

ARES CAPITAL CORP  
Form 10-Q  
November 08, 2011  
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

- x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2011**

**OR**

- o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the transition period to**

**Commission File No. 000-50697**

**ARES CAPITAL CORPORATION**

(Exact name of Registrant as specified in its charter)

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**Maryland**  
(State or other jurisdiction of  
incorporation or organization)

**33-1089684**  
(I.R.S. Employer  
Identification Number)

**245 Park Avenue, 44th Floor, New York, NY 10167**

(Address of principal executive office) (Zip Code)

**(212) 750-7300**

(Registrant's telephone number, including area code)

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**N/A**

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

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

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class                           | Outstanding at November 8, 2011 |
|---------------------------------|---------------------------------|
| Common stock, \$0.001 par value | 205,129,966                     |

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(in thousands, except per share data)

|  | September 30, 2011<br>(unaudited) | As of | December 31, 2010 |
|--|-----------------------------------|-------|-------------------|
| <b>ASSETS</b>  |                                   |       |                   |
| Investments at fair value  |                                   |       |                   |
| Non-controlled/non-affiliate investments   | \$ 2,876,091                      | \$    | 2,482,642         |
| Non-controlled affiliate company investments   | 316,751                           |       | 380,396           |
| Controlled affiliate company investments   | 1,562,311                         |       | 1,454,952         |
| Total investments at fair value (amortized cost of \$4,803,420 and \$4,291,955, respectively)  | 4,755,153                         |       | 4,317,990         |
| Cash and cash equivalents  | 103,146                           |       | 100,752           |
| Receivable for open trades   | 22,560                            |       | 8,876             |
| Interest receivable  | 82,663                            |       | 72,548            |
| Other assets   | 81,984                            |       | 62,380            |
| Total assets   | \$ 5,045,506                      | \$    | 4,562,546         |
| <b>LIABILITIES</b>   |                                   |       |                   |
| Debt   | \$ 1,800,212                      | \$    | 1,378,509         |
| Management and incentive fees payable  | 83,843                            |       | 52,397            |
| Accounts payable and other liabilities   | 37,201                            |       | 34,742            |
| Interest and facility fees payable   | 20,972                            |       | 21,763            |
| Payable for open trades  |                                   |       | 24,602            |
| Total liabilities  | 1,942,228                         |       | 1,512,013         |
| 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, 205,130 and 204,419 common shares issued and outstanding, respectively | 205                               |       | 204               |
| Capital in excess of par value   | 3,271,595                         |       | 3,205,326         |
| Accumulated overdistributed net investment income  | (36,245)                          |       | (11,336)          |
| Accumulated net realized loss on investments, foreign currency transactions, extinguishment of debt and other assets   | (84,010)                          |       | (169,696)         |
| Net unrealized gain (loss) on investments and foreign currency transactions  | (48,267)                          |       | 26,035            |
| Total stockholders equity  | 3,103,278                         |       | 3,050,533         |
| Total liabilities and stockholders equity  | \$ 5,045,506                      | \$    | 4,562,546         |
| <b>NET ASSETS PER SHARE</b>  | \$ 15.13                          | \$    | 14.92             |

