CLO/CDO Assets at value. The weighted average yields are computed as of the balance sheet date.

Dividend income on preferred equity securities is recorded as dividend income on an accrual basis to the extent that such amounts are expected to be collected and to the extent that the Company has the option to receive the dividend in cash. Dividend income on common equity securities is recorded on the record date for private companies or on the ex-dividend date for publicly traded companies.

***Fee Income***

Fee income includes fees for loan prepayment premiums, guarantees, commitments, and services rendered by the Company to portfolio companies and other third parties such as diligence, structuring, transaction services, management and consulting services, and other services. Loan prepayment premiums are recognized at the time of prepayment. Guaranty and commitment fees are generally recognized as income over the related period of the guaranty or commitment, respectively. Diligence, structuring, and transaction services fees are generally recognized as income when services are rendered or when the related transactions are completed. Management, consulting and other services fees, including fund management fees, are generally recognized as income as the services are rendered. Fees are not accrued if the Company has doubt about the collection of those fees.

***Cash and Cash Equivalents***

Cash and cash equivalents represents unrestricted cash and highly liquid securities with original maturities of 90 days or less.

***Guarantees***

Guarantees meeting the characteristics described in ASC Topic 460, "Guarantees" and issued or modified after December 31, 2002, are recognized at fair value at inception. Guarantees made on behalf of portfolio companies are considered in determining the fair value of the Company's investments. See Note 5.

***Financing Costs***

Debt financing costs are based on actual costs incurred in obtaining debt financing and generally are deferred and amortized as part of interest expense over the term of the related debt

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instrument using a method that approximates the effective interest method. Costs associated with the issuance of common stock are recorded as a reduction to the proceeds from the sale of common stock. Financing costs generally include underwriting, accounting and legal fees, and printing costs.

***Dividends to Shareholders***

Dividends to shareholders are recorded on the ex-dividend date.

***Stock Compensation Plans***

The Company has a stock-based employee compensation plan. See Note 9. Effective January 1, 2006, the Company adopted the provisions of FASB Statement No. 123 (Revised 2004), *Share-Based Payment* ("SFAS 123R"), which was primarily codified into ASC Topic 718, "*Compensation Stock Compensation*." These standards were adopted using the modified prospective method of application, which required the Company to recognize compensation costs on a prospective basis beginning January 1, 2006. Accordingly, the Company did not restate prior year financial statements. Under this method, the unamortized cost of previously awarded options that were unvested as of January 1, 2006, is recognized over the remaining service period in the statement of operations beginning in 2006, using the fair value amounts determined for pro forma disclosure under these standards. With respect to options granted on or after January 1, 2006, compensation cost based on estimated grant date fair value is recognized over the related service period in the consolidated statement of operations. The stock option expense for the years ended December 31, 2009, 2008 and 2007, was as follows:

| (\$ in millions, except per share amounts)                     | 2009    | 2008    | 2007    |
|--|---------|---------|---------|
| Employee Stock Option Expense:                                 |         |         |         |
| Options granted:   |         |         |         |
| Previously awarded, unvested options as of January 1, 2006     | \$      | \$ 3.9  | \$ 10.1 |
| Options granted on or after January 1, 2006                    | 3.4     | 7.9     | 10.7    |
| Total options granted  | 3.4     | 11.8    | 20.8    |
| Options cancelled in connection with tender offer (see Note 9) |         |         | 14.4    |
| Total employee stock option expense                            | \$ 3.4  | \$ 11.8 | \$ 35.2 |
| Per basic share  | \$ 0.02 | \$ 0.07 | \$ 0.23 |
| Per diluted share  | \$ 0.02 | \$ 0.07 | \$ 0.23 |

In addition to the employee stock option expense for options granted, administrative expense included \$0.1 million, \$0.1 million and \$0.2 million of expense for each of the years ended December 31, 2009, 2008 and 2007, respectively, related to options granted to directors during each year. Options were granted to non-officer directors in the second quarters of 2009, 2008 and 2007. Options granted to non-officer directors vest on the grant date and therefore, the full expense is recorded on the grant date.

***Options Granted.*** The stock option expense shown in the tables above were based on the underlying value of the options granted by the Company. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model and expensed over the

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vesting period. The following weighted average assumptions were used to calculate the fair value of options granted during the years ended December 31, 2009, 2008, and 2007:

|  | 2009    | 2008    | 2007    |
|--|---------|---------|---------|
| Expected term (in years)               | 3.0     | 5.0     | 5.0     |
| Risk-free interest rate                | 1.3%    | 2.8%    | 4.6%    |
| Expected volatility                    | 105.0%  | 27.8%   | 26.4%   |
| Dividend yield                         | 32.5%   | 8.5%    | 8.9%    |
| Weighted average fair value per option | \$ 0.21 | \$ 2.18 | \$ 2.96 |

The expected term of the options granted represents the period of time that such options are expected to be outstanding. To determine the expected term of the options, the Company used historical data to estimate option exercise time frames, including considering employee terminations. The risk free rate was based on the U.S. Treasury bond yield curve at the date of grant consistent with the expected term. Expected volatilities were determined based on the historical volatility of the Company's common stock over a historical time period consistent with the expected term. The dividend yield was determined based on the Company's historical dividend yield over a historical time period consistent with the expected term.

To determine the stock options expense for options granted, the calculated fair value of the options granted is applied to the options granted, net of assumed future option forfeitures. The Company estimates that the employee-related stock option expense for outstanding unvested options as of December 31, 2009, will be approximately \$3.9 million, \$3.9 million and \$0.0 million for the years ended December 31, 2010, 2011 and 2012, respectively. This estimate does not include any expense related to stock option grants after December 31, 2009, as the fair value of those stock options will be determined at the time of grant. This estimate may change if the Company's assumptions related to future option forfeitures change. The aggregate total stock option expense remaining as of December 31, 2009, is expected to be recognized over an estimated weighted-average period of 1.46 years.

**Options Cancelled in Connection with Tender Offer.** As discussed in Note 9, the Company completed a tender offer in July 2007, whereby the Company accepted for cancellation 10.3 million vested options held by employees and non-officer directors of the Company in exchange for an option cancellation payment ("OCP"). The OCP was equal to the "in-the-money" value of the stock options cancelled, determined using the Weighted Average Market Price of \$31.75, and was paid one-half in cash and one-half in unregistered shares of the Company's common stock. In accordance with the terms of the tender offer, the Weighted Average Market Price represented the volume weighted average price of the Company's common stock over the fifteen trading days preceding the first day of the offer period, or June 20, 2007. Because the Weighted Average Market Price at the commencement of the tender offer on June 20, 2007, was higher than the market price of the Company's common stock at the close of the offer on July 18, 2007, ASC Topic 718 required the Company to record a non-cash employee-related stock option expense of \$14.4 million and administrative expense related to stock options cancelled that were held by non-officer directors of \$0.4 million. The same amounts were recorded as an increase to additional paid-in capital and, therefore, had no effect on the Company's net asset value. The portion of the OCP paid in cash of \$52.8 million reduced the Company's additional paid-in capital and therefore reduced the Company's net asset value. For income tax purposes, the Company's tax deduction resulting from the OCP will be similar to the tax deduction that would have resulted from an exercise of stock options in the market. Any tax deduction for the Company resulting from the OCP or an exercise of stock options in the market is limited by Section 162(m) of the Internal Revenue Code ("Code").

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***Federal and State Income Taxes and Excise Tax***

The Company has complied with the requirements of the Code that are applicable to regulated investment companies ("RIC") and real estate investment trusts ("REIT"). ACC and any subsidiaries that qualify as a RIC or a REIT intend to distribute or retain through a deemed distribution all of their annual taxable income to shareholders; therefore, the Company has made no provision for income taxes exclusive of excise taxes for these entities.

If the Company does not distribute at least 98% of its annual taxable income in the year earned, the Company will generally be required to pay an excise tax equal to 4% of the amount by which 98% of the Company's annual taxable income exceeds the distributions from such taxable income during the year earned. To the extent that the Company determines that its estimated current year annual taxable income will be in excess of estimated current year dividend distributions from such taxable income, the Company accrues excise taxes on estimated excess taxable income as taxable income is earned using an annual effective excise tax rate. The annual effective excise tax rate is determined by dividing the estimated annual excise tax by the estimated annual taxable income.

Income taxes for AC Corp are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases as well as operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

***Per Share Information***

Basic earnings per common share is calculated using the weighted average number of common shares outstanding for the year presented. Diluted earnings per common share reflects the potential dilution that could occur if options to issue common stock were exercised into common stock. Earnings per share is computed after subtracting dividends on preferred shares, if any.

***Use of Estimates in the Preparation of Financial Statements***

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

The consolidated financial statements include portfolio investments at value of \$2.1 billion and \$3.5 billion at December 31, 2009 and 2008, respectively. At December 31, 2009 and 2008, 80% and 94%, respectively, of the Company's total assets represented portfolio investments whose fair values have been determined by the Board of Directors in good faith in the absence of readily available market values. Because of the inherent uncertainty of valuation, the Board of Directors' determined values may differ significantly from the values that would have been used had a ready market existed for the investments, and the differences could be material.

***Recent Accounting Pronouncements***

*Fair Value Measurements.* In September 2006, the FASB issued Statement No. 157, which was primarily codified into ASC Topic 820, defines fair value, and which establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company adopted this

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statement on a prospective basis beginning in the quarter ending March 31, 2008. The initial adoption of this statement did not have a material effect on the Company's consolidated financial statements.

ASC Topic 820 also includes the codification of, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active ("FSP 157-3")*. These provisions apply to financial assets within the scope of accounting pronouncements that require or permit fair value measurements in accordance with ASC Topic 820. These provisions of ASC Topic 820 provide clarification in a market that is not active and provide an example to illustrate key considerations in determining the fair value. The Company has applied these provisions of ASC Topic 820 relating to determining the fair value of a financial asset when the market for that asset is not active in determining the fair value of its portfolio investments at December 31, 2009. The application of these provisions did not have a material impact on the Company's consolidated financial position or its results of operations.

ASC Topic 820 also includes the codification of *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP 157-4), which was issued by the FASB in April 2009. These provisions provide guidance on how to determine the fair value of assets under ASC Topic 820 in the current economic environment and reemphasize that the objective of a fair value measurement remains an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. These provisions state that a transaction price that is associated with a transaction that is not orderly is not determinative of fair value or market-participant risk premiums and companies should place little, if any, weight (compared with other indications of fair value) on transactions that are not orderly when estimating fair value or market risk premiums.

The Company adopted these provisions of ASC Topic 820 on a prospective basis beginning in the quarter ending March 31, 2009. The adoption of these provisions did not have a material effect on the Company's consolidated financial statements.

*Subsequent Events* (SFAS 165). In May 2009, the FASB issued SFAS 165, which was primarily codified into ASC Topic 855, which establishes general standards for reporting events that occur after the balance sheet date, but before financial statements are issued or are available to be issued. This standard requires the disclosure of the date through which an entity has evaluated subsequent events and whether that date represents the date the financial statements were issued or were available to be issued.

The Company adopted these provisions of Topic 855 in the quarter ended June 30, 2009. The adoption of these provisions did not have a material impact on the Company's financial statements.

*Accounting for Transfers of Financial Assets* (SFAS 166), which was codified into ASC Topic 860, *Transfers and Servicing*. In June 2009, the FASB issued SFAS 166, which changes the conditions for reporting a transfer of a portion of a financial asset as a sale and requires additional year-end and interim disclosures. SFAS 166 is effective for fiscal years beginning after November 15, 2009. The implementation of SFAS 166 is not expected to have a material impact on the Company's financial statements.

*Amendments to FASB Interpretation No. 46(R)* (SFAS 167), which will be codified into ASC Topic 810, *Consolidation*. In June 2009, the FASB issued SFAS 167, which amends the guidance on accounting for variable interest entities. SFAS 167 is effective for fiscal years beginning after November 15, 2009 and interim periods within that fiscal year. The Company has not completed the process of evaluating the impact of adopting this standard.

Table of Contents**Note 3. Portfolio***Private Finance*

At December 31, 2009 and 2008, the private finance portfolio consisted of the following:

| (\$ in millions)   | 2009              |                   |              | 2008              |                   |              |
|--|-------------------|-------------------|--------------|-------------------|-------------------|--------------|
|  | Cost              | Value             | Yield(1)     | Cost              | Value             | Yield(1)     |
| <b>Loans and debt securities:</b>                            |                   |                   |              |                   |                   |              |
| Senior loans   | \$ 534.7          | \$ 278.9          | 4.9%         | \$ 556.9          | \$ 306.3          | 5.6%         |
| Unitranche debt(2)   | 420.5             | 360.4             | 12.9%        | 527.5             | 456.4             | 12.0%        |
| Subordinated debt(3)   | 1,504.6           | 1,051.3           | 13.4%        | 2,300.1           | 1,829.1           | 12.9%        |
| <b>Total loans and debt securities(4)</b>                    | <b>2,459.8</b>    | <b>1,690.6</b>    | <b>11.9%</b> | <b>3,384.5</b>    | <b>2,591.8</b>    | <b>11.9%</b> |
| <b>Equity securities:</b>                                    |                   |                   |              |                   |                   |              |
| Preferred shares/income notes of CLOs(5)                     | 242.9             | 86.4              | 8.0%         | 248.2             | 179.2             | 16.4%        |
| Subordinated certificates in Senior Secured Loan Fund LLC(5) |                   |                   | %            | 125.4             | 125.4             | 12.0%        |
| Other equity securities                                      | 907.2             | 298.3             |              | 1,119.3           | 502.7             |              |
| <b>Total equity securities</b>                               | <b>1,150.1</b>    | <b>384.7</b>      |              | <b>1,492.9</b>    | <b>807.3</b>      |              |
| <b>Total</b>   | <b>\$ 3,609.9</b> | <b>\$ 2,075.3</b> |              | <b>\$ 4,877.4</b> | <b>\$ 3,399.1</b> |              |

- (1) The weighted average yield on loans and debt securities is computed as the (a) annual stated interest on accruing loans and debt securities plus the annual amortization of loan origination fees, original issue discount, and market discount on accruing loans and debt securities less the annual amortization of loan origination costs, divided by (b) total loans and debt securities at value. At December 31, 2009 and 2008, senior loans included the senior secured loan to Ciena totaling \$319.0 million and \$319.0 million at cost, respectively, and \$100.1 million and \$104.9 million at value, respectively, which was placed on non-accrual on the purchase date.
- The weighted average yield on the preferred shares/income notes of CLOs is calculated as the (a) effective interest yield on the preferred shares/income notes of CLOs, divided by (b) total preferred shares/income notes of CLOs at value. The weighted average yields are computed as of the balance sheet date. The effective interest yield on the CLO assets represents the yield used for recording interest income. The market yield used in the valuation of the CLO assets may be different than the interest yields.
- The weighted average yield on the subordinated certificates in the Senior Secured Loan Fund LLC is computed as the (a) effective interest yield on the subordinated certificates divided by (b) total investment at value.
- (2) Unitranche debt is an investment that combines both senior and subordinated financing, generally in a first lien position.
- (3) Subordinated debt includes bonds in CLOs and in a CDO.
- (4) The total principal balance outstanding on loans and debt securities was \$2,484.1 million and \$3,418.0 million at December 31, 2009 and 2008, respectively. The difference between principal and cost primarily represents unamortized loan origination fees and costs, original issue discounts, and market discounts totaling \$24.3 million and \$33.5 million at December 31, 2009 and 2008, respectively.

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(5)

Investments in the preferred shares/income notes of CLOs and the subordinated certificates in Senior Secured Loan Fund LLC earned a current return that is included in interest income in the accompanying consolidated statement of operations.

The Company's private finance investment activity principally involves providing financing through privately negotiated debt and equity investments. The Company's private finance debt and equity investments generally are issued by private companies and generally are illiquid and may be subject to certain restrictions on resale.

The Company's private finance debt investments generally are structured as loans and debt securities that carry a relatively high fixed rate of interest, which may be combined with equity features, such as conversion privileges, or warrants or options to purchase a portion of the portfolio company's equity at a pre-determined strike price, which generally is a nominal price for warrants or options in a private company. The annual stated interest rate is only one factor in pricing the investment relative to the Company's rights and priority in the portfolio company's capital structure, and will vary depending on many factors, including if the Company has received nominal cost equity or other components of investment return, such as loan origination fees or market discount. The stated interest rate may include some component of contractual payment-in-kind interest, which represents contractual interest accrued and added to the loan balance that generally becomes due at maturity.

At December 31, 2009 and 2008, 79% and 85%, respectively of the private finance loans and debt securities had a fixed rate of interest and 21% and 15%, respectively, had a floating rate of interest. Senior loans may carry a fixed rate of interest or a floating rate of interest, set as a spread over prime or LIBOR, and may require payments of both principal and interest throughout the life of the loan. Senior loans generally have contractual maturities of three to six years and interest is generally paid to the Company monthly or quarterly. Unitranche debt generally carries a fixed rate of interest. Unitranche debt generally requires payments of both principal and interest throughout the life of the loan. Unitranche debt generally has contractual maturities of five to six years and interest generally is paid to the Company quarterly. Subordinated debt generally carries a fixed rate of interest generally with contractual maturities of five to ten years and generally has interest-only payments in the early years and payments of both principal and interest in the later years, although maturities and principal amortization schedules may vary. Interest on subordinated debt generally is paid to the Company quarterly.

Equity securities primarily consist of securities issued by private companies and may be subject to certain restrictions on their resale and are generally illiquid. The Company may make equity investments for minority stakes in portfolio companies or may receive equity features, such as nominal cost warrants. The Company also may invest in the equity (preferred and/or voting or non-voting common) of a portfolio company where the Company's equity ownership may represent a significant portion of the equity, but may or may not represent a controlling interest. If the Company invests in non-voting equity in a buyout investment, the Company generally has the option to acquire a controlling stake in the voting securities of the portfolio company at fair market value. The Company may incur costs associated with making buyout investments that will be included in the cost basis of the Company's equity investment. These include costs such as legal, accounting and other professional fees associated with diligence, referral and investment banking fees, and other costs. Equity securities generally do not produce a current return, but are held with the potential for investment appreciation and ultimate gain on sale.

**Ciena Capital LLC.** Ciena Capital LLC (f/k/a Business Loan Express, LLC) ("Ciena") has provided loans to commercial real estate owners and operators. Ciena has been a participant in the Small Business Administration's 7(a) Guaranteed Loan Program and its wholly-owned subsidiary is licensed by the SBA as a Small Business Lending Company ("SBLC"). Ciena is headquartered in New York, NY.



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On September 30, 2008, Ciena voluntarily filed for bankruptcy protection under Chapter 11 of Title 11 of the United States Code (the Bankruptcy Code) in the United States Bankruptcy Court for the Southern District of New York (the Court). Ciena continues to service and manage its assets as a "debtor-in-possession" under the jurisdiction of the Court and in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Court.

As a result of Ciena's decision to file for bankruptcy protection, the Company's unconditional guaranty of the obligations outstanding under Ciena's revolving credit facility became due and, in lieu of paying under our guarantee, the Company purchased the positions of the senior lenders under Ciena's revolving credit facility. As of December 31, 2009, the senior secured loan to Ciena had a cost basis of \$319.0 million and a value of \$100.1 million. The Company continues to guarantee the remaining principal balance of \$5 million, plus related interest, fees and expenses payable to a third party bank. In connection with its continuing guaranty of the amounts held by this bank, the Company has agreed that the amounts owing to the bank under the Ciena revolving credit facility will be paid before any of the secured obligations of Ciena now owed to the Company.

At December 31, 2009 and 2008, the Company's investment in Ciena was as follows:

| (\$ in millions)            | 2009     |          | 2008     |          |
|-----------------------------|----------|----------|----------|----------|
|                             | Cost     | Value    | Cost     | Value    |
| Senior Loan                 | \$ 319.0 | \$ 100.1 | \$ 319.0 | \$ 104.9 |
| Class B Equity Interests(1) | 119.5    |          | 119.5    |          |
| Class C Equity Interests(1) | 109.1    |          | 109.3    |          |
| Total(2)                    | \$ 547.6 | \$ 100.1 | \$ 547.8 | \$ 104.9 |

(1) At December 31, 2009 and 2008, the Company held 100% of the Class B equity interests and 94.9% of the Class C equity interests.

(2) In addition to the Company's investment in Ciena in the portfolio, the Company has amounts receivable from or related to Ciena that are included in other assets in the accompanying consolidated financial statements. See below.

During the year ended December 31, 2009, the Company funded \$97.4 million to support Ciena's term securitizations in lieu of draws under related standby letters of credit. This was required primarily as a result of the issuer of the letters of credit not extending maturing standby letters of credit that were issued under the Company's former revolving line of credit. The amounts funded were recorded as other assets in the accompanying consolidated balance sheet. At December 31, 2009 and 2008, other assets includes amounts receivable from or related to Ciena totaling \$112.7 million and \$15.4 million at cost and \$1.9 million and \$2.1 million at value, respectively. Net change in unrealized appreciation or depreciation included a net decrease of \$102.0 million and \$174.5 million for the years ended December 31, 2009 and 2007, respectively, related to the Company's investment in and receivables from Ciena. Net change in unrealized appreciation or depreciation for the year ended December 31, 2008, included a decrease in the Company's investment in Ciena totaling \$296.0 million and the reversal of unrealized depreciation of \$99.0 million associated with the realized loss on the sale of the Company's Class A equity interests.

At December 31, 2009, the Company had no outstanding standby letters of credit issued under its former revolving line of credit. The Company has considered the letters of credit and the funding thereof in the valuation of Ciena at December 31, 2009.

The Company's investment in Ciena was on non-accrual status, therefore the Company did not earn any interest and related portfolio income from its investment in Ciena for each of the years ended December 31, 2009 and 2008.

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At December 31, 2009, Ciena had one non-recourse SBA loan warehouse facility, which has reached its maturity date but remains outstanding. Ciena is working with the providers of the SBA loan warehouse facility with regard to the repayment of that facility. The Company has issued a performance guaranty whereby the Company agreed to indemnify the warehouse providers for any damages, losses, liabilities and related costs and expenses that they may incur as a result of Ciena's failure to perform any of its obligations as loan originator, loan seller or loan servicer under the warehouse facility.

The Office of the Inspector General of the SBA (OIG) and the United States Secret Service are conducting ongoing investigations of allegedly fraudulently obtained SBA-guaranteed loans issued by Ciena.

Ciena also is subject to other SBA and OIG audits, investigations, and reviews. In addition, the Office of the Inspector General of the U.S. Department of Agriculture is conducting an investigation of Ciena's lending practices under the Business and Industry Loan (B&I) program. The OIG and the U.S. Department of Justice are also conducting a civil investigation of Ciena's lending practices in various jurisdictions. The Company is unable to predict the outcome of these inquiries, and it is possible that third parties could try to seek to impose liability against the Company in connection with certain defaulted loans in Ciena's portfolio. These investigations, audits and reviews are ongoing.

These investigations, audits, reviews, and litigation have had and may continue to have a material adverse impact on Ciena and, as a result, could continue to negatively affect the Company's financial results. The Company has considered Ciena's voluntary filing for bankruptcy protection, the letters of credit and the funding thereof current regulatory issues, ongoing investigations, and litigation in performing the valuation of Ciena at December 31, 2009 and 2008.

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*Collateralized Loan Obligations ("CLOs") and Collateralized Debt Obligations ("CDOs").* At December 31, 2009 and 2008, the Company owned bonds and preferred shares/income notes in CLOs and bonds in a CDO as follows:

| (\$ in millions)                          | 2009         |             |              | 2008         |             |              |
|---|--------------|-------------|--------------|--------------|-------------|--------------|
|   | Cost         | Value       | Yield(1)     | Cost         | Value       | Yield(1)     |
| <i>Bonds(2):</i>                          |              |             |              |              |             |              |
| Callidus Debt Partners CDO Fund I, Ltd.   | \$ 29.0      | \$ 2.2      | %            | \$ 28.4      | \$ 10.1     | 39.4%        |
| Callidus Debt Partners CLO Fund IV, Ltd.  | 2.2          | 1.7         | 20.2%        | 2.0          | 1.4         | 26.9%        |
| Callidus Debt Partners CLO Fund VI, Ltd.  | 7.8          | 4.3         | 19.2%        | 7.1          | 3.9         | 26.1%        |
| Callidus MAPS CLO Fund I LLC              | 17.0         | 11.7        | 8.4%         | 17.0         | 9.8         | 12.2%        |
| Callidus MAPS CLO Fund II LLC             | 3.9          | 3.2         | 24.1%        | 3.6          | 3.0         | 30.2%        |
| Dryden XVIII Leveraged Loan 2007 Limited  | 7.5          | 2.1         | %            | 7.7          | 4.5         | 20.5%        |
| Knightsbridge CLO 2007-1 Ltd.(3)          | 18.7         | 11.4        | 15.3%        | 18.7         | 14.9        | 17.4%        |
| Knightsbridge CLO 2008-1 Ltd.(3)          | 32.1         | 29.5        | 11.2%        | 31.4         | 31.4        | 10.2%        |
| Pangaea CLO 2007-1 Ltd.                   | 12.1         | 6.6         | 17.7%        | 11.8         | 7.1         | 25.0%        |
| <b>Total bonds</b>                        | <b>130.3</b> | <b>72.7</b> | <b>12.5%</b> | <b>127.7</b> | <b>86.1</b> | <b>18.5%</b> |
| <i>Preferred Shares/Income Notes:</i>     |              |             |              |              |             |              |
| Callidus Debt Partners CLO Fund III, Ltd. | 20.1         | 4.1         | %            | 20.1         | 5.4         | %            |
| Callidus Debt Partners CLO Fund IV, Ltd.  | 14.9         | 5.4         | %            | 14.6         | 10.6        | 18.1%        |
| Callidus Debt Partners CLO Fund V, Ltd.   | 13.4         | 5.0         | 3.8%         | 13.4         | 10.3        | 21.3%        |
| Callidus Debt Partners CLO Fund VI, Ltd.  | 29.1         | 5.0         | %            | 28.3         | 23.1        | 21.8%        |
| Callidus Debt Partners CLO Fund VII, Ltd. | 24.8         | 7.2         | %            | 24.0         | 15.4        | 17.9%        |
| Callidus MAPS CLO Fund I LLC              | 38.5         | 14.1        | %            | 45.1         | 27.8        | 6.5%         |
| Callidus MAPS CLO Fund II, Ltd.           | 17.8         | 6.3         | 7.1%         | 18.4         | 12.6        | 19.3%        |
| Dryden XVIII Leveraged Loan 2007 Limited  | 23.2         | 2.4         | %            | 22.1         | 17.5        | 20.2%        |
|   | 39.2         | 16.2        | 10.6%        | 40.9         | 35.2        | 17.4%        |

|   |          |          |       |          |          |       |
|---|----------|----------|-------|----------|----------|-------|
| Knightsbridge<br>CLO<br>2007-1 Ltd.(3)    |          |          |       |          |          |       |
| Knightsbridge<br>CLO<br>2008-1 Ltd.(3)    | 21.9     | 20.7     | 22.1% | 21.3     | 21.3     | 16.6% |
| Total preferred<br>shares/income<br>notes | 242.9    | 86.4     | 8.0%  | 248.2    | 179.2    | 16.4% |
| Total                                     | \$ 373.2 | \$ 159.1 |       | \$ 375.9 | \$ 265.3 |       |

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- (1) The weighted average yield is calculated as the (a) annual stated interest or the effective interest yield on the accruing bonds or the effective interest yield on the preferred shares/income notes, divided by (b) CLO and CDO assets at value. The yield on these debt and equity securities is included in interest income in the accompanying consolidated statement of operations.
- (2) The market yield used in the valuation of the CLO and CDO assets may be different than the interest yields shown above.
- (3) These securities are included in private finance subordinated debt.
- (3) These funds are managed by the Company through a wholly-owned subsidiary.

The initial yields on the cost basis of the CLO preferred shares and income notes are based on the estimated future cash flows expected to be paid to these CLO classes from the underlying collateral assets. As each CLO preferred share or income note ages, the estimated future cash flows are updated based on the estimated performance of the underlying collateral assets, and the respective yield on the cost basis is adjusted as necessary. As future cash flows are subject to uncertainties and contingencies that are difficult to predict and are subject to future events that may alter current assumptions, no assurance can be given that the anticipated yields to maturity will be achieved.

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The bonds, preferred shares and income notes of the CLOs and CDO in which the Company has invested are junior in priority for payment of interest and principal to the more senior notes issued by the CLOs and CDO. Cash flow from the underlying collateral assets in the CLOs and CDO generally is allocated first to the senior bonds in order of priority, then any remaining cash flow generally is distributed to the preferred shareholders and income note holders. To the extent there are ratings downgrades, defaults and unrecoverable losses on the underlying collateral assets that result in reduced cash flows, the preferred shares/income notes will bear this loss first and then the subordinated bonds would bear any loss after the preferred shares/income notes. At both December 31, 2009 and 2008, the face value of the CLO and CDO assets held by the Company was subordinate to as much as 94% of the face value of the securities outstanding in these CLOs and CDO.

At December 31, 2009 and 2008, based on information provided by the collateral managers, the underlying collateral assets of these CLO and CDO issuances, consisting primarily of senior corporate loans, were issued by 626 issuers and 658 issuers, respectively, and had principal balances as follows:

| (\$ in millions)                      | 2009       | 2008       |
|---------------------------------------|------------|------------|
| Bonds                                 | \$ 229.3   | \$ 268.3   |
| Syndicated loans                      | 4,313.8    | 4,477.3    |
| Cash(1)                               | 156.2      | 89.6       |
| Total underlying collateral assets(2) | \$ 4,699.3 | \$ 4,835.2 |

(1) Includes undrawn liability amounts.

(2) At December 31, 2009 and 2008, the total face value of defaulted obligations was \$148.6 million and \$95.0 million, respectively, or approximately 3.5% and 2.0% respectively, of the total underlying collateral assets.

**Loans and Debt Securities on Non-Accrual Status.** At December 31, 2009 and 2008, private finance loans and debt securities at value not accruing interest were as follows:

| (\$ in millions)              | 2009     | 2008     |
|-------------------------------|----------|----------|
| Loans and debt securities     |          |          |
| Companies more than 25% owned | \$ 177.1 | \$ 176.1 |
| Companies 5% to 25% owned     | 16.0     |          |
| Companies less than 5% owned  | 47.4     | 151.8    |
| Total                         | \$ 240.5 | \$ 327.9 |

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**Industry and Geographic Compositions.** The industry and geographic compositions of the private finance portfolio at value at December 31, 2009 and 2008, were as follows:

|                     | 2009        | 2008        |
|---------------------|-------------|-------------|
| <b>Industry</b>     |             |             |
| Business services   | 32%         | 36%         |
| Consumer products   | 29          | 24          |
| Financial services  | 9           | 6           |
| CLO/CDO(1)          | 8           | 8           |
| Consumer services   | 5           | 5           |
| Industrial products | 4           | 5           |
| Education services  | 3           | 2           |
| Healthcare services | 3           | 2           |
| Retail              | 3           | 5           |
| Private debt funds  |             | 5           |
| Other               | 4           | 2           |
| <b>Total</b>        | <b>100%</b> | <b>100%</b> |

|                             |             |             |
|-----------------------------|-------------|-------------|
| <b>Geographic Region(2)</b> |             |             |
| Mid-Atlantic                | 37%         | 41%         |
| Midwest                     | 32          | 28          |
| Southeast                   | 17          | 17          |
| West                        | 13          | 13          |
| Northeast                   | 1           | 1           |
| <b>Total</b>                | <b>100%</b> | <b>100%</b> |

(1) These funds primarily invest in senior corporate loans. Certain of these funds are managed by Callidus Capital, a portfolio company of Allied Capital.

(2) The geographic region for the private finance portfolio depicts the location of the headquarters for the Company's portfolio companies. The portfolio companies may have a number of other locations in other geographic regions.

**Commercial Real Estate Finance**

At December 31, 2009 and 2008, the commercial real estate finance portfolio consisted of the following:

| (\$ in millions)          | 2009           |                |          | 2008           |                |          |
|---------------------------|----------------|----------------|----------|----------------|----------------|----------|
|                           | Cost           | Value          | Yield(1) | Cost           | Value          | Yield(1) |
| Commercial mortgage loans | \$ 42.0        | \$ 35.4        | 5.1%     | \$ 52.5        | \$ 53.5        | 7.4%     |
| Real estate owned         | 5.9            | 6.4            |          | 18.2           | 20.8           |          |
| Equity interests          | 27.3           | 14.0           |          | 14.8           | 19.6           |          |
| <b>Total</b>              | <b>\$ 75.2</b> | <b>\$ 55.8</b> |          | <b>\$ 85.5</b> | <b>\$ 93.9</b> |          |

(1)

The weighted average yield on the commercial mortgage loans is computed as the (a) annual stated interest on accruing loans plus the annual amortization of loan origination fees, original issue discount, and market discount on accruing loans less the annual amortization of origination costs, divided by (b) total interest-bearing investments at value. The weighted average yield is computed as of the balance sheet date.

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**Commercial Mortgage Loans and Equity Interests.** The commercial mortgage loan portfolio contains loans that were originated by the Company or were purchased from third-party sellers. At December 31, 2009, approximately 55% and 45% of the Company's commercial mortgage loan portfolio was composed of fixed and adjustable interest rate loans, respectively. At December 31, 2008, approximately 69% and 31% of the Company's commercial mortgage loan portfolio was composed of fixed and adjustable interest rate loans, respectively. At December 31, 2009 and 2008, loans with a value of \$6.1 million and \$7.7 million, respectively, were not accruing interest. Loans greater than 120 days delinquent generally do not accrue interest.

Equity interests consist primarily of equity securities issued by privately owned companies that invest in single real estate properties. These equity interests may be subject to certain restrictions on their resale and are generally illiquid. Equity interests generally do not produce a current return, but are generally held in anticipation of investment appreciation and ultimate realized gain on sale.

The property types and the geographic composition securing the commercial mortgage loans and equity interests at value at December 31, 2009 and 2008, were as follows:

|                      | 2009        | 2008        |
|----------------------|-------------|-------------|
| <b>Property Type</b> |             |             |
| Hospitality          | 60%         | 52%         |
| Recreation           | 32          | 22          |
| Office               | 6           | 15          |
| Retail               |             | 9           |
| Other                | 2           | 2           |
| <b>Total</b>         | <b>100%</b> | <b>100%</b> |

|                          |             |             |
|--------------------------|-------------|-------------|
| <b>Geographic Region</b> |             |             |
| Southeast                | 41%         | 43%         |
| West                     | 33          | 26          |
| Midwest                  | 14          | 22          |
| Northeast                | 12          | 9           |
| Mid-Atlantic             |             |             |
| <b>Total</b>             | <b>100%</b> | <b>100%</b> |

***Fair Value Measurements***

The Company, as a BDC, has invested in illiquid securities including debt and equity securities of portfolio companies, CLO bonds and preferred shares/income notes, CDO bonds and investment funds. The Company's investments may be subject to certain restrictions on resale and generally have no established trading market. The Company values substantially all of its investments at fair value as determined in good faith by the Board of Directors in accordance with the Company's valuation policy and the provisions of the Investment Company Act of 1940 and ASC Topic 820. The Company determines fair value to be the price that would be received for an investment in a current sale, which assumes an orderly transaction between market participants on the measurement date. The Company's valuation policy considers the fact that no ready market exists for substantially all of the securities in which it invests and that fair value for its investments must typically be determined using unobservable inputs.



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ASC Topic 820 establishes a fair value hierarchy that encourages the use of observable inputs, but allows for unobservable inputs when observable inputs do not exist. Inputs are classified into one of three categories:

Level 1 Quoted prices (unadjusted) in active markets for identical assets

Level 2 Inputs other than quoted prices that are observable to the market participant for the asset or quoted prices in a market that is not active

Level 3 Unobservable inputs

When there are multiple inputs for determining the fair value of an investment, the Company classifies the investment in total based on the lowest level input that is significant to the fair value measurement.

The Company has \$381.0 million in investments in money market and other securities, which the Company has determined are Level 1 assets but are not presented in the Company's investment portfolio. Portfolio assets measured at fair value on a recurring basis by level within the fair value hierarchy at December 31, 2009, were as follows:

| (\$ in millions)                      | Fair Value<br>Measurement<br>as of December 31,<br>2009 | Quoted Prices in<br>Active Markets<br>for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|---------------------------------------|---|--|---|--|
| Assets at Fair Value:                 |   |  |   |  |
| Portfolio                             |   |  |   |  |
| Private finance:                      |   |  |   |  |
| Loans and debt securities             | \$ 1,690.6  | \$   | \$  | \$ 1,690.6   |
| Preferred shares/income notes of CLOs | 86.4  |  |   | 86.4   |
| Other equity securities               | 298.3   |  |   | 298.3  |
| Commercial real estate finance        | 55.8  |  |   | 55.8   |
| Total portfolio                       | \$ 2,131.1  | \$   | \$  | \$ 2,131.1   |

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The table below sets forth a summary of changes in the Company's assets measured at fair value using level 3 inputs.

| (\$ in millions)   | Private Finance                 |  |   |                               |           | Commercial<br>Real<br>Estate<br>Finance | Total |
|--|---------------------------------|--|---|-------------------------------|-----------|---|-------|
|  | Loans and<br>Debt<br>Securities | Preferred<br>Shares/<br>Income<br>Notes<br>of CLOs | Subordinated<br>Certificates<br>in<br>Senior<br>Secured<br>Fund LLC | Other<br>Equity<br>Securities |           |   |       |
| Balance at December 31, 2008   | \$ 2,591.8                      | \$ 179.2   | \$ 125.4  | \$ 502.7                      | \$ 93.9   | \$ 3,493.0                              |       |
| Total gains or losses  |                                 |  |   |                               |           |   |       |
| Net realized gains (losses)(1)   | (247.8)                         | 14.3   | 6.2   | (115.3)                       | (3.7)     | (346.3)                                 |       |
| Net change in unrealized appreciation<br>or depreciation(2)  | 23.4                            | (87.5)   |   | 7.7                           | (27.8)    | (84.2)                                  |       |
| Purchases, issuances, repayments and<br>exits, net(3)  | (676.8)                         | (19.6)   | (131.6)   | (96.8)                        | (6.6)     | (931.4)                                 |       |
| Transfers in and/or out of level 3   |                                 |  |   |                               |           |   |       |
| Balance at December 31, 2009   | \$ 1,690.6                      | \$ 86.4  | \$  | \$ 298.3                      | \$ 55.8   | \$ 2,131.1                              |       |
| Net unrealized appreciation<br>(depreciation) during the period relating<br>to assets still held at the reporting<br>date(2) | \$ (204.1)                      | \$ (87.5)  | \$  | \$ (85.1)                     | \$ (29.2) | \$ (405.9)                              |       |

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- (1) Includes net realized gains (losses) (recorded as realized gains or losses in the accompanying consolidated statement of operations), and amortization of discounts and closing points (recorded as interest income in the accompanying consolidated statement of operations).
- (2) Included in change in net unrealized appreciation or depreciation in the accompanying consolidated statement of operations. Net change in unrealized appreciation or depreciation includes net unrealized appreciation (depreciation) resulting from changes in portfolio investment values during the reporting period and the reversal of previously recorded unrealized appreciation or depreciation when associated gains or losses are realized. The net change in unrealized appreciation or depreciation in the consolidated statement of operations also includes the change in value of escrow and other receivables from portfolio companies that are included in other assets on the consolidated balance sheet.
- (3) Includes interest and dividend income reinvested through the receipt of a debt or equity security (payment-in-kind income) (recorded as interest and dividend income in the accompanying consolidated statement of operations).

***Managed Funds***

In addition to managing its own assets, the Company manages certain funds that also invest in the debt and equity securities of primarily private middle market companies in a variety of industries and broadly syndicated senior secured loans. At December 31, 2009, the Company had six separate funds under its management (together, the "Managed Funds") for which the Company may earn management or other fees for the Company's services. In some cases, the Company has invested in the equity of these funds, along with other third parties, from which the Company may earn a current return and/or a future incentive allocation.

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In the first quarter of 2009, the Company completed the acquisition of the management contracts of three middle market senior debt CLOs (together, the Emporia Funds) and certain other related assets for approximately \$11 million (subject to post-closing adjustments). The acquired assets are included in other assets in the accompanying consolidated balance sheet and are being amortized over the life of the contracts. During the fourth quarter of 2009, the Company sold its investment, including its outstanding commitments and the provision of management services, in the Senior Secured Loan Fund LLC to Ares Capital, and the Company sold its investment, including the provision of management services, in the Allied Capital Senior Debt Fund, L.P. to Ivy Hill Asset Management, L.P., a portfolio company of Ares Capital.

During the year ended December 31, 2009, the Company sold assets to certain of the Managed Funds for which it received proceeds of \$9.7 million and the Company recognized a net realized gain of \$6.3 million. During the year ended December 31, 2008, the Company sold assets to certain of the Managed Funds, for which it received proceeds of \$383.0 million, respectively, and the Company recognized realized gains of \$8.3 million.

In addition to managing these funds, we hold certain investments in the Managed Funds as of December 31, 2009 and 2008 as follows:

| (\$ in millions)<br>Name of Fund         |  | Investment Description | 2009    |          | 2008     |       |
|--|--|------------------------|---------|----------|----------|-------|
|  |  |                        | Cost    | Value    | Cost     | Value |
| Senior Secured Loan Fund LLC(1)          | Subordinated Certificates and Equity Interests               | \$                     | \$      | \$ 125.4 | \$ 125.4 |       |
| Allied Capital Senior Debt Fund, L.P.(1) | Equity interests   |                        |         | 31.8     | 31.8     |       |
| Knightsbridge CLO 2007-1 Ltd.            | Class E Notes and Income Notes                               | 57.9                   | 27.6    | 59.6     | 50.1     |       |
| Knightsbridge CLO 2008-1 Ltd.            | Class C Notes, Class D Notes, Class E Notes and Income Notes | 54.0                   | 50.2    | 52.7     | 52.7     |       |
| AGILE Fund I, LLC                        | Equity Interests   | 0.6                    | 0.4     | 0.7      | 0.5      |       |
| Total                                    |  | \$ 112.5               | \$ 78.2 | \$ 270.2 | \$ 260.5 |       |

- (1) In the fourth quarter of 2009, the Company sold its investment, including its outstanding commitments and the provision of management services, in the Senior Secured Loan Fund LLC to Ares Capital, and the Company sold its investment, including the provision of management services, in the Allied Capital Senior Debt Fund, L.P. to Ivy Hill Asset Management, L.P., a portfolio company of Ares Capital.

Table of Contents**Note 4. Debt**

At December 31, 2009 and 2008, the Company had the following debt:

| (\$ in millions)  | 2009            |              |                         | 2008            |              |                         |
|---|-----------------|--------------|-------------------------|-----------------|--------------|-------------------------|
|   | Facility Amount | Amount Drawn | Annual Interest Cost(1) | Facility Amount | Amount Drawn | Annual Interest Cost(1) |
| Notes payable:  |                 |              |                         |                 |              |                         |
| Privately issued secured notes payable (formerly unsecured) | \$ 673.2        | \$ 673.2(5)  | 13.0%                   | \$ 1,015.0      | \$ 1,015.0   | 7.8%                    |
| Publicly issued unsecured notes payable                     | 745.5           | 745.5        | 6.7%                    | 880.0           | 880.0        | 6.7%                    |
| Total notes payable   | 1,418.7         | 1,418.7      | 9.7%                    | 1,895.0         | 1,895.0      | 7.3%                    |
| Bank secured term debt (former revolver)(4)                 | 41.1            | 41.1         | 16.0%(2)                | 632.5           | 50.0         | 4.3%(2)                 |
| Total debt  | \$ 1,459.8      | \$ 1,459.8   | 9.8%(3)                 | \$ 2,527.5      | \$ 1,945.0   | 7.7%(3)                 |

- (1) The weighted average annual interest cost is computed as the (a) annual stated interest on the debt plus the annual amortization of commitment fees, other facility fees and amortization of debt financing costs and original issue discount that are recognized into interest expense over the contractual life of the respective borrowings, divided by (b) debt outstanding on the balance sheet date.
- (2) The annual interest cost reflects the interest rate payable for borrowings under the bank debt facility in effect at the balance sheet date. In addition to the current interest payable, there were annual costs of commitment fees, other facility fees and amortization of debt financing costs are \$3.1 million and \$8.5 million at December 31, 2009 and 2008, respectively.
- (3) The annual interest cost for total debt includes the annual cost of commitment fees, other facility fees and amortization of debt financing costs on the bank debt facility regardless of the amount outstanding on the facility as of the balance sheet date. The annual interest cost reflects the facilities in place on the balance sheet date.
- (4) At December 31, 2008, \$460.2 million remained unused on the revolving line of credit, net of amounts committed for standby letters of credit of \$122.3 million issued under the credit facility.
- (5) The notes payable on the consolidated balance sheet are shown net of OID of approximately \$33.8 million as of December 31, 2009.

***Privately Issued Debt***

At December 31, 2009, the Company had outstanding privately issued notes (the "Notes") of \$673.2 million and \$41.1 million outstanding under its bank facility (the "Facility"). The Notes and the Facility were restructured on August 28, 2009. Beginning in January 2009, the Company engaged in discussions with the revolving line of credit lenders (the "Lenders") and the private noteholders (the "Noteholders") to seek relief under certain terms of both the Facility and the Notes due to certain covenant defaults. As of December 31, 2008, the Company's asset coverage was less than the 200% then required by the revolving credit facility and the private notes. Asset coverage generally refers to the percentage resulting from assets less accounts payable and other liabilities, divided by total debt.

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In connection with the restructuring, the Company granted the Noteholders and the Lenders a pari-passu blanket lien on a substantial portion of its assets, including a substantial portion of the assets of the Company's consolidated subsidiaries.

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The financial covenants applicable to the Notes and the Facility were modified as part of the restructuring. The Consolidated Debt to Consolidated Shareholders' Equity covenant and the Capital Maintenance covenant were both eliminated. The Asset Coverage ratio was set at 1.35:1 initially, increasing to 1.4:1 at June 30, 2010 and to 1.55:1 at June 30, 2011, and maintained at that level thereafter. A new covenant, Total Adjusted Assets to Secured Debt, was set at 1.75:1 initially, increasing to 2.0:1 at June 30, 2010 and to 2.25:1 at June 30, 2011, and maintained at that level thereafter. The ratio of Adjusted EBIT to Adjusted Interest Expense was set at 1.05:1 initially, decreasing to 0.95:1 at December 31, 2009, 0.80:1 at March 31, 2010 and 0.75:1 at June 30, 2010. The covenant will then be increased to 0.80:1 on December 31, 2010 and 0.95:1 on December 31, 2011 and maintained at that level thereafter.

The Notes and Facility impose certain limitations on the Company's ability to incur additional indebtedness, including precluding the Company from incurring additional indebtedness unless its asset coverage of all outstanding indebtedness is at least 200%. Pursuant to the 1940 Act, the Company is not permitted to issue indebtedness unless immediately after such issuance the Company has asset coverage of all outstanding indebtedness of at least 200%. At December 31, 2009, the Company's asset coverage ratio was 180%, which is less than the 200% requirement. As a result, the Company will not be able to issue additional indebtedness until such time as its asset coverage returns to at least 200%.

The Company is required to apply 50% of all net cash proceeds from asset sales to the repayment of the Notes and 6% of all net cash proceeds from asset sales to the repayment of the Facility, subject to certain conditions and exclusions. In the case of certain events of default, the Company would be required to apply 100% of all net cash proceeds from asset sales to the repayment of its secured lenders. Under the new agreements, subject to a limit and certain liquidity restrictions, the Company may repurchase its public debt; however, the Company is prohibited from repurchasing its common stock and may not pay dividends in excess of the minimum the Company reasonably believes is required to maintain its tax status as a regulated investment company. In addition, upon the occurrence of a change of control (as defined in the Note Agreement and Credit Agreement), the Noteholders have the right to be prepaid in full and the Company is required to repay in full all amounts outstanding under the Facility.

The Note Agreement and Credit Agreement provide for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, cross-defaults, bankruptcy events and failure to pay judgments. Certain of these events of default are subject to notice and cure periods or materiality thresholds. Pursuant to the terms of the Notes, the occurrence of an event of default generally permits the holders of more than 50% in principal amount of outstanding Notes to accelerate repayment of all amounts due thereunder. The occurrence of an event of default would generally permit the administrative agent for the lenders under the Facility, or the holders of more than 51% of the aggregate principal debt outstanding under the Facility, to accelerate repayment of all amounts outstanding thereunder. Pursuant to the Notes, during the continuance of an event of default, the rate of interest applicable to the Notes would increase by 200 basis points. Pursuant to the terms of the Facility, during the continuance of an event of default, the applicable spread on any borrowings outstanding under the Facility would increase by 200 basis points.

**Privately Issued Notes Payable.** The Company made principal payments on the Notes at and prior to the closing of the restructuring and had \$841.0 million of Notes outstanding following the closing of the restructuring.

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In connection with the restructuring, the existing Notes were exchanged for three new series of Notes containing the following terms:

| (\$ in millions) | Principal<br>Amount(1) | Maturity Dates              | Annual<br>Stated<br>Interest<br>Rate<br>Through<br>December 31,<br>2009(2) | Annual<br>Stated<br>Interest<br>Rate<br>Beginning<br>January 1,<br>2010(2) | Annual<br>Stated<br>Interest<br>Rate<br>Beginning<br>January 1,<br>2011(2) | Annual<br>Stated<br>Interest<br>Rate<br>Beginning<br>January 1,<br>2012(2) |
|------------------|------------------------|-----------------------------|--|--|--|--|
| Series A         | \$ 253.8               | June 15, 2010               | 8.50%  | 9.25%  | N/A  | N/A  |
| Series B         | \$ 253.8               | June 15, 2011               | 9.00%  | 9.50%  | 9.75%  | N/A  |
| Series C         | \$ 333.5               | March 31 & April 1,<br>2012 | 9.50%  | 10.00%   | 10.25%   | 10.75%   |

(1) Amount outstanding at closing on August 28, 2009.

(2) The Notes generally require payment of interest quarterly.

The Company made various cash payments in connection with the restructuring of its Notes. The Company paid an amendment fee at closing of \$15.2 million. In addition, the Company paid a make-whole fee of \$79.7 million related to a contractual provision in the old Notes. Due to the payment of this make-whole fee, the new Notes have no significant make-whole requirement. The Company also paid a restructuring fee of \$50.0 million at closing, which will be applied toward the principal balance of the Notes if the Notes are refinanced in full on or before January 31, 2010.

**Bank Facility.** At June 30, 2009, the Company had an unsecured revolving line of credit that was due to expire on April 11, 2011. The Company's Facility was restructured from a revolving facility to a term facility maturing on November 13, 2010. Total commitments under the Facility were reduced at closing to \$96.0 million from \$115.0 million prior to closing. At closing, there were \$50.0 million of borrowings and \$46.0 million of standby letters of credit ("LCs") outstanding under the Facility. The \$46.0 million of LCs terminated and/or expired prior to September 30, 2009 and the commitments under the Facility were reduced by a commensurate amount. As a result, the total commitment and outstanding balance was \$50.0 million at September 30, 2009.

Borrowings under the Facility bear interest at a floating rate of interest, subject to a floor. The floating rate spread increases by 0.5% per annum beginning on January 1, 2010 and continuing through maturity. At closing, the interest rate on the Facility was 8.5% per annum. The Facility requires the payment of a commitment fee equal to 0.50% per annum of the committed amount. In addition, the Company agreed to pay an amendment fee at closing of \$1.0 million, and a restructuring fee payable on January 31, 2010 equal to 1.0% of the outstanding borrowings on such date if the Facility remains outstanding. The Facility generally requires payments of interest no less frequently than quarterly.

**Private Debt Refinance.** On January 29, 2010, the Company repaid the Notes and the Facility (collectively, the "Existing Private Debt") in full using cash on hand from asset sales and repayments and proceeds from a new term loan. In addition, by repaying the Notes before January 31, 2010, the Company was able to apply the \$50.0 million restructuring fee paid at closing of the August 2009 restructure toward the principal balance of the Notes. In connection with the repayment and refinancing, the Company entered into a Second Amended and Restated Credit Agreement (the "Credit Agreement") pursuant to which the Company obtained a senior secured term loan in the aggregate amount of \$250 million (the "Term Loan"). On January 29, 2010, after giving effect to the refinancing and the full repayment of the Existing Private Debt, the Company had total outstanding debt of \$995.5 million and cash and investments in money market and other securities of approximately \$128 million.

The Term Loan matures on February 28, 2011. The Company is required to make mandatory repayments of the Term Loan (i) using 56% of all net cash proceeds from asset dispositions, subject to certain conditions and exclusions, (ii) using 100% of proceeds from any unsecured debt issuance,

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(iii) using 100% of available cash in excess of \$125 million at any month end and (iv) to cure any borrowing base deficiencies, as discussed below. In addition, the Term Loan must be repaid in full if at any time the outstanding principal balance is less than or equal to \$25 million and the Company's available cash is then equal to or greater than \$125 million. The Term Loan generally becomes due and payable in full upon a change of control of the Company; except that, in certain circumstances, the Term Loan may be assumed by Ares Capital in connection with the consummation of the merger contemplated by the Agreement and Plan of Merger, dated as of October 26, 2009, among Ares Capital, ARCC Odyssey Corp. and the Company.

At the Company's election, borrowings under the Term Loan will generally bear interest at a rate per annum equal to (i) LIBOR plus 4.50% or (ii) 2.00% plus the higher of (a) the JPMorgan Chase Bank, N.A. prime rate, (b) the daily one-month LIBOR plus 2.5%, and (c) the federal funds effective rate plus 0.5%. In addition to the interest paid on the Term Loan, the Company incurred other fees and costs associated with the repayment and refinancing and will also incur additional exit fees, which increase over the term of the loan, as the Term Loan is repaid.

Consistent with the terms of the Existing Private Debt, the Company has granted the Term Loan lenders a blanket lien on a substantial portion of its assets. Borrowings under the Term Loan are subject to a requirement that the borrowing base (as defined in the Credit Agreement) be greater than 2.5x the outstanding principal balance of the Term Loan at any time such outstanding principal balance is greater than \$175 million, and greater than 2.0x at any time such outstanding principal balance is less than or equal to \$175 million. If the borrowing base falls below the minimum coverage requirement, the Company is required to make repayments of the Term Loan in an amount sufficient to bring the coverage ratio to the required level.

The Credit Agreement contains various operating covenants applicable to the Company. The Term Loan requires that the Company maintain a ratio of Adjusted EBIT to Adjusted Interest Expense (as such terms are defined in the Credit Agreement) of not less than 0.70:1.0, measured as of the last day of each fiscal quarter as provided in the Credit Agreement. In addition, the Company is precluded from incurring additional indebtedness unless its asset coverage of all outstanding indebtedness is at least 200% and may not pay dividends in excess of the minimum the Company reasonably believes is required to maintain its tax status as a regulated investment company.

The Credit Agreement contains customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, cross-defaults, bankruptcy events and failure to pay judgments. Certain of these events of default are subject to notice and cure periods or materiality thresholds. The occurrence of an event of default would permit the administrative agent for the lenders under the Term Loan, or the holders of more than 51% of the aggregate principal debt outstanding under the Term Loan, to declare the entire unpaid principal balance outstanding due and payable. Pursuant to the terms of the Credit Agreement, during the continuance of an event of default, at the election of the required lenders, the applicable interest on any outstanding principal amount of the Term Loan would increase by 200 basis points.

**Publicly Issued Unsecured Notes Payable.** At December 31, 2009, the Company had outstanding publicly issued unsecured notes as follows:

| (\$ in millions)      | Amount   | Maturity Date  |
|-----------------------|----------|----------------|
| 6.625% Notes due 2011 | \$ 319.9 | July 15, 2011  |
| 6.000% Notes due 2012 | 195.6    | April 1, 2012  |
| 6.875% Notes due 2047 | 230.0    | April 15, 2047 |
| Total                 | \$ 745.5 |                |



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The 6.625% Notes due 2011 and the 6.000% Notes due 2012 require payment of interest only semi-annually, and all principal is due upon maturity. The Company has the option to redeem these notes in whole or in part, together with a redemption premium, as stipulated in the notes.

The 6.875% Notes due 2047 require payment of interest only quarterly, and all principal is due upon maturity. These notes are redeemable in whole or in part at any time or from time to time on or after April 15, 2012, at par and upon the occurrence of certain tax events as stipulated in the notes.

The Company has certain financial and operating covenants that are required by the publicly issued unsecured notes payable. The Company is not permitted to issue indebtedness unless immediately after such issuance the Company has asset coverage of all outstanding indebtedness of at least 200% as required by the 1940 Act, as amended. At December 31, 2009, the Company's asset coverage ratio was 180%.

**Scheduled Maturities.** Scheduled future maturities of notes payable at December 31, 2009, were as follows:

| (\$ in millions)<br>Year | Amount Maturing                                   |  | Total             |
|--------------------------|---|--|-------------------|
|                          | Privately<br>Issued<br>Unsecured<br>Notes Payable | Publicly<br>Issued<br>Unsecured<br>Notes Payable |                   |
| 2010                     | \$ 86.0   | \$   | \$ 86.0           |
| 2011                     | 253.8   | 319.9  | 573.7             |
| 2012                     | 333.4   | 195.6  | 529.0             |
| 2013                     |   |  |                   |
| 2014                     |   |  |                   |
| Thereafter               |   | 230.0  | 230.0             |
| <b>Total</b>             | <b>\$ 673.2</b>                                   | <b>\$ 745.5</b>                                  | <b>\$ 1,418.7</b> |

***Fair Value of Debt***

The Company records debt at cost. The fair value of the Company's outstanding debt was approximately \$1.3 billion and \$1.4 billion at December 31, 2009 and 2008, respectively. The fair value of the Company's publicly issued 6.875% Notes due 2047 was determined using the market price of the retail notes at December 31, 2009. The fair value of the Company's other debt was determined based on market interest rates for similar instruments as of the balance sheet date.

**Note 5. Guarantees and Commitments**

In the ordinary course of business, the Company has issued guarantees through financial intermediaries on behalf of certain portfolio companies. As of December 31, 2009 and 2008, the Company had issued guarantees of debt and rental obligations aggregating \$9.1 million and \$19.2 million, respectively. Under these arrangements, the Company would be required to make payments to third parties if the portfolio companies were to default on their related payment obligations.

As of December 31, 2009, the guarantees expired as follows:

| (in millions) | Total  | 2010   | 2011 | 2012   | 2013 | 2014 | After<br>2014 |
|---------------|--------|--------|------|--------|------|------|---------------|
| Guarantees    | \$ 9.1 | \$ 8.2 | \$   | \$ 0.1 | \$   | \$   | \$ 0.8        |

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In the ordinary course of business, the Company enters into agreements with service providers and other parties that may contain provisions for the Company to indemnify and guaranty certain minimum fees to such parties under certain circumstances.

At December 31, 2009, the Company had outstanding investment commitments totaling \$153.8 million.

**Note 6. Shareholders' Equity**

Sales of common stock for the years ended December 31, 2009, 2008, and 2007, were as follows:

| (in millions)                           | 2009     | 2008     | 2007 |
|---|----------|----------|------|
| Number of common shares                 |          | 20.5     | 6.6  |
| Gross proceeds                          | \$ 417.1 | \$ 177.7 |      |
| Less costs, including underwriting fees | (14.6)   | (6.4)    |      |
| Net proceeds                            | \$ 402.5 | \$ 171.3 |      |

The Company issued 1.2 million and 0.6 million shares of common stock upon the exercise of stock options during the years ended December 31, 2009, and 2007, respectively. There were no stock options exercised in the year ended December 31, 2008. In addition, in July 2007, the Company issued 1.7 million unregistered shares of common stock upon the cancellation of stock options pursuant to a tender offer. See Note 9.

The Company has a dividend reinvestment plan, whereby the Company may buy shares of its common stock in the open market or issue new shares in order to satisfy dividend reinvestment requests. If the Company issues new shares, the issue price is equal to the average of the closing sale prices reported for the Company's common stock for the five consecutive trading days immediately prior to the dividend payment date. The Company cannot issue new shares at a price below net asset value. Dividend reinvestment plan activity for the years ended December 31, 2009, 2008, and 2007, was as follows:

| (in millions, except per share amounts)         | 2009 | 2008     | 2007     |
|---|------|----------|----------|
| Shares issued                                   |      | 0.2      | 0.6      |
| Average price per share                         | \$   | \$ 19.49 | \$ 27.40 |
| Shares purchased by plan agent for shareholders |      | 1.8      |          |
| Average price per share                         | \$   | \$ 6.09  | \$       |

**Note 7. Earnings Per Common Share**

Earnings per common share for the years ended December 31, 2009, 2008, and 2007, were as follows:

| (in millions, except per share amounts)                         | 2009       | 2008         | 2007     |
|---|------------|--------------|----------|
| Net increase (decrease) in net assets resulting from operations | \$ (521.5) | \$ (1,040.0) | \$ 153.3 |
| Weighted average common shares outstanding basic                | 179.0      | 173.0        | 152.9    |
| Dilutive options outstanding                                    |            |              | 1.8      |
| Weighted average common shares outstanding diluted              | 179.0      | 173.0        | 154.7    |
| Basic earnings (loss) per common share                          | \$ (2.91)  | \$ (6.01)    | \$ 1.00  |
| Diluted earnings (loss) per common share                        | \$ (2.91)  | \$ (6.01)    | \$ 0.99  |

Table of Contents**Note 8. Employee Compensation Plans**

For 2009, the Company accrued \$7.5 million in bonuses and \$0.3 million in performance awards as compared to \$1.0 million in bonuses and \$11.2 million in performance awards accrued in 2008. In order to retain key personnel through the closing date of the merger with Ares Capital, the Company will pay the 2009 bonuses as retention bonuses on the earlier of April 15, 2010 or the closing date of the merger with Ares Capital. An employee must be employed on the payment date in order to receive the retention bonus.

The Company had an Individual Performance Award plan ("IPA"), and an Individual Performance Bonus plan ("IPB", each individually a "Plan," or collectively, the "Plans") for 2008 and 2007. These Plans generally were determined annually at the beginning of each year but may have been adjusted throughout the year. In 2008, the IPA was paid in cash in two equal installments during the year. Through December 31, 2007, the IPA amounts were contributed into a trust and invested in the Company's common stock. The IPB was distributed in cash to award recipients throughout the year (beginning in February of each respective year) as long as the recipient remained employed by the Company. The Company did not establish an IPA or IPB for 2009 or 2010.

The trusts for the IPA payments were consolidated with the Company's accounts. The common stock was classified as common stock held in deferred compensation trust in the accompanying financial statements and the deferred compensation obligation, which represented the amount owed to the employees, was included in other liabilities. Changes in the value of the Company's common stock held in the deferred compensation trust were not recognized. However, the liability was marked to market with a corresponding charge or credit to employee compensation expense.

In December 2007, the Company's Board of Directors made a determination that it was in the best interests of the Company to terminate its deferred compensation arrangements. The Board of Directors' decision primarily was in response to increased complexity resulting from recent changes in the regulation of deferred compensation arrangements, and the accounts under these Plans were distributed to participants in full on March 18, 2008, the termination and distribution date.

The accounts under the deferred compensation arrangements totaled \$52.5 million at December 31, 2007. The balances on the termination date were distributed to participants in March 2008 subsequent to the termination date in accordance with the transition rule for payment elections under Section 409A of the Code. Distributions from the plans were made in cash or shares of the Company's common stock, net of required withholding taxes.

The Company did not establish an IPA or IPB for 2009. The IPA and IPB expenses are included in employee expenses and for the years ended December 31, 2008 and 2007, were as follows:

| (\$ in millions)                     | 2008          | 2007            |
|--------------------------------------|---------------|-----------------|
| IPA contributions                    | \$ 8.5        | \$ 9.8          |
| IPA mark to market expense (benefit) | (4.1)         | (14.0)          |
| <b>Total IPA expense (benefit)</b>   | <b>\$ 4.4</b> | <b>\$ (4.2)</b> |
| <br>Total IPB expense                | <br>\$ 8.8    | <br>\$ 9.5      |

**Note 9. Stock Option Plan**

The purpose of the stock option plan ("Option Plan") is to provide officers and non-officer directors of the Company with additional incentives. Options are exercisable at a price equal to the fair market value of the shares on the day the option is granted. Each option states the period or periods of time within which the option may be exercised by the optionee, which may not exceed ten years

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from the date the option is granted. The options granted to officers generally vest ratably over up to a three year period. Options granted to non-officer directors vest on the grant date.

All rights to exercise options terminate 60 days after an optionee ceases to be (i) a non-officer director, (ii) both an officer and a director, if such optionee serves in both capacities, or (iii) an officer (if such officer is not also a director) of the Company for any cause other than death or total and permanent disability. In the event of a change of control of the Company, all outstanding options will become fully vested and exercisable as of the change of control.

At December 31, 2009, 2008 and 2007, there were 37.2 million shares authorized under the Option Plan.

On July 18, 2007, the Company completed a tender offer related to the Company's offer to all optionees who held vested "in-the-money" stock options as of June 20, 2007, the opportunity to receive an option cancellation payment ("OCP") equal to the "in-the-money" value of the stock options cancelled, determined using the Weighted Average Market Price of \$31.75, which would be paid one-half in cash and one-half in unregistered shares of the Company's common stock. The Company accepted for cancellation 10.3 million vested options, which in the aggregate had a weighted average exercise price of \$21.50. This resulted in a total option cancellation payment of approximately \$105.6 million, of which \$52.8 million was paid in cash and \$52.8 million was paid through the issuance of 1.7 million unregistered shares of the Company's common stock, determined using the Weighted Average Market Price of \$31.75. The Weighted Average Market Price represented the volume weighted average price of the Company's common stock over the fifteen trading days preceding the first day of the offer period, or June 20, 2007. See Note 2 Stock Compensation Plans.

At December 31, 2009 and 2008, the number of shares available to be granted under the Option Plan was 6.0 million and 9.5 million, respectively.

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Information with respect to options granted, exercised and forfeited under the Option Plan for the years ended December 31, 2009, 2008, and 2007, was as follows:

| (in millions, except per share amounts)                            | Shares | Weighted<br>Average<br>Exercise Price<br>Per Share | Weighted<br>Average<br>Contractual<br>Remaining<br>Term (Years) | Aggregate<br>Intrinsic<br>Value at<br>December 31,<br>2009 |
|--|--------|--|---|--|
| Options outstanding at January 1, 2007                             | 23.2   | \$ 24.92   |   |  |
| Granted  | 6.7    | \$ 29.52   |   |  |
| Exercised  | (0.6)  | \$ 25.25   |   |  |
| Cancelled in tender offer(1)                                       | (10.3) | \$ 21.50   |   |  |
| Forfeited  | (0.5)  | \$ 28.96   |   |  |
| Options outstanding at December 31, 2007                           | 18.5   | \$ 28.36   |   |  |
| Granted  | 7.7    | \$ 22.52   |   |  |
| Exercised  |        | \$   |   |  |
| Forfeited  | (6.5)  | \$ 26.87   |   |  |
| Options outstanding at December 31, 2008                           | 19.7   | \$ 26.56   |   |  |
| Granted  | 11.5   | \$ 0.88  |   |  |
| Exercised  | (1.3)  | \$ 0.73  |   |  |
| Forfeited  | (8.0)  | \$ 22.85   |   |  |
| Options outstanding at December 31, 2009                           | 21.9   | \$ 15.94   | 5.34  | \$ 24.5  |
| Exercisable at December 31, 2009(2)                                | 12.6   | \$ 22.35   | 4.95  | \$ 6.8   |
| Exercisable and expected to be exercisable at December 31, 2009(3) | 21.4   | \$ 16.35   | 5.31  | \$ 22.9  |

(1) See description of the tender offer above.

(2) Represents vested options.

(3) The amount of options expected to be exercisable at December 31, 2009, is calculated based on an estimate of expected forfeitures.

The fair value of the shares vested during the years ended December 31, 2009, 2008, and 2007, was \$8.2 million, \$13.5 million, and \$21.6 million, respectively. The total intrinsic value of the options exercised during the years ended December 31, 2009, and 2007, was \$3.3 million, and \$2.7 million, respectively. There were no options exercised during the year ended December 31, 2008.

The following table summarizes information about stock options outstanding at December 31, 2009:

| Range of Exercise Prices | Outstanding                                     |   |  | Exercisable                                     |  |
|--------------------------|---|---|--|---|--|
|                          | Total<br>Number<br>Outstanding<br>(in millions) | Weighted<br>Average<br>Remaining<br>Contractual<br>Life (Years) | Weighted<br>Average<br>Exercise<br>Price | Total<br>Number<br>Exercisable<br>(in millions) | Weighted<br>Average<br>Exercise<br>Price |
| \$0.73                   | 8.2   | 6.17  | \$ 0.73                                  | 2.3   | \$ 0.73                                  |
| \$2.63                   | 0.9   | 6.22  | \$ 2.63                                  | 0.2   | \$ 2.63                                  |
| \$14.28 - \$29.58        | 12.5  | 4.79  | \$ 26.45                                 | 9.8   | \$ 27.51                                 |
| \$30.00 - \$30.52        | 0.3   | 3.18  | \$ 30.26                                 | 0.3   | \$ 30.26                                 |

|      |      |    |       |      |    |       |
|------|------|----|-------|------|----|-------|
| 21.9 | 5.34 | \$ | 15.94 | 12.6 | \$ | 22.35 |
|------|------|----|-------|------|----|-------|

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As a BDC under the 1940 Act, the Company is entitled to provide and has provided loans to the Company's officers in connection with the exercise of options. However, as a result of provisions of the Sarbanes-Oxley Act of 2002, the Company is prohibited from making new loans to its executive officers. The outstanding loans are full recourse, have varying terms not exceeding ten years, bear interest at the applicable federal interest rate in effect at the date of issue and have been recorded as a reduction to shareholders' equity. At December 31, 2009 and 2008, the Company had outstanding loans to officers of \$0.3 million and \$1.1 million, respectively. Officers with outstanding loans repaid principal of \$0.8 million, \$1.6 million, and \$0.2 million, for the years ended December 31, 2009, 2008, and 2007, respectively. The Company recognized a nominal amount of interest income from these loans during the years ended December 31, 2009 and 2008, and recognized \$0.1 million during the year ended December 31, 2007. This interest income is included in interest and dividends for companies less than 5% owned.

**Note 10. Dividends and Distributions and Taxes**

For the years ended December 31, 2009, 2008, and 2007, the Company's Board of Directors declared the following distributions:

| (in millions, except per share amounts)    | 2009         |                 | 2008         |                 | 2007         |                 |
|--|--------------|-----------------|--------------|-----------------|--------------|-----------------|
|  | Total Amount | Total Per Share | Total Amount | Total Per Share | Total Amount | Total Per Share |
| First quarter                              | \$           | \$              | \$ 108.1     | \$ 0.65         | \$ 95.8      | \$ 0.63         |
| Second quarter                             |              |                 | 116.1        | 0.65            | 97.6         | 0.64            |
| Third quarter                              |              |                 | 116.1        | 0.65            | 100.3        | 0.65            |
| Fourth quarter                             |              |                 | 116.2        | 0.65            | 102.6        | 0.65            |
| Extra dividend                             |              |                 |              |                 | 11.0         | 0.07            |
| Total distributions to common shareholders | \$           | \$              | \$ 456.5     | \$ 2.60         | \$ 407.3     | \$ 2.64         |

For income tax purposes, distributions for 2008 and 2007, were composed of the following:

| (in millions, except per share amounts)    | 2008         |                 | 2007         |                 |
|--|--------------|-----------------|--------------|-----------------|
|  | Total Amount | Total Per Share | Total Amount | Total Per Share |
| Ordinary income(1)(2)                      | \$ 104.0     | \$ 0.59         | \$ 126.7     | \$ 0.82         |
| Long-term capital gains                    | 352.5        | 2.01            | 280.6        | 1.82            |
| Total distributions to common shareholders | \$ 456.5     | \$ 2.60         | \$ 407.3     | \$ 2.64         |

(1) For the years ended December 31, 2008 and 2007, ordinary income included dividend income of approximately \$0.06 and zero, per share, respectively, that qualified to be taxed at the 15% maximum capital gains rate.

(2) For certain eligible corporate shareholders, dividends eligible for the dividend received deduction for 2008 and 2007, was \$0.056 and zero, per share, respectively.

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The following table summarizes the differences between financial statement net increase (decrease) in net assets resulting from operations and taxable income available for distribution to shareholders for the years ended December 31, 2009, 2008, and 2007:

| (\$ in millions)  | 2009<br>(ESTIMATED)(1) | 2008         | 2007         |
|---|------------------------|--------------|--------------|
| Financial statement net increase (decrease) in net assets resulting from operations | \$ (521.5)             | \$ (1,040.0) | \$ 153.3     |
| Adjustments:  |                        |              |              |
| Net change in unrealized appreciation or depreciation                               | 176.7                  | 1,123.8      | 256.2        |
| Interest- and dividend-related items  | 26.9                   | (5.3)        | 13.8         |
| Employee compensation-related items   | 1.9                    | 1.2          | 0.7          |
| Nondeductible excise tax  |                        | (0.6)        | 16.3         |
| Debt issuance cost related items  | 50.2                   |              |              |
| Realized gains recognized (deferred) through installment treatment                  | 173.3                  | 18.3         | (13.0)       |
| Other gain or loss related items  | 48.1                   | (91.7)       | (10.2)       |
| Net income (loss) from partnerships and limited liability companies(2)              | (1.7)                  | (4.6)        | (22.7)       |
| Net capital loss carryforward   | 18.5                   | 37.9         |              |
| Net (income) loss from consolidated subsidiaries, net of tax                        | (5.4)                  | 2.1          | 2.7          |
| Other   | 0.1                    | (0.7)        | 0.7          |
| <br>Taxable income (loss)   | <br>\$ (32.9)          | <br>\$ 40.4  | <br>\$ 397.8 |

(1) The Company's taxable loss for 2009 is an estimate and will not be finally determined until the Company files its 2009 tax return in September 2010. Therefore, the final taxable income (loss) may be different than this estimate.

(2) Includes taxable income (loss) passed through to the Company from Ciena Capital LLC (Ciena) and related entities in excess of interest and related portfolio income from Ciena included in the financial statements totaling (\$1.9) million and (\$22.6) million, for the years ended December 31, 2008 and 2007, respectively. See Note 3 for additional related disclosure.

Taxable income or loss generally differs from net income or loss for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses, and generally excludes net unrealized appreciation or depreciation, as gains or losses are not included in taxable income until they are realized. As a RIC, the Company may not use net operating losses ("NOLs") to offset positive taxable income earned in preceding or succeeding taxable years. However, capital losses in excess of capital gains earned in a tax year may be carried forward and used to offset capital gains in the eight succeeding tax years. The Company estimates that, as of December 31, 2009, it will have a capital loss carryforward of approximately \$56.4 million available for use in later tax years.

The Company must distribute at least 90% of its investment company taxable income to qualify for pass-through tax treatment and maintain its RIC status. The Company has distributed sufficient dividends to eliminate taxable income. Dividends declared and paid by the Company in a year generally differ from taxable income for that year as such dividends may include the distribution of current year taxable income, less amounts carried over into the following year, and the distribution of prior year taxable income carried over into and distributed in the current year.