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)**

|   | For the three months ended |                    | For the nine months ended |                    |
|---|----------------------------|--------------------|---------------------------|--------------------|
|   | September 30, 2011         | September 30, 2010 | September 30, 2011        | September 30, 2010 |
|   | (unaudited)                | (unaudited)        | (unaudited)               | (unaudited)        |
| <b>INVESTMENT INCOME:</b>   |                            |                    |                           |                    |
| From non-controlled/non-affiliate company investments:                        |                            |                    |                           |                    |
| Interest from investments   | \$ 69,588                  | \$ 66,319          | \$ 191,830                | \$ 177,285         |
| Capital structuring service fees  | 20,006                     | 8,122              | 38,412                    | 15,258             |
| Dividend income   | 4,886                      | 1,381              | 7,094                     | 3,299              |
| Management fees   | 427                        | 1,711              | 1,055                     | 4,261              |
| Interest from cash & cash equivalents   | 16                         | 47                 | 110                       | 75                 |
| Other income  | 1,611                      | 1,094              | 3,727                     | 3,648              |
| Total investment income from non-controlled/non-affiliate company investments | 96,534                     | 78,674             | 242,228                   | 203,826            |
| From non-controlled affiliate company investments:                            |                            |                    |                           |                    |
| Interest from investments   | 7,909                      | 13,607             | 26,800                    | 33,602             |
| Capital structuring service fees  | 730                        |                    | 730                       |                    |
| Dividend income   | 549                        | 127                | 4,008                     | 318                |
| Management fees   | 63                         | 75                 | 439                       | 363                |
| Other income  | 233                        | 63                 | 871                       | 485                |
| Total investment income from non-controlled affiliate company investments     | 9,484                      | 13,872             | 32,848                    | 34,768             |
| From controlled affiliate company investments:                                |                            |                    |                           |                    |
| Interest from investments   | 44,032                     | 27,908             | 124,732                   | 62,545             |
| Capital structuring service fees  | 7,314                      | 12,489             | 20,020                    | 15,146             |
| Dividend income   | 5,907                      | 2,415              | 15,708                    | 4,211              |
| Management fees   | 3,677                      | 2,652              | 10,723                    | 5,430              |
| Other income  | 417                        | 116                | 1,104                     | 300                |
| Total investment income from controlled affiliate company investments         | 61,347                     | 45,580             | 172,287                   | 87,632             |
| Total investment income   | 167,365                    | 138,126            | 447,363                   | 326,226            |
| <b>EXPENSES:</b>  |                            |                    |                           |                    |
| Interest and credit facility fees   | 30,971                     | 22,755             | 89,739                    | 54,453             |
| Incentive management fees   | 10,159                     | 17,805             | 82,846                    | 40,922             |
| Base management fees  | 18,317                     | 15,436             | 52,461                    | 35,574             |
| Professional fees   | 3,683                      | 3,233              | 10,929                    | 9,191              |
| Administrative fees   | 2,017                      | 2,642              | 6,901                     | 6,251              |
|   | 1,116                      | 1,450              | 2,016                     | 17,773             |

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|  |                  |                   |                   |                   |
|--|------------------|-------------------|-------------------|-------------------|
| Professional fees and other costs related to the acquisition of Allied Capital Corporation |                  |                   |                   |                   |
| Other general and administrative   | 2,061            | 3,749             | 7,890             | 9,236             |
| Total expenses   | 68,324           | 67,070            | 252,782           | 173,400           |
| <b>NET INVESTMENT INCOME BEFORE INCOME TAXES</b>   | <b>99,041</b>    | <b>71,056</b>     | <b>194,581</b>    | <b>152,826</b>    |
| Income tax expense (benefit), including excise tax   | 683              | (164)             | 4,637             | 360               |
| <b>NET INVESTMENT INCOME</b>   | <b>98,358</b>    | <b>71,220</b>     | <b>189,944</b>    | <b>152,466</b>    |
| <b>REALIZED AND UNREALIZED GAINS (LOSSES) ON INVESTMENTS AND FOREIGN CURRENCIES:</b>       |                  |                   |                   |                   |
| Net realized gains (losses):   |                  |                   |                   |                   |
| Non-controlled/non-affiliate company investments   | (28,731)         | 1,225             | 29,458            | 10,998            |
| Non-controlled affiliate company investments   | 33,120           | 9                 | 31,104            | (3,725)           |
| Controlled affiliate company investments   | 44,420           | (6)               | 44,442            | 1,296             |
| Foreign currency transactions  |                  |                   |                   | 85                |
| Net realized gains   | 48,809           | 1,228             | 105,004           | 8,654             |
| Net unrealized gains (losses):   |                  |                   |                   |                   |
| Non-controlled/non-affiliate company investments   | (22,672)         | 17,509            | (43,244)          | 113,590           |
| Non-controlled affiliate company investments   | (34,454)         | 16,064            | (37,214)          | 35,152            |
| Controlled affiliate company investments   | (49,402)         | 23,934            | 6,156             | 31,321            |
| Foreign currency transactions  |                  |                   |                   | (152)             |
| Net unrealized gains (losses)  | (106,528)        | 57,507            | (74,302)          | 179,911           |
| Net realized and unrealized gains (losses) from investments and foreign currencies         | (57,719)         | 58,735            | 30,702            | 188,565           |
| <b>GAIN ON THE ACQUISITION OF ALLIED CAPITAL CORPORATION</b>                               |                  |                   |                   | <b>195,876</b>    |
| <b>REALIZED LOSS ON EXTINGUISHMENT OF DEBT</b>   |                  | <b>(1,578)</b>    | <b>(19,318)</b>   | <b>(1,961)</b>    |
| <b>NET INCREASE IN STOCKHOLDERS' EQUITY RESULTING FROM OPERATIONS</b>                      | <b>\$ 40,639</b> | <b>\$ 128,377</b> | <b>\$ 201,328</b> | <b>\$ 534,946</b> |
| <b>BASIC AND DILUTED EARNINGS PER COMMON SHARE (Note 10)</b>                               | <b>\$ 0.20</b>   | <b>\$ 0.67</b>    | <b>\$ 0.98</b>    | <b>\$ 3.16</b>    |
| <b>WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING - BASIC AND DILUTED (Note 10)</b>   | <b>205,130</b>   | <b>192,167</b>    | <b>204,770</b>    | <b>169,500</b>    |

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See accompanying notes to consolidated financial statements.