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The Company currently estimates that it has a net taxable loss for 2009. This taxable loss for 2009 is an estimate and will not be finally determined until the Company files its 2009 tax return in

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September 2010. Because the Company had a net taxable loss in 2009, no distribution was required or made for 2009. For income tax purposes, distributions for 2008 and 2007, were made from taxable income as follows:

| (\$ in millions)  | 2008            | 2007            |
|---|-----------------|-----------------|
| Taxable income (loss)   | \$ 40.4         | \$ 397.8        |
| Taxable income earned in prior year and carried forward and distributed in current year | 393.3           | 402.8           |
| Taxable income earned in current year and carried forward for distribution in next year |                 | (393.3)         |
| Distributions from accumulated earnings   | 22.8            |                 |
| <b>Total distributions to common shareholders</b>                                       | <b>\$ 456.5</b> | <b>\$ 407.3</b> |

The Company generally will be required to pay an excise tax equal to 4% of the amount by which 98% of the Company's annual taxable income exceeds the distributions for the year. In 2007 annual taxable income was in excess of the Company's dividend distributions from such taxable income for that year, and accordingly, the Company had an excise tax expense of \$16.3 million on the excess taxable income carried forward. As of December 31, 2009 the Company had no dividend distribution requirement for the 2009 tax year, therefore, it has not recorded an excise tax for the year ended December 31, 2009. In certain circumstances, the Company is restricted in its ability to pay dividends. The Company's outstanding Term Loan contains provisions that limit the amount of dividends the Company can pay. In addition, pursuant to the 1940 Act, the Company may be precluded from declaring dividends or other distributions to its shareholders unless the Company's asset coverage is at least 200%.

The Company currently estimates that it has cumulative deferred taxable income related to installment sale gains of approximately \$44.4 million as of December 31, 2009. These gains have been recognized for financial reporting purposes in the respective years they were realized, but are generally deferred for tax purposes until the notes or other amounts received from the sale of the related investments are collected in cash. The recognition of installment sales gains as of December 31, 2009 are estimates and will not be finally determined until the Company files its 2009 tax return in September 2010.

At December 31, 2009 and 2008, the aggregate gross unrealized appreciation of the Company's investments above cost for federal income tax purposes was \$112.8 million (estimated) and \$346.5 million, respectively. At December 31, 2009 and 2008, the aggregate gross unrealized depreciation of the Company's investments below cost for federal income tax purposes was \$1.5 billion (estimated) and \$1.4 billion, respectively. The Company's investments as compared to cost for federal income tax purposes was net unrealized depreciation of \$1.4 billion (estimated) and \$1.1 billion at December 31, 2009 and 2008, respectively. At December 31, 2009 and 2008, the aggregate cost of securities, for federal income tax purposes was \$3.5 billion (estimated) and \$4.5 billion, respectively.

The Company's consolidated subsidiary, AC Corp, is subject to federal and state income taxes. For the years ended December 31, 2009, 2008, and 2007, AC Corp's income tax expense (benefit) was \$5.6 million, \$3.1 million, and \$(2.7) million, respectively. For the year ended December 31, 2009 and 2008, paid in capital was decreased by \$3.8 million and \$3.0 million, respectively, primarily for the reduction of the deferred tax asset related to stock options that expired unexercised.

The net deferred tax asset at December 31, 2009, was \$12.7 million, consisting of deferred tax assets of \$13.0 million and deferred tax liabilities of \$0.3 million. The net deferred tax asset at December 31, 2008, was \$15.0 million, consisting of deferred tax assets of \$32.2 million and deferred tax liabilities of \$17.2 million. At December 31, 2009, the deferred tax assets primarily related to

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compensation-related items. Management believes that the realization of the net deferred tax asset is more likely than not based on expectations as to future taxable income and scheduled reversals of temporary differences. Accordingly, the Company did not record a valuation allowance at December 31, 2009 or 2008.

**Note 11. Cash**

The Company places its cash with financial institutions and, at times, cash held in checking accounts in financial institutions may be in excess of the Federal Deposit Insurance Corporation insured limit.

At December 31, 2009 and 2008, cash consisted of the following:

| (\$ in millions)  | 2009           | 2008           |
|-------------------|----------------|----------------|
| Cash              | \$ 21.7        | \$ 51.9        |
| Less escrows held | (1.0)          | (1.5)          |
| <b>Total cash</b> | <b>\$ 20.7</b> | <b>\$ 50.4</b> |

**Note 12. Supplemental Disclosure of Cash Flow Information**

The Company paid interest of \$157.7 million, \$161.0 million, and \$123.5 million, respectively, for the years ended December 31, 2009, 2008, and 2007. The Company paid income taxes, including excise taxes (net of refunds), of \$9.9 million, \$10.1 million and \$18.8 million for the years ended December 31, 2009, 2008 and 2007, respectively.

Non-cash operating activities for the years ended December 31, 2009, 2008 and 2007, totaled \$86.8 million, \$117.8 million, and \$142.2 million, respectively. Non-cash operating activities included the exchange of existing debt securities and accrued interest for new debt and equity securities. Non-cash financing activities for the year ended December 31, 2009 totaled \$891.0 million as a result of the refinancing of privately issued unsecured debt with new privately issued secured debt. Non-cash financing activities included the issuance of common stock in lieu of cash distributions totaling \$3.8 million and \$17.1 million, for the years ended December 31, 2008 and 2007, respectively. Non-cash financing activities for the year ended December 31, 2007, also included the payment of one-half of the value of the option cancellation payment in connection with the tender offer, or \$52.8 million, through the issuance of 1.7 million unregistered shares of the Company's common stock. See Notes 2 and 9.

Table of Contents**Note 13. Financial Highlights**

|   | At and for the Years<br>Ended December 31, |          |          |
|---|--|----------|----------|
|   | 2009                                       | 2008     | 2007     |
| <b>Per Common Share Data</b>  |  |          |          |
| Net asset value, beginning of year  | \$ 9.62                                    | \$ 17.54 | \$ 19.12 |
| Net investment income(1)  | 0.31                                       | 1.22     | 0.91     |
| Net realized gains (losses)(1)(2)   | (2.02)                                     | (0.75)   | 1.74     |
| Net investment income plus net realized gains (losses)(1)                         | (1.71)                                     | 0.47     | 2.65     |
| Net change in unrealized appreciation or depreciation(1)(2)                       | (0.98)                                     | (6.49)   | (1.66)   |
| Gain on repurchase of debt(1)   | 0.47                                       | 0.01     |          |
| Loss on extinguishment of debt(1)   | (0.69)                                     |          |          |
| Net increase (decrease) in net assets resulting from operations(1)                | (2.91)                                     | (6.01)   | 0.99     |
| Decrease in net assets from shareholder distributions                             |  | (2.60)   | (2.64)   |
| Net increase (decrease) in net assets from capital share transactions(1)(3)       | (0.05)                                     | 0.69     | 0.41     |
| Decrease in net assets from cash portion of the option cancellation payment(1)(4) |  |          | (0.34)   |
| Net asset value, end of year  | \$ 6.66                                    | \$ 9.62  | \$ 17.54 |
| Market value, end of year   | \$ 3.61                                    | \$ 2.69  | \$ 21.50 |
| Total return(5)   | 34.2%                                      | (82.5)%  | (27.6)%  |

|  | At and for the Years<br>Ended December 31, |            |            |
|--|--|------------|------------|
|  | 2009                                       | 2008       | 2007       |
| <b>Ratios and Supplemental Data</b>  |  |            |            |
| (\$ and shares in millions, except per share amounts)                              |  |            |            |
| Ending net assets  | \$ 1,198.2                                 | \$ 1,718.4 | \$ 2,771.8 |
| Common shares outstanding at end of year   | 179.9                                      | 178.7      | 158.0      |
| Diluted weighted average common shares outstanding                                 | 179.0                                      | 173.0      | 154.7      |
| Employee, employee stock option and administrative expenses/average net assets     | 6.12%                                      | 5.47%      | 6.10%      |
| Total operating expenses/average net assets  | 18.86%                                     | 11.39%     | 10.70%     |
| Income tax expense including excise tax/average net assets                         | 0.41%                                      | 0.10%      | 0.47%      |
| Net investment income/average net assets   | 4.07%                                      | 8.43%      | 4.91%      |
| Net increase (decrease) in net assets resulting from operations/average net assets | (38.18)%                                   | (41.34)%   | 5.34%      |
| Portfolio turnover rate  | 4.80%                                      | 24.00%     | 26.84%     |
| Average debt outstanding   | \$ 1,753.7                                 | \$ 2,091.6 | \$ 1,924.2 |
| Average debt per share(1)  | \$ 9.80                                    | \$ 12.09   | \$ 12.44   |

- (1) Based on diluted weighted average number of common shares outstanding for the year.
- (2) Net realized gains (losses) and net change in unrealized appreciation or depreciation can fluctuate significantly from year to year.
- (3) Excludes capital share transactions related to the cash portion of the option cancellation payment.
- (4) See Notes 2 and 9 to the consolidated financial statements above for further discussion.



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(5)

Total return assumes the reinvestment of all dividends paid for the years presented.

**Note 14. Selected Quarterly Data (Unaudited)**

|   | 2009       |           |            |           |
|---|------------|-----------|------------|-----------|
|   | Qtr. 1     | Qtr. 2    | Qtr. 3     | Qtr. 4    |
| Total interest and related portfolio income                     | \$ 95.2    | \$ 84.6   | \$ 72.4    | \$ 66.4   |
| Net investment income   | \$ 27.5    | \$ 18.2   | \$ 9.6     | \$ 0.2    |
| Net increase (decrease) in net assets resulting from operations | \$ (347.7) | \$ (29.1) | \$ (140.7) | \$ (4.1)  |
| Basic earnings (loss) per common share                          | \$ (1.95)  | \$ (0.16) | \$ (0.79)  | \$ (0.02) |
| Diluted earnings (loss) per common share                        | \$ (1.95)  | \$ (0.16) | \$ (0.79)  | \$ (0.02) |

| (\$ in millions, except per share amounts)                      | 2008      |            |            |            |
|---|-----------|------------|------------|------------|
|   | Qtr. 1    | Qtr. 2     | Qtr. 3     | Qtr. 4     |
| Total interest and related portfolio income                     | \$ 144.9  | \$ 134.6   | \$ 120.7   | \$ 100.9   |
| Net investment income   | \$ 69.5   | \$ 63.9    | \$ 45.6    | \$ 33.0    |
| Net increase (decrease) in net assets resulting from operations | \$ (40.7) | \$ (102.2) | \$ (318.3) | \$ (578.8) |
| Basic earnings (loss) per common share                          | \$ (0.25) | \$ (0.59)  | \$ (1.78)  | \$ (3.24)  |
| Diluted earnings (loss) per common share                        | \$ (0.25) | \$ (0.59)  | \$ (1.78)  | \$ (3.24)  |

**Note 15. Litigation**

On June 23, 2004, the Company was notified by the SEC that the SEC was conducting an informal investigation of the Company. The investigation related to the valuation of securities in the Company's private finance portfolio and other matters. On June 20, 2007, the Company announced that it entered into a settlement with the SEC that resolved the SEC's informal investigation. As part of the settlement and without admitting or denying the SEC's allegations, the Company agreed to the entry of an administrative order. In the order the SEC alleged that, between June 30, 2001, and March 31, 2003, the Company did not maintain books, records and accounts which, in reasonable detail, supported or accurately and fairly reflected valuations of certain securities in the Company's private finance portfolio and, as a result, did not meet certain recordkeeping and internal controls provisions of the federal securities laws. In the administrative order, the SEC ordered the Company to continue to maintain certain of its current valuation-related controls. Specifically, during and following the two-year period of the order, the Company has: (1) continued to employ a Chief Valuation Officer, or a similarly structured officer-level employee, to oversee its quarterly valuation processes; and (2) continued to employ third-party valuation consultants to assist in its quarterly valuation processes.

On December 22, 2004, the Company received letters from the U.S. Attorney for the District of Columbia requesting the preservation and production of information regarding the Company and Business Loan Express, LLC (currently known as Ciena Capital LLC) in connection with a criminal investigation relating to matters similar to those investigated by and settled with the SEC as discussed above. The Company produced materials in response to the requests from the U.S. Attorney's office and certain current and former employees were interviewed by the U.S. Attorney's Office. The Company has voluntarily cooperated with the investigation.

In late December 2006, the Company received a subpoena from the U.S. Attorney for the District of Columbia requesting, among other things, the production of records regarding the use of private investigators by the Company or its agents. The Board established a committee, which was advised by its own counsel, to review this matter. In the course of gathering documents responsive to the subpoena, the Company became aware that an agent of the Company obtained what were represented to be telephone records of David Einhorn and which purport to be records of calls from Greenlight Capital during a period of time in 2005. Also, while the Company was gathering documents

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responsive to the subpoena, allegations were made that the Company's management had authorized the acquisition of these records and that management was subsequently advised that these records had been obtained. The Company's management has stated that these allegations are not true. The Company has cooperated fully with the inquiry by the U.S. Attorney's Office.

On February 26, 2007, Dana Ross filed a class action complaint in the U.S. District Court for the District of Columbia in which she alleges that Allied Capital Corporation and certain members of management violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder. Thereafter, the court appointed new lead counsel and approved new lead plaintiffs. On July 30, 2007, plaintiffs served an amended complaint. Plaintiffs claim that, between November 7, 2005, and January 22, 2007, Allied Capital either failed to disclose or misrepresented information about its portfolio company, Business Loan Express, LLC. Plaintiffs sought unspecified compensatory and other damages, as well as other relief. On September 13, 2007, the Company filed a motion to dismiss the lawsuit. On November 4, 2009, the motion to dismiss was granted.

A number of lawsuits have been filed against the Company, its Board of Directors and Ares Capital Corporation. These include: (1) In re Allied Capital Corporation Shareholder Litigation, Case No. 322639-V (Circuit Court for Montgomery County, Maryland); (2) Sandler v. Walton, et al., Case No. 2009 CA 008123 B (Superior Court for the District of Columbia); (3) Wienecki v. Allied Capital Corporation, et al., Case No. 2009 CA 008541 B (Superior Court for the District of Columbia); and (4) Ryan v. Walton, et al., Case No. 1:10-CV-00145-RMC (United States District Court for the District of Columbia). The suits were filed after the announcement of the merger with Ares Capital on October 26, 2009 either as putative stockholder class actions, shareholder derivative actions or both. All of the actions assert similar claims alleging that the Company's Board of Directors failed to discharge adequately its fiduciary duties to shareholders by failing to adequately value the Company's shares and ensure that the Company's shareholders received adequate consideration in a proposed sale of Allied Capital to Ares Capital Corporation, that the proposed merger between the Company and Ares Capital is the product of a flawed sales process, that the Company's directors and officers breached their fiduciary duties by agreeing to a structure that was not designed to maximize the value of Allied's shares, and that Ares Capital aided and abetted the alleged breach of fiduciary duty. The plaintiffs demand, among other things, a preliminary and permanent injunction enjoining the sale and rescinding the transaction or any part thereof that has been implemented. The Company believes that each of the lawsuits is without merit.

In addition, the Company is party to certain lawsuits in the normal course of business. Furthermore, third parties may try to seek to impose liability on the Company in connection with the activities of its portfolio companies. For a discussion of civil investigations being conducted regarding the lending practice of Ciena Capital LLC, a portfolio company of the Company, see "Note 3, Portfolio Ciena Capital LLC."

While the outcome of any of the open legal proceedings described above cannot at this time be predicted with certainty, the Company does not expect these matters will materially affect its financial condition or results of operations.

**ALLIED CAPITAL CORPORATION AND SUBSIDIARIES**  
**SCHEDULE OF INVESTMENTS IN AND ADVANCES TO AFFILIATES**

| PRIVATE<br>FINANCE<br>Portfolio Company<br>(in thousands)   | Investment(1)  | Amount of Interest<br>or Dividends |          | December 31,<br>2008<br>Value | Gross<br>Additions(3) | Gross<br>Reductions(4) | December 31,<br>2009<br>Value |
|---|--|------------------------------------|----------|-------------------------------|-----------------------|------------------------|-------------------------------|
|   |  | Credited<br>to<br>Income(6)        | Other(2) |                               |                       |                        |                               |
| <b>PRIVATE<br/>FINANCE<br/>Portfolio Company<br/>(in thousands)<br/>Companies More<br/>Than 25% Owned</b> |  |                                    |          |                               |                       |                        |                               |
| AGILE Fund I, LLC<br>(Private Equity<br>Fund)   | Equity Interests   |                                    |          | \$ 497                        | \$ 44                 | \$ (92)                | \$ 449                        |
| AllBridge<br>Financial, LLC<br>(Asset<br>Management)  | Senior Loan  | \$ 44                              |          |                               | 1,500                 |                        | 1,500                         |
|   | Equity Interests   |                                    |          | 10,960                        | 6,926                 | (2,081)                | 15,805                        |
| Allied Capital Senior<br>Debt Fund, L.P.<br>(Private Debt Fund)   | Limited<br>Partnership<br>Interests  |                                    |          | 31,800                        |                       | (31,800)               |                               |
| Avborne, Inc.<br>(Business Services)  | Preferred Stock<br>Common Stock  |                                    |          | 942                           | 39                    | (942)                  | 39                            |
| Avborne Heavy<br>Maintenance, Inc.<br>(Business Services)   | Common Stock   |                                    |          |                               |                       |                        |                               |
| Aviation Properties<br>Corporation<br>(Business Services)   | Common Stock   |                                    |          |                               | 30                    | (30)                   |                               |
| Border Foods, Inc.<br>(Consumer<br>Products)  | Senior Loan  | 5,618                              |          | 33,027                        | 2,956                 | (1,857)                | 34,126                        |
|   | Preferred Stock<br>Common Stock  |                                    |          | 11,851                        | 9,050<br>9,663        |                        | 20,901<br>9,663               |
| Calder Capital<br>Partners, LLC<br>(Asset<br>Management)  | Senior Loan(5)   |                                    |          | 953                           | 3,542                 | (4,495)                |                               |
|   | Equity Interests   |                                    |          |                               | 2,454                 | (2,454)                |                               |
| Callidus Capital<br>Corporation<br>(Asset<br>Management)  | Subordinated<br>Debt   | 3,086                              |          | 16,068                        | 5,714                 | (2,674)                | 19,108                        |
|   | Common Stock   |                                    |          | 34,377                        |                       | (34,377)               |                               |
| Ciena Capital LLC<br>(Financial Services)   | Senior Loan(5)<br>Class B Equity<br>Interests<br>Class C Equity<br>Interests |                                    |          | 104,883                       | 3,504                 | (4,832)<br>(3,504)     | 100,051                       |
| CitiPostal Inc.<br>(Business Services)  | Senior Loan  | 30                                 |          | 681                           | 2                     |                        | 683                           |
|   | Unitranche Debt<br>Subordinated<br>Debt                                      | 6,304                              |          | 51,548                        | 566                   | (1,481)                | 50,633                        |
|   | Common Stock   | 1,635                              |          | 9,114<br>8,616                | 1,571                 | (7,184)                | 10,685<br>1,432               |



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|                                      |                              |           |        |        |          |        |
|--------------------------------------|------------------------------|-----------|--------|--------|----------|--------|
| Coverall North America, Inc.         | Unitranche Debt Subordinated | 3,890     | 31,948 | 33     | (408)    | 31,573 |
| (Business Services)                  | Debt                         | 860       | 5,549  | 6      |          | 5,555  |
|                                      | Common Stock                 |           | 17,968 | 1      | (6,583)  | 11,386 |
|                                      | Subordinated                 |           |        |        |          |        |
| CR Holding, Inc. (Consumer Products) | Debt(5)                      |           | 17,360 | 23,150 | (40,510) |        |
|                                      | Common Stock                 |           |        | 28,744 | (28,744) |        |
| Crescent Equity Corp.                | Senior Loan Subordinated     | 44        | 433    |        |          | 433    |
| (Business Services)                  | Debt(5)                      | 74 \$ 245 | 18,614 | 85     | (14,567) | 4,132  |
|                                      | Common Stock                 |           | 4,580  | 2,253  | (6,833)  |        |
| Direct Capital Corporation           | Senior Loan(5) Subordinated  |           |        | 8,744  |          | 8,744  |
| (Financial Services)                 | Debt(5)                      |           | 13,530 |        | (6,733)  | 6,797  |
|                                      | Common Stock                 |           |        |        |          |        |

See related footnotes at the end of this schedule.

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| PRIVATE<br>FINANCE<br>Portfolio Company<br>(in thousands)                                     | Investment(1)                    | Amount of Interest<br>or Dividends |          | December 31,<br>2008<br>Value | Gross<br>Additions(3) | Gross<br>Reductions(4) | December 31,<br>2009<br>Value |
|---|----------------------------------|------------------------------------|----------|-------------------------------|-----------------------|------------------------|-------------------------------|
|   |                                  | Credited<br>to<br>Income(6)        | Other(2) |                               |                       |                        |                               |
| Financial Pacific<br>Company<br>(Financial Services)  | Subordinated<br>Debt             | \$ 9,462                           |          | \$ 62,189                     | \$ 40                 | \$ (27,449)            | \$ 34,780                     |
|   | Preferred Stock                  |                                    |          |                               |                       |                        |                               |
|   | Common Stock                     |                                    |          |                               |                       |                        |                               |
| ForeSite<br>Towers, LLC<br>(Tower Leasing)  | Equity Interest                  |                                    |          | 889                           |                       | (889)                  |                               |
| Global<br>Communications, LLC<br>(Business Services)  | Senior Loan                      |                                    |          | 1,335                         |                       | (1,335)                |                               |
| HCI Equity, LLC<br><br>(Private Equity<br>Fund)   | Equity Interests                 |                                    |          |                               | 1,100                 | (223)                  | 877                           |
| Hot Light<br>Brands, Inc.<br>(Retail)   | Senior Loan(5)                   |                                    |          | 13,678                        | 51                    | (4,613)                | 9,116                         |
| Hot Stuff<br>Foods, LLC<br>(Real Estate)  | Common Stock                     |                                    |          |                               |                       |                        |                               |
|   | Senior Loan                      | 1,969                              |          | 42,378                        | 11,219                | (8,900)                | 44,697                        |
|   | Subordinated<br>Debt(5)          |                                    |          |                               | 48,240                |                        | 48,240                        |
|   | Common Stock                     |                                    |          |                               |                       |                        |                               |
| Huddle House, Inc.<br>(Retail)  | Subordinated<br>Debt             | 5,673                              |          | 57,067                        | 1,114                 | (38,535)               | 19,646                        |
|   | Common Stock                     |                                    |          | 20,922                        | 1                     | (17,004)               | 3,919                         |
| IAT Equity, LLC<br>and Affiliates<br>d/b/a Industrial Air<br>Tool<br>(Industrial<br>Products) | Subordinated<br>Debt             | 548                                |          | 6,000                         |                       |                        | 6,000                         |
|   | Equity Interests                 |                                    |          | 8,860                         |                       | (3,375)                | 5,485                         |
| Impact Innovations<br>Group, LLC<br>(Business Services)                                       | Equity Interests in<br>Affiliate |                                    |          | 321                           |                       | (106)                  | 215                           |
| Insight<br>Pharmaceuticals<br>Corporation<br>(Consumer<br>Products)                           | Subordinated<br>Debt             | 7,709                              |          | 63,359                        | 9,245                 | (18,581)               | 54,023                        |
|   | Preferred Stock                  |                                    |          | 4,068                         | 20,932                | (25,000)               |                               |
|   | Common Stock                     |                                    |          |                               | 34,088                | (24,688)               | 9,400                         |
| Jakel, Inc.<br><br>(Industrial<br>Products)   | Subordinated<br>Debt(5)          |                                    |          | 374                           |                       | (374)                  |                               |
| Knightsbridge CLO<br>2007-1 Ltd.<br>(CLO)   | Class E Notes                    | 1,887                              |          | 14,866                        |                       | (3,506)                | 11,360                        |
|   | Income Notes                     | 4,126                              |          | 35,214                        | 4,125                 | (23,119)               | 16,220                        |
| Knightsbridge CLO<br>2008-1 Ltd.<br>(CLO)   | Class C Notes                    | 1,097                              |          | 12,800                        |                       | (511)                  | 12,289                        |
|   | Class D Notes                    | 767                                |          | 8,000                         |                       | (840)                  | 7,160                         |
|   | Class E Notes                    | 1,514                              |          | 10,573                        | 718                   | (1,200)                | 10,091                        |
|   | Income Notes                     | 4,075                              |          | 21,315                        | 4,075                 | (4,753)                | 20,637                        |
| MHF Logistical<br>Solutions, Inc.<br>(Business Services)                                      | Subordinated<br>Debt             |                                    |          |                               | 49,633                | (49,633)               |                               |
|   | Preferred Stock                  |                                    |          |                               |                       |                        |                               |
|   | Common Stock                     |                                    |          |                               | 20,942                | (20,942)               |                               |
| MVL Group, Inc.<br><br>(Business Services)  | Senior Loan                      | 3,198                              |          | 30,663                        | 74                    | (5,477)                | 25,260                        |
|   | Subordinated<br>Debt             | 5,139                              |          | 40,994                        | 42,126                | (48,814)               | 34,306                        |
|   |                                  |                                    |          | 86                            | 144                   | (230)                  |                               |

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|  | Subordinated<br>Debt(5)<br>Common Stock          |        |           |                  |              |                      |
|--|--|--------|-----------|------------------|--------------|----------------------|
| Old Orchard<br>Brands, LLC<br>(Consumer<br>Products)       | Subordinated<br>Debt<br>Equity Interests         | 917    |           | 18,882<br>27,763 | 262          | (19,144)<br>(27,763) |
| Penn Detroit Diesel<br>Allison, LLC<br>(Business Services) | Subordinated<br>Debt<br>Equity Interests         | 2,767  |           | 37,869<br>21,100 | 578<br>1,262 | (38,447)<br>(7,104)  |
| Senior Secured Loan<br>Fund LLC<br>(Private Debt Fund)     | Subordinated<br>Certificates<br>Equity Interests | 13,664 | \$ 12,758 | 125,423          | 47,374       | (172,797)            |
|  |  |        |           | 1                | (1)          | 15,258               |

See related footnotes at the end of this schedule.

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| PRIVATE FINANCE<br>Portfolio Company<br>(in thousands) | Investment(1)     | Amount of Interest<br>or Dividends<br>Credited |          | December 31,<br>2008<br>Value | Gross<br>Additions(3) | Gross<br>Reductions(4) | December 31,<br>2009<br>Value |
|--|-------------------|--|----------|-------------------------------|-----------------------|------------------------|-------------------------------|
|  |                   | Income(6)                                      | Other(2) |                               |                       |                        |                               |
| Service Champ, Inc.                                    | Subordinated Debt | \$ 5,619                                       |          | \$ 26,984                     | \$ 712                | \$                     | \$ 27,696                     |
| (Business Services)                                    | Common Stock      |  |          | 21,156                        | 7,555                 | (640)                  | 28,071                        |
| Stag-Parkway, Inc.                                     | Subordinated Debt | 1,853  |          |                               | 19,005                | (1)                    | 19,004                        |
| (Business Services)                                    | Unitranche Debt   | 170  |          | 17,962                        | 418                   | (18,380)               |                               |
|  | Common Stock      |  |          | 6,968                         | 7,258                 |                        | 14,226                        |
| Startec Equity, LLC                                    | Equity Interests  |  |          | 332                           |                       | (267)                  | 65                            |
| (Telecommunications)                                   |                   |  |          |                               |                       |                        |                               |
| Worldwide Express Operations, LLC                      | Subordinated Debt |  | \$ 38    | 2,032                         | 694                   | (2,726)                |                               |
| (Business Services)                                    | Equity Interests  |  |          |                               | 11,384                | (11,384)               |                               |
|  | Warrants          |  |          |                               | 144                   | (144)                  |                               |
| <b>Total companies more than 25% owned</b>             |                   |  |          | <b>\$ 1,187,722</b>           |                       |                        | <b>\$ 811,736</b>             |
| <b>Companies 5% to 25% Owned</b>                       |                   |  |          |                               |                       |                        |                               |
| 10th Street, LLC                                       | Subordinated Debt | \$ 2,877                                       |          | \$ 21,439                     | \$ 906                | \$ (20)                | \$ 22,325                     |
| (Business Services)                                    | Equity Interests  |  |          | 975                           |                       | (500)                  | 475                           |
|  | Option            |  |          | 25                            |                       |                        | 25                            |
| Advantage Sales & Marketing, Inc.                      | Subordinated Debt | 2,286  |          | 135,000                       |                       | (135,000)              |                               |
| (Business Services)                                    | Equity Interests  |  |          | 5,000                         |                       | (5,000)                |                               |
| Air Medical Group Holdings LLC                         | Senior Loan       | 145  |          | 3,139                         | 20,296                | (17,590)               | 5,845                         |
| (Healthcare Services)                                  | Equity Interests  |  |          | 10,800                        | 8,700                 |                        | 19,500                        |
| Alpine ESP Holdings, Inc.                              | Preferred Stock   |  |          |                               | 701                   | (701)                  |                               |
| (Business Services)                                    | Common Stock      |  |          |                               | 13                    | (13)                   |                               |
| Amerex Group, LLC                                      | Subordinated Debt | 1,993  |          | 8,784                         | 5                     | (8,789)                |                               |
| (Consumer Products)                                    | Equity Interests  | 6,167  |          | 9,932                         |                       | (9,932)                |                               |
| BB&T Capital Partners/Windsor Mezzanine Fund, LLC      | Equity Interests  |  |          | 11,063                        |                       | (684)                  | 10,379                        |
| (Private Equity Fund)                                  |                   |  |          |                               |                       |                        |                               |
| Becker Underwood, Inc.                                 | Subordinated Debt | 425  |          | 25,502                        | 216                   | (25,718)               |                               |
| (Industrial Products)                                  | Common Stock      |  |          | 2,267                         | 2,748                 | (5,015)                |                               |
| BI Incorporated  | Subordinated Debt |  |          |                               |                       |                        |                               |
|  | Common Equity     |  |          |                               |                       |                        |                               |
| Drew Foam Companies, Inc.                              | Preferred Stock   |  |          | 512                           | 111                   | (623)                  |                               |
| (Business Services)                                    | Common Stock      |  |          |                               | 6                     | (6)                    |                               |
| Driven Brands, Inc.                                    | Subordinated Debt | 14,923   |          | 83,698                        | 8,201                 |                        | 91,899                        |
| (Consumer Services)                                    | Common Stock      |  |          | 4,855                         |                       | (1,855)                | 3,000                         |
| Hilden America, Inc.                                   | Common Stock      |  |          | 76                            | 378                   | (454)                  |                               |
| (Consumer Products)                                    |                   |  |          |                               |                       |                        |                               |
| Lydall Transport, Ltd.                                 | Equity Interests  |  |          | 345                           | 87                    | (432)                  |                               |
| (Business Services)                                    |                   |  |          |                               |                       |                        |                               |
| Multi-Ad Services, Inc.                                | Unitranche Debt   | 307  |          | 2,941                         | 67                    | (517)                  | 2,491                         |
| (Business Services)                                    | Equity Interests  |  |          | 1,782                         |                       | (364)                  | 1,418                         |

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|                              |                      |        |          |        |
|------------------------------|----------------------|--------|----------|--------|
| Pendum Acquisition, Inc.     | Common Stock         |        |          |        |
|                              |                      |        | 200      | 200    |
| (Business Services)          |                      |        |          |        |
| Postle Aluminum Company, LLC | Senior Loan(5)       |        |          |        |
|                              |                      | 34,876 | (18,822) | 16,054 |
| (Industrial Products)        | Subordinated Debt(5) | 23,868 | (23,868) |        |
|                              | Equity Interest      |        |          |        |

See related footnotes at the end of this schedule.

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| PRIVATE<br>FINANCE<br>Portfolio Company<br>(in thousands)             | Investment(1)        | Amount of<br>Interest<br>or Dividends |          | December 31,      |                       | December 31,           |               |
|---|----------------------|---------------------------------------|----------|-------------------|-----------------------|------------------------|---------------|
|   |                      | Credited<br>to<br>Income(6)           | Other(2) | 2008<br>Value     | Gross<br>Additions(3) | Gross<br>Reductions(4) | 2009<br>Value |
| Progressive<br>International<br>Corporation<br>(Consumer<br>Products) | Preferred Stock      |                                       |          | \$ 1,125          |                       | \$ (1,125)             | \$            |
|   | Common Stock         |                                       |          | 4,600             |                       | (4,600)                |               |
|   | Warrants             |                                       |          |                   |                       |                        |               |
| Regency Healthcare<br>Group, LLC<br>(Healthcare<br>Services)          | Senior Loan          | \$ 44                                 |          |                   | 4,001                 | (4,001)                |               |
|   | Unitranche Debt      | 309                                   |          | 10,825            | 31                    | (10,856)               |               |
|   | Equity Interests     |                                       |          | 2,050             |                       | (152)                  | 1,898         |
| SGT India Private<br>Limited<br>(Business Services)                   | Common Stock         |                                       |          |                   | 24                    | (24)                   |               |
| Soteria Imaging<br>Services, LLC<br>(Healthcare<br>Services)          | Subordinated<br>Debt | 552                                   |          | 4,054             | 156                   |                        | 4,210         |
|   | Equity Interests     |                                       |          | 1,971             |                       | (692)                  | 1,279         |
| Triax Holdings, LLC<br>(Consumer<br>Products)                         | Subordinated<br>Debt |                                       |          |                   | 10,772                | (10,772)               |               |
|   | Equity Interests     |                                       |          |                   | 16,528                | (16,528)               |               |
| Universal<br>Environmental<br>Services, LLC<br>(Business Services)    | Equity Interests     |                                       |          |                   |                       |                        |               |
| <b>Total companies 5%<br/>to 25% owned</b>                            |                      |                                       |          | <b>\$ 352,760</b> |                       | <b>\$ 180,998</b>      |               |

This schedule should be read in conjunction with the Company's consolidated financial statements, including the consolidated statement of investments and Note 3 to the consolidated financial statements. Note 3 includes additional information regarding activities in the private finance portfolio.

- (1) Common stock, preferred stock, warrants, options, and equity interests are generally non-income producing and restricted. The principal amount for loans and debt securities and the number of shares of common stock and preferred stock is shown in the consolidated statement of investments as of September 30, 2009.
- (2) Other includes interest, dividend, or other income which was applied to the principal of the investment and therefore reduced the total investment. These reductions are also included in the Gross Reductions for the investment, as applicable.
- (3) Gross additions include increases in the cost basis of investments resulting from new portfolio investments, paid-in-kind interest or dividends, the amortization of discounts and closing fees, the exchange of one or more existing securities for one or more new securities and the movement of an existing portfolio company into this category from a different category. Gross additions also include net increases in unrealized appreciation or net decreases in unrealized depreciation.
- (4) Gross reductions include decreases in the cost basis of investments resulting from principal collections related to investment repayments or sales, the exchange of one or more existing securities for one or more new securities and the movement of an existing portfolio company out of this category into a different category. Gross reductions also include net increases in unrealized depreciation or net decreases in unrealized appreciation.
- (5) Loan or debt security is on non-accrual status at December 31, 2009, and is therefore considered non-income producing. Loans or debt securities on non-accrual status at the end of the period may or may not have been on non-accrual status for the full period.
- (6)

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Represents the total amount of interest or dividends credited to income for the portion of the year an investment was included in the companies more than 25% owned or companies 5% to 25% owned categories, respectively.

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Table of Contents**ALLIED CAPITAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEET****(in thousands, except per share amounts)**

|   | <b>March 31,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|---|---------------------------|------------------------------|
|   | <b>(unaudited)</b>        |                              |
| <b>ASSETS</b>   |                           |                              |
| Portfolio at value:   |                           |                              |
| Private finance   |                           |                              |
| Companies more than 25% owned (cost: 2010-\$1,796,887;<br>2009-\$1,747,759)   | \$ 655,269                | \$ 811,736                   |
| Companies 5% to 25% owned (cost: 2010-\$181,094; 2009-\$222,981)  | 153,969                   | 180,998                      |
| Companies less than 5% owned (cost: 2010-\$1,293,721;<br>2009-\$1,639,193)  | 983,576                   | 1,082,577                    |
| Total private finance (cost: 2010-\$3,271,702; 2009-\$3,609,933)  | 1,792,814                 | 2,075,311                    |
| Commercial real estate finance (cost: 2010-\$75,945; 2009-\$75,180)   | 40,952                    | 55,807                       |
| Total portfolio at value (cost: 2010-\$3,347,647; 2009-\$3,685,113)   | 1,833,766                 | 2,131,118                    |
| Accrued interest and dividends receivable   | 41,705                    | 43,875                       |
| Other assets  | 68,670                    | 88,802                       |
| Investments in money market and other securities  | 74,221                    | 381,020                      |
| Cash  | 59,082                    | 20,682                       |
| Restricted cash   | 250                       |                              |
| Total assets  | \$ 2,077,694              | \$ 2,665,497                 |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                           |                              |
| Liabilities:  |                           |                              |
| Notes payable (maturing within one year: 2010-\$136,942; 2009-\$85,111)   | \$ 882,486                | \$ 1,384,920                 |
| Bank term debt  |                           | 41,091                       |
| Dividends payable   | 35,988                    |                              |
| Accounts payable and other liabilities  | 32,136                    | 41,284                       |
| Total liabilities   | 950,610                   | 1,467,295                    |
| Commitments and contingencies   |                           |                              |
| Shareholders' equity:   |                           |                              |
| Common stock, \$0.0001 par value, 400,000 shares authorized; 179,895 and<br>179,940 shares issued and outstanding at March 31, 2010, and<br>December 31, 2009, respectively | 18                        | 18                           |
| Additional paid-in capital  | 3,037,417                 | 3,037,513                    |
| Notes receivable from sale of common stock  |                           | (301)                        |
| Net unrealized depreciation   | (1,639,501)               | (1,679,778)                  |
| Distributions in excess of earnings   | (270,850)                 | (159,250)                    |
| Total shareholders' equity  | 1,127,084                 | 1,198,202                    |
| Total liabilities and shareholders' equity  | \$ 2,077,694              | \$ 2,665,497                 |



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|                                  |    |      |    |      |
|----------------------------------|----|------|----|------|
| Net asset value per common share | \$ | 6.27 | \$ | 6.66 |
|----------------------------------|----|------|----|------|

The accompanying notes are an integral part of these consolidated financial statements.

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Table of Contents**ALLIED CAPITAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF OPERATIONS****(in thousands, except per share amounts)**

|   | <b>For the Three Months Ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2010</b>                                     | <b>2009</b> |
|   | <b>(unaudited)</b>                              |             |
| <b>Interest and Related Portfolio Income:</b>         |   |             |
| Interest and dividends                                |   |             |
| Companies more than 25% owned                         | \$ 14,531                                       | \$ 25,353   |
| Companies 5% to 25% owned                             | 3,957   | 11,136      |
| Companies less than 5% owned                          | 30,973  | 52,241      |
| Total interest and dividends                          | 49,461  | 88,730      |
| Fees and other income                                 |   |             |
| Companies more than 25% owned                         | 3,968   | 5,276       |
| Companies 5% to 25% owned                             | 10  | 17          |
| Companies less than 5% owned                          | 653   | 1,159       |
| Total fees and other income                           | 4,631   | 6,452       |
| Total interest and related portfolio income           | 54,092  | 95,182      |
| Expenses:   |   |             |
| Interest  | 23,605  | 43,485      |
| Employee  | 7,571   | 11,070      |
| Employee stock options                                | 972   | 773         |
| Administrative  | 14,391  | 9,845       |
| Merger related expenses                               | 8,423   |             |
| Impairment of long-lived asset                        |   | 2,873       |
| Total operating expenses                              | 54,962  | 68,046      |
| Net investment income (loss) before income taxes      | (870)   | 27,136      |
| Income tax expense (benefit), including excise tax    | 1,202   | (378)       |
| Net investment income (loss)                          | (2,072)   | 27,514      |
| Net Realized and Unrealized Gains (Losses):           |   |             |
| Net realized gains (losses)                           |   |             |
| Companies more than 25% owned                         | (20,049)  | (4,050)     |
| Companies 5% to 25% owned                             | (3,753)   | (30,095)    |
| Companies less than 5% owned                          | (47,730)  | 7,036       |
| Total net realized losses                             | (71,532)  | (27,109)    |
| Net change in unrealized appreciation or depreciation | 40,277  | (350,070)   |
| Total net losses                                      | (31,255)  | (377,179)   |

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|  |             |              |
|--|-------------|--------------|
| Gain on repurchase of debt                           | 4,964       | 1,995        |
| Loss on extinguishment of debt                       | (6,972)     |              |
| Net decrease in net assets resulting from operations | \$ (35,335) | \$ (347,670) |
| Basic loss per common share                          | \$ (0.20)   | \$ (1.95)    |
| Diluted loss per common share                        | \$ (0.20)   | \$ (1.95)    |
| Weighted average common shares outstanding basic     | 179,938     | 178,692      |
| Weighted average common shares outstanding diluted   | 179,938     | 178,692      |

The accompanying notes are an integral part of these consolidated financial statements.

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**ALLIED CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS**  
(in thousands, except per share amounts)

|   | <b>For the Three Months<br/>Ended March 31,</b> |              |
|---|---|--------------|
|   | <b>2010</b>                                     | <b>2009</b>  |
|   | <b>(unaudited)</b>                              |              |
| <b>Operations:</b>  |   |              |
| Net investment income (loss)  | \$ (2,072)                                      | \$ 27,514    |
| Net realized losses   | (71,532)  | (27,109)     |
| Net change in unrealized appreciation or depreciation                           | 40,277  | (350,070)    |
| Gain on repurchase of debt  | 4,964   | 1,995        |
| Loss on extinguishment of debt  | (6,972)   |              |
| Net decrease in net assets resulting from operations                            | (35,335)  | (347,670)    |
| <b>Shareholder distributions:</b>   |   |              |
| Common stock dividends  | (35,988)  |              |
| Net decrease in net assets resulting from shareholder distributions             | (35,988)  |              |
| <b>Capital share transactions:</b>  |   |              |
| Stock option expense  | 972   | 773          |
| Net decrease in notes receivable from sale of common stock                      | 301   | 632          |
| Other   | (1,068)   | (2,382)      |
| Net increase (decrease) in net assets resulting from capital share transactions | 205   | (977)        |
| Total decrease in net assets  | (71,118)  | (348,647)    |
| Net assets at beginning of period   | 1,198,202                                       | 1,718,400    |
| Net assets at end of period   | \$ 1,127,084                                    | \$ 1,369,753 |
| Net asset value per common share  | \$ 6.27   | \$ 7.67      |
| Common shares outstanding at end of period                                      | 179,895   | 178,692      |

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**ALLIED CAPITAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF CASH FLOWS****(in thousands)****For the Three Months  
Ended March 31,****2010                      2009****(unaudited)**

|   |               |              |
|---|---------------|--------------|
| <b>Cash flows from operating activities:</b>  |               |              |
| Net decrease in net assets resulting from operations                                      | \$ (35,335)   | \$ (347,670) |
| <b>Adjustments:</b>   |               |              |
| Portfolio investments   | (20,166)      | (39,917)     |
| Principal collections related to investment repayments or sales                           | 279,312       | 109,524      |
| Collections of notes and other consideration received from sale of investments            | 8,696         | 132,246      |
| Realized gains from the receipt of notes and other consideration from sale of investments |               | (4,058)      |
| Realized losses   | 78,525        | 39,874       |
| Gain on repurchase of debt  |               | (1,995)      |
| Redemption of (investments in) U.S. Treasury bills, money market and other securities     | 306,799       | 282          |
| Payment-in-kind interest and dividends, net of cash collections                           | (6,951)       | (7,659)      |
| Change in accrued interest and dividends  | 2,962         | 1,554        |
| Net collection (amortization) of discounts and fees                                       | (1,952)       | (4,697)      |
| Stock option expense  | 972           | 773          |
| Impairment of long-lived asset  |               | 2,873        |
| Net change in restricted cash   | 250           |              |
| Changes in other assets and liabilities   | 10,966        | 8,498        |
| Depreciation and amortization   | 353           | 398          |
| Net change in unrealized (appreciation) or depreciation                                   | (40,277)      | 350,070      |
| <br>Net cash provided by operating activities   | <br>584,154   | <br>240,096  |
| <b>Cash flows from financing activities:</b>  |               |              |
| Sale of common stock upon the exercise of stock options                                   | 13            |              |
| Collections of notes receivable from sale of common stock                                 | 301           | 258          |
| Repurchase or repayment of notes payable  | (501,258)     | (529)        |
| Net repayments on bank term debt  | (41,091)      |              |
| Cash paid for cancellation of stock options   | (221)         |              |
| Other financing activities  | (3,498)       |              |
| <br>Net cash used in financing activities   | <br>(545,754) | <br>(271)    |
| <br>Net increase (decrease) in cash   | <br>38,400    | <br>239,825  |
| Cash at beginning of period   | 20,682        | 50,402       |

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|                       |    |        |    |         |
|-----------------------|----|--------|----|---------|
| Cash at end of period | \$ | 59,082 | \$ | 290,227 |
|-----------------------|----|--------|----|---------|

The accompanying notes are an integral part of these consolidated financial statements.

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## ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF INVESTMENTS

March 31, 2010

(in thousands, except number of shares)

(unaudited)

| Private Finance<br>Portfolio Company<br>Companies More<br>Than 25% Owned | Investment(1)(2)                          | Principal  | Cost          | Value         |
|--|---|------------|---------------|---------------|
| AGILE Fund I, LLC(5)<br>(Private Equity Fund)                            | Equity Interests                          |            | \$ 467        | \$ 264        |
| <b>Total Investment</b>  |   |            | <b>467</b>    | <b>264</b>    |
| AllBridge<br>Financial, LLC<br>(Asset Management)                        | Equity Interests                          |            | 40,118        | 11,369        |
| <b>Total Investment</b>  |   |            | <b>40,118</b> | <b>11,369</b> |
| Avborne, Inc.<br>(Business Services)                                     | Common Stock (27,500 shares)              |            |               | 39            |
| <b>Total Investment</b>  |   |            |               | <b>39</b>     |
| Aviation Properties<br>Corporation<br>(Business Services)                | Common Stock (100 shares)                 |            | 123           |               |
| <b>Total Investment</b>  |   |            | <b>123</b>    |               |
| Border Foods, Inc.<br>(Consumer Products)                                | Senior Loan (12.9%, Due 3/12)             | \$ 34,126  | 29,443        | 34,126        |
|  | Preferred Stock (100,000<br>shares)       |            | 12,721        | 21,346        |
|  | Common Stock (260,467<br>shares)          |            | 3,847         | 13,472        |
| <b>Total Investment</b>  |   |            | <b>46,011</b> | <b>68,944</b> |
| Callidus Capital<br>Corporation<br>(Asset Management)                    | Subordinated Debt (18.0%, Due<br>8/13)(6) | 22,434     | 22,434        | 20,120        |
|  | Common Stock (100 shares)                 |            |               |               |
| <b>Total Investment</b>  |   |            | <b>22,434</b> | <b>20,120</b> |
| Ciena Capital LLC  | Guaranty (\$3,189)                        | \$ 319,031 | \$ 319,031    | \$ 78,971     |

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|  |                                      |        |                |               |
|--|--------------------------------------|--------|----------------|---------------|
| (Financial Services)                                   | Senior Loan (5.5%, Due 3/09)(6)      |        |                |               |
|  | Class B Equity Interests             |        | 119,436        |               |
|  | Class C Equity Interests             |        | 109,097        |               |
| <b>Total Investment</b>                                |                                      |        | <b>547,564</b> | <b>78,971</b> |
| Guaranty (\$5,000 See Note 3)                          |                                      |        |                |               |
| CitiPostal Inc.<br>(Business Services)                 | Senior Loan (6.5%, Due 12/13)        | 1,942  | 1,934          | 1,942         |
|  | Unitranche Debt (13.0%, Due 12/13)   | 50,184 | 50,026         | 50,184        |
|  | Subordinated Debt (16.0%, Due 12/15) | 11,136 | 11,136         | 11,136        |
|  | Common Stock (37,024 shares)         |        | 12,726         |               |
| <b>Total Investment</b>                                |                                      |        | <b>75,822</b>  | <b>63,262</b> |
| Coverall North<br>America, Inc.<br>(Business Services) | Unitranche Debt (12.0%, Due 7/11)    | 31,627 | 31,582         | 31,627        |
|  | Subordinated Debt (16.0%, Due 7/11)  | 5,563  | 5,556          | 5,563         |
|  | Common Stock (763,333 shares)        |        | 14,362         | 2,999         |
| <b>Total Investment</b>                                |                                      |        | <b>51,500</b>  | <b>40,189</b> |

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| <b>Private Finance</b>                             |   |                  |                |               |
|--|---|------------------|----------------|---------------|
| <b>Portfolio Company</b>                           | <b>Investment(1)(2)</b>                     | <b>Principal</b> | <b>Cost</b>    | <b>Value</b>  |
| Crescent Equity Corp.(8)<br>(Business Services)    | Senior Loan (10.0%, Due 6/10)               | 433              | 433            | 433           |
|  | Subordinated Debt (11.0%, Due 9/11 6/17)(6) | 32,422           | 32,333         | 6,200         |
|  | Common Stock (174 shares)                   |                  | 83,544         |               |
| <b>Total Investment</b>                            |   |                  | <b>116,310</b> | <b>6,633</b>  |
| Guaranty (\$900)                                   |   |                  |                |               |
| Direct Capital Corporation<br>(Financial Services) | Senior Loan (8.0%, Due 1/14)(6)             | 8,175            | 8,175          | 8,919         |
|  | Subordinated Debt (16.0%, Due 3/13)(6)      | 55,671           | 55,496         | 1,190         |
|  | Common Stock (2,317,020 shares)             |                  | 25,732         |               |
| <b>Total Investment</b>                            |   |                  | <b>89,403</b>  | <b>10,109</b> |
| EarthColor, Inc.<br>(Business Services)            | Common Stock (89,435 shares)                |                  | 186,823        |               |
| <b>Total Investment</b>                            |   |                  | <b>186,823</b> |               |
| Financial Pacific Company<br>(Financial Services)  | Subordinated Debt (17.4%, Due 2/12 8/12)    | 68,967           | 68,890         | 32,800        |
|  | Preferred Stock (9,458 shares)              |                  | 8,865          |               |
|  | Common Stock (12,711 shares)                |                  | 12,783         |               |
| <b>Total Investment</b>                            |   |                  | <b>90,538</b>  | <b>32,800</b> |
| HCI Equity, LLC(4)(5)<br>(Private Equity Fund)     | Equity Interests                            |                  | \$ 1,199       | \$ 808        |
| <b>Total Investment</b>                            |   |                  | <b>1,199</b>   | <b>808</b>    |
| Hot Light Brands, Inc.<br>(Retail)                 | Senior Loan (9.0%, Due 2/11)(6)             | \$ 29,257        | 29,257         | 6,727         |
|  | Common Stock (93,500 shares)                |                  | 5,151          |               |
| <b>Total Investment</b>                            |   |                  | <b>34,408</b>  | <b>6,727</b>  |
| Hot Stuff Foods, LLC<br>(Consumer Products)        | Senior Loan (3.7%, Due 2/11 2/12)           | 45,587           | 44,503         | 44,587        |
|  | Subordinated Debt (12.3%, Due 8/12 2/13)(6) | 83,692           | 83,387         | 24,581        |
|  | Common Stock (1,147,453 shares)             |                  | 56,187         |               |
| <b>Total Investment</b>                            |   |                  | <b>184,077</b> | <b>69,168</b> |
| Huddle House, Inc.<br>(Retail)                     | Subordinated Debt (15.0%, Due 12/15)        | 19,794           | 19,748         | 19,607        |
|  | Common Stock (358,428 shares)               |                  | 36,348         |               |

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|  |  |           |               |               |
|--|--|-----------|---------------|---------------|
|  | <b>Total Investment</b>  |           | <b>56,096</b> | <b>19,607</b> |
| IAT Equity, LLC and Affiliates<br>d/b/a Industrial Air Tool<br>(Industrial Products) | Subordinated Debt (9.0%, Due 6/14)<br>Equity Interests   | 6,000     | 6,000         | 6,000         |
|  |  |           | 7,500         | 7,419         |
|  | <b>Total Investment</b>  |           | <b>13,500</b> | <b>13,419</b> |
| Insight Pharmaceuticals Corporation<br>(Consumer Products)                           | Subordinated Debt (15.0%, Due 9/12)<br>Common Stock (155,000 shares)   | 54,721    | 54,670        | 54,721        |
|  |  |           | 40,413        | 12,070        |
|  | <b>Total Investment</b>  |           | <b>95,083</b> | <b>66,791</b> |
| Jakel, Inc.<br>(Industrial Products)   | Subordinated Debt (15.5%, Due 3/08)(6)   | 748       | 748           |               |
|  | <b>Total Investment</b>  |           | <b>748</b>    |               |
| MVL Group, Inc.<br>(Business Services)   | Senior Loan (12.0%, Due 7/12)<br>Subordinated Debt (14.5%, Due 7/12)<br>Subordinated Debt (8.0%, Due 7/12)(6)<br>Common Stock (560,716 shares) | \$ 25,260 | \$ 25,257     | \$ 25,260     |
|  |  | 35,607    | 35,580        | 35,447        |
|  |  | 144       | 139           |               |
|  |  |           | 555           |               |
|  | <b>Total Investment</b>  |           | <b>61,531</b> | <b>60,707</b> |

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| Private Finance<br>Portfolio Company   | Investment(1)(2)   | Principal | Cost                   | Value                  |
|--|--|-----------|------------------------|------------------------|
| Penn Detroit Diesel Allison, LLC<br>(Business Services)                          | Equity Interests   |           | 20,081                 | 20,069                 |
|  | <b>Total Investment</b>  |           | <b>20,081</b>          | <b>20,069</b>          |
| Service Champ, Inc.<br>(Business Services)                                       | Common Stock (55,112 shares)   |           | 11,145                 | 28,463                 |
|  | <b>Total Investment</b>  |           | <b>11,145</b>          | <b>28,463</b>          |
| Stag-Parkway, Inc.<br>(Business Services)  | Subordinated Debt (10.0%, Due<br>7/12)<br>Common Stock (25,000 shares)       | 19,044    | 19,009<br>32,686       | 19,044<br>17,766       |
|  | <b>Total Investment</b>  |           | <b>51,695</b>          | <b>36,810</b>          |
| Startec Equity, LLC<br>(Telecommunications)                                      | Equity Interests   |           | 211                    |                        |
|  | <b>Total Investment</b>  |           | <b>211</b>             |                        |
| <b>Total companies more than 25%<br/>owned</b>                                   |  |           | <b>\$ 1,796,887</b>    | <b>\$ 655,269</b>      |
| <b>Companies 5% to 25% Owned</b>   |  |           |                        |                        |
| 10 <sup>th</sup> Street, LLC<br>(Business Services)                              | Subordinated Debt (13.0%, Due<br>11/14)<br>Equity Interests<br>Option        | \$ 22,552 | \$ 22,466<br>422<br>25 | \$ 22,552<br>594<br>25 |
|  | <b>Total Investment</b>  |           | <b>22,913</b>          | <b>23,171</b>          |
| Air Medical Group Holdings LLC<br>(Healthcare Services)                          | Senior Loan (2.4%, Due 3/11)<br>Equity Interests                             | 4,740     | 4,725<br>2,993         | 4,645<br>18,204        |
|  | <b>Total Investment</b>  |           | <b>7,718</b>           | <b>22,849</b>          |
| BB&T Capital Partners/Windsor<br>Mezzanine Fund, LLC(5)<br>(Private Equity Fund) | Equity Interests   |           | 16,351                 | 13,943                 |
|  | <b>Total Investment</b>  |           | <b>16,351</b>          | <b>13,943</b>          |
| Driven Brands, Inc.<br>(Consumer Services)                                       | Subordinated Debt (18.0%, Due<br>7/15)<br>Common Stock (3,772,098<br>shares) | \$ 51,220 | \$ 51,058<br>9,516     | \$ 52,814<br>4,939     |
|  | <b>Total Investment</b>  |           | <b>60,574</b>          | <b>57,753</b>          |
| Multi-Ad Services, Inc.<br>(Business Services)                                   | Unitranche Debt (11.3%, Due<br>11/11)<br>Equity Interests                    | 1,886     | 1,873<br>1,737         | 1,878<br>788           |
|  | <b>Total Investment</b>  |           | <b>3,610</b>           | <b>2,666</b>           |

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|  |  |        |               |               |
|--|--|--------|---------------|---------------|
| Postle Aluminum Company, LLC<br>(Industrial Products)  | Senior Loan (6.0%, Due 10/12)(6)       | 35,000 | 34,876        | 27,500        |
|  | Subordinated Debt (3.0%, Due 10/12)(6) | 23,953 | 23,868        |               |
|  | Equity Interests                       |        | 2,174         |               |
| <b>Total Investment</b>                                |  |        | <b>60,918</b> | <b>27,500</b> |
| Regency Healthcare Group, LLC<br>(Healthcare Services) | Equity Interests                       |        | 1,302         | 2,007         |
|  | <b>Total Investment</b>                |        |               | <b>1,302</b>  |
| Soteria Imaging Services, LLC<br>(Healthcare Services) | Subordinated Debt (13.3%, Due 11/10)   | 4,250  | 4,228         | 4,080         |
|  | Equity Interests                       |        | 1,881         |               |
|  | <b>Total Investment</b>                |        |               | <b>6,109</b>  |

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| Private Finance<br>Portfolio Company                      | Investment(1)(2)   | Principal       | Cost              | Value             |
|---|--|-----------------|-------------------|-------------------|
| Universal Environmental<br>Services, LLC                  | Equity Interests   |                 | 1,599             |                   |
| (Business Services)                                       |  |                 |                   |                   |
|   | <b>Total Investment</b>  |                 | <b>1,599</b>      |                   |
| <b>Total companies 5% to 25%<br/>owned</b>                |  |                 | <b>\$ 181,094</b> | <b>\$ 153,969</b> |
| <b>Companies Less Than 5% Owned</b>                       |  |                 |                   |                   |
| Axium Healthcare Pharmacy, Inc.<br>(Healthcare Services)  | Subordinated Debt (8.0%, Due<br>3/15)  | \$ 3,098        | \$ 3,098          | \$ 2,819          |
|   | <b>Total Investment</b>  |                 | <b>3,098</b>      | <b>2,819</b>      |
| BenefitMall Holdings Inc.<br>(Business Services)          | Subordinated Debt (18.0%,<br>Due 6/14)<br>Common Stock (39,274,290<br>shares)(7)<br>Warrants(12) | 40,326          | 40,257<br>39,274  | 40,326<br>53,510  |
|   | <b>Total Investment</b>  |                 | <b>79,531</b>     | <b>93,836</b>     |
| Bushnell, Inc.<br>(Consumer Products)                     | Subordinated Debt (6.8%, Due<br>2/14)  | 41,325          | 40,274            | 28,928            |
|   | <b>Total Investment</b>  |                 | <b>40,274</b>     | <b>28,928</b>     |
| Callidus Debt Partners CDO<br>Fund I, Ltd.(4)(10) (CDO)   | Class C Notes (12.9%, Due<br>12/13)(6)<br>Class D Notes (17.0%, Due<br>12/13)(6)                 | 19,420<br>9,400 | 19,527<br>9,454   | 1,463             |
|   | <b>Total Investment</b>  |                 | <b>28,981</b>     | <b>1,463</b>      |
| Callidus Debt Partners CLO<br>Fund III, Ltd.(4)(10) (CDO) | Preferred Shares (23,600,000<br>shares)  |                 | 20,138            | 5,593             |
|   | <b>Total Investment</b>  |                 | <b>20,138</b>     | <b>5,593</b>      |
| Callidus Debt Partners CLO<br>Fund IV, Ltd.(4)(10) (CLO)  | Class D Notes (4.8%, Due<br>4/20)<br>Income Notes (0.0%)(11)                                     | 3,000           | 2,253<br>14,650   | 1,723<br>7,930    |
|   | <b>Total Investment</b>  |                 | <b>16,903</b>     | <b>9,653</b>      |
| Callidus Debt Partners CLO<br>Fund V, Ltd.(4)(10) (CLO)   | Income Notes (0.0%)(11)  |                 | 12,706            | 8,818             |
|   | <b>Total Investment</b>  |                 | <b>12,706</b>     | <b>8,818</b>      |
| Callidus Debt Partners CLO<br>Fund VI, Ltd.(4)(10) (CLO)  | Class D Notes (6.2%, Due<br>10/21)<br>Income Notes (0.0%)(11)                                    | 9,635           | 8,017<br>29,144   | 4,484<br>9,276    |

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|  |                                   |           |               |               |
|--|-----------------------------------|-----------|---------------|---------------|
|  | <b>Total Investment</b>           |           | <b>37,161</b> | <b>13,760</b> |
| Callidus Debt Partners CLO Fund VII, Ltd.(4)(10) (CLO) | Income Notes (0.0%)(11)           |           | 24,388        | 11,015        |
|  | <b>Total Investment</b>           |           | <b>24,388</b> | <b>11,015</b> |
| Callidus MAPS CLO Fund I LLC(10) (CLO)                 | Class E Notes (5.8%, Due 12/17)   | \$ 17,000 | \$ 17,000     | \$ 11,289     |
|  | Income Notes (0.0%)(11)           |           | 36,379        | 15,163        |
|  | <b>Total Investment</b>           |           | <b>53,379</b> | <b>26,452</b> |
| Callidus MAPS CLO Fund II, Ltd.(4)(10) (CLO)           | Class D Notes (4.5%, Due 7/22)    | 7,700     | 3,978         | 3,209         |
|  | Income Notes (0.0%)(11)           |           | 16,940        | 9,121         |
|  | <b>Total Investment</b>           |           | <b>20,918</b> | <b>12,330</b> |
| Carlisle Wide Plank Floors, Inc. (Consumer Products)   | Unitranche Debt (15.0%, Due 6/11) | 1,644     | 1,639         | 1,480         |
|  | Common Stock (345,056 Shares)     |           | 345           |               |
|  | <b>Total Investment</b>           |           | <b>1,984</b>  | <b>1,480</b>  |

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| Private Finance<br>Portfolio Company                                  | Investment(1)(2)   | Principal | Cost               | Value              |
|---|--|-----------|--------------------|--------------------|
| Catterton Partners<br>VI, L.P.(5)<br>(Private Equity Fund)            | Limited Partnership Interest   |           | 3,327              | 1,589              |
|   | <b>Total Investment</b>  |           | <b>3,327</b>       | <b>1,589</b>       |
| Commercial Credit<br>Group, Inc.<br>(Financial Services)              | Subordinated Debt (15.0%,<br>Due 6/15)   | 19,500    | 19,470             | 19,500             |
|   | <b>Total Investment</b>  |           | <b>19,470</b>      | <b>19,500</b>      |
| Community Education<br>Centers, Inc.<br>(Education Services)          | Subordinated Debt (21.5%,<br>Due 11/13)(6)   | 38,096    | 38,050             | 35,048             |
|   | <b>Total Investment</b>  |           | <b>38,050</b>      | <b>35,048</b>      |
| Compass Group Diversified<br>Holdings, LLC(3)<br>(Financial Services) | Senior Loan (4.7%, Due 12/12)  | 5,184     | 5,143              | 5,184              |
|   | <b>Total Investment</b>  |           | <b>5,143</b>       | <b>5,184</b>       |
| Component Hardware<br>Group, Inc.(3)<br>(Industrial Products)         | Subordinated Debt (15.5%,<br>Due 1/13)   | 18,992    | 18,947             | 8,321              |
|   | <b>Total Investment</b>  |           | <b>18,947</b>      | <b>8,321</b>       |
| Cook Inlet Alternative<br>Risk, LLC<br>(Business Services)            | Unitranche Debt (13.3%, Due<br>4/13)(6)<br>Equity Interests                                | 87,600    | 87,331<br>552      | 55,000             |
|   | <b>Total Investment</b>  |           | <b>87,883</b>      | <b>55,000</b>      |
| Cortec Group Fund<br>IV, L.P.(5)<br>(Private Equity)                  | Limited Partnership Interest   |           | 6,446              | 3,334              |
|   | <b>Total Investment</b>  |           | <b>6,446</b>       | <b>3,334</b>       |
| Digital VideoStream, LLC<br>(Business Services)                       | Unitranche Debt (11.0%, Due<br>2/12)<br>Convertible Subordinated Debt<br>(10.0%, Due 2/16) | \$ 11,087 | \$ 11,048<br>5,132 | \$ 11,087<br>5,578 |
|   | <b>Total Investment</b>  |           | <b>16,180</b>      | <b>16,665</b>      |
| DirectBuy Holdings, Inc.<br>(Consumer Products)                       | Subordinated Debt (16.0%,<br>Due 5/13)<br>Equity Interests                                 | 79,198    | 78,982<br>8,000    | 75,238<br>3,112    |
|   | <b>Total Investment</b>  |           | <b>86,982</b>      | <b>78,350</b>      |

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|   |                                    |        |               |               |
|---|------------------------------------|--------|---------------|---------------|
| Distant Lands Trading Co.<br>(Consumer Products)                  | Senior Loan (8.3%, Due 11/11)      | 10,000 | 9,986         | 9,800         |
|   | Unitranche Debt (13.0%, Due 11/11) | 43,581 | 43,519        | 42,709        |
|   | Common Stock (3,451 shares)        |        | 3,451         | 980           |
| <b>Total Investment</b>   |                                    |        | <b>56,956</b> | <b>53,489</b> |
| Diversified Mercury<br>Communications, LLC<br>(Business Services) | Senior Loan (8.0%, Due 3/13)       | 2,521  | 2,512         | 2,269         |
|   | <b>Total Investment</b>            |        |               | <b>2,512</b>  |
| Dryden XVIII Leveraged<br>Loan 2007 Limited(4)<br>(CLO)           | Class B Notes (4.7%, Due 10/19)    | 8,637  | 7,483         | 3,627         |
|   | Income Notes (0.0%)(11)            |        | 23,164        | 12,883        |
| <b>Total Investment</b>   |                                    |        | <b>30,647</b> | <b>16,510</b> |
| Dynamic India Fund<br>IV(4)(5)<br>(Private Equity Fund)           | Equity Interests                   |        | 9,350         | 4,822         |
| <b>Total Investment</b>   |                                    |        | <b>9,350</b>  | <b>4,822</b>  |

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| Private Finance Portfolio Company                           | Investment(1)(2)  | Principal | Cost          | Value         |
|---|---|-----------|---------------|---------------|
| eCentury Capital Partners, L.P.(5)<br>(Private Equity Fund) | Limited Partnership Interest  |           | 7,274         |               |
|   | <b>Total Investment</b>   |           | <b>7,274</b>  |               |
| eInstruction Corporation<br>(Education Services)            | Subordinated Debt (12.3%, Due 7/14 1/15)<br>Common Stock (2,406 shares) | 37,687    | 37,581        | 33,068        |
|   | <b>Total Investment</b>   |           | <b>40,081</b> | <b>33,994</b> |
| Fidus Mezzanine Capital, L.P.(5)<br>(Private Equity Fund)   | Limited Partnership Interest  |           | \$ 14,720     | \$ 9,643      |
|   | <b>Total Investment</b>   |           | <b>14,720</b> | <b>9,643</b>  |
| Geotrace Technologies, Inc.<br>(Energy Services)            | Warrants  |           | 2,027         | 2,893         |
|   | <b>Total Investment</b>   |           | <b>2,027</b>  | <b>2,893</b>  |
| Gilchrist & Soames, Inc.<br>(Consumer Products)             | Subordinated Debt (13.4%, Due 10/13)                                    | \$ 24,421 | 24,317        | 23,416        |
|   | <b>Total Investment</b>   |           | <b>24,317</b> | <b>23,416</b> |
| Havco Wood Products LLC<br>(Industrial Products)            | Equity Interests  |           | 910           |               |
|   | <b>Total Investment</b>   |           | <b>910</b>    |               |
| Ideal Snacks Corporation<br>(Consumer Products)             | Senior Loan (8.5%, Due 6/11)  | 969       | 969           | 969           |
|   | <b>Total Investment</b>   |           | <b>969</b>    | <b>969</b>    |
| Kodiak Fund LP(5)<br>(Private Equity Fund)                  | Equity Interests  |           | 9,319         | 950           |
|   | <b>Total Investment</b>   |           | <b>9,319</b>  | <b>950</b>    |
| Market Track Holdings, LLC<br>(Business Services)           | Subordinated Debt (15.9%, Due 6/14)                                     | 24,337    | 24,201        | 24,287        |
|   | <b>Total Investment</b>   |           | <b>24,201</b> | <b>24,287</b> |

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|   |   |           |               |               |
|---|---|-----------|---------------|---------------|
| NetShape Technologies, Inc.<br>(Industrial Products)                | Senior Loan (4.0%, Due 2/13)                    | 972       | 972           | 521           |
| <b>Total Investment</b>   |   |           | <b>972</b>    | <b>521</b>    |
| Network Hardware Resale, Inc.<br>(Business Services)                | Unitranche Debt (12.0%, Due 12/11)              | \$ 15,723 | \$ 15,763     | \$ 15,723     |
|   | Convertible Subordinated Debt (9.8%, Due 12/15) | 17,518    | 17,561        | 17,561        |
| <b>Total Investment</b>   |   |           | <b>33,324</b> | <b>33,284</b> |
| Novak Biddle Venture Partners III, L.P.(5)<br>(Private Equity Fund) | Limited Partnership Interest                    |           | 2,018         | 697           |
| <b>Total Investment</b>   |   |           | <b>2,018</b>  | <b>697</b>    |
| Pangaea CLO 2007-1 Ltd.(4)<br>(CLO)                                 | Class D Notes (5.0%, Due 1/21)                  | 15,000    | 12,225        | 8,737         |
| <b>Total Investment</b>   |   |           | <b>12,225</b> | <b>8,737</b>  |
| PC Helps Support, LLC<br>(Business Services)                        | Senior Loan (3.5%, Due 12/13)                   | 8,062     | 7,974         | 7,976         |
|   | Subordinated Debt (12.8%, Due 12/13)            | 26,348    | 26,253        | 26,348        |
| <b>Total Investment</b>   |   |           | <b>34,227</b> | <b>34,324</b> |

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| Private Finance Portfolio Company                          | Investment(1)(2)                        | Principal | Cost          | Value         |
|--|---|-----------|---------------|---------------|
| Performant Financial Corporation<br>(Business Services)    | Common Stock (478,816 shares)           |           | 734           | 1,478         |
|  | <b>Total Investment</b>                 |           | <b>734</b>    | <b>1,478</b>  |
| Promo Works, LLC<br>(Business Services)                    | Unitranche Debt (16.0%, Due 12/12)      | 19,964    | 19,869        | 7,842         |
|  | <b>Total Investment</b>                 |           | <b>19,869</b> | <b>7,842</b>  |
| Reed Group, Ltd.<br>(Healthcare Services)                  | Senior Loan (6.0%, Due 12/13)(6)        | 12,005    | 11,877        | 10,122        |
|  | Subordinated Debt (15.8%, Due 12/13)(6) | 19,449    | 19,393        | 15,559        |
|  | Equity Interests                        |           | 1,800         | 203           |
|  | <b>Total Investment</b>                 |           | <b>33,070</b> | <b>25,884</b> |
| S.B. Restaurant Company<br>(Retail)                        | Unitranche Debt (11.8%, Due 4/11)       | 38,327    | 38,230        | 28,546        |
|  | Preferred Stock (46,690 shares)         |           | 117           |               |
|  | Warrants                                |           | 534           |               |
|  | <b>Total Investment</b>                 |           | <b>38,881</b> | <b>28,546</b> |
| SPP Mezzanine Funding II, L.P.(5)<br>(Private Equity Fund) | Limited Partnership Interest            |           | 7,263         | 6,884         |
|  | <b>Total Investment</b>                 |           | <b>7,263</b>  | <b>6,884</b>  |
| STS Operating, Inc.<br>(Industrial Products)               | Subordinated Debt (11.0%, Due 1/13)     | 30,386    | 30,324        | 29,170        |
|  | <b>Total Investment</b>                 |           | <b>30,324</b> | <b>29,170</b> |
| Summit Energy Services, Inc.<br>(Business Services)        | Common Stock (415,982 shares)           |           | 1,861         | 2,520         |
|  | <b>Total Investment</b>                 |           | <b>1,861</b>  | <b>2,520</b>  |
| Tappan Wire & Cable Inc.<br>(Business Services)            | Unitranche Debt (15.0%, Due 8/14)(6)    | \$ 22,346 | \$ 22,248     | \$ 10,351     |
|  | Common Stock (12,940 shares)(12)        |           | 2,043         |               |
|  | Warrant(12)                             |           |               |               |
|  | <b>Total Investment</b>                 |           | <b>24,291</b> | <b>10,351</b> |
|  |   | 94,371    | 94,206        | 88,709        |

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|   |   |        |               |               |
|---|---|--------|---------------|---------------|
| The Step2 Company, LLC<br>(Consumer Products)               | Unitranche Debt (13.0%, Due 4/12)<br>Equity Interests |        | 2,156         | 24            |
| <b>Total Investment</b>                                     |   |        | <b>96,362</b> | <b>88,733</b> |
| Tradesmen International, Inc.<br>(Business Services)        | Subordinated Debt (15.0%, Due 12/12)(6)               | 40,000 | 39,793        | 20,048        |
| <b>Total Investment</b>                                     |   |        | <b>39,793</b> | <b>20,048</b> |
| Trover Solutions, Inc.<br>(Business Services)               | Subordinated Debt (12.0%, Due 11/12)                  | 52,828 | 52,688        | 52,828        |
| <b>Total Investment</b>                                     |   |        | <b>52,688</b> | <b>52,828</b> |
| United Road Towing, Inc.<br>(Consumer Services)             | Subordinated Debt (16.3%, Due 1/14)                   | 19,060 | 18,997        | 18,775        |
| <b>Total Investment</b>                                     |   |        | <b>18,997</b> | <b>18,775</b> |
| Venturehouse-Cibernet Investors, LLC<br>(Business Services) | Equity Interest                                       |        |               |               |
| <b>Total Investment</b>                                     |   |        |               |               |
| Webster Capital II, L.P.(5)<br>(Private Equity Fund)        | Limited Partnership Interest                          |        | 1,767         | 687           |
| <b>Total Investment</b>                                     |   |        | <b>1,767</b>  | <b>687</b>    |

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| Private Finance<br>Portfolio Company                    | Investment(1)(2)         | Principal | Cost                | Value               |
|---|--------------------------|-----------|---------------------|---------------------|
| Other companies   | Other debt investments   |           | (123)               | (123)               |
|   | Other equity investments |           | 6                   | 10                  |
|   | <b>Total Investment</b>  |           | <b>(117)</b>        | <b>(113)</b>        |
| <b>Total companies less than 5% owned</b>               |                          |           | <b>\$ 1,293,721</b> | <b>\$ 983,576</b>   |
| <b>Total private finance (93 portfolio investments)</b> |                          |           | <b>\$ 3,271,702</b> | <b>\$ 1,792,814</b> |

**Commercial Real Estate Finance**  
(in thousands, except number of loans)

|  | Stated Interest<br>Rate Ranges | Number of<br>Loans | Cost                | Value<br>(unaudited) |
|--|--------------------------------|--------------------|---------------------|----------------------|
| <b>Commercial Mortgage Loans</b>                         |                                |                    |                     |                      |
|  | Up to 6.99%                    | 3                  | \$ 29,872           | \$ 26,858            |
|  | 7.00% - 8.99%                  | 2                  | 2,607               | 2,586                |
|  | 9.00% - 10.99%                 | 1                  | 6,481               | 650                  |
|  | 15.00% and above               | 2                  | 3,970               | 1,027                |
| <b>Total commercial mortgage loans(12)</b>               |                                |                    | <b>\$ 42,930</b>    | <b>\$ 31,121</b>     |
| <b>Real Estate Owned</b>                                 |                                |                    | <b>\$ 5,962</b>     | <b>\$ 3,513</b>      |
| <b>Equity Interests(2) Companies more than 25% owned</b> |                                |                    | <b>\$ 27,053</b>    | <b>\$ 6,318</b>      |
| <b>Total commercial real estate finance</b>              |                                |                    | <b>\$ 75,945</b>    | <b>\$ 40,952</b>     |
| <b>Total portfolio</b>                                   |                                |                    | <b>\$ 3,347,647</b> | <b>\$ 1,833,766</b>  |

|   | Yield | Cost             | Value            |
|---|-------|------------------|------------------|
| <b>Investments in Money Market and Other Securities</b> |       |                  |                  |
| First American Treasury Obligations Fund                |       | \$ 74,221        | \$ 74,221        |
| <b>Total</b>  |       | <b>\$ 74,221</b> | <b>\$ 74,221</b> |

(1) Interest rates represent the weighted average annual stated interest rate on loans and debt securities, which are presented by nature of indebtedness for a single issuer. The maturity dates represent the earliest and the latest maturity dates.

(2)

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Common stock, preferred stock, warrants, options, and equity interests are generally non-income producing and restricted.

- (3) Public company.
- (4) Non-U.S. company or principal place of business outside the U.S.
- (5) Non-registered investment company.
- (6) Loan or debt security is on non-accrual status and therefore is considered non-income producing.
- (7) Common stock is non-voting. In addition to non-voting stock ownership, Allied Capital has an option to acquire a majority of the voting securities of the portfolio company at fair market value.
- (8) Crescent Equity Corp. holds investments in Crescent Hotels & Resorts, LLC and affiliates.
- (10) The fund is managed by Callidus Capital, a portfolio company of Allied Capital.

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- (11) Represents the effective interest yield earned on the cost basis of these preferred equity investments and income notes. The yield is included in interest income in the consolidated statement of operations.
- (12) Commercial mortgage loans totaling \$6.4 million at value were on non-accrual status and therefore were considered non-income producing.

The accompanying notes are an integral part of these consolidated financial statements.

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## ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF INVESTMENTS

December 31, 2009

(in thousands, except number of shares)

| Private Finance<br>Portfolio Company<br>Companies<br>More Than 25%<br>Owned | Investment(1)(2)                       | Principal | Cost          | Value         |
|---|--|-----------|---------------|---------------|
| AGILE Fund<br>I, LLC(5)<br>(Private Equity<br>Fund)                         | Equity Interests                       |           | \$ 637        | \$ 449        |
| <b>Total Investment</b>   |  |           | <b>637</b>    | <b>449</b>    |
| AllBridge<br>Financial, LLC<br>(Asset<br>Management)                        | Senior Loan (6.3%, Due 4/10)           | \$ 1,500  | 1,500         | 1,500         |
|   | Equity Interests                       |           | 40,118        | 15,805        |
| <b>Total Investment</b>   |  |           | <b>41,618</b> | <b>17,305</b> |
| Avborne, Inc.<br>(Business<br>Services)                                     | Common Stock (27,500 shares)           |           |               | 39            |
| <b>Total Investment</b>   |  |           |               | <b>39</b>     |
| Aviation<br>Properties<br>Corporation<br>(Business<br>Services)             | Common Stock (100 shares)              |           | 123           |               |
| <b>Total Investment</b>   |  |           | <b>123</b>    |               |
| Border<br>Foods, Inc.<br>(Consumer<br>Products)                             | Senior Loan (12.9%, Due 3/12)          | 34,126    | 29,064        | 34,126        |
|   | Preferred Stock (100,000 shares)       |           | 12,721        | 20,901        |
|   | Common Stock (260,467 shares)          |           | 3,847         | 9,663         |
| <b>Total Investment</b>   |  |           | <b>45,632</b> | <b>64,690</b> |
| Callidus Capital<br>Corporation<br>(Asset<br>Management)                    | Subordinated Debt (18.0%,<br>Due 8/13) | 21,782    | 21,782        | 19,108        |
|   | Common Stock (100 shares)              |           |               |               |



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|  |                                      |                               |                |                |
|--|--------------------------------------|-------------------------------|----------------|----------------|
|  |                                      | <b>Total Investment</b>       | <b>21,782</b>  | <b>19,108</b>  |
|  |                                      | Guaranty (\$3,189)            |                |                |
| Ciena Capital LLC (Financial Services)           | Senior Loan (5.5%, Due 3/09)(6)      | 319,031                       | 319,031        | 100,051        |
|  | Class B Equity Interests             |                               | 119,436        |                |
|  | Class C Equity Interests             |                               | 109,097        |                |
|  |                                      | <b>Total Investment</b>       | <b>547,564</b> | <b>100,051</b> |
|  |                                      | Guaranty (\$5,000 See Note 3) |                |                |
| CitiPostal Inc. (Business Services)              | Senior Loan (3.7%, Due 12/13)        | 692                           | 683            | 683            |
|  | Unitranche Debt (12.0%, Due 12/13)   | 50,801                        | 50,633         | 50,633         |
|  | Subordinated Debt (16.0%, Due 12/15) | 10,685                        | 10,685         | 10,685         |
|  | Common Stock (37,024 shares)         |                               | 12,726         | 1,432          |
|  |                                      | <b>Total Investment</b>       | <b>74,727</b>  | <b>63,433</b>  |
| Coverall North America, Inc. (Business Services) | Unitranche Debt (12.0%, Due 7/11)    | 31,627                        | 31,573         | 31,573         |
|  | Subordinated Debt (15.0%, Due 7/11)  | 5,563                         | 5,555          | 5,555          |
|  | Common Stock (763,333 shares)        |                               | 14,361         | 11,386         |
|  |                                      | <b>Total Investment</b>       | <b>51,489</b>  | <b>48,514</b>  |

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| <b>Private Finance Portfolio</b> |   |                  |                |               |
|----------------------------------|---|------------------|----------------|---------------|
| <b>Company</b>                   | <b>Investment(1)(2)</b>                     | <b>Principal</b> | <b>Cost</b>    | <b>Value</b>  |
| Crescent Equity Corp.(8)         | Senior Loan (10.0%, Due 6/10)               | \$ 433           | \$ 433         | \$ 433        |
| (Business Services)              | Subordinated Debt (11.0%, Due 9/11 6/17)(6) | 32,161           | 32,072         | 4,132         |
|                                  | Common Stock (174 shares)                   |                  | 82,818         |               |
| <b>Total Investment</b>          |   |                  | <b>115,323</b> | <b>4,565</b>  |
| Guaranty (\$900)                 |   |                  |                |               |
| Direct Capital Corporation       | Senior Loan (8.0%, Due 1/14)(6)             | 8,175            | 8,175          | 8,744         |
| (Financial Services)             | Subordinated Debt (16.0%, Due 3/13)(6)      | 55,671           | 55,496         | 6,797         |
|                                  | Common Stock (2,317,020 shares)             |                  | 25,732         |               |
| <b>Total Investment</b>          |   |                  | <b>89,403</b>  | <b>15,541</b> |
| Financial Pacific Company        | Subordinated Debt (17.4%, Due 2/12 8/12)    | 68,967           | 68,880         | 34,780        |
| (Financial Services)             | Preferred Stock (9,458 shares)              |                  | 8,865          |               |
|                                  | Common Stock (12,711 shares)                |                  | 12,783         |               |
| <b>Total Investment</b>          |   |                  | <b>90,528</b>  | <b>34,780</b> |
| HCI Equity, LLC(4)(5)            | Equity Interests (Private Equity Fund)      |                  | 1,100          | 877           |
| <b>Total Investment</b>          |   |                  | <b>1,100</b>   | <b>877</b>    |
| Hot Light Brands, Inc.           | Senior Loan (9.0%, Due 2/11)(6)             | 29,257           | 29,257         | 9,116         |
| (Real Estate)                    | Common Stock (93,500 shares)                |                  | 5,151          |               |
| <b>Total Investment</b>          |   |                  | <b>34,408</b>  | <b>9,116</b>  |
| Hot Stuff Foods, LLC             | Senior Loan (3.7%, Due 2/12)                | 44,697           | 44,602         | 44,697        |
| (Consumer Products)              | Subordinated Debt (12.3%, Due 8/12 2/13)(6) | 83,692           | 83,387         | 48,240        |
|                                  | Common Stock (1,147,453 shares)             |                  | 56,187         |               |
| <b>Total Investment</b>          |   |                  | <b>184,176</b> | <b>92,937</b> |
| Huddle House, Inc.               | Subordinated Debt (15.0%, Due 12/15)        | 19,694           | 19,646         | 19,646        |
| (Retail)                         | Common Stock (358,428 shares)               |                  | 36,348         | 3,919         |

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**Total Investment** **55,994** **23,565**

|  |                                       |       |       |       |
|--|---------------------------------------|-------|-------|-------|
| IAT<br>Equity, LLC<br>and Affiliates<br>d/b/a Industrial<br>Air Tool<br>(Industrial<br>Products) | Subordinated Debt (9.0%,<br>Due 6/14) | 6,000 | 6,000 | 6,000 |
|  | Equity Interests                      |       | 7,500 | 5,485 |

**Total Investment** **13,500** **11,485**

|   |                               |  |  |     |
|---|-------------------------------|--|--|-----|
| Impact<br>Innovations<br>Group, LLC<br>(Business<br>Services) | Equity Interests in Affiliate |  |  | 215 |
|---|-------------------------------|--|--|-----|

**Total Investment** **215**

|   |  |        |        |        |
|---|--|--------|--------|--------|
| Insight<br>Pharmaceuticals<br>Corporation<br>(Consumer<br>Products) | Subordinated Debt (15.0%,<br>Due 9/12) | 54,443 | 54,385 | 54,023 |
|   | Common Stock (155,000 shares)          |        | 40,413 | 9,400  |

**Total Investment** **94,798** **63,423**

|   |   |     |     |  |
|---|---|-----|-----|--|
| Jakel, Inc.<br>(Industrial<br>Products) | Subordinated Debt (15.5%,<br>Due 3/08)(6) | 748 | 748 |  |
|---|---|-----|-----|--|

**Total Investment** **748**

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| <b>Private Finance</b>                     |                                       |                  |                     |                   |
|--|---------------------------------------|------------------|---------------------|-------------------|
| <b>Portfolio Company</b>                   | <b>Investment(1)(2)</b>               | <b>Principal</b> | <b>Cost</b>         | <b>Value</b>      |
| <b>Knightsbridge CLO</b>                   |                                       |                  |                     |                   |
| 2007-1 Ltd.(4)                             | Class E Notes (9.3%, Due 1/22)        | \$ 18,700        | \$ 18,700           | \$ 11,360         |
| (CLO)                                      | Income Notes (4.4%)(7)                |                  | 39,174              | 16,220            |
|  | <b>Total Investment</b>               |                  | <b>57,874</b>       | <b>27,580</b>     |
| <b>Knightsbridge CLO</b>                   |                                       |                  |                     |                   |
| 2008-1 Ltd.(4)                             | Class C Notes (7.8%, Due 6/18)        | 12,800           | 12,800              | 12,289            |
| (CLO)                                      | Class D Notes (8.8%, Due 6/18)        | 8,000            | 8,000               | 7,160             |
|  | Class E Notes (5.3%, Due 6/18)        | 13,200           | 11,291              | 10,091            |
|  | Income Notes (20.8%)(7)               |                  | 21,893              | 20,637            |
|  | <b>Total Investment</b>               |                  | <b>53,984</b>       | <b>50,177</b>     |
| <b>MVL Group, Inc.</b>                     |                                       |                  |                     |                   |
| (Business Services)                        | Senior Loan (12.0%, Due 7/12)         | 25,260           | 25,256              | 25,260            |
|  | Subordinated Debt (14.5%, Due 7/12)   | 35,607           | 35,578              | 34,306            |
|  | Subordinated Debt (8.0%, Due 7/12)(6) | 144              | 139                 |                   |
|  | Common Stock (560,716 shares)         |                  | 555                 |                   |
|  | <b>Total Investment</b>               |                  | <b>61,528</b>       | <b>59,566</b>     |
| <b>Penn Detroit Diesel Allison, LLC</b>    |                                       |                  |                     |                   |
| (Business Services)                        | Equity Interests                      |                  | 20,081              | 15,258            |
|  | <b>Total Investment</b>               |                  | <b>20,081</b>       | <b>15,258</b>     |
| <b>Service Champ, Inc.</b>                 |                                       |                  |                     |                   |
| (Business Services)                        | Subordinated Debt (15.5%, Due 4/12)   | 27,742           | 27,696              | 27,696            |
|  | Common Stock (55,112 shares)          |                  | 11,145              | 28,071            |
|  | <b>Total Investment</b>               |                  | <b>38,841</b>       | <b>55,767</b>     |
| <b>Stag-Parkway, Inc.</b>                  |                                       |                  |                     |                   |
| (Business Services)                        | Subordinated Debt (10.0%, Due 7/12)   | 19,044           | 19,004              | 19,004            |
|  | Common Stock (25,000 shares)          |                  | 32,686              | 14,226            |
|  | <b>Total Investment</b>               |                  | <b>51,690</b>       | <b>33,230</b>     |
| <b>Startec Equity, LLC</b>                 |                                       |                  |                     |                   |
| (Telecommunications)                       | Equity Interests                      |                  | 211                 | 65                |
|  | <b>Total Investment</b>               |                  | <b>211</b>          | <b>65</b>         |
| <b>Total companies more than 25% owned</b> |                                       |                  | <b>\$ 1,747,759</b> | <b>\$ 811,736</b> |
| <b>Companies 5% to 25% Owned</b>           |                                       |                  |                     |                   |
| 10th Street, LLC                           | Subordinated Debt (13.0%, Due 11/14)  | 22,325           | 22,234              | 22,325            |

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|  |                                     |        |                |               |
|--|-------------------------------------|--------|----------------|---------------|
| (Business Services)  | Equity Interests                    |        | 422            | 475           |
|  | Option                              |        | 25             | 25            |
|  | <b>Total Investment</b>             |        | <b>22,681</b>  | <b>22,825</b> |
| Air Medical Group Holdings LLC (Healthcare Services)                       | Senior Loan (2.8%, Due 3/11)        | 6,075  | 6,056          | 5,845         |
|  | Equity Interests                    |        | 2,993          | 19,500        |
|  | <b>Total Investment</b>             |        | <b>9,049</b>   | <b>25,345</b> |
| BB&T Capital Partners/Windsor Mezzanine Fund, LLC(5) (Private Equity Fund) | Equity Interests                    |        | 11,789         | 10,379        |
|  | <b>Total Investment</b>             |        | <b>11,789</b>  | <b>10,379</b> |
| Driven Brands, Inc. (Consumer Services)                                    | Subordinated Debt (16.6%, Due 7/15) | 91,991 | 91,647         | 91,899        |
|  | Common Stock (3,772,098 shares)     |        | 9,516          | 3,000         |
|  | <b>Total Investment</b>             |        | <b>101,163</b> | <b>94,899</b> |
| Multi-Ad Services, Inc. (Business Services)                                | Unitranche Debt (11.3%, Due 11/11)  | 2,500  | 2,485          | 2,491         |
|  | Equity Interests                    |        | 1,737          | 1,418         |
|  | <b>Total Investment</b>             |        | <b>4,222</b>   | <b>3,909</b>  |

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| <b>Private Finance Portfolio</b>        |  |                     |                           |                   |
|---|--|---------------------|---------------------------|-------------------|
| <b>Company</b>                          | <b>Investment(1)(2)</b>  | <b>Principal</b>    | <b>Cost</b>               | <b>Value</b>      |
| <b>Pendum</b>                           |  |                     |                           |                   |
| Acquisition, Inc<br>(Business Services) | Common Stock (8,872 shares)  |                     | \$                        | \$ 200            |
| <b>Total Investment</b>                 |  |                     |                           | <b>200</b>        |
| <b>Postle</b>                           |  |                     |                           |                   |
| <b>Aluminum</b>                         |  |                     |                           |                   |
| Company, LLC<br>(Industrial Products)   | Senior Loan (6.0%, Due 10/12)(6)<br>Subordinated Debt (3.0%, Due 10/12)(6)<br>Equity Interests | \$ 35,000<br>23,953 | 34,876<br>23,868<br>2,174 | 16,054            |
| <b>Total Investment</b>                 |  |                     | <b>60,918</b>             | <b>16,054</b>     |
| <b>Regency</b>                          |  |                     |                           |                   |
| <b>Healthcare</b>                       |  |                     |                           |                   |
| Group, LLC<br>(Healthcare Services)     | Equity Interests   |                     | 1,302                     | 1,898             |
| <b>Total Investment</b>                 |  |                     | <b>1,302</b>              | <b>1,898</b>      |
| <b>SGT India</b>                        |  |                     |                           |                   |
| <b>Private</b>                          |  |                     |                           |                   |
| Limited(4)<br>(Business Services)       | Common Stock (150,596 shares)  |                     | 4,161                     |                   |
| <b>Total Investment</b>                 |  |                     | <b>4,161</b>              |                   |
| <b>Soteria</b>                          |  |                     |                           |                   |
| <b>Imaging</b>                          |  |                     |                           |                   |
| Services, LLC<br>(Healthcare Services)  | Subordinated Debt (13.3%, Due 11/10)<br>Equity Interests                                       | 4,250               | 4,216<br>1,881            | 4,210<br>1,279    |
| <b>Total Investment</b>                 |  |                     | <b>6,097</b>              | <b>5,489</b>      |
| <b>Universal</b>                        |  |                     |                           |                   |
| <b>Environmental</b>                    |  |                     |                           |                   |
| Services, LLC<br>(Business Services)    | Equity Interests   |                     | 1,599                     |                   |
| <b>Total Investment</b>                 |  |                     | <b>1,599</b>              |                   |
| <b>Total companies 5% to 25% owned</b>  |  |                     | <b>\$ 222,981</b>         | <b>\$ 180,998</b> |
| <b>Companies Less Than 5% Owned</b>     |  |                     |                           |                   |

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|   |   |        |               |                |
|---|---|--------|---------------|----------------|
| 3SI Security Systems, Inc. (Consumer Products)        | Subordinated Debt (16.6%, Due 8/13)(6)  | 29,548 | 29,473        | 9,542          |
| <b>Total Investment</b>                               |   |        | <b>29,473</b> | <b>9,542</b>   |
| Axiom Healthcare Pharmacy, Inc. (Healthcare Services) | Subordinated Debt (8.0%, Due 3/15)  | 3,036  | 3,036         | 2,641          |
| <b>Total Investment</b>                               |   |        | <b>3,036</b>  | <b>2,641</b>   |
| BenefitMall Holdings Inc. (Business Services)         | Subordinated Debt (18.0%, Due 6/14)<br>Common Stock (39,274,290 shares)(3)<br>Warrants(3) | 40,326 | 40,254        | 40,254         |
| <b>Total Investment</b>                               |   |        | <b>79,528</b> | <b>109,076</b> |
| Bushnell, Inc. (Consumer Products)                    | Subordinated Debt (6.8%, Due 2/14)  | 41,325 | 40,217        | 30,456         |
| <b>Total Investment</b>                               |   |        | <b>40,217</b> | <b>30,456</b>  |
| Callidus Debt Partners CDO Fund I, Ltd. (CDO)         | Class C Notes (12.9%, Due 12/13)(6)   | 19,420 | 19,527        | 2,163          |
|   | Class D Notes (17.0%, Due 12/13)(6)   | 9,400  | 9,454         |                |
| <b>Total Investment</b>                               |   |        | <b>28,981</b> | <b>2,163</b>   |
| Callidus Debt Partners CLO Fund III, Ltd. (CLO)       | Preferred Shares (23,600,000 shares)  |        | 20,138        | 4,112          |
| <b>Total Investment</b>                               |   |        | <b>20,138</b> | <b>4,112</b>   |

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| Private Finance                                      |                                   |           |               |               |
|--|-----------------------------------|-----------|---------------|---------------|
| Portfolio Company                                    | Investment(1)(2)                  | Principal | Cost          | Value         |
| Callidus Debt Partners CLO                           |                                   |           |               |               |
| Fund IV, Ltd.(4)(10)                                 | Class D Notes (4.8%, Due 4/20)    | \$ 3,000  | \$ 2,206      | \$ 1,710      |
| (CLO)  | Income Notes (0.0%)(7)            |           | 14,859        | 5,433         |
| <b>Total Investment</b>                              |                                   |           | <b>17,065</b> | <b>7,143</b>  |
| Callidus Debt Partners CLO                           |                                   |           |               |               |
| Fund V, Ltd.(4)(10)                                  | Income Notes (1.4%)(7)            |           | 13,432        | 5,012         |
| (CLO)  |                                   |           |               |               |
| <b>Total Investment</b>                              |                                   |           | <b>13,432</b> | <b>5,012</b>  |
| Callidus Debt Partners CLO                           |                                   |           |               |               |
| Fund VI, Ltd.(4)(10)                                 | Class D Notes (6.3%, Due 10/21)   | 9,480     | 7,809         | 4,256         |
| (CLO)  | Income Notes (0.0%)(7)            |           | 29,144        | 4,978         |
| <b>Total Investment</b>                              |                                   |           | <b>36,953</b> | <b>9,234</b>  |
| Callidus Debt Partners CLO                           |                                   |           |               |               |
| Fund VII, Ltd.(4)(10)                                | Income Notes (0.0%)(7)            |           | 24,824        | 7,148         |
| (CLO)  |                                   |           |               |               |
| <b>Total Investment</b>                              |                                   |           | <b>24,824</b> | <b>7,148</b>  |
| Callidus MAPS CLO                                    |                                   |           |               |               |
| Fund I LLC(10)                                       | Class E Notes (5.8%, Due 12/17)   | 17,000    | 17,000        | 11,695        |
| (CLO)  | Income Notes (0.0%)(7)            |           | 38,509        | 14,119        |
| <b>Total Investment</b>                              |                                   |           | <b>55,509</b> | <b>25,814</b> |
| Callidus MAPS CLO                                    |                                   |           |               |               |
| Fund II, Ltd.(4)(10)                                 | Class D Notes (4.5%, Due 7/22)    | 7,700     | 3,880         | 3,215         |
| (CLO)  | Income Notes (2.5%)(7)            |           | 17,824        | 6,310         |
| <b>Total Investment</b>                              |                                   |           | <b>21,704</b> | <b>9,525</b>  |
| Carlisle Wide Plank Floors, Inc. (Consumer Products) |                                   |           |               |               |
|  | Unitranche Debt (12.0%, Due 6/11) | 1,644     | 1,638         | 1,544         |
|  | Common Stock (345,056 Shares)     |           | 345           |               |
| <b>Total Investment</b>                              |                                   |           | <b>1,983</b>  | <b>1,544</b>  |
| Catterton Partners VI, L.P.(5) (Private Equity Fund) |                                   |           |               |               |
|  | Limited Partnership Interest      |           | 3,327         | 2,014         |



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|  |   |                         |               |               |
|--|---|-------------------------|---------------|---------------|
|  |   | <b>Total Investment</b> | <b>3,327</b>  | <b>2,014</b>  |
| Commercial<br>Credit Group, Inc.<br>(Financial<br>Services)        | Subordinated Debt (15.0%,<br>Due 6/15)      | 22,000                  | 21,970        | 21,970        |
|  | Preferred Stock (64,679 shares)<br>Warrants |                         | 15,543        | 6,005         |
|  |   | <b>Total Investment</b> | <b>37,513</b> | <b>27,975</b> |
| Community<br>Education<br>Centers, Inc.<br>(Education<br>Services) | Subordinated Debt (21.5%,<br>Due 11/13)     | 37,357                  | 37,307        | 35,869        |
|  |   | <b>Total Investment</b> | <b>37,307</b> | <b>35,869</b> |
| Component<br>Hardware<br>Group, Inc.<br>(Industrial<br>Products)   | Subordinated Debt (13.5%,<br>Due 1/13)(6)   | 18,992                  | 18,947        | 16,695        |
|  |   | <b>Total Investment</b> | <b>18,947</b> | <b>16,695</b> |
| Cook Inlet<br>Alternative<br>Risk, LLC<br>(Business<br>Services)   | Unitranche Debt (13.0%,<br>Due 4/13)        | 87,600                  | 87,309        | 62,100        |
|  | Equity Interests                            |                         | 552           |               |
|  |   | <b>Total Investment</b> | <b>87,861</b> | <b>62,100</b> |

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| Private Finance Portfolio Company                              | Investment(1)(2)   | Principal          | Cost                     | Value                    |
|--|--|--------------------|--------------------------|--------------------------|
| Cortec Group Fund IV, L.P.(5)<br>(Private Equity)              | Limited Partnership Interest   |                    | \$ 6,390                 | \$ 3,917                 |
| <b>Total Investment</b>  |  |                    | <b>6,390</b>             | <b>3,917</b>             |
| Digital VideoStream, LLC<br>(Business Services)                | Unitranche Debt (11.0%, Due 2/12)<br>Convertible Subordinated Debt (10.0%, Due 2/16)               | \$ 12,984<br>5,017 | 12,940<br>5,006          | 12,811<br>5,006          |
| <b>Total Investment</b>  |  |                    | <b>17,946</b>            | <b>17,817</b>            |
| DirectBuy Holdings, Inc.<br>(Consumer Products)                | Subordinated Debt (16.0%, Due 5/13)<br>Equity Interests  | 78,414             | 78,181<br>8,000          | 71,856<br>1,500          |
| <b>Total Investment</b>  |  |                    | <b>86,181</b>            | <b>73,356</b>            |
| Distant Lands Trading Co.<br>(Consumer Products)               | Senior Loan (8.3%, Due 11/11)<br>Unitranche Debt (13.0%, Due 11/11)<br>Common Stock (3,451 shares) | 8,300<br>43,581    | 8,284<br>43,509<br>3,451 | 7,852<br>43,026<br>1,046 |
| <b>Total Investment</b>  |  |                    | <b>55,244</b>            | <b>51,924</b>            |
| Diversified Mercury Communications, LLC<br>(Business Services) | Senior Loan (6.8%, Due 3/13)   | 2,668              | 2,657                    | 2,391                    |
| <b>Total Investment</b>  |  |                    | <b>2,657</b>             | <b>2,391</b>             |
| Dryden XVIII Leveraged Loan 2007 Limited(4)<br>(CLO)           | Class B Notes (4.8%, Due 10/19)(6)<br>Income Notes (0.0%)(7)                                       | 8,717              | 7,497<br>23,164          | 2,115<br>2,427           |
| <b>Total Investment</b>  |  |                    | <b>30,661</b>            | <b>4,542</b>             |
| Dynamic India Fund IV(4)(5)<br>(Private Equity Fund)           | Equity Interests   |                    | 9,350                    | 8,224                    |
| <b>Total Investment</b>  |  |                    | <b>9,350</b>             | <b>8,224</b>             |
| EarthColor, Inc.<br>(Business Services)                        | Subordinated Debt (15.0%, Due 11/13)(6)  | 123,819            | 123,385                  |                          |

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|   |  |        |                |               |
|---|--|--------|----------------|---------------|
|   | Common Stock (63,438 shares)(3)          |        | 63,438         |               |
|   | Warrants(3)                              |        |                |               |
|   | <b>Total Investment</b>                  |        | <b>186,823</b> |               |
| eCentury Capital Partners, L.P.(5)<br>(Private Equity Fund) | Limited Partnership Interest             |        | 7,274          |               |
|   | <b>Total Investment</b>                  |        | <b>7,274</b>   |               |
| eInstruction Corporation<br>(Education Services)            | Subordinated Debt (12.2%, Due 7/14 1/15) | 36,849 | 36,737         | 34,174        |
|   | Common Stock (2,406 shares)              |        | 2,500          | 1,050         |
|   | <b>Total Investment</b>                  |        | <b>39,237</b>  | <b>35,224</b> |
| Fidus Mezzanine Capital, L.P.(5)<br>(Private Equity Fund)   | Limited Partnership Interest             |        | 14,720         | 9,921         |
|   | <b>Total Investment</b>                  |        | <b>14,720</b>  | <b>9,921</b>  |
| Geotrace Technologies, Inc.<br>(Energy Services)            | Warrants                                 |        | 2,027          | 2,075         |
|   | <b>Total Investment</b>                  |        | <b>2,027</b>   | <b>2,075</b>  |

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| <b>Private Finance Portfolio</b>                     |                                      |                  |               |               |
|--|--------------------------------------|------------------|---------------|---------------|
| <b>Company</b>                                       | <b>Investment(1)(2)</b>              | <b>Principal</b> | <b>Cost</b>   | <b>Value</b>  |
| Gilchrist & Soames, Inc.<br>(Consumer Products)      | Subordinated Debt (13.4%, Due 10/13) | \$ 24,421        | \$ 24,310     | \$ 23,181     |
| <b>Total Investment</b>                              |                                      |                  | <b>24,310</b> | <b>23,181</b> |
| Havco Wood Products LLC<br>(Industrial Products)     | Equity Interests                     |                  | 910           |               |
| <b>Total Investment</b>                              |                                      |                  | <b>910</b>    |               |
| The Homax Group, Inc.<br>(Consumer Products)         | Senior Loan (8.0%, Due 10/12)        | 697              | 653           | 648           |
|  | Subordinated Debt (14.5%, Due 4/14)  | 14,159           | 13,649        | 9,804         |
|  | Preferred Stock (76 shares)          |                  | 76            |               |
|  | Common Stock (24 shares)             |                  | 5             |               |
|  | Warrants                             |                  | 954           |               |
| <b>Total Investment</b>                              |                                      |                  | <b>15,337</b> | <b>10,452</b> |
| Ideal Snacks Corporation<br>(Consumer Products)      | Senior Loan (8.5%, Due 6/11)         | 967              | 967           | 958           |
| <b>Total Investment</b>                              |                                      |                  | <b>967</b>    | <b>958</b>    |
| Kodiak Fund LP(5)<br>(Private Equity Fund)           | Equity Interests                     |                  | 9,323         | 1,917         |
| <b>Total Investment</b>                              |                                      |                  | <b>9,323</b>  | <b>1,917</b>  |
| Market Track Holdings, LLC<br>(Business Services)    | Senior Loan (8.0%, Due 6/14)         | 2,500            | 2,450         | 2,412         |
|  | Subordinated Debt (15.9%, Due 6/14)  | 24,600           | 24,509        | 23,680        |
| <b>Total Investment</b>                              |                                      |                  | <b>26,959</b> | <b>26,092</b> |
| NetShape Technologies, Inc.<br>(Industrial Products) | Senior Loan (4.0%, Due 2/13)         | 972              | 972           | 335           |
| <b>Total Investment</b>                              |                                      |                  | <b>972</b>    | <b>335</b>    |
|  |                                      | 16,042           | 16,088        | 16,031        |

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|   |   |                 |                 |                 |
|---|---|-----------------|-----------------|-----------------|
| Network Hardware Resale, Inc.<br>(Business Services)                | Unitranche Debt (12.0%, Due 12/11)<br><br>Convertible Subordinated Debt (9.8%, Due 12/15) | 15,953          | 15,998          | 15,998          |
| <b>Total Investment</b>   |   |                 | <b>32,086</b>   | <b>32,029</b>   |
| Novak Biddle Venture Partners III, L.P.(5)<br>(Private Equity Fund) | Limited Partnership Interest  |                 | 2,018           | 1,070           |
| <b>Total Investment</b>   |   |                 | <b>2,018</b>    | <b>1,070</b>    |
| Pangaea CLO 2007-1 Ltd.(4)<br>(CLO)                                 | Class D Notes (5.0%, Due 1/21)  | 15,000          | 12,119          | 6,651           |
| <b>Total Investment</b>   |   |                 | <b>12,119</b>   | <b>6,651</b>    |
| PC Helps Support, LLC<br>(Business Services)                        | Senior Loan (4.3%, Due 12/13)<br>Subordinated Debt (12.8%, Due 12/13)                     | 8,181<br>26,734 | 8,092<br>26,633 | 7,756<br>26,490 |
| <b>Total Investment</b>   |   |                 | <b>34,725</b>   | <b>34,246</b>   |
| Performant Financial Corporation<br>(Business Services)             | Common Stock (478,816 shares)   |                 | 734             | 1,400           |
| <b>Total Investment</b>   |   |                 | <b>734</b>      | <b>1,400</b>    |
| Promo Works, LLC<br>(Business Services)                             | Unitranche Debt (16.0%, Due 12/12)  | 19,964          | 19,859          | 12,557          |
| <b>Total Investment</b>   |   |                 | <b>19,859</b>   | <b>12,557</b>   |

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| <b>Private Finance</b>   |  |                  |               |               |
|--|--|------------------|---------------|---------------|
| <b>Portfolio Company</b>   | <b>Investment(1)(2)</b>                    | <b>Principal</b> | <b>Cost</b>   | <b>Value</b>  |
| Reed Group, Ltd.<br>(Healthcare<br>Services)                     | Senior Loan (6.0%, Due 12/13)              | \$ 12,033        | \$ 11,903     | \$ 10,186     |
|  | Subordinated Debt (15.8%,<br>Due 12/13)    | 19,259           | 19,199        | 15,260        |
|  | Equity Interests                           |                  | 1,800         | 28            |
| <b>Total Investment</b>  |  |                  | <b>32,902</b> | <b>25,474</b> |
| S.B. Restaurant<br>Company<br>(Retail)                           | Unitranche Debt (11.8%,<br>Due 4/11)       | 38,327           | 38,207        | 32,693        |
|  | Preferred Stock (46,690 shares)            |                  | 117           |               |
|  | Warrants                                   |                  | 534           |               |
| <b>Total Investment</b>  |  |                  | <b>38,858</b> | <b>32,693</b> |
| SPP Mezzanine<br>Funding II, L.P.(5)<br>(Private<br>Equity Fund) | Limited Partnership Interest               |                  | 7,476         | 7,145         |
|  | <b>Total Investment</b>                    |                  |               | <b>7,476</b>  |
| STS<br>Operating, Inc.<br>(Industrial<br>Products)               | Subordinated Debt (11.0%,<br>Due 1/13)     | 30,386           | 30,318        | 28,695        |
|  | <b>Total Investment</b>                    |                  |               | <b>30,318</b> |
| Summit Energy<br>Services, Inc.<br>(Business<br>Services)        | Common Stock (415,982 shares)              |                  | 1,861         | 2,200         |
|  | <b>Total Investment</b>                    |                  |               | <b>1,861</b>  |
| Tappan Wire &<br>Cable Inc.<br>(Industrial<br>Products)          | Unitranche Debt (15.0%,<br>Due 8/14)(6)    | 22,346           | 22,248        | 5,331         |
|  | Common Stock (12,940 shares)(3)            |                  | 2,043         |               |
|  | Warrant(3)                                 |                  |               |               |
| <b>Total Investment</b>  |  |                  | <b>24,291</b> | <b>5,331</b>  |
| The Step2<br>Company, LLC<br>(Consumer<br>Products)              | Unitranche Debt (11.0%,<br>Due 4/12)       | 94,122           | 93,937        | 89,614        |
|  | Equity Interests                           |                  | 2,156         | 705           |
| <b>Total Investment</b>  |  |                  | <b>96,093</b> | <b>90,319</b> |
| Tradesmen<br>International, Inc.<br>(Business<br>Services)       | Subordinated Debt (15.0%,<br>Due 12/12)(6) | 40,000           | 39,793        | 11,532        |
|  | <b>Total Investment</b>                    |                  |               |               |

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|   |                                      |                         |               |               |
|---|--------------------------------------|-------------------------|---------------|---------------|
|   |                                      | <b>Total Investment</b> | <b>39,793</b> | <b>11,532</b> |
| Trover Solutions, Inc.<br>(Business Services)               | Subordinated Debt (12.0%, Due 11/12) | 53,827                  | 53,674        | 51,270        |
|   |                                      | <b>Total Investment</b> | <b>53,674</b> | <b>51,270</b> |
| United Road Towing, Inc.<br>(Consumer Services)             | Subordinated Debt (11.8%, Due 1/14)  | 19,060                  | 18,993        | 18,367        |
|   |                                      | <b>Total Investment</b> | <b>18,993</b> | <b>18,367</b> |
| Venturehouse-Cibernet Investors, LLC<br>(Business Services) | Equity Interest                      |                         |               |               |
|   |                                      | <b>Total Investment</b> |               |               |
| Webster Capital II, L.P.(5)<br>(Private Equity Fund)        | Limited Partnership Interest         |                         | 1,742         | 1,235         |
|   |                                      | <b>Total Investment</b> | <b>1,742</b>  | <b>1,235</b>  |
| Woodstream Corporation<br>(Consumer Products)               | Subordinated Debt (12.0%, Due 2/15)  | 90,000                  | 89,693        | 77,400        |
|   | Common Stock (6,960 shares)          |                         | 6,961         | 2,700         |
|   |                                      | <b>Total Investment</b> | <b>96,654</b> | <b>80,100</b> |

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| Private Finance Portfolio Company                        | Investment(1)(2)         | Principal           | Cost                | Value        |
|--|--------------------------|---------------------|---------------------|--------------|
| Other companies  | Other debt investments   | \$ 37               | \$ (130)            | \$ (134)     |
|  | Other equity investments |                     | 41                  | 8            |
| <b>Total Investment</b>                                  |                          |                     | <b>(89)</b>         | <b>(126)</b> |
| <b>Total companies less than 5% owned</b>                |                          | <b>\$ 1,639,193</b> | <b>\$ 1,082,577</b> |              |
| <b>Total private finance (100 portfolio investments)</b> |                          | <b>\$ 3,609,933</b> | <b>\$ 2,075,311</b> |              |

**Commercial Real Estate Finance**  
 (in thousands, except number of loans)

|  | Stated Interest Rate Ranges | Number of Loans | December 31, 2009   |                     |
|--|-----------------------------|-----------------|---------------------|---------------------|
|  |                             |                 | Cost                | Value               |
| <b>Commercial Mortgage Loans</b>                         |                             |                 |                     |                     |
|  | Up to 6.99%                 | 3               | \$ 29,660           | \$ 28,372           |
|  | 7.00% - 8.99%               | 2               | 1,845               | 1,819               |
|  | 9.00% - 10.99%              | 1               | 6,480               | 3,281               |
|  | 15.00% and above            | 2               | 3,970               | 1,943               |
| <b>Total commercial mortgage loans(9)</b>                |                             |                 | <b>\$ 41,955</b>    | <b>\$ 35,415</b>    |
| <b>Real Estate Owned</b>                                 |                             |                 | <b>\$ 5,962</b>     | <b>\$ 6,405</b>     |
| <b>Equity Interests(2) Companies more than 25% owned</b> |                             |                 | <b>\$ 27,263</b>    | <b>\$ 13,987</b>    |
| <b>Total commercial real estate finance</b>              |                             |                 | <b>\$ 75,180</b>    | <b>\$ 55,807</b>    |
| <b>Total portfolio</b>                                   |                             |                 | <b>\$ 3,685,113</b> | <b>\$ 2,131,118</b> |

|   | Yield | Cost              | Value             |
|---|-------|-------------------|-------------------|
| <b>Investments in Money Market and Other Securities</b> |       |                   |                   |
| First American Treasury Obligations Fund                |       | \$ 381,020        | \$ 381,020        |
| <b>Total</b>  |       | <b>\$ 381,020</b> | <b>\$ 381,020</b> |

- (1) Interest rates represent the weighted average annual stated interest rate on loans and debt securities, which are presented by nature of indebtedness for a single issuer. The maturity dates represent the earliest and the latest maturity dates.
- (2) Common stock, preferred stock, warrants, options, and equity interests are generally non-income producing and restricted.



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- (3) Common stock is non-voting. In addition to non-voting stock ownership, Allied Capital has an option to acquire a majority of the voting securities of the portfolio company at fair market value.
- (4) Non-U.S. company or principal place of business outside the U.S.
- (5) Non-registered investment company.
- (6) Loan or debt security is on non-accrual status and therefore is considered non-income producing.
- (7) Represents the effective interest yield earned on the cost basis of these preferred equity investments and income notes. The yield is included in interest income in the consolidated statement of operations.
- (8) Crescent Equity Corp. holds investments in Crescent Hotels & Resorts, LLC and affiliates.
- (9) Commercial mortgage loans totaling \$6.1 million at value were on non-accrual status and therefore were considered non-income producing.
- (10) The fund is managed by Callidus Capital, a portfolio company of Allied Capital.

The accompanying notes are an integral part of these consolidated financial statements.

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**Note 1. Organization**

Allied Capital Corporation ("Allied Capital"), a Maryland corporation, is a closed-end, non-diversified management investment company that has elected to be regulated as a business development company ("BDC") under the Investment Company Act of 1940 ("1940 Act"). Allied Capital has a real estate investment trust subsidiary, Allied Capital REIT, Inc. ("Allied REIT"), and several subsidiaries that are single member limited liability companies established for specific purposes including holding real estate properties. Allied Capital also has a subsidiary, A.C. Corporation ("AC Corp") that generally provides diligence and structuring services, as well as transaction, management, consulting, and other services, including underwriting and arranging senior loans, to Allied Capital, its portfolio companies and its managed funds.

Allied Capital and its subsidiaries, collectively, are referred to as the "Company." The Company consolidates the results of its subsidiaries for financial reporting purposes.

Pursuant to Accounting Standards Codification ("ASC") Topic 810 "*Consolidations*," the financial results of Allied Capital's portfolio investments are not consolidated in Allied Capital's financial statements. Portfolio investments are held for purposes of deriving investment income and future capital gains.

The investment objective of Allied Capital is to achieve current income and capital gains. In order to achieve this objective, Allied Capital has primarily invested in debt and equity securities of private companies in a variety of industries.

On October 26, 2009, Allied Capital entered into a definitive agreement to be acquired by Ares Capital Corporation ("Ares Capital") in an all stock transaction upon the consummation of which each existing share of common stock of Allied Capital was exchanged for 0.325 shares of Ares Capital common stock (the "Acquisition by Ares Capital"). The Acquisition by Ares Capital was consummated on April 1, 2010 in a transaction valued at approximately \$908 million as of the closing date. In connection with the closing of the Acquisition by Ares Capital on April 1, 2010, Allied Capital incurred costs of approximately \$54.4 million, which are not included in the Statement of Operations for the three months ended March 31, 2010. See Note 13 Subsequent Events.

**Note 2. Summary of Significant Accounting Policies**

The fair value of the portfolio investments as of December 31, 2009, was determined by the board of directors of Allied Capital using the valuation policies and procedures described in Allied Capital's financial statements included in Allied Capital's Annual Report on Form 10-K for the year ended December 31, 2009, filed with the Securities and Exchange Commission ("SEC") on February 26, 2010.

As discussed above and in Note 13 Subsequent Events, the Acquisition by Ares Capital was consummated on April 1, 2010. In connection therewith, Allied Capital was merged out of existence and, consequently, there was no board of directors of Allied Capital after April 1, 2010, to determine fair value as of March 31, 2010.

Subsequent to the Acquisition by Ares Capital, the board of directors of Ares Capital determined the fair value, as of April 1, 2010, of the portfolio investments acquired in the Acquisition by Ares Capital using the valuation policies and procedures described in Ares Capital's financial statements included in Ares Capital's Annual Report on Form 10-K for the year ended December 31, 2009, filed with the SEC on February 25, 2010. These determinations of fair value as of April 1, 2010, were used for purposes of determining the fair value of the Allied Capital portfolio investments as of March 31, 2010.

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Allied Capital, as a BDC, has invested in illiquid securities including debt and equity securities of portfolio companies, CLO bonds and preferred shares/income notes, CDO bonds and investment funds. Allied Capital's investments may be subject to certain restrictions on resale and generally have no established trading market. The valuation of these investments considers the fact that no ready market exists for substantially all of the securities in the portfolio and that fair value for the investments must typically be determined using unobservable inputs. Because of the inherent uncertainty of valuation, the values determined by the board of directors may differ significantly from the values that would have been used had a ready market existed for the investments, and the differences could be material. Additionally, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the values determined at the measurement date. Also, if forced to immediately liquidate some or all of the investments in the portfolio, the proceeds of such liquidation could be significantly less than the current value of such investments.

The consolidated financial statements include the accounts of Allied Capital and its subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications have been made to the 2009 balances to conform with the 2010 financial statement presentation.

The accompanying unaudited consolidated financial statements of Allied Capital have been prepared in accordance with GAAP (as herein defined) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. The unaudited consolidated financial results of Allied Capital included herein contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position of Allied Capital as of March 31, 2010, the results of operations for the three months ended March 31, 2010 and 2009, and changes in net assets and cash flows for the three months ended March 31, 2010 and 2009. The results of operations for the three months ended March 31, 2010, are not necessarily indicative of the operating results to be expected for the full year.

In June 2009, the Financial Accounting Standards Board ("FASB") issued SFAS No. 168, *"The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles,"* which was primarily codified into ASC Topic 105, *"Generally Accepted Accounting Standards."* This standard is the single source of authoritative non-governmental U.S. generally accepted accounting principles ("GAAP"), superseding existing FASB, American Institute of Certified Public Accountants ("AICPA"), Emerging Issues Task Force ("EITF"), and related accounting literature. Also included is relevant SEC guidance organized using the same topical structure in separate sections. This guidance is effective for financial statements issued for reporting periods that end after September 15, 2009. This guidance impacts the consolidated financial statements and related disclosures as all references to authoritative literature reflect the newly adopted codification.

The private finance portfolio and the interest and related portfolio income and net realized gains (losses) on the private finance portfolio are presented in three categories: companies more than 25% owned, which represent portfolio companies where Allied Capital directly or indirectly owns more than 25% of the outstanding voting securities of such portfolio company or where Allied Capital controls the portfolio company's board of directors and, therefore, are deemed controlled by Allied Capital under the 1940 Act; companies owned 5% to 25%, which represent portfolio companies where Allied Capital directly or indirectly owns 5% to 25% of the outstanding voting securities of such portfolio company or where Allied Capital holds one or more seats on the portfolio company's board of directors and, therefore, are deemed to be an affiliated person under the 1940 Act; and companies less than 5% owned, which represent portfolio companies where Allied Capital directly or indirectly owns less than 5% of the outstanding voting securities of such portfolio company and where Allied Capital has no other affiliations with such portfolio company. The interest and related portfolio income and net realized gains (losses) from the commercial real estate finance portfolio and other sources,

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including investments in money market and other securities, are included in the companies less than 5% owned category on the consolidated statement of operations.

In the ordinary course of business, Allied Capital enters into transactions with portfolio companies that may be considered related party transactions.

***Net Realized Gains or Losses and Net Change in Unrealized Appreciation or Depreciation***

Realized gains or losses are measured by the difference between the net proceeds from the repayment or sale and the cost basis of the investment without regard to unrealized appreciation or depreciation previously recognized, and include investments charged off during the period, net of recoveries. Net change in unrealized appreciation or depreciation primarily reflects the change in portfolio investment values during the reporting period, including the reversal of previously recorded unrealized appreciation or depreciation when gains or losses are realized. Net change in unrealized appreciation or depreciation also reflects depreciation on accrued interest and dividends receivable and other assets where collection is doubtful.

***Interest and Dividend Income***

Interest income is recorded on an accrual basis to the extent that such amounts are expected to be collected. For loans and debt securities with contractual payment-in-kind interest, which represents contractual interest accrued and added to the loan balance that generally becomes due at maturity, Payment-in-kind interest is not accrued if the portfolio company valuation indicates that the payment-in-kind interest is not collectible. In general, interest is not accrued on loans and debt securities if there is doubt about interest collection or where the enterprise value of the portfolio company may not support further accrual. Interest may not accrue on loans or debt securities to portfolio companies that are more than 50% owned by Allied Capital depending on such company's capital requirements.

When nominal cost warrants or free equity securities ("nominal cost equity") were received, the cost basis in the investment was allocated between the debt securities and nominal cost equity at the time of origination. At that time, the original issue discount basis of the nominal cost equity was recorded by increasing the cost basis in the equity and decreasing the cost basis in the related debt securities. Loan origination fees, original issue discount, and market discount were capitalized and then amortized into interest income using a method that approximated the effective interest method. Upon the prepayment of a loan or debt security, any unamortized loan origination fees were recorded as interest income and any unamortized original issue discount or market discount was recorded as a realized gain.

The weighted average yield on loans and debt securities is computed as the (a) annual stated interest on accruing loans and debt securities plus the annual amortization of loan origination fees, original issue discount, and market discount on accruing loans and debt securities less the annual amortization of loan origination costs, divided by (b) total loans and debt securities at value. The weighted average yield is computed as of the balance sheet date.

Allied Capital recognizes interest income on the CLO preferred shares/income notes using the effective interest method, based on the anticipated yield that is determined using the estimated cash flows over the projected life of the investment. Yields are revised when there are changes in actual or estimated cash flows due to changes in prepayments and/or re-investments, credit losses, ratings or asset pricing. Changes in estimated yield are recognized as an adjustment to the estimated yield over the remaining life of the preferred shares/income notes from the date the estimated yield was changed. CLO and CDO bonds have stated interest rates. The weighted average yield on the CLO/CDO Assets is calculated as the (a) annual stated interest or the effective interest yield on the accruing bonds or the

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effective yield on the preferred shares/income notes, divided by (b) CLO/CDO Assets at value. The weighted average yields are computed as of the balance sheet date.

Dividend income on preferred equity securities is recorded as dividend income on an accrual basis to the extent that such amounts are expected to be collected and to the extent that Allied Capital has the option to receive the dividend in cash. Dividend income on common equity securities is recorded on the record date for private companies or on the ex-dividend date for publicly traded companies.

***Fee Income***

Fee income includes fees for loan prepayment premiums, guarantees, commitments and services rendered by Allied Capital to portfolio companies and other third parties such as diligence, structuring, transaction services, management and consulting services, and other services. Loan prepayment premiums are recognized at the time of prepayment. Guaranty and commitment fees are generally recognized as income over the related period of the guaranty or commitment, respectively. Diligence, structuring, and transaction services fees are generally recognized as income when services are rendered or when the related transactions are completed. Management, consulting and other services fees, including fund management fees, are generally recognized as income as the services are rendered. Fees were not accrued if there was doubt about collection of those fees.

***Cash and Cash Equivalents***

Cash and cash equivalents represents unrestricted cash and highly liquid securities with original maturities of 90 days or less.

***Guarantees***

Guarantees meeting the characteristics described in ASC Topic 460, "Guarantees," and issued or modified after December 31, 2002, are recognized at fair value at inception. Guarantees made on behalf of portfolio companies are considered in determining the fair value of Allied Capital's investments. See Note 5 Guarantees and Commitments.

***Financing Costs***

Debt financing costs are based on actual costs incurred in obtaining debt financing and generally are deferred and amortized as part of interest expense over the term of the related debt instrument using a method that approximates the effective interest method. Costs associated with the issuance of common stock are recorded as a reduction to the proceeds from the sale of common stock. Financing costs generally include underwriting, accounting and legal fees, and printing costs.

***Dividends to Shareholders***

Dividends to shareholders are recorded on the ex-dividend date.

***Stock Compensation Plans***

As of March 31, 2010, Allied Capital had a stock-based employee compensation plan. See Note 8. Effective January 1, 2006, Allied Capital adopted the provisions of FASB Statement No. 123 (Revised 2004), *Share-Based Payment* ("SFAS 123R"), which was primarily codified into ASC Topic 718, "Compensation Stock Compensation". These standards were adopted using the modified prospective method of application, which required Allied Capital to recognize compensation costs on a prospective basis beginning January 1, 2006. Accordingly, Allied Capital did not restate prior year financial statements. Under this method, the unamortized cost of previously awarded options that were unvested

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as of January 1, 2006, is recognized over the remaining service period in the statement of operations beginning in 2006, using the fair value amounts determined for pro forma disclosure under these standards. With respect to options granted on or after January 1, 2006, compensation cost based on estimated grant date fair value is recognized over the related service period in the statement of operations.

The stock option expense for the three months ended March 31, 2010 and 2009, was as follows:

| (\$ in millions, except per share amounts)                    | For the Three<br>Months Ended<br>March 31, |         |
|---|--|---------|
|   | 2010                                       | 2009    |
| Employee Stock Option Expense:                                |  |         |
| Previously awarded, unvested options as of<br>January 1, 2006 | \$   | \$      |
| Options granted on or after January 1, 2006                   | 1.0  | 0.8     |
| Total employee stock option expense                           | \$ 1.0                                     | \$ 0.8  |
| Per basic share   | \$ 0.00                                    | \$ 0.00 |
| Per diluted share   | \$ 0.00                                    | \$ 0.00 |

In addition to the above stock option expense for the three months ended March 31, 2010, in connection with the closing of the Acquisition by Ares Capital, all outstanding unvested options became vested on April 1, 2010 (the acquisition date) in accordance with Allied Capital's stock option plan. Allied Capital had stock option expense related to the vesting of stock options upon the closing of \$6.8 million on April 1, 2010, which is not included in the Statement of Operations for the three months ended March 31, 2010. See Note 13 Subsequent events.

**Options Granted.** The stock option expense shown in the table above was based on the underlying value of the options granted by Allied Capital. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model and expensed over the vesting period. There were no options granted during the three months ended March 31, 2010. The following weighted average assumptions were used to calculate the fair value of options granted during the three months ended March 31, 2009:

|  | For the Three<br>Months Ended<br>March 31, |        |
|--|--|--------|
|  | 2009                                       |        |
| Expected term (in years)               |  | 3.0    |
| Risk-free interest rate                |  | 1.3%   |
| Expected volatility                    |  | 103.8% |
| Dividend yield                         |  | 34.4%  |
| Weighted average fair value per option | \$   | 0.12   |

The expected term of the options granted represents the period of time that such options are expected to be outstanding. To determine the expected term of the options, Allied Capital used historical and other data to estimate option exercise time frames, including considering employee terminations. The risk free rate was based on the U.S. Treasury bond yield curve at the date of grant consistent with the expected term. Expected volatilities were determined based on the historical volatility of Allied Capital's common stock over a historical time period consistent with the expected term. The dividend yield was determined based on an estimate of Allied Capital's future dividends over the expected term, relative to the option price. To determine the stock options expense for options granted, the calculated fair value of the options granted was applied to the options granted, net of assumed future option forfeitures.

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***Federal and State Income Taxes and Excise Tax***

Allied Capital has complied with the requirements of the Code that are applicable to regulated investment companies ("RIC") and real estate investment trusts ("REIT"). Allied Capital and any subsidiaries that qualify as a RIC or a REIT intend to distribute or retain through a deemed distribution all of their annual taxable income to shareholders; therefore, Allied Capital has made no provision for income taxes exclusive of excise taxes for these entities.

Income taxes for AC Corp are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases as well as operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

***Per Share Information***

Basic earnings per common share is calculated using the weighted average number of common shares outstanding for the period presented. Diluted earnings per common share reflects the potential dilution that could occur if options to issue common stock were exercised into common stock. Earnings per share is computed after subtracting dividends on preferred shares, if any.

***Use of Estimates in the Preparation of Financial Statements***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

The consolidated financial statements include portfolio investments at value of \$1.8 billion and \$2.1 billion at March 31, 2010, and December 31, 2009, respectively. At December 31, 2009, 80% of Allied Capital's total assets represented portfolio investments whose fair values were determined by the Board of Directors of Allied Capital in good faith in the absence of readily available market values. At March 31, 2010, 88% of Allied Capital's total assets represented portfolio investments whose fair values were based upon the fair values determined by the Board of Directors of Ares Capital as of April 1, 2010 (the effective date of the Acquisition by Ares Capital), after the effective date of the merger, in good faith in the absence of readily available market values. Because of the inherent uncertainty of valuation, these determined values may differ significantly from the values that would have been used had readily available market values existed for the investments, and the differences could be material.

Table of Contents**Note 3. Portfolio***Private Finance*

At March 31, 2010, and December 31, 2009, the private finance portfolio consisted of the following:

| (\$ in millions)                          | 2010              |                   |              | 2009              |                   |              |
|---|-------------------|-------------------|--------------|-------------------|-------------------|--------------|
|   | Cost              | Value             | Yield(1)     | Cost              | Value             | Yield(1)     |
| <b>Loans and debt securities:</b>         |                   |                   |              |                   |                   |              |
| Senior loans                              | \$ 536.8          | \$ 269.7          | 5.7%         | \$ 534.7          | \$ 278.9          | 4.9%         |
| Unitranche debt(2)                        | 417.4             | 345.2             | 11.2%        | 420.5             | 360.4             | 12.9%        |
| Subordinated debt(3)                      | 1,132.1           | 827.3             | 12.0%        | 1,504.6           | 1,051.3           | 13.4%        |
| <b>Total loans and debt securities(4)</b> | <b>2,086.3</b>    | <b>1,442.2</b>    | <b>10.6%</b> | <b>2,459.8</b>    | <b>1,690.6</b>    | <b>11.9%</b> |
| <b>Equity securities:</b>                 |                   |                   |              |                   |                   |              |
| Preferred shares/income notes of CLOs(5)  | 177.5             | 79.8              | 8.4%         | 242.9             | 86.4              | 8.0%         |
| Other equity securities                   | 1,007.9           | 270.8             |              | 907.2             | 298.3             |              |
| <b>Total equity securities</b>            | <b>1,185.4</b>    | <b>350.6</b>      |              | <b>1,150.1</b>    | <b>384.7</b>      |              |
| <b>Total</b>                              | <b>\$ 3,271.7</b> | <b>\$ 1,792.8</b> |              | <b>\$ 3,609.9</b> | <b>\$ 2,075.3</b> |              |

- (1) The weighted average yield on loans and debt securities is computed as the (a) annual stated interest on accruing loans and debt securities plus the annual amortization of loan origination fees, original issue discount, and market discount on accruing loans and debt securities less the annual amortization of loan origination costs, divided by (b) total loans and debt securities at value. At March 31, 2010 and December 31, 2009, senior loans included the senior secured loan to Ciena totaling \$319.0 million and \$319.0 million at cost, respectively, and \$79.0 million and \$100.1 million at value, respectively, which was placed on non-accrual status on the purchase date.
- The weighted average yield on the preferred shares/income notes of CLOs is calculated as the (a) effective interest yield on the preferred shares/income notes of CLOs, divided by (b) total preferred shares/income notes of CLOs at value. The weighted average yields are computed as of the balance sheet date. The effective interest yield on the CLO assets represents the yield used for recording interest income. The market yield used in the valuation of the CLO assets may be different than the interest yields.
- (2) Unitranche debt is an investment that combines both senior and subordinated financing, generally in a first lien position.
- (3) Subordinated debt includes bonds in CLOs and in a CDO.
- (4) The total principal balance outstanding on loans and debt securities was \$2,106.0 million and \$2,484.1 million at March 31, 2010 and December 31, 2009, respectively. The difference between principal and cost is represented by unamortized loan origination fees and costs, original issue discounts, and market discounts totaling \$19.7 million and \$24.3 million at March 31, 2010, and December 31, 2009, respectively.
- (5) Investments in the preferred shares/income notes of CLOs earn a current return that is included in interest income in the accompanying consolidated statement of operations.



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Allied Capital's private finance investment activity principally involves providing financing through privately negotiated long-term debt and equity investments. Allied Capital's private finance

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debt and equity investments generally are issued by private companies and generally are illiquid and may be subject to certain restrictions on resale.

Allied Capital's private finance debt investments are generally structured as loans and debt securities that carry a relatively high fixed rate of interest, which may be combined with equity features, such as conversion privileges, or warrants or options to purchase a portion of the portfolio company's equity at a pre-determined strike price, which is generally a nominal price for warrants or options in a private company. The annual stated interest rate is only one factor in pricing the investment relative to Allied Capital's rights and priority in the portfolio company's capital structure, and will vary depending on many factors, including if Allied Capital has received nominal cost equity or other components of investment return, such as loan origination fees or market discount. The stated interest rate may include some component of contractual payment-in-kind interest, which represents contractual interest accrued and added to the loan balance that generally becomes due at maturity.

At March 31, 2010 and December 31, 2009, 80% of the private finance loans and debt securities had a fixed rate of interest and 20% had a floating rate of interest. Senior loans may carry a fixed rate of interest or a floating rate of interest, usually set as a spread over prime or LIBOR, and may require payments of both principal and interest throughout the life of the loan. Senior loans generally have contractual maturities of three to six years and interest is generally paid to Allied Capital monthly or quarterly. Unitranche debt generally carries a fixed rate of interest and generally requires payments of both principal and interest throughout the life of the loan. Unitranche debt generally has contractual maturities of five to six years and interest generally is paid to Allied Capital quarterly. Subordinated debt generally carries a fixed rate of interest generally with contractual maturities of five to ten years and generally has interest-only payments in the early years and payments of both principal and interest in the later years, although maturities and principal amortization schedules may vary. Interest on subordinated debt generally is paid to Allied Capital quarterly.

Equity securities primarily consist of securities issued by private companies and may be subject to certain restrictions on their resale and are generally illiquid. Allied Capital may make equity investments for minority stakes in portfolio companies or may receive equity features, such as nominal cost warrants. Allied Capital also may invest in the equity (preferred and/or voting or non-voting common) of a portfolio company where Allied Capital's equity ownership may represent a significant portion of the equity, but may or may not represent a controlling interest. If Allied Capital invests in non-voting equity in a buyout investment, Allied Capital generally has the option to acquire a controlling stake in the voting securities of the portfolio company at fair market value. Allied Capital may incur costs associated with making buyout investments that will be included in the cost basis of Allied Capital's equity investment. These include costs such as legal, accounting and other professional fees associated with diligence, referral and investment banking fees, and other costs. Equity securities generally do not produce a current return, but are held with the potential for investment appreciation and ultimate gain on sale.

**Ciena Capital LLC.** Ciena Capital LLC (f/k/a Business Loan Express, LLC) ("Ciena") has provided loans to commercial real estate owners and operators. Ciena has been a participant in the Small Business Administration's 7(a) Guaranteed Loan Program and its wholly-owned subsidiary is licensed by the SBA as a Small Business Lending Company ("SBLC"). Ciena remains subject to SBA rules and regulations. Ciena is headquartered in New York, NY.

On September 30, 2008, Ciena voluntarily filed for bankruptcy protection under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of New York (the "Court"). Ciena continues to operate its servicing business and manage its assets as a "debtor-in-possession" under the jurisdiction of the Court and in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Court.

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As a result of Ciena's decision to file for bankruptcy protection, Allied Capital's unconditional guaranty of the obligations outstanding under Ciena's revolving credit facility became due and Allied Capital, in lieu of paying under its guaranty, purchased the positions of the senior lenders under Ciena's revolving credit facility. As of March 31, 2010, the senior secured loan to Ciena had a cost basis of \$319.0 million and a value of \$79.0 million. Allied Capital continues to guarantee the remaining principal balance of \$5 million, plus related interest, fees and expenses payable to a third party bank. In connection with Allied Capital's continuing guaranty of the amounts held by this bank, Allied Capital has agreed that the amounts owing to the bank under the Ciena revolving credit facility will be paid before any of the secured obligations of Ciena now owed to Allied Capital.

At March 31, 2010 and December 31, 2009, Allied Capital's investment in Ciena was as follows:

| (\$ in millions)            | March 31, 2010 |         | December 31, 2009 |          |
|-----------------------------|----------------|---------|-------------------|----------|
|                             | Cost           | Value   | Cost              | Value    |
| Senior Loan                 | \$ 319.0       | \$ 79.0 | \$ 319.0          | \$ 100.1 |
| Class B Equity Interests(1) | 119.5          |         | 119.5             |          |
| Class C Equity Interests(1) | 109.1          |         | 109.1             |          |
| Total(2)                    | \$ 547.6       | \$ 79.0 | \$ 547.6          | \$ 100.1 |

(1) At March 31, 2010 and December 31, 2009, Allied Capital held 100% of the Class B equity interests and 94.9% of the Class C equity interests.

(2) In addition to Allied Capital's investment in Ciena included in the portfolio, Allied Capital has amounts receivable from or related to Ciena that are included in other assets in the accompanying consolidated financial statements. See below.

During the year ended December 31, 2009, Allied Capital funded \$97.4 million to support Ciena's term securitizations in lieu of draws under related standby letters of credit. This was required primarily as a result of the issuer of the letters of credit not extending maturing standby letters of credit due to events of default under Allied Capital's former revolving line of credit. The amounts funded were recorded as other assets in the accompanying consolidated balance sheet. Other assets includes amounts receivable from or related to Ciena totaling \$112.7 million at cost and \$1.9 million at value at both March 31, 2010 and December 31, 2009. Net change in unrealized appreciation or depreciation included a net decrease in Allied Capital's investment in and receivables from Ciena of \$21.1 million for the three months ended March 31, 2010. Net change in unrealized appreciation or depreciation included a net decrease in Allied Capital's investment in and receivables from Ciena of \$44.1 million for the three months ended March 31, 2009.

Allied Capital's investment in Ciena was on non-accrual status, therefore Allied Capital did not earn any interest and related portfolio income from its investment in Ciena for each of the three months ended March 31, 2010 and 2009.

At March 31, 2010, Ciena had one non-recourse securitization SBA loan warehouse facility, which has reached its maturity date but remains outstanding. Ciena is working with the providers of the SBA loan warehouse facility with regard to the repayment of that facility. Allied Capital has issued a performance guaranty whereby Allied Capital agreed to indemnify the warehouse providers for any damages, losses, liabilities and related costs and expenses that they may incur as a result of Ciena's failure to perform any of its obligations as loan originator, loan seller or loan servicer under the warehouse facility. As of March 31, 2010, there were no known issues or claims with respect to this performance guaranty.

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The Office of the Inspector General of the SBA (OIG) and the United States Secret Service have been conducting ongoing investigations of allegedly fraudulently obtained SBA-guaranteed loans issued by Ciena. Ciena also is subject to other SBA and OIG audits, investigations, and reviews. In addition, the Office of the Inspector General of the U.S. Department of Agriculture is conducting an investigation of Ciena's lending practices under the Business and Industry Loan (B&I) program. The OIG and the U.S. Department of Justice are also conducting a civil investigation of Ciena's lending practices in various jurisdictions. Allied Capital is unable to predict the outcome of these inquiries, and it is possible that third parties could try to seek to impose liability against Allied Capital in connection with certain defaulted loans in Ciena's portfolio. Certain of these investigations, audits and reviews are ongoing. For information concerning recent developments in respect of these investigations, see Note 13 Subsequent Events.

These investigations, audits, reviews, and litigation have had and may continue to have a material adverse impact on Ciena. Ciena's voluntary filing for bankruptcy protection, the letters of credit and the funding thereof, current regulatory issues, ongoing investigations, and litigation have been considered in performing the valuation of Ciena at March 31, 2010 and December 31, 2009.

**Collateralized Loan Obligations ("CLOs") and Collateralized Debt Obligations ("CDOs").** At March 31, 2010, and December 31, 2009, Allied Capital owned bonds and preferred shares/income notes in CLOs and bonds in a CDO as follows:

| (\$ in millions)                          | 2010        |             |              | 2009         |             |              |
|---|-------------|-------------|--------------|--------------|-------------|--------------|
|   | Cost        | Value       | Yield(1)     | Cost         | Value       | Yield(1)     |
| <i>Bonds(2):</i>                          |             |             |              |              |             |              |
| Callidus Debt Partners CDO Fund I, Ltd.   | \$ 29.0     | \$ 1.5      | %            | \$ 29.0      | \$ 2.2      | %            |
| Callidus Debt Partners CLO Fund IV, Ltd.  | 2.3         | 1.7         | 13.8%        | 2.2          | 1.7         | 20.2%        |
| Callidus Debt Partners CLO Fund VI, Ltd.  | 8.0         | 4.5         | 18.5%        | 7.8          | 4.3         | 19.2%        |
| Callidus MAPS CLO Fund I LLC              | 17.0        | 11.3        | 8.7%         | 17.0         | 11.7        | 8.4%         |
| Callidus MAPS CLO Fund II LLC             | 4.0         | 3.2         | 20.0%        | 3.9          | 3.2         | 24.1%        |
| Dryden XVIII Leveraged Loan 2007 Limited  | 7.5         | 3.6         | 19.2%        | 7.5          | 2.1         | %            |
| Knightsbridge CLO 2007-1 Ltd.(3)          |             |             | %            | 18.7         | 11.4        | 15.3%        |
| Knightsbridge CLO 2008-1 Ltd.(3)          |             |             | %            | 32.1         | 29.5        | 11.2%        |
| Pangaea CLO 2007-1 Ltd.                   | 12.2        | 8.7         | 11.4%        | 12.1         | 6.6         | 17.7%        |
| <b>Total bonds</b>                        | <b>80.0</b> | <b>34.5</b> | <b>12.7%</b> | <b>130.3</b> | <b>72.7</b> | <b>12.5%</b> |
| <i>Preferred Shares/Income Notes:</i>     |             |             |              |              |             |              |
| Callidus Debt Partners CLO Fund III, Ltd. | 20.1        | 5.6         | %            | 20.1         | 4.1         | %            |
| Callidus Debt Partners CLO Fund IV, Ltd.  | 14.7        | 7.9         | 3.2%         | 14.9         | 5.4         | %            |
| Callidus Debt Partners CLO Fund V, Ltd.   | 12.7        | 8.8         | 16.0%        | 13.4         | 5.0         | 3.8%         |
|   | 29.1        | 9.3         | 13.6%        | 29.1         | 5.0         | %            |

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|   |          |          |       |          |          |       |
|---|----------|----------|-------|----------|----------|-------|
| Callidus Debt Partners CLO Fund VI, Ltd.  |          |          |       |          |          |       |
| Callidus Debt Partners CLO Fund VII, Ltd. | 24.4     | 11.0     | %     | 24.8     | 7.2      | %     |
| Callidus MAPS CLO Fund I LLC              | 36.4     | 15.2     | %     | 38.5     | 14.1     | %     |
| Callidus MAPS CLO Fund II, Ltd.           | 16.9     | 9.1      | 15.5% | 17.8     | 6.3      | 7.1%  |
| Dryden XVIII Leveraged Loan 2007 Limited  | 23.2     | 12.9     | 18.3% | 23.2     | 2.4      | %     |
| Knightsbridge CLO 2007-1 Ltd.(3)          |          |          | %     | 39.2     | 16.2     | 10.6% |
| Knightsbridge CLO 2008-1 Ltd.(3)          |          |          | %     | 21.9     | 20.7     | 22.1% |
| Total preferred shares/income notes       | 177.5    | 79.8     | 8.4%  | 242.9    | 86.4     | 8.0%  |
| Total                                     | \$ 257.5 | \$ 114.3 |       | \$ 373.2 | \$ 159.1 |       |

- (1) The weighted average yield is calculated as the (a) annual stated interest or the effective interest yield on the accruing bonds or the effective interest yield on the preferred shares/income notes,

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divided by (b) CLO and CDO assets at value. The yield on these debt and equity securities is included in interest income in the accompanying consolidated statement of operations. The market yield used in the valuation of the CLO and CDO assets may be different than the interest yields shown above.

- (2) These securities are included in private finance subordinated debt.
- (3) These funds were managed by Allied Capital through a wholly-owned subsidiary at December 31, 2009.

The initial yields on the cost basis of the CLO preferred shares and income notes are based on the estimated future cash flows expected to be paid to these CLO classes from the underlying collateral assets. As each CLO preferred share or income note ages, the estimated future cash flows are updated based on the estimated performance of the underlying collateral assets, and the respective yield on the cost basis is adjusted as necessary. As future cash flows are subject to uncertainties and contingencies that are difficult to predict and are subject to future events that may alter current assumptions, no assurance can be given that the anticipated yields to maturity will be achieved.

The bonds, preferred shares and income notes of the CLOs and CDO in which Allied Capital has invested are junior in priority for payment of interest and principal to the more senior notes issued by the CLOs and CDO. Cash flow from the underlying collateral assets in the CLOs and CDO is generally allocated first to the senior bonds in order of priority. Any remaining cash flow is then generally distributed to the preferred shareholders and income note holders. To the extent there are ratings downgrades, defaults and unrecoverable losses on the underlying collateral assets that result in reduced cash flows, the preferred shares/income notes will bear this loss first and then the subordinated bonds would bear any loss after the preferred shares/income notes.

**Loans and Debt Securities on Non-Accrual Status.** At March 31, 2010, and December 31, 2009, private finance loans and debt securities at value not accruing interest were as follows:

| (\$ in millions)              | 2010     | 2009     |
|-------------------------------|----------|----------|
| Loans and debt securities     |          |          |
| Companies more than 25% owned | \$ 146.7 | \$ 177.1 |
| Companies 5% to 25% owned     | 27.5     | 16.0     |
| Companies less than 5% owned  | 155.9    | 47.4     |
| Total                         | \$ 330.1 | \$ 240.5 |

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**Industry and Geographic Compositions.** The industry and geographic compositions of the private finance portfolio at value at March 31, 2010, and December 31, 2009 were as follows:

|                     | 2010 | 2009 |
|---------------------|------|------|
| <b>Industry</b>     |      |      |
| Business services   | 35%  | 32%  |
| Consumer products   | 27   | 29   |
| Financial services  | 8    | 9    |
| CLO/CDO(1)          | 6    | 8    |
| Industrial products | 5    | 4    |
| Consumer services   | 4    | 5    |
| Education services  | 4    | 3    |
| Healthcare services | 3    | 3    |
| Retail              | 3    | 3    |
| Other               | 5    | 4    |

|       |      |      |
|-------|------|------|
| Total | 100% | 100% |
|-------|------|------|

| <b>Geographic Region(2)</b> |             |             |
|-----------------------------|-------------|-------------|
| Midwest                     | 35%         | 32%         |
| Mid-Atlantic                | 32          | 37          |
| Southeast                   | 17          | 17          |
| West                        | 15          | 13          |
| Northeast                   | 1           | 1           |
| <b>Total</b>                | <b>100%</b> | <b>100%</b> |

(1) These funds primarily invest in senior corporate loans.

(2) The geographic region for the private finance portfolio depicts the location of the headquarters for Allied Capital's portfolio companies. The portfolio companies may have a number of other locations in other geographic regions.

**Commercial Real Estate Finance**

At March 31, 2010, and December 31, 2009, the commercial real estate finance portfolio consisted of the following:

| (\$ in millions)          | 2010    |         |          | 2009    |         |          |
|---------------------------|---------|---------|----------|---------|---------|----------|
|                           | Cost    | Value   | Yield(1) | Cost    | Value   | Yield(1) |
| Commercial mortgage loans | \$ 42.9 | \$ 31.1 | 3.6%     | \$ 42.0 | \$ 35.4 | 5.1%     |
| Real estate owned         | 5.9     | 3.5     |          | 5.9     | 6.4     |          |
| Equity interests          | 27.1    | 6.3     |          | 27.3    | 14.0    |          |
| Total                     | \$ 75.9 | \$ 40.9 |          | \$ 75.2 | \$ 55.8 |          |

(1)

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The weighted average yield on the commercial mortgage loans is computed as the (a) annual stated interest on accruing loans plus the annual amortization of loan origination fees, original issue discount, and market discount on accruing loans less the annual amortization of origination costs, divided by (b) total interest-bearing investments at value. The weighted average yield is computed as of the balance sheet date.

***Commercial Mortgage Loans and Equity Interests.*** The commercial mortgage loan portfolio contains loans that were originated by Allied Capital or were purchased from third-party sellers. At

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March 31, 2010, and December 31, 2009, approximately 85% and 55% of Allied Capital's commercial mortgage loan portfolio was composed of fixed interest rate loans, respectively, and 15% and 45% of Allied Capital's commercial loan portfolio was composed of adjustable interest rate loans, respectively. At March 31, 2010, and December 31, 2009, loans with a value of \$6.4 million and \$6.1 million, respectively, were not accruing interest. Loans greater than 120 days delinquent generally do not accrue interest.

Equity interests primarily consist of equity securities issued by privately owned companies that invest in single real estate properties. These equity interests may be subject to certain restrictions on their resale and are generally illiquid. Equity interests generally do not produce a current return, but are generally held in anticipation of potential investment appreciation and ultimate realized gain on sale.

The property types and the geographic composition securing the commercial real estate finance portfolio at value at March 31, 2010, and December 31, 2009, were as follows:

|                      | 2010 | 2009 |
|----------------------|------|------|
| <b>Property Type</b> |      |      |
| Hospitality          | 68%  | 60%  |
| Recreation           | 25   | 32   |
| Business Services    | 5    | 2    |
| Office               | 2    | 6    |
| <br>                 |      |      |
| Total                | 100% | 100% |

|                          |      |      |
|--------------------------|------|------|
| <b>Geographic Region</b> |      |      |
| West                     | 43%  | 33%  |
| Southeast                | 33   | 41   |
| Midwest                  | 15   | 14   |
| Northeast                | 9    | 12   |
| Mid-Atlantic             |      |      |
| <br>                     |      |      |
| Total                    | 100% | 100% |

***Fair Value Measurements***

ASC Topic 820, "Financial Instruments," which codified FASB Statement No. 157, "Fair Value Measurements," establishes a fair value hierarchy that encourages the use of observable inputs, but allows for unobservable inputs when observable inputs do not exist. Inputs are classified into one of three categories:

Level 1 Quoted prices (unadjusted) in active markets for identical assets

Level 2 Inputs other than quoted prices that are observable to the market participant for the asset or quoted prices in a market that is not active

Level 3 Unobservable inputs

When there are multiple inputs for determining the fair value of an investment, Allied Capital classifies the investment in total based on the lowest level input that is significant to the fair value measurement.

At March 31, 2010, Allied Capital has \$74.2 million in investments in money market and other securities, which were determined to be Level 1 assets but are not included in Allied Capital's



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investment portfolio. Portfolio assets measured at fair value on a recurring basis by level within the fair value hierarchy at March 31, 2010, were as follows:

| (\$ in millions)                         | Fair Value<br>Measurement<br>as of March 31,<br>2010 | Quoted Prices in<br>Active Markets<br>for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|--|--|--|---|--|
| <b>Assets at Fair Value:</b>             |  |  |   |  |
| <b>Portfolio</b>                         |  |  |   |  |
| <b>Private finance:</b>                  |  |  |   |  |
| Loans and debt securities                | \$ 1,442.2   | \$   | \$  | \$ 1,442.2   |
| Preferred shares/income notes of<br>CLOs | 79.8   |  |   | 79.8   |
| Equity securities                        | 270.8  |  |   | 270.8  |
| Commercial real estate finance           | 40.9   |  |   | 40.9   |
| <b>Total portfolio</b>                   | <b>\$ 1,833.7</b>                                    | <b>\$</b>  | <b>\$</b>   | <b>\$ 1,833.7</b>                                  |

The table below sets forth a summary of changes in Allied Capital's assets measured at fair value using Level 3 inputs.

| (\$ in millions)   | Loans and<br>Debt<br>Securities | Private Finance<br>Preferred<br>Shares/<br>Income Notes<br>of CLOs | Other<br>Equity<br>Securities | Commercial<br>Real Estate<br>Finance | Total             |
|--|---------------------------------|--|-------------------------------|--------------------------------------|-------------------|
| Balance at December 31, 2009   | \$ 1,690.6                      | \$ 86.4  | \$ 298.3                      | \$ 55.8                              | \$ 2,131.1        |
| <b>Total gains or losses</b>   |                                 |  |                               |                                      |                   |
| Net realized gains (losses)(1)   | (33.7)                          | (20.5)   | (19.5)                        |                                      | (73.7)            |
| Net change in unrealized appreciation or<br>depreciation(2)  | 125.1                           | 58.9   | (128.2)                       | (15.6)                               | 40.2              |
| Purchases, issuances, repayments and exits, net(3)   | (339.8)                         | (45.0)   | 120.2                         | 0.7                                  | (263.9)           |
| <b>Transfers in and/or out of level 3</b>  |                                 |  |                               |                                      |                   |
| <b>Balance at March 31, 2010</b>   | <b>\$ 1,442.2</b>               | <b>\$ 79.8</b>   | <b>\$ 270.8</b>               | <b>\$ 40.9</b>                       | <b>\$ 1,833.7</b> |
| <b>Net unrealized appreciation (depreciation) during the<br/>period relating to assets still held at the reporting<br/>date(2)</b> |                                 |  |                               |                                      |                   |
|  | \$ 79.2                         | \$ 34.9  | \$ (147.2)                    | \$ (15.6)                            | \$ (48.7)         |

(1) Includes net realized gains (losses) (recorded as realized gains or losses in the accompanying consolidated statement of operations), and amortization of discounts and closing points (recorded as interest income in the accompanying consolidated statement of operations).

(2) Included in change in net unrealized appreciation or depreciation in the accompanying consolidated statement of operations. Net change in unrealized appreciation or depreciation includes net unrealized appreciation (depreciation) resulting from changes in portfolio investment values during the reporting period and the reversal of previously recorded unrealized appreciation or depreciation when gains or losses are realized. The net change in unrealized appreciation or depreciation in the consolidated statement of operations also includes the change in value of escrow and other receivables from portfolio companies that are included in other assets on the consolidated balance sheet.



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- (3) Includes interest and dividend income reinvested through the receipt of a debt or equity security (payment-in-kind income) (recorded as interest and dividend income in the accompanying consolidated statement of operations).

**Note 4. Debt**

At March 31, 2010, and December 31, 2009, Allied Capital had outstanding debt at par as follows:

| (\$ in millions)                          | March 31, 2010  |                 | December 31, 2009 |                   |
|---|-----------------|-----------------|-------------------|-------------------|
|   | Facility Amount | Amount Drawn    | Facility Amount   | Amount Drawn      |
| <b>Notes payable:</b>                     |                 |                 |                   |                   |
| Privately issued senior secured term debt | \$ 137.0        | \$ 137.0        | \$                | \$                |
| Privately issued secured notes payable    |                 |                 | 673.2(1)          | \$ 673.2(1)       |
| Publicly issued unsecured notes payable   | 745.5           | 745.5           | 745.5             | 745.5             |
| <b>Total notes payable</b>                | <b>882.5</b>    | <b>882.5</b>    | <b>1,418.7</b>    | <b>1,418.7</b>    |
| Bank term debt                            |                 |                 | 41.1              | 41.1              |
| <b>Total debt</b>                         | <b>\$ 882.5</b> | <b>\$ 882.5</b> | <b>\$ 1,459.8</b> | <b>\$ 1,459.8</b> |

- (1) The privately issued secured notes payable on the consolidated balance sheet are shown net of OID of approximately \$33.8 million as of December 31, 2009.

**Privately Issued Debt.** At March 31, 2010, Allied Capital had outstanding privately issued senior secured term debt of \$137.0 million. This debt was issued on January 29, 2010 and bears interest at a rate of LIBOR plus 450 basis points.

The privately issued secured notes payable and the bank term debt outstanding at December 31, 2009 were repaid in full on January 29, 2010. In addition, in connection with this repayment, Allied Capital applied the \$50 million restructuring fee paid at closing of the August 2009 restructuring toward the principal balance of these notes. This \$50 million, net of unamortized costs associated with these notes, resulted in a net gain on the repurchase of debt of \$5.0 million during the three months ended March 31, 2010. Allied Capital also incurred a loss on extinguishment of debt of \$7.0 million during the three months ended March 31, 2010, primarily as a result of a 1% exit fee associated with each prepayment of the privately issued senior secured term debt and the related unamortized costs associated with the debt being repaid.

Concurrent with the Acquisition by Ares Capital on April 1, 2010, Ares Capital repaid in full the remaining amounts outstanding under Allied Capital's privately issued senior secured term debt. See Note 13 Subsequent Events.

**Publicly Issued Unsecured Notes Payable.** At March 31, 2010, Allied Capital had outstanding publicly issued unsecured notes as follows:

| (\$ in millions)      | Amount          | Maturity Date  |
|-----------------------|-----------------|----------------|
| 6.625% Notes due 2011 | \$ 319.9        | July 15, 2011  |
| 6.000% Notes due 2012 | 195.6           | April 1, 2012  |
| 6.875% Notes due 2047 | 230.0           | April 15, 2047 |
| <b>Total</b>          | <b>\$ 745.5</b> |                |



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The 6.625% Notes due 2011 and the 6.000% Notes due 2012 require payment of interest semi-annually, and all principal is due upon maturity. Allied Capital has the option to redeem these notes in whole or in part, together with a redemption premium, as stipulated in the notes.

The 6.875% Notes due 2047 require payment of interest quarterly, and all principal is due upon maturity. These notes are redeemable in whole or in part at any time or from time to time on or after April 15, 2012, at par and upon the occurrence of certain tax events as stipulated in the notes.

In addition, these publicly issued notes may be purchased in the market to the extent permitted by the 1940 Act.

**Scheduled Maturities.** Scheduled future maturities of notes payable at March 31, 2010, were as follows:

| (\$ in millions)<br>Year | Amount Maturing                                 |   | Total           |
|--------------------------|---|---|-----------------|
|                          | Privately Issued<br>Senior Secured<br>Term Debt | Publicly Issued<br>Unsecured Notes<br>Payable |                 |
| 2010                     | \$  | \$  | \$              |
| 2011                     |   | 137.0   | 319.9           |
| 2012                     |   |   | 195.6           |
| 2013                     |   |   |                 |
| 2014                     |   |   |                 |
| Thereafter               |   | 230.0   | 230.0           |
| <b>Total</b>             | <b>\$</b>                                       | <b>137.0</b>                                  | <b>\$ 745.5</b> |
|                          |   |   | <b>\$ 882.5</b> |

**Fair Value of Debt**

Allied Capital records debt at cost. The fair value of Allied Capital's outstanding debt was approximately \$0.8 billion and \$1.3 billion at March 31, 2010 and December 31, 2009, respectively. The fair value of Allied Capital's publicly issued 6.875% Notes due 2047 was determined using the market price of the retail notes at March 31, 2010 and December 31, 2009. The fair value of Allied Capital's other debt was determined based on quoted prices where available or market interest rates for similar instruments as of the balance sheet dates.

**Note 5. Guarantees and Commitments**

In the ordinary course of business, Allied Capital has issued guarantees on behalf of certain portfolio companies. As of March 31, 2010, and December 31, 2009, Allied Capital had issued guarantees of debt and rental obligations aggregating \$9.1 million and \$9.1 million, respectively. Under these arrangements, Allied Capital would be required to make payments to third parties if the portfolio companies were to default on their related payment. The maximum amount of potential future payments was \$9.1 million and \$9.1 million at March 31, 2010, and December 31, 2009, respectively.

As of March 31, 2010, the guarantees expired as follows:

| (in millions) | Total  | 2010   | 2011 | 2012   | 2013 | 2014 | After 2014 |
|---------------|--------|--------|------|--------|------|------|------------|
| Guarantees    | \$ 9.1 | \$ 8.2 | \$   | \$ 0.1 | \$   | \$   | \$ 0.8     |
| Total         | \$ 9.1 | \$ 8.2 | \$   | \$ 0.1 | \$   | \$   | \$ 0.8     |

In the ordinary course of business, Allied Capital enters into agreements with service providers and other parties that may contain provisions for Allied Capital to indemnify and guaranty certain minimum fees to such parties under certain circumstances.

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At March 31, 2010, Allied Capital had outstanding commitments to fund investments totaling \$144.2 million, including \$137.0 million related to private finance investments and \$7.2 million related to commercial real estate finance investments.

**Note 6. Shareholders' Equity**

Allied Capital did not sell any common stock during the three months ended March 31, 2010 or 2009.

There were no stock options exercised during the three months ended March 31, 2010 and 2009, respectively. However, on April 1, 2010, in connection with the Acquisition by Ares Capital, all outstanding unvested options became vested in accordance with Allied Capital's stock option plan and were cancelled and settled in either cash or shares of Ares Capital stock at the election of the option holder pursuant to the terms of the merger agreement with Ares Capital and the underlying option agreements. See Note 13 Subsequent Events.

On March 26, 2010, the Board of Directors declared a special dividend of \$0.20 per share payable to stockholders of record on March 26, 2010. The dividend was funded at the closing of the merger with Ares Capital and was paid to stockholders promptly thereafter.

**Note 7. Earnings Per Common Share**

Earnings per common share for the three months ended March 31, 2010 and 2009, were as follows:

| (in millions, except per share amounts)                         | For the Three Months<br>Ended March 31, |            |
|---|---|------------|
|   | 2010                                    | 2009       |
| Net increase (decrease) in net assets resulting from operations | \$ (35.3)                               | \$ (347.7) |
| Weighted average common shares outstanding basic                | 179.9                                   | 178.7      |
| Dilutive options outstanding                                    |   |            |
| Weighted average common shares outstanding diluted              | 179.9                                   | 178.7      |
| Basic earnings (loss) per common share                          | \$ (0.20)                               | \$ (1.95)  |
| Diluted earnings (loss) per common share                        | \$ (0.20)                               | \$ (1.95)  |

**Note 8. Stock Option Plan**

The purpose of the stock option plan is to provide officers and non-officer directors of Allied Capital with additional incentives. Options are exercisable at a price equal to the fair market value of the shares on the day the option is granted. Each option states the period or periods of time within which the option may be exercised by the optionee, which may not exceed ten years from the date the option is granted. The options granted to officers generally vest ratably over up to a three year period. Options granted to non-officer directors vest on the grant date.

All rights to exercise options terminate 60 days after an optionee ceases to be (i) a non-officer director, (ii) both an officer and a director, if such optionee serves in both capacities, or (iii) an officer (if such officer is not also a director) of Allied Capital for any cause other than death or total and permanent disability. In the event of a change of control of Allied Capital, all outstanding options will become fully vested and exercisable as of the change of control.

Effective upon the closing of the Acquisition by Ares Capital on April 1, 2010, all outstanding unvested options became immediately vested in accordance with the stock option plan and were



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cancelled and settled in either cash or shares of Ares Capital stock at the election of the option holder pursuant to the terms of the merger agreement with Ares Capital and the underlying option agreements. See Note 13 Subsequent Events.

**Note 9. Dividends and Distributions and Taxes**

At December 31, 2009, Allied Capital estimated that it did not have excess taxable income available for distribution to shareholders in 2010. On March 26, 2010, the Board of Directors declared a special dividend of \$0.20 per share payable to stockholders of record on March 26, 2010. The dividend was funded at the closing of the Acquisition by Ares Capital and was paid to stockholders promptly thereafter.

Allied Capital had cumulative deferred taxable income related to installment sale gains of approximately \$44.4 million as of December 31, 2009. These gains have been recognized for financial reporting purposes in the respective years they were realized, but are generally deferred for tax purposes until the notes or other amounts received from the sale of the related investments are collected in cash. These installment gains as of December 31, 2009 will be recognized for tax purposes in future years as certain notes received from the sale of the related investments are sold or repaid.

Allied Capital's consolidated subsidiary, AC Corp, is subject to federal and state income taxes. For the three months ended March 31, 2010 and 2009, AC Corp's income tax expense (benefit) was \$1.2 million and (\$0.4) million, respectively.

**Note 10. Supplemental Disclosure of Cash Flow Information**

Allied Capital paid interest of \$26.2 million and \$33.2 million, respectively, for the three months ended March 31, 2010 and 2009. Allied Capital paid income taxes, including excise taxes (net of refunds), of \$0.1 million and \$3.0 million for the three months ended March 31, 2010 and 2009, respectively.

Non-cash operating activities for the three months ended March 31, 2010 and 2009, totaled \$186.8 million and \$58.7 million, respectively. Non-cash operating activities for the three months ended March 31, 2010 and 2009, resulted from the exchange of existing debt securities, including accrued interest (if any), and common stock of portfolio companies for new debt and equity securities.

Table of Contents**Note 11. Financial Highlights**

|   | At and for the<br>Three Months Ended<br>March 31, |            | At and<br>for the<br>Year Ended<br>December 31, |
|---|---|------------|---|
|   | 2010(1)   | 2009       | 2009  |
| <b>Per Common Share Data</b>  |   |            |   |
| Net asset value, beginning of period  | \$ 6.66   | \$ 9.62    | \$ 9.62   |
| Net investment income (loss)(2)   | (0.01)  | 0.16       | 0.31  |
| Net realized gains (losses)(2)(3)   | (0.40)  | (0.15)     | (2.02)  |
| Net investment income (loss) plus net realized gains (losses)(2)                      | (0.41)  | 0.01       | (1.71)  |
| Net change in unrealized appreciation or depreciation(2)(3)                           | 0.22  | (1.96)     | (0.98)  |
| Gain on repurchase of debt  | 0.03  |            | 0.47  |
| Loss on extinguishment of debt  | (0.04)  |            | (0.69)  |
| Net increase (decrease) in net assets resulting from operations(2)                    | (0.20)  | (1.95)     | (2.91)  |
| Decrease in net assets from shareholder distributions                                 | (0.20)  |            |   |
| Net increase (decrease) in net assets from capital share transactions(2)              |   |            | (0.05)  |
| Net asset value, end of period  | \$ 6.27   | \$ 7.67    | \$ 6.66   |
| Market value, end of period   | \$ 4.77   | \$ 1.59    | \$ 3.61   |
| Total return(4)   | 37.7%   | (40.9)%    | (34.2)%   |
| <b>Ratios and Supplemental Data</b>   |   |            |   |
| (\$ and shares in millions, except per share amounts)                                 |   |            |   |
| Ending net assets   | \$ 1,127.1  | \$ 1,369.8 | \$ 1,198.2                                      |
| Common shares outstanding at end of period  | 179.9   | 178.7      | 179.9   |
| Diluted weighted average common shares outstanding                                    | 179.9   | 178.7      | 179.0   |
| Employee, employee stock option and administrative expenses/average net assets(5)     | 2.69%   | 1.40%      | 6.12%   |
| Total operating expenses/average net assets(5)(6)                                     | 4.72%   | 4.41%      | 18.86%  |
| Income tax expense (benefit), including excise tax/average net assets(5)              | 0.10%   | (0.02)%    | 0.41%   |
| Net investment income (loss)/average net assets(5)                                    | (0.18)%   | 1.91%      | 4.07%   |
| Net increase (decrease) in net assets resulting from operations/average net assets(5) | (3.04)%   | (22.52)%   | (38.18)%  |
| Portfolio turnover rate(5)  | 1.02%   | 1.25%      | 4.80%   |
| Average debt outstanding  | \$ 1,086.7  | \$ 1,945.0 | \$ 1,753.7                                      |
| Average debt per share(2)   | \$ 6.04   | \$ 10.88   | \$ 9.80   |

(1) The results for the three months ended March 31, 2010, are not necessarily indicative of the operating results to be expected for the full year.

(2) Based on diluted weighted average number of common shares outstanding for the period.

(3) Net realized gains (losses) and net change in unrealized appreciation or depreciation can fluctuate significantly from period to period. As a result, quarterly comparisons may not be meaningful.

(4)

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Total return assumes the reinvestment of all dividends paid for the periods presented.

(5)

The ratios for the three months ended March 31, 2010 and 2009, do not represent annualized results.

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- (6) Includes 0.20% for the effect of the impairment of long-lived asset during the year ended December 31, 2009, and the three months ended March 31, 2009.

**Note 12. Litigation**

On June 23, 2004, Allied Capital was notified by the SEC that the SEC was conducting an informal investigation of Allied Capital. The investigation related to the valuation of securities in Allied Capital's private finance portfolio and other matters. On June 20, 2007, Allied Capital announced that it entered into a settlement with the SEC that resolved the SEC's informal investigation. As part of the settlement and without admitting or denying the SEC's allegations, Allied Capital agreed to the entry of an administrative order. In the order the SEC alleged that, between June 30, 2001, and March 31, 2003, Allied Capital did not maintain books, records and accounts which, in reasonable detail, supported or accurately and fairly reflected valuations of certain securities in Allied Capital's private finance portfolio and, as a result, did not meet certain recordkeeping and internal controls provisions of the federal securities laws. In the administrative order, the SEC ordered Allied Capital to continue to maintain certain of its current valuation-related controls. Specifically, Allied Capital: (1) continued to employ a Chief Valuation Officer, or a similarly structured officer-level employee, to oversee its quarterly valuation processes; and (2) continued to employ third-party valuation consultants to assist in its quarterly valuation processes.

On December 22, 2004, Allied Capital received letters from the U.S. Attorney for the District of Columbia requesting the preservation and production of information regarding Allied Capital and Business Loan Express, LLC (currently known as Ciena Capital LLC) in connection with a criminal investigation relating to matters similar to those investigated by and settled with the SEC as discussed above. Allied Capital produced materials in response to the requests from the U.S. Attorney's office and certain current and former employees were interviewed by the U.S. Attorney's Office. Allied Capital has voluntarily cooperated with the investigation.

In late December 2006, Allied Capital received a subpoena from the U.S. Attorney for the District of Columbia requesting, among other things, the production of records regarding the use of private investigators by Allied Capital or its agents. The Board established a committee, which was advised by its own counsel, to review this matter. In the course of gathering documents responsive to the subpoena, Allied Capital became aware that an agent of Allied Capital obtained what were represented to be telephone records of David Einhorn and which purport to be records of calls from Greenlight Capital ("Greenlight") during a period of time in 2005. Also, while Allied Capital was gathering documents responsive to the subpoena, allegations were made that Allied Capital's management had authorized the acquisition of these records and that management was subsequently advised that these records had been obtained. Allied Capital's management has stated that these allegations are not true. Allied Capital has cooperated fully with the inquiry by the U.S. Attorney's Office.

A number of lawsuits were filed by stockholders of Allied Capital challenging the Acquisition by Ares Capital. These include: (1) *In re Allied Capital Corporation Shareholder Litigation*, Case No. 322639-V (Circuit Court for Montgomery County, Maryland) (the "Maryland action"); (2) *Sandler v. Walton*, et al., Case No. 2009 CA 008123 B (Superior Court for the District of Columbia), which was consolidated with *Wienecki v. Allied Capital Corporation, et al.*, Case No. 2009 CA 008541 B (Superior Court for the District of Columbia) (the "D.C. Superior Court action"); and (3) *Ryan v. Walton, et al.*, Case No. 1:10-CV-000145-RMC (United States District Court for the District of Columbia) (the "D.C. Federal Court action"). The suits were filed after the entry by Allied Capital, Ares Capital and ARCC Odyssey Corp. ("Merger Sub") into the Agreement and Plan of Merger (the "Merger Agreement") and the announcement of the Acquisition by Ares Capital on October 26, 2009, either as putative stockholder class actions, shareholder derivative actions or both. All of the actions asserted similar claims against the members of Allied Capital's board of directors alleging that the

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Merger Agreement was the product of a flawed sales process and that Allied Capital's directors breached their fiduciary duties by agreeing to a structure that was not designed to maximize the value of Allied Capital's stockholders, by failing to adequately value and obtain fair consideration for Allied Capital's shares and by improperly rejecting competing offers by Prospect Capital Corporation. They also claimed that Ares Capital (and, in several cases, Merger Sub, and, in several other cases, Allied Capital) aided and abetted the directors' alleged breaches of fiduciary duties. In addition, in *Ryan v. Walton, et al.*, the plaintiffs also alleged violations of Rule 14a-9(a) under the Securities Exchange Act of 1934. All of the actions demanded, among other things, a preliminary and permanent injunction enjoining the merger and rescinding the transaction or any part thereof that may be implemented.

On March 2, 2010, the plaintiffs in the Maryland action, Allied Capital and Ares Capital reached an agreement in principle to settle the Maryland action on terms and conditions substantially similar to those set forth in a Stipulation of Settlement dated March 17, 2010. Although Allied Capital and Ares Capital believe that the disclosures already provided were thorough and complete, in connection with the settlement Allied Capital and Ares Capital agreed to make certain additional disclosures that are contained in the Supplement to the Joint Proxy Statement, dated March 8, 2010, and pay attorney fees for the plaintiffs in the Maryland action certain of their fees and expenses. The settlement has been preliminarily approved by the Maryland court. The settlement is subject to final settlement documentation and final approval by the Maryland court, after, among other things, notice is provided to the stockholders of Allied Capital.

On March 19, 2010, the plaintiffs in the D.C. Federal Court action, Allied Capital and Ares Capital reached an agreement in principle to settle the D.C. Federal Court action. The D.C. Federal Court action and the D.C. Superior Court action were stayed on March 22, 2010 and March 26, 2010, respectively, in contemplation of dismissal with prejudice once the settlement of the Maryland action has been finally approved by the Maryland court. On April 15, 2010, the plaintiffs in the D.C. Superior Court action, Allied Capital and Ares Capital reached an agreement in principle to settle the D.C. Superior Court action. The parties to the Maryland action, the D.C. Federal Court action, and the D.C. Superior Court action have entered into, and filed with the Maryland court, an Amended Stipulation of Settlement, which provides for, among other things, settlement of all the actions described above.

A final hearing on the settlement is scheduled to be held on July 29, 2010 before the Maryland court. There can be no assurance that the proposed settlement will be finalized or that the Maryland court will approve the proposed settlement. The proposed settlement terms, which require court approval, provide that the Maryland action will be dismissed with prejudice against all defendants.

Allied Capital, Ares Capital and the other defendants have vigorously denied all liability with respect to the facts and claims alleged in the actions. The proposed settlement is not, and should not be construed as, an admission of wrongdoing or liability by any defendant. The parties considered it desirable that the actions described above be settled to avoid the expense, risk, inconvenience and distraction of continued litigation and to fully resolve the claims involved in these actions.

In addition, Allied Capital is party to certain lawsuits in the normal course of business. Furthermore, third parties may try to seek to impose liability on Allied Capital in connection with the activities of its portfolio companies. For a discussion of civil investigations being conducted regarding the lending practice of Ciena Capital LLC, a portfolio company of Allied Capital, see Note 3 Portfolio Ciena Capital LLC and Note 13 Subsequent Events.

While the outcome of any of the open legal proceedings described above cannot at this time be predicted with certainty, Allied Capital does not expect these matters will materially affect its financial condition or results of operations.

Table of Contents**Note 13. Subsequent Events**

On October 26, 2009, Allied Capital entered into a definitive agreement to be acquired by Ares Capital in the Acquisition by Ares Capital. The boards of directors of both companies each unanimously approved the Acquisition by Ares Capital and on March 26, 2010, Allied Capital's stockholders approved the merger and the stockholders of Ares Capital approved the issuance of Ares Capital common stock to Allied Capital's shareholders. Allied Capital and Ares Capital consummated the Acquisition by Ares Capital on April 1, 2010 in a transaction valued at approximately \$908 million as of the closing date. Concurrent with the Acquisition by Ares Capital, Ares Capital repaid in full the remaining amounts outstanding under Allied Capital's privately issued senior secured term debt.

In connection with the closing of the Acquisition by Ares Capital, Allied Capital incurred employee, employee stock option and administrative costs, net of tax, which are not included in the Statement of Operations for the three months ended March 31, 2010. These expenses, which were directly related to the closing of the transaction on April 1, 2010, were as follows:

## (\$ in millions)

|  |             |
|--|-------------|
| Severance, change in control payments and payroll taxes      | \$ 39.8     |
| Investment banking fees                                      | 8.2         |
| Expense associated with acceleration of stock option vesting | 6.8         |
| Professional and other fees                                  | 1.4         |
| Income tax benefit   | (1.8)       |
| <br>Total  | <br>\$ 54.4 |

On April 15, 2010, the plaintiffs in the D.C. Superior Court action, Allied Capital and Ares Capital reached an agreement in principle to settle the D.C. Superior Court action. On July 29, 2010, the Maryland court issued an order approving the settlement and dismissing all claims against the defendants in the Maryland action. On August 3, 2010, the D.C. Federal Court dismissed the D.C. Federal Court action. On August 10, 2010, the D.C. Superior Court dismissed the D.C. Superior Court action.

On May 5, 2010, Ciena filed in the Bankruptcy Court proceeding described in Note 3 above a motion for approval of certain settlement agreements between Ciena, Allied Capital (and Ares Capital as its successor by merger), and certain former employees of Ciena and Allied Capital on the one hand and the United States on behalf of the Small Business Administration, and certain other parties on the other hand. The settlement agreements collectively settle certain (but not all) investigations, audits, reviews, and litigation referenced in Note 3. The settlement agreements are subject to approval by the Bankruptcy Court and entry of a dismissal order by the United States District Court for the Northern District of Georgia to become effective. If the settlement agreements are approved, Ciena will, among other things, grant the United States an allowed general unsecured claim in an amount such that the United States receives, on the effective date of Ciena's chapter 11 plan, cash distributions totaling \$10.1 million. The settlement terms also establish operating covenants under which Ciena will continue to service SBA related loans. There can be no assurance, however, that such settlement will be finalized, that the Bankruptcy Court will approve such settlement, or that the United States District Court for the Northern District of Georgia will enter such dismissal order.

Note that the remaining investigations, audits, reviews, and litigation may continue to have a material adverse impact on Ciena. Ciena's voluntary filing for bankruptcy protection, current regulatory issues, ongoing investigations, and litigation have been considered in performing the valuation of Ciena at March 31, 2010 and December 31, 2009. See also Note 3 Portfolio *Ciena Capital LLC*.

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**PART C**

**Other information**

**ITEM 25. FINANCIAL STATEMENTS AND EXHIBITS**

- (1) Financial Statements

The following statements of Ares Capital Corporation (the "Company" or the "Registrant") and Allied Capital Corporation are included in Part B of this Registration Statement:

**ARES CAPITAL CORPORATION**

**Audited Annual Financial Statements**

|  |             |
|--|-------------|
| <u>Reports of Independent Registered Public Accounting Firm</u>  | <u>F-2</u>  |
| <u>Consolidated Balance Sheets as of December 31, 2010 and 2009</u>  | <u>F-4</u>  |
| <u>Consolidated Statement of Operations for the years ended December 31, 2010, 2009 and 2008</u>           | <u>F-5</u>  |
| <u>Consolidated Schedules of Investments as of December 31, 2010 and 2009</u>                              | <u>F-6</u>  |
| <u>Consolidated Statement of Stockholders' Equity for the years ended December 31, 2010, 2009 and 2008</u> | <u>F-39</u> |
| <u>Consolidated Statement of Cash Flows for the years ended December 31, 2010, 2009 and 2008</u>           | <u>F-40</u> |
| <u>Notes to Consolidated Financial Statements</u>  | <u>F-41</u> |

**Interim Unaudited Financial Statements**

|  |              |
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| <u>Consolidated Balance Sheet as of March 31, 2011 (unaudited) and December 31, 2010</u>   | <u>F-78</u>  |
| <u>Consolidated Statement of Operations for the three months ended March 31, 2011 (unaudited) and March 31, 2010 (unaudited)</u> | <u>F-79</u>  |
| <u>Consolidated Schedule of Investments as of March 31, 2011 (unaudited) and December 31, 2010 (unaudited)</u>                   | <u>F-80</u>  |
| <u>Consolidated Statement of Stockholders' Equity for the three months ended March 31, 2011 (unaudited)</u>                      | <u>F-127</u> |
| <u>Consolidated Statement of Cash Flows for the three months ended March 31, 2011 (unaudited) and March 31, 2010 (unaudited)</u> | <u>F-128</u> |
| <u>Notes to Consolidated Financial Statements (unaudited)</u>  | <u>F-129</u> |

**ALLIED CAPITAL CORPORATION**

**Audited Annual Financial Statements**

|   |              |
|---|--------------|
| <u>Report of Independent Registered Public Accounting Firm</u>  | <u>F-163</u> |
| <u>Consolidated Balance Sheet as of December 31, 2009 and 2008</u>  | <u>F-164</u> |
| <u>Consolidated Statement of Operations for the years ended December 31, 2009, 2008 and 2007</u>            | <u>F-165</u> |
| <u>Consolidated Statement of Changes in Net Assets for the years ended December 31, 2009, 2008 and 2007</u> | <u>F-166</u> |
| <u>Consolidated Statement of Cash Flows for the years ended December 31, 2009, 2008 and 2007</u>            | <u>F-167</u> |
| <u>Consolidated Statement of Investments as of December 31, 2009</u>  | <u>F-168</u> |
| <u>Consolidated Statement of Investments as of December 31, 2008</u>  | <u>F-177</u> |
| <u>Notes to Consolidated Financial Statements</u>   | <u>F-190</u> |
| <u>Schedule 12-14 Investments in and Advances to Affiliates for the year ended December 31, 2009</u>        | <u>F-226</u> |

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#### **Interim Unaudited Financial Statements**

|   |              |
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| <u>Consolidated Balance Sheet as of March 31, 2010 (unaudited) and December 31, 2009</u>  | <u>F-230</u> |
| <u>Consolidated Statement of Operations for the three months ended March 31, 2010 (unaudited) and March 31, 2009 (unaudited)</u>            | <u>F-231</u> |
| <u>Consolidated Statement of Changes in net assets for the three months ended March 31, 2010 (unaudited) and March 31, 2009 (unaudited)</u> | <u>F-232</u> |
| <u>Consolidated Statement of Cash Flows for the three months ended March 31, 2010 (unaudited) and March 31, 2009 (unaudited)</u>            | <u>F-233</u> |
| <u>Consolidated Statement of Investments as of March 31, 2010 (unaudited)</u>   | <u>F-234</u> |
| <u>Consolidated Statement of Investments as of December 31, 2009</u>  | <u>F-243</u> |
| <u>Notes to Consolidated Financial Statements (unaudited)</u>   | <u>F-252</u> |

- (2) Exhibits
- (a) Articles of Amendment and Restatement, as amended(1)
  - (b) Second Amended and Restated Bylaws, as amended(2)
  - (c) Not Applicable
  - (d)(1) Form of Stock Certificate(3)
  - (d)(2) Indenture, dated as of July 7, 2006, between ARCC Commercial Loan Trust and U.S. Bank National Association(4)
  - (d)(3) Statement of Eligibility of Trustee on Form T-1(5)
  - (d)(4) Form of Subscription Certificate(6)
  - (d)(5) Indenture, dated June 16, 2006, between Allied Capital Corporation and The Bank of New York(6)
  - (d)(6) Form of Note under the Indenture, dated June 16, 2006, between Allied Capital Corporation and The Bank of New York (contained in Exhibit (d)(5) to this Registration Statement)(7)
  - (d)(7) Statement of Eligibility of Trustee on Form T-1(8)
  - (d)(8) Third Supplemental Indenture, dated as of March 28, 2007, between Allied Capital Corporation and The Bank of New York(9)
  - (d)(9) Form of 6.875% Notes due 2047(9)
  - (d)(10) Fourth Supplemental Indenture, dated as of April 1, 2010, among Ares Capital Corporation, Allied Capital Corporation and The Bank of New York Mellon, as the Trustee(10)
  - (d)(11) Indenture, dated as of October 21, 2010, between Ares Capital Corporation and U.S. Bank National Association, as trustee(11)
  - (d)(12) First Supplemental Indenture, dated as of October 21, 2010, relating to the 7.75% Senior Notes due 2040, between Ares Capital Corporation and U.S. Bank National Association, as trustee(11)
  - (d)(13) Form of 7.75% Senior Notes due 2040(11)
  - (d)(14) Indenture, dated as of January 25, 2011, between Ares Capital Corporation and U.S. Bank National Association, as trustee(12)
  - (d)(15) Form of 5.75% Convertible Senior Notes due 2016(12)



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- (d)(16) Indenture, dated as of March 28, 2011, between Ares Capital Corporation and U.S. Bank National Association, as trustee(13)
- (d)(17) Form of 5.125% Convertible Senior Notes due 2016(13)
- (e) Amended and Restated Dividend Reinvestment Plan(14)
- (f) Not Applicable
- (g) Restated Investment Advisory and Management Agreement, dated as of June 6, 2011, between Registrant and Ares Capital Management LLC(15)
- (h)(1) Form of Underwriting Agreement for Equity Securities(16)
- (h)(2) Form of Underwriting Agreement for Debt Securities(16)
- (i) Not Applicable
- (j) Amended and Restated Custodian Agreement between Ares Capital Corporation and U.S. Bank National Association(17)
- (k)(1) Amended and Restated Administration Agreement, dated as of June 1, 2007, between Ares Capital Corporation and Ares Operations LLC(18)
- (k)(2) Trademark License Agreement between Ares Capital Corporation and Ares Management LLC(19)
- (k)(3) Form of Indemnification Agreement between Ares Capital Corporation and directors and certain officers(3)
- (k)(4) Form of Indemnification Agreement between Ares Capital Corporation and the members of the Ares Capital Management LLC investment committee(3)
- (k)(5) Amended and Restated Purchase and Sale Agreement, dated as of January 22, 2010, among Ares Capital Corporation, as seller, and Ares Capital CP Funding Holdings LLC, as purchaser(20)
- (k)(6) Second Tier Purchase and Sale Agreement, dated as of January 22, 2010, among Ares Capital CP Funding Holdings LLC, as seller, and Ares Capital CP Funding LLC, as purchaser(20)
- (k)(7) Amended and Restated Sale and Servicing Agreement, dated as of January 22, 2010, among Ares Capital CP Funding LLC, as borrower, Ares Capital Corporation, as servicer, Wachovia Bank, National Association, as note purchaser, U.S. Bank National Association, as trustee and collateral custodian, and Wells Fargo Securities, LLC, as agent(20)
- (k)(8) Amendment No. 1 to the Amended and Restated Sale and Servicing Agreement, dated as of May 6, 2010, among Ares Capital CP Funding LLC, as borrower, Ares Capital Corporation, as servicer, Wells Fargo Bank, National Association, as successor by merger to Wachovia Bank, as note purchaser, U.S. Bank National Association, as trustee and collateral custodian, and Wells Fargo Securities, LLC, as agent(21)
- (k)(9) Amendment No. 2 to the Amended and Restated Sale and Servicing Agreement, dated as of January 18, 2011, among Ares Capital CP Funding LLC, as borrower, Ares Capital Corporation, as servicer, Wells Fargo Bank, National Association, as successor by merger to Wachovia Bank, as note purchaser, U.S. Bank National Association, as trustee and collateral custodian, and Wells Fargo Securities, LLC, as agent(22)
- (k)(10) Master Participation Agreement, dated as of July 7, 2006, between Ares Capital CP Funding LLC and Ares Capital Corporation(5)

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- (k)(11) Senior Secured Revolving Credit Agreement, dated as of December 28, 2005 and amended and restated as of January 22, 2010, among Ares Capital Corporation, the lenders party thereto, Bank of America, N.A. and Suntrust Bank, as syndication agents, and JPMorgan Chase Bank, N.A., as administrative agent(20)
- (k)(12) Amendment No. 1 to the Senior Secured Revolving Credit Agreement, dated as of May 17, 2010, between Ares Capital Corporation, the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent(23)
- (k)(13) Amendment No. 2 to the Senior Secured Revolving Credit Agreement, dated as of September 28, 2010, between Ares Capital Corporation, the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent(24)
- (k)(14) Amendment No. 3 to the Senior Secured Revolving Credit Agreement, dated as of January 25, 2011, between Ares Capital Corporation, the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent(25)
- (k)(15) Amendment No. 4 to the Senior Secured Revolving Credit Agreement, dated as of March 28, 2011, between Ares Capital Corporation, the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent(1)
- (k)(16) First Amendment Agreement and Waiver, dated as of November 13, 2007, between Ares Capital Corporation, as borrower, Ares Capital FL Holdings LLC, ARCC CIC Flex Corp., ARCC Imperial Corporation and ARCC Imperial LLC, as subsidiary guarantors, and BMO Capital Markets Financing, Inc., Merrill Lynch Capital Corporation, SunTrust Bank, Commerzbank AG, New York and Grand Cayman Branches, UBS Loan Finance LLC, JPMorgan Chase Bank, N.A., Wachovia Bank, National Association and KBC Bank N.V., as lenders(26)
- (k)(17) Sale and Servicing Agreement, dated as of July 7, 2006, among ARCC Commercial Loan Trust 2006, as issuer, ARCC CLO 2006 LLC, as trust depositor, Ares Capital Corporation, as originator and as servicer, U.S. Bank National Association, as trustee and as collateral administrator, Lyon Financial Services, Inc. (d/b/a U.S. Bank Portfolio Services), as backup servicer, and Wilmington Trust Company, as owner trustee(5)
- (k)(18) Commercial Loan Sale Agreement, dated as of July 7, 2006, between Ares Capital Corporation and ARCC CLO 2006 LLC(5)
- (k)(19) Amendment No. 1 to the Commercial Loan Sale Agreement, dated as of July 17, 2009, between Ares Capital Corporation and ARCC CLO 2006 LLC(27)
- (k)(20) Amended and Restated Trust Agreement, dated as of July 7, 2006, among ARCC CLO 2006 LLC, Wilmington Trust Company and U.S. Bank National Association(5)
- (k)(21) Collateral Administration Agreement, dated as of July 7, 2006, among ARCC Commercial Loan Trust 2006, Ares Capital Corporation and U.S. Bank National Association(5)
- (k)(22) Class A-1A VFN Purchase Agreement, dated as of July 7, 2006, among ARCC Commercial Loan Trust 2006, U.S. Bank National Association and other Class A-1A VFN noteholders party thereto(5)
- (k)(23) Form of Indemnification Agreement between Allied Capital and its directors and certain officers(28)
- (k)(24) Custodian Agreement, dated as of April 3, 2009 by and between Allied Capital Corporation and U.S. Bank National Association(29)
- (l)(1) Opinion and Consent of Venable LLP, Maryland counsel for Ares Capital Corporation\*

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|        |   |
|--------|---|
| (l)(2) | Opinion and Consent of Proskauer Rose LLP, counsel for Ares Capital Corporation*  |
| (m)    | Not Applicable  |
| (n)(1) | Consent of independent registered public accounting firm for Ares Capital Corporation*  |
| (n)(2) | Opinion of independent registered public accounting firm for Ares Capital Corporation, regarding "senior securities" table contained herein(16) |
| (n)(3) | Consent of independent registered public accounting firm for Allied Capital for audited financial statements*                                   |
| (o)    | Not Applicable  |
| (p)    | Not Applicable  |
| (q)    | Not Applicable  |
| (r)    | Code of Ethics*   |
| 99.1   | Statement of Computation of Ratio of Earnings to Fixed Charges(16)  |

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\*

Filed herewith.

- (1) Incorporated by reference to Exhibits 3.1 and 10.3, as applicable, to the Registrant's Form 10-Q (File No. 814-00663) for the quarter ended March 31, 2011, filed on May 3, 2011.
- (2) Incorporated by reference to Exhibit 3.2 to the Registrant's Form 10-Q (File No. 814-00663) for the quarter ended June 30, 2010, filed on August 5, 2010.
- (3) Incorporated by reference to Exhibits (d), (k)(4) and (k)(5), as applicable, to the Registrant's pre-effective Amendment No. 2 to the Registration Statement under the Securities Act of 1933, as amended, on Form N-2 (File No. 333-114656), filed on September 28, 2004.
- (4) Incorporated by reference to Exhibits 10.2 through 10.8, as applicable, to the Registrant's Form 10-Q (File No. 814-00663) for the quarter ended June 30, 2006, filed on August 9, 2006.
- (5) Incorporated by reference to the Registrant's Statement of Eligibility on Form T-1, filed on October 20, 2010.
- (6) Incorporated by reference to Exhibit (d)(4) to the Registrant's pre-effective Amendment No. 2 to the Registration Statement under the Securities Act of 1933, as amended, on Form N-2 (File No. 333-149139), filed on April 9, 2008.
- (7) Incorporated by reference to Exhibit d.2 to Allied Capital's Registration Statement under the Securities Act of 1933, as amended, on Form N-2/A (File No. 333-133755), filed on June 21, 2006.
- (8) Incorporated by reference to Exhibit d.3 to Allied Capital's Registration Statement under the Securities Act of 1933, as amended, on Form N-2 (File No. 333-133755), filed on May 3, 2006.

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- (9) Incorporated by reference to Exhibits d.8 and d.9, as applicable, to Allied Capital's post-effective Amendment No. 3 to the Registration Statement under the Securities Act of 1933, as amended, on Form N-2/A (File No. 333-133755), filed on March 28, 2007.
- (10) Incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K (File No. 814-00663), filed on April 7, 2010.
- (11) Incorporated by reference to Exhibits 4.1, 4.2 and 4.3 to the Registrant's Form 8-K (File No. 814-00663), filed on October 22, 2010.

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- (12) Incorporated by reference to Exhibit 4.1 to the Registrant's Form 8-K (File No. 814-00663), filed on January 28, 2011.
- (13) Incorporated by reference to Exhibit 4.1 to the Registrant's Form 8-K (File No. 814-00663), filed on March 28, 2011.
- (14) Incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K (File No. 814-00663) filed on November 8, 2010.
- (15) Incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K (File No. 814-00663), filed on June 8, 2011.
- (16) Incorporated by reference to Exhibits (h)(1), (h)(2), (n)(2) and 99.1, as applicable, to the Registrant's pre-effective Registration Statement under the Securities Act of 1933, as amended, on Form N-2 (File No. 333-174716), filed on June 3, 2011.
- (17) Incorporated by reference to Exhibit (j) to the Registrant's pre-effective Amendment No. 1 to the Registration Statement under the Securities Act of 1933, as amended, on Form N-2 (File No. 333-158211), filed on May 28, 2009.
- (18) Incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-Q (File No. 814-00663) for the quarter ended June 30, 2007, filed on August 9, 2007.
- (19) Incorporated by reference to Exhibit (k)(3) to the Registrant's pre-effective Amendment No. 1 to the Registration Statement under the Securities Act of 1933, as amended, on Form N-2 (File No. 333-114656), filed on September 17, 2004.
- (20) Incorporated by reference to Exhibits 10.1 through 10.4, as applicable, to the Registrant's Form 8-K (File No. 814-00663), filed on January 25, 2010.
- (21) Incorporated by reference to Exhibit 10.5 to the Registrant's Form 10-Q (File No. 814-00663) for the quarter ended March 31, 2010, filed on May 10, 2010.
- (22) Incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K (File No. 814-00663), filed on January 19, 2011.
- (23) Incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K (File No. 814-00663), filed on May 19, 2010.
- (24) Incorporated by reference to Exhibit (k)(12) to the Registrant's pre-effective Amendment No. 2 to the Registration Statement under the Securities Act of 1933, as amended, on Form N-2 (File No. 333-165585), filed on October 5, 2010.
- (25) Incorporated by reference to Exhibit 10.17 to the Registrant's Form 10-K (File No. 814-00663) for the year ended December 31, 2010, filed on March 1, 2011.
- (26) Incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K (File No. 814-00663), filed on November 14, 2007.
- (27) Incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-Q (File No. 814-00663) for the quarter ended June 30, 2009, filed on August 6, 2009.
- (28) Incorporated by reference to Exhibit 10.37 to Allied Capital's Form 10-K (File No. 811-02708) for the year ended December 31, 2003, filed on March 12, 2004.

- (29) Incorporated by reference to Exhibit 10.44 to Allied Capital's Form 10-Q (File No. 814-00138) for the quarter ended March 31, 2009, filed on May 11, 2009.

Table of Contents**ITEM 26. MARKETING ARRANGEMENTS**

The information contained under the heading "Plan of Distribution" on this Registration Statement is incorporated herein by reference and any information concerning any underwriters for a particular offering will be contained in the prospectus supplement related to that offering.

**ITEM 27. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION**

|   |               |
|---|---------------|
| Commission registration fee             | \$ 232,200    |
| NASDAQ Global Select Market Listing Fee | \$ 50,000(1)  |
| FINRA filing fee                        | \$ 75,500     |
| Accounting fees and expenses            | \$ 75,000(1)  |
| Legal fees and expenses                 | \$ 350,000(1) |
| Printing                                | \$ 120,000(1) |
| Miscellaneous fees and expenses         | \$ 90,000(1)  |
| <br>                                    |               |
| Total                                   | \$ 992,700(1) |

(1)

These amounts are estimates.

**ITEM 28. PERSONS CONTROLLED BY OR UNDER COMMON CONTROL***Direct Subsidiaries*

The following list sets forth each of our subsidiaries, the state or country under whose laws the subsidiary is organized, and the percentage of voting securities or membership interests owned by us in such subsidiary:

|   |        |
|---|--------|
| 10th Street Equity, LLC (Delaware)            | 100%   |
| A.C. Corporation (Delaware)                   | 100%   |
| AC Notes Holdings LLC (Delaware)              | 100%   |
| AC Postle, LLC (Delaware)                     | 100%   |
| ACC Universal Corporation (Delaware)          | 86.26% |
| ACPD Equity Corp. (Delaware)                  | 90.08% |
| AIC Universal Corporation (Delaware)          | 86.26% |
| Aircraft Maintenance Holdings, LLC (Delaware) | 50%    |
| Alaris Consulting, LLC (Delaware)             | 100%   |
| Albras Equity, LLC (Delaware)                 | 100%   |
| ALD TBB/Win Equity, LLC (Delaware)            | 100%   |
| Allbridge Equity, LLC (Delaware)              | 100%   |
| Allied Asset Holdings LLC (Delaware)          | 100%   |
| Allied Capital Germany Fund, LLC (Delaware)   | 100%   |
| Allied Capital Holdings LLC (Delaware)        | 100%   |
| Amerex Equity LLC (Delaware)                  | 100%   |
| Amerex Equity Corporation (Delaware)          | 100%   |
| ARCC BB Corp. (Delaware)                      | 100%   |
| ARCC CCS, Inc. (Delaware)                     | 100%   |
| ARCC CIC Flex Corporation (Delaware)          | 100%   |
| ARCC CLO 2006 LLC (Delaware)                  | 100%   |
| ARCC CLPB Corporation (Delaware)              | 100%   |
| ARCC Commercial Loan Trust 2006 (Delaware)    | 100%   |
| ARCC Covestia Corp. (Delaware)                | 100%   |
| ARCC IGS Corp. (Delaware)                     | 100%   |

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|  |        |
|--|--------|
| ARCC Imperial Corporation (Delaware)               | 100%   |
| ARCC JTC LLC (Delaware)                            | 100%   |
| ARCC LVCG Holdings LLC (Delaware)                  | 100%   |
| ARCC LVCG Investors LLC (Delaware)                 | 100%   |
| ARCC OTG Corp. (Delaware)                          | 100%   |
| ARCC TTL Corp. (Delaware)                          | 100%   |
| ARCC Universal Corp. (Delaware)                    | 100%   |
| ARCC VTH Corp. (Delaware)                          | 100%   |
| ARCC WMA Corporation (Delaware)                    | 100%   |
| Ares Capital CP Funding Holdings LLC (Delaware)    | 100%   |
| Ares Capital CP Funding Holdings II LLC (Delaware) | 100%   |
| Ares Capital FL Holdings LLC (Delaware)            | 100%   |
| Binks Equity Corp. (Delaware)                      | 100%   |
| Calder Capital Partners LLC (Delaware)             | 100%   |
| Calder Equity, LLC (Delaware)                      | 100%   |
| Calder Investment Partners LLC (Delaware)          | 100%   |
| Cleveland East Equity, LLC (Delaware)              | 100%   |
| Crescent Equity Corp. (Delaware)                   | 86.26% |
| Dynamic Equity, LLC (Delaware)                     | 100%   |
| Foresite Equity, LLC (Delaware)                    | 86%    |
| GlobalCom Equity, LLC (Delaware)                   | 100%   |
| Havco Equity Corporation (Delaware)                | 86.26% |
| Ivy Hill Asset Management GP, LLC (Delaware)       | 100%   |
| Multiad Equity Corp. (Delaware)                    | 86.26% |
| NPH, Inc. (Maryland)                               | 100%   |
| Old Orchard Equity Corp. (Delaware)                | 100%   |
| Postle Equity Corp. (Delaware)                     | 86.26% |
| RWI, LLC (Delaware)                                | 100%   |
| S2 Equity Corp. (Delaware)                         | 86.26% |
| Slate Equity, LLC (Delaware)                       | 100%   |
| SMF II Equity, LLC (Delaware)                      | 100%   |
| Soteria Mezzanine Corporation (Delaware)           | 86.26% |
| Stag Equity, LLC (Delaware)                        | 100%   |
| Transamerican Equity Corporation (Delaware)        | 86.26% |
| Van Ness Hotel, Inc. (Delaware)                    | 100%   |

Table of Contents*Indirect Subsidiaries*

The following list sets forth each of our indirect subsidiaries, the state under whose laws the subsidiary is organized, and the percentage of voting securities or membership interests owned by the sole member of such subsidiary:

|   |      |
|---|------|
| A.C. Management Services, LLC (Delaware)  | 100% |
| AC Finance LLC (Delaware)                 | 100% |
| ACGP I, LLC (Delaware)                    | 100% |
| Allied Capital Property LLC (Delaware)    | 100% |
| Allied Crescent Equity, LLC (Delaware)    | 100% |
| AMP Admin LLC (Delaware)                  | 100% |
| ARCC Imperial LLC (Delaware)              | 100% |
| Ares Capital CP Funding LLC (Delaware)    | 100% |
| Ares Capital CP Funding II LLC (Delaware) | 100% |
| Corporate Wings Baltimore, LLC (Maryland) | 100% |
| HCI Equity, LLC (Illinois)                | 100% |

Each of our direct and indirect subsidiaries listed above is consolidated for financial reporting purposes.

In addition, we may be deemed to control certain portfolio companies. See "Portfolio Companies" in the Prospectus.

**ITEM 29. NUMBER OF HOLDERS OF SECURITIES**

The following table sets forth the approximate number of record holders of the Company's common stock and each class of the Company's senior securities (including bank loans) at July 18, 2011.

| TITLE OF CLASS                  | NUMBER OF<br>RECORD HOLDERS  |
|---------------------------------|------------------------------|
| Common stock, \$0.001 par value | 2,182 (including Cede & Co.) |
| Revolving Credit Facility       | 13                           |
| Revolving Funding Facility      | 1                            |
| Debt Securitization             | 19                           |
| 2040 Notes                      | 63                           |
| 2047 Notes                      | 81                           |
| February 2016 Convertible Notes | 33                           |
| June 2016 Convertible Notes     | 27                           |

**ITEM 30. INDEMNIFICATION**

Maryland law permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages except for liability resulting from (a) actual receipt of an improper benefit or profit in money, property or services or (b) active and deliberate dishonesty established by a final judgment as being material to the cause of action. Our charter contains such a provision which eliminates directors' and officers' liability to the maximum extent permitted by Maryland law, subject to the requirements of the Investment Company Act.

Our charter authorizes us, to the maximum extent permitted by Maryland law and subject to the requirements of the Investment Company Act, to obligate us to indemnify any present or former director or officer or any individual who, while a director or officer and at our request, serves or has

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served another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee, from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her status as a present or former director or officer and to pay or reimburse their reasonable expenses in advance of final disposition of a proceeding. Our bylaws obligate us, to the maximum extent permitted by Maryland law and subject to the requirements of the Investment Company Act, to indemnify any present or former director or officer or any individual who, while a director or officer and at our request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee and who is made or threatened to be made a party to a proceeding by reason of his or her service in that capacity from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her service in that capacity and to pay or reimburse their reasonable expenses in advance of final disposition of a proceeding. The charter and bylaws also permit us to indemnify and advance expenses to any person who served a predecessor of us in any of the capacities described above and any of our employees or agents or any employees or agents of our predecessor. In accordance with the Investment Company Act, we will not indemnify any person for any liability to which such person would be subject by reason of such person's willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office. In addition to the indemnification provided for in our bylaws, we have entered into indemnification agreements with each of our current directors and certain of our officers and with members of our investment adviser's investment committee and we intend to enter into indemnification agreements with each of our future directors, members of our investment adviser's investment committee and certain of our officers. The indemnification agreements attempt to provide these directors and senior officers the maximum indemnification permitted under Maryland law and the Investment Company Act. The agreements provide, among other things, for the advancement of expenses and indemnification for liabilities which such person may incur by reason of his or her status as a present or former director or officer or member of our investment adviser's investment committee in any action or proceeding arising out of the performance of such person's services as a present or former director or officer or member of our investment adviser's investment committee.

Maryland law requires a corporation (unless its charter provides otherwise, which our charter does not) to indemnify a director or officer who has been successful, on the merits or otherwise, in the defense of any proceeding to which he or she is made or threatened to be made a party by reason of his or her service in that capacity. Maryland law permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made or are threatened to be made a party by reason of their service in those or other capacities unless it is established that (a) the act or omission of the director or officer was material to the matter giving rise to the proceeding and (i) was committed in bad faith or (ii) was the result of active and deliberate dishonesty, (b) the director or officer actually received an improper personal benefit in money, property or services or (c) in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. In addition, Maryland law permits a corporation to advance reasonable expenses to a director or officer upon the corporation's receipt of (a) a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation and (b) a written undertaking by him or her or on his or her behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the standard of conduct was not met.

The investment advisory and management agreement provides that, absent willful misfeasance, bad faith or gross negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations, our investment adviser Ares Capital Management and its officers, managers, agents, employees, controlling persons, members and any other person or entity affiliated with it are

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entitled to indemnification from the Company for any damages, liabilities, costs and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) arising from the rendering of the investment adviser's services under the investment advisory and management agreement or otherwise as an investment adviser of the Company.

The administration agreement provides that, absent willful misfeasance, bad faith or negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations, Ares Operations and its officers, manager, agents, employees, controlling persons, members and any other person or entity affiliated with it are entitled to indemnification from the Company for any damages, liabilities, costs and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) arising from the rendering of Ares Operations' services under the administration agreement or otherwise as administrator for the Company.

Insofar as indemnification for liability arising under the Securities Act may be permitted to directors, officers and controlling persons of the Company pursuant to the foregoing provisions, or otherwise, the Company has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Company of expenses incurred or paid by a director, officer or controlling person of the Company in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Company will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

**ITEM 31. BUSINESS AND OTHER CONNECTIONS OF INVESTMENT ADVISER**

A description of any other business, profession, vocation or employment of a substantial nature in which Ares Capital Management, and each partner, director or executive officer of Ares Capital Management, is or has been, during the past two fiscal years, engaged in for his or her own account or in the capacity of director, officer, employee, partner or trustee, is set forth in Part A of this Registration Statement in the sections entitled "Management." Additional information regarding Ares Capital Management and its officers and directors will be set forth in its Form ADV, as filed with the Securities and Exchange Commission (SEC File No. 801-63168), and is incorporated herein by reference.

**ITEM 32. LOCATION OF ACCOUNTS AND RECORDS**

All accounts, books and other documents required to be maintained by Section 31(a) of the Investment Company Act of 1940, and the rules thereunder are maintained at the offices of:

- (1) the Company, Ares Capital Corporation, 245 Park Avenue, 44th Floor, New York, New York 10167;
- (2) the transfer agent, The Bank of New York Mellon, P.O. Box 358035, Pittsburgh, PA 15252-8035;
- (3) the custodian, U.S. Bank National Association, Corporate Trust Services, One Federal Street, 3<sup>rd</sup> Floor, Boston, Massachusetts 02110; and
- (4) the investment adviser, Ares Capital Management LLC, 2000 Avenue of the Stars, 12<sup>th</sup> Floor, Los Angeles, California 90067.

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**ITEM 33. MANAGEMENT SERVICES**

Not Applicable.

**ITEM 34. UNDERTAKINGS**

The Registrant undertakes:

- (1) to suspend the offering of shares until the prospectus is amended if (a) subsequent to the effective date of its registration statement, the net asset value declines more than ten percent from its net asset value as of the effective date of the registration statement or (b) the net asset value increases to an amount greater than the net proceeds as stated in the prospectus.
- (2) if the securities being registered are to be offered to existing stockholders pursuant to warrants or rights, and any securities not taken by stockholders are to be reoffered to the public, to supplement the prospectus, after the expiration of the subscription period, to set forth the results of the subscription offer, the transactions by underwriters during the subscription period, the amount of unsubscribed securities to be purchased by underwriters, and the terms of any subsequent reoffering thereof. If any public offering by the underwriters of the securities being registered is to be made on terms differing from those set forth on the cover page of the prospectus, the Registrant shall undertake to file a post-effective amendment to set forth the terms of such offering;
- (3) to file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:
  - (a) to include any prospectus required by Section 10(a)(3) of the Securities Act;
  - (b) to reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement; and
  - (c) to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.
- (4) that, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of the securities at that time shall be deemed to be the initial bona fide offering thereof;
- (5) to remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering;
- (6) that, for the purpose of determining liability under the Securities Act to any purchaser, if the Registrant is subject to Rule 430C, each prospectus filed pursuant to Rule 497(b), (c), (d) or (e) under the Securities Act as part of a registration statement relating to an offering, other than prospectus filed in reliance on Rule 430A under the Securities Act, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness, *provided, however*, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supercede or modify any statement that was made



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in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use;

- (7) that for the purpose of determining liability of the Registrant under the Securities Act to any purchaser in the initial distribution of securities, the undersigned Registrant undertakes that in a primary offering of securities of the undersigned Registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned Registrant will be a seller to the purchaser and will be considered to offer or sell such securities to the purchaser:
- (a) any preliminary prospectus or prospectus of the undersigned Registrant relating to the offering required to be filed pursuant to Rule 497 under the Securities Act;
  - (b) the portion of any advertisement pursuant to Rule 482 under the Securities Act relating to the offering containing material information about the undersigned Registrant or its securities provided by or on behalf of the undersigned Registrant; and
  - (c) any other communication that is an offer in the offering made by the undersigned Registrant to the purchaser; and
- (8) to file a post-effective amendment to the registration statement, and to suspend any offers or sales pursuant the registration statement until such post-effective amendment has been declared effective under the 1933 Act, in the event its shares of common stock are trading below its net asset value per share and either (a) the Registrant receives, or has been advised by its independent registered accounting firm that it will receive, an audit report reflecting substantial doubt regarding the Registrant's ability to continue as a going concern or (b) the Registrant has concluded that a fundamental change has occurred in its financial position or results of operations.







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SIGNATURE

TITLE

DATE

\*

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Eric B. Siegel

Director

July 19, 2011

\*By:

/s/ JOSHUA M. BLOOMSTEIN

*Joshua M. Bloomstein, Attorney-in-fact*

KNOW ALL MEN BY THESE PRESENT, each person whose signature appears below hereby constitutes and appoints Michael J. Arougheti, Penni F. Roll, Joshua M. Bloomstein and Michael D. Weiner, and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Registration Statement on Form N-2 and any registration statement filed pursuant to Rule 462(b) under the Securities Act of 1933, and to file the same, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated. This document may be executed by the signatories hereto on any number of counterparts, all of which constitute one and the same instrument.

/s/ KENNETH R. HEITZ

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Kenneth R. Heitz

Director

July 19, 2011

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**EXHIBIT INDEX**

- (a) Articles of Amendment and Restatement, as amended(1)
- (b) Second Amended and Restated Bylaws, as amended(2)
- (c) Not Applicable
- (d)(1) Form of Stock Certificate(3)
- (d)(2) Indenture, dated as of July 7, 2006, between ARCC Commercial Loan Trust and U.S. Bank National Association(4)
- (d)(3) Statement of Eligibility of Trustee on Form T-1(5)
- (d)(4) Form of Subscription Certificate(6)
- (d)(5) Indenture, dated June 16, 2006, between Allied Capital Corporation and The Bank of New York(6)
- (d)(6) Form of Note under the Indenture, dated June 16, 2006, between Allied Capital Corporation and The Bank of New York (contained in Exhibit (d)(5) to this Registration Statement)(7)
- (d)(7) Statement of Eligibility of Trustee on Form T-1(8)
- (d)(8) Third Supplemental Indenture, dated as of March 28, 2007, between Allied Capital Corporation and The Bank of New York(9)
- (d)(9) Form of 6.875% Notes due 2047(9)
- (d)(10) Fourth Supplemental Indenture, dated as of April 1, 2010, among Ares Capital Corporation, Allied Capital Corporation and The Bank of New York Mellon, as the Trustee(10)
- (d)(11) Indenture, dated as of October 21, 2010, between Ares Capital Corporation and U.S. Bank National Association, as trustee(11)
- (d)(12) First Supplemental Indenture, dated as of October 21, 2010, relating to the 7.75% Senior Notes due 2040, between Ares Capital Corporation and U.S. Bank National Association, as trustee(11)
- (d)(13) Form of 7.75% Senior Notes due 2040(11)
- (d)(14) Indenture, dated as of January 25, 2011, between Ares Capital Corporation and U.S. Bank National Association, as trustee(12)
- (d)(15) Form of 5.75% Convertible Senior Notes due 2016(12)
- (d)(16) Indenture, dated as of March 28, 2011, between Ares Capital Corporation and U.S. Bank National Association, as trustee(13)
- (d)(17) Form of 5.125% Convertible Senior Notes due 2016(13)
- (e) Amended and Restated Dividend Reinvestment Plan(14)
- (f) Not Applicable
- (g) Restated Investment Advisory and Management Agreement, dated as of June 6, 2011, between Registrant and Ares Capital Management LLC(15)
- (h)(1) Form of Underwriting Agreement for Equity Securities(16)

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- (h)(2) Form of Underwriting Agreement for Debt Securities(16)
  - (i) Not Applicable
  - (j) Amended and Restated Custodian Agreement between Ares Capital Corporation and U.S. Bank National Association(17)
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- (k)(1) Amended and Restated Administration Agreement, dated as of June 1, 2007, between Ares Capital Corporation and Ares Operations LLC(18)
  - (k)(2) Trademark License Agreement between Ares Capital Corporation and Ares Management LLC(19)
  - (k)(3) Form of Indemnification Agreement between Ares Capital Corporation and directors and certain officers(3)
  - (k)(4) Form of Indemnification Agreement between Ares Capital Corporation and the members of the Ares Capital Management LLC investment committee(3)
  - (k)(5) Amended and Restated Purchase and Sale Agreement, dated as of January 22, 2010, among Ares Capital Corporation, as seller, and Ares Capital CP Funding Holdings LLC, as purchaser(20)
  - (k)(6) Second Tier Purchase and Sale Agreement, dated as of January 22, 2010, among Ares Capital CP Funding Holdings LLC, as seller, and Ares Capital CP Funding LLC, as purchaser(20)
  - (k)(7) Amended and Restated Sale and Servicing Agreement, dated as of January 22, 2010, among Ares Capital CP Funding LLC, as borrower, Ares Capital Corporation, as servicer, Wachovia Bank, National Association, as note purchaser, U.S. Bank National Association, as trustee and collateral custodian, and Wells Fargo Securities, LLC, as agent(20)
  - (k)(8) Amendment No. 1 to the Amended and Restated Sale and Servicing Agreement, dated as of May 6, 2010, among Ares Capital CP Funding LLC, as borrower, Ares Capital Corporation, as servicer, Wells Fargo Bank, National Association, as successor by merger to Wachovia Bank, as note purchaser, U.S. Bank National Association, as trustee and collateral custodian, and Wells Fargo Securities, LLC, as agent(21)
  - (k)(9) Amendment No. 2 to the Amended and Restated Sale and Servicing Agreement, dated as of January 18, 2011, among Ares Capital CP Funding LLC, as borrower, Ares Capital Corporation, as servicer, Wells Fargo Bank, National Association, as successor by merger to Wachovia Bank, as note purchaser, U.S. Bank National Association, as trustee and collateral custodian, and Wells Fargo Securities, LLC, as agent(22)
  - (k)(10) Master Participation Agreement, dated as of July 7, 2006, between Ares Capital CP Funding LLC and Ares Capital Corporation(5)
  - (k)(11) Senior Secured Revolving Credit Agreement, dated as of December 28, 2005 and amended and restated as of January 22, 2010, among Ares Capital Corporation, the lenders party thereto, Bank of America, N.A. and Suntrust Bank, as syndication agents, and JPMorgan Chase Bank, N.A., as administrative agent(20)
  - (k)(12) Amendment No. 1 to the Senior Secured Revolving Credit Agreement, dated as of May 17, 2010, between Ares Capital Corporation, the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent(23)
  - (k)(13) Amendment No. 2 to the Senior Secured Revolving Credit Agreement, dated as of September 28, 2010, between Ares Capital Corporation, the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent(24)
  - (k)(14) Amendment No. 3 to the Senior Secured Revolving Credit Agreement, dated as of January 25, 2011, between Ares Capital Corporation, the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent(25)
  - (k)(15) Amendment No. 4 to the Senior Secured Revolving Credit Agreement, dated as of March 28, 2011, between Ares Capital Corporation, the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent(1)
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- (k)(16) First Amendment Agreement and Waiver, dated as of November 13, 2007, between Ares Capital Corporation, as borrower, Ares Capital FL Holdings LLC, ARCC CIC Flex Corp., ARCC Imperial Corporation and ARCC Imperial LLC, as subsidiary guarantors, and BMO Capital Markets Financing, Inc., Merrill Lynch Capital Corporation, SunTrust Bank, Commerzbank AG, New York and Grand Cayman Branches, UBS Loan Finance LLC, JPMorgan Chase Bank, N.A., Wachovia Bank, National Association and KBC Bank N.V., as lenders(26)
  - (k)(17) Sale and Servicing Agreement, dated as of July 7, 2006, among ARCC Commercial Loan Trust 2006, as issuer, ARCC CLO 2006 LLC, as trust depositor, Ares Capital Corporation, as originator and as servicer, U.S. Bank National Association, as trustee and as collateral administrator, Lyon Financial Services, Inc. (d/b/a U.S. Bank Portfolio Services), as backup servicer, and Wilmington Trust Company, as owner trustee(5)
  - (k)(18) Commercial Loan Sale Agreement, dated as of July 7, 2006, between Ares Capital Corporation and ARCC CLO 2006 LLC(5)
  - (k)(19) Amendment No. 1 to the Commercial Loan Sale Agreement, dated as of July 17, 2009, between Ares Capital Corporation and ARCC CLO 2006 LLC(27)
  - (k)(20) Amended and Restated Trust Agreement, dated as of July 7, 2006, among ARCC CLO 2006 LLC, Wilmington Trust Company and U.S. Bank National Association(5)
  - (k)(21) Collateral Administration Agreement, dated as of July 7, 2006, among ARCC Commercial Loan Trust 2006, Ares Capital Corporation and U.S. Bank National Association(5)
  - (k)(22) Class A-1A VFN Purchase Agreement, dated as of July 7, 2006, among ARCC Commercial Loan Trust 2006, U.S. Bank National Association and other Class A-1A VFN noteholders party thereto(5)
  - (k)(23) Form of Indemnification Agreement between Allied Capital and its directors and certain officers(28)
  - (k)(24) Custodian Agreement, dated as of April 3, 2009 by and between Allied Capital Corporation and U.S. Bank National Association(29)
  - (l)(1) Opinion and Consent of Venable LLP, Maryland counsel for Ares Capital Corporation\*
  - (l)(2) Opinion and Consent of Proskauer Rose LLP, counsel for Ares Capital Corporation\*
  - (m) Not Applicable
  - (n)(1) Consent of independent registered public accounting firm for Ares Capital Corporation\*
  - (n)(2) Opinion of independent registered public accounting firm for Ares Capital Corporation, regarding "senior securities" table contained herein(16)
  - (n)(3) Consent of independent registered public accounting firm for Allied Capital for audited financial statements\*
  - (o) Not Applicable
  - (p) Not Applicable
  - (q) Not Applicable
  - (r) Code of Ethics\*
  - 99.1 Statement of Computation of Ratio of Earnings to Fixed Charges(16)
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Filed herewith.

(1)

Incorporated by reference to Exhibits 3.1 and 10.3, as applicable, to the Registrant's Form 10-Q (File No. 814-00663) for the quarter ended March 31, 2011, filed on May 3, 2011.

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- (2) Incorporated by reference to Exhibit 3.2 to the Registrant's Form 10-Q (File No. 814-00663) for the quarter ended June 30, 2010, filed on August 5, 2010.
- (3) Incorporated by reference to Exhibits (d), (k)(4) and (k)(5), as applicable, to the Registrant's pre-effective Amendment No. 2 to the Registration Statement under the Securities Act of 1933, as amended, on Form N-2 (File No. 333-114656), filed on September 28, 2004.
- (4) Incorporated by reference to Exhibits 10.2 through 10.8, as applicable, to the Registrant's Form 10-Q (File No. 814-00663) for the quarter ended June 30, 2006, filed on August 9, 2006.
- (5) Incorporated by reference to the Registrant's Statement of Eligibility on Form T-1, filed on October 20, 2010.
- (6) Incorporated by reference to Exhibit (d)(4) to the Registrant's pre-effective Amendment No. 2 to the Registration Statement under the Securities Act of 1933, as amended, on Form N-2 (File No. 333-149139), filed on April 9, 2008.
- (7) Incorporated by reference to Exhibit d.2 to Allied Capital's Registration Statement under the Securities Act of 1933, as amended, on Form N-2/A (File No. 333-133755), filed on June 21, 2006.
- (8) Incorporated by reference to Exhibit d.3 to Allied Capital's Registration Statement under the Securities Act of 1933, as amended, on Form N-2 (File No. 333-133755), filed on May 3, 2006.
- (9) Incorporated by reference to Exhibits d.8 and d.9, as applicable, to Allied Capital's post-effective Amendment No. 3 to the Registration Statement under the Securities Act of 1933, as amended, on Form N-2/A (File No. 333-133755), filed on March 28, 2007.
- (10) Incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K (File No. 814-00663), filed on April 7, 2010.
- (11) Incorporated by reference to Exhibits 4.1, 4.2 and 4.3 to the Registrant's Form 8-K (File No. 814-00663), filed on October 22, 2010.
- (12) Incorporated by reference to Exhibit 4.1 to the Registrant's Form 8-K (File No. 814-00663), filed on January 28, 2011.
- (13) Incorporated by reference to Exhibit 4.1 to the Registrant's Form 8-K (File No. 814-00663), filed on March 28, 2011.
- (14) Incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K (File No. 814-00663) filed on November 8, 2010.
- (15) Incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K (File No. 814-00663), filed on June 8, 2011.
- (16) Incorporated by reference to Exhibits (h)(1), (h)(2), (n)(2) and 99.1, as applicable, to the Registrant's pre-effective Registration Statement under the Securities Act of 1933, as amended, on Form N-2 (File No. 333-174716), filed on June 3, 2011.
- (17) Incorporated by reference to Exhibit (j) to the Registrant's pre-effective Amendment No. 1 to the Registration Statement under the Securities Act of 1933, as amended, on Form N-2 (File No. 333-158211), filed on May 28, 2009.
- (18)



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Incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-Q (File No. 814-00663) for the quarter ended June 30, 2007, filed on August 9, 2007.

- (19) Incorporated by reference to Exhibit (k)(3) to the Registrant's pre-effective Amendment No. 1 to the Registration Statement under the Securities Act of 1933, as amended, on Form N-2 (File No. 333-114656), filed on September 17, 2004.
- (20) Incorporated by reference to Exhibits 10.1 through 10.4, as applicable, to the Registrant's Form 8-K (File No. 814-00663), filed on January 25, 2010.
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- (21) Incorporated by reference to Exhibit 10.5 to the Registrant's Form 10-Q (File No. 814-00663) for the quarter ended March 31, 2010, filed on May 10, 2010.
- (22) Incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K (File No. 814-00663), filed on January 19, 2011.
- (23) Incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K (File No. 814-00663), filed on May 19, 2010.
- (24) Incorporated by reference to Exhibit (k)(12) to the Registrant's pre-effective Amendment No. 2 to the Registration Statement under the Securities Act of 1933, as amended, on Form N-2 (File No. 333-165585), filed on October 5, 2010.
- (25) Incorporated by reference to Exhibit 10.17 to the Registrant's Form 10-K (File No. 814-00663) for the year ended December 31, 2010, filed on March 1, 2011.
- (26) Incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K (File No. 814-00663), filed on November 14, 2007.
- (27) Incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-Q (File No. 814-00663) for the quarter ended June 30, 2009, filed on August 6, 2009.
- (28) Incorporated by reference to Exhibit 10.37 to Allied Capital's Form 10-K (File No. 811-02708) for the year ended December 31, 2003, filed on March 12, 2004.
- (29) Incorporated by reference to Exhibit 10.44 to Allied Capital's Form 10-Q (File No. 814-00138) for the quarter ended March 31, 2009, filed on May 11, 2009.
-