Table of Contents**ARES CAPITAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS**

As of September 30, 2011

(dollar amounts in thousands)

(unaudited)

| Company(1)   | Business Description   | Investment   | Interest(5)(12)         | Acquisition Date | Amortized Cost | Fair Value | Percentage of Net Assets |
|--|------------------------|--|-------------------------|------------------|----------------|------------|--------------------------|
| <b>Investment Funds and Vehicles</b>               |                        |  |                         |                  |                |            |                          |
| AGILE Fund I, LLC (7)(9)                           | Investment partnership | Member interest (0.50% interest)                             |                         | 4/1/2010         | \$ 245         | \$ 130     |                          |
| CIC Flex, LP (9)                                   | Investment partnership | Limited partnership units (0.94 unit)                        |                         | 9/7/2007         | 2,533          | 3,137      |                          |
| Covestia Capital Partners, LP (9)                  | Investment partnership | Limited partnership interest (47.00% interest)               |                         | 6/17/2008        | 1,059          | 1,088      |                          |
| 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 (\$71,363 par due 12/2016)          | 1.00% PIK               | 12/31/2006       | 71,089         | 55,918(4)  |                          |
|  |                        | Class A common stock (10,000 shares)                         |                         | 12/31/2006       | 10,000         |            |                          |
|  |                        | Class B common stock (30,000 shares)                         |                         | 12/31/2006       | 30,000         |            |                          |
|  |                        |  |                         |                  | 111,089        | 55,918     |                          |
| HCI Equity, LLC (7)(8)(9)                          | Investment company     | Member interest (100.00% interest)                           |                         | 4/1/2010         | 808            | 715        |                          |
| Imperial Capital Private Opportunities, LP (9)     | Investment partnership | Limited partnership interest (80.00% interest)               |                         | 5/10/2007        | 6,643          | 5,120      |                          |
| 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)                    | 15.00%                  | 11/20/2007       | 15,515         | 16,000     |                          |
|  |                        |  |                         |                  | 55,515         | 53,600     |                          |
| Knightsbridge CLO 2008-1 Ltd. (7)(8)(9)            | Investment company     | Class C notes (\$14,400 par due 6/2018)                      | 7.75% (Libor + 7.50%/Q) | 3/24/2010        | 14,400         | 14,400     |                          |
|  |                        | Class D notes (\$9,000 par due 6/2018)                       | 8.75% (Libor + 8.50%/Q) | 3/24/2010        | 9,000          | 9,000      |                          |
|  |                        | Class E notes (\$14,850 par due 6/2018)                      | 5.25% (Libor + 5.00%/Q) | 3/24/2010        | 13,596         | 13,749     |                          |
|  |                        |  |                         |                  | 36,996         | 37,149     |                          |
| Kodiak Funding, LP (9)                             | Investment partnership | Limited partnership interest (1.52% interest)                |                         | 4/1/2010         | 877            | 823        |                          |
| Novak Biddle Venture Partners III, L.P. (9)        | Investment partnership | Limited partnership interest (2.47% interest)                |                         | 4/1/2010         | 221            | 196        |                          |

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|  |  |   |                         |            |           |              |        |
|--|--|---|-------------------------|------------|-----------|--------------|--------|
| Partnership Capital Growth Fund I, L.P. (9)                                      | Investment partnership                               | Limited partnership interest (25.00% interest)        |                         | 6/16/2006  | 2,126     | 4,006        |        |
| Senior Secured Loan Fund LLC (7)(11)(17)   | Co-investment vehicle                                | Subordinated certificates (\$788,128 par due 12/2020) | 8.29% (Libor + 8.00%/Q) | 10/30/2009 | 777,406   | 796,513      |        |
| VSC Investors LLC (9)  | Investment company                                   | Membership interest (1.95% interest)                  |                         | 1/24/2008  | 1,139     | 1,139        |        |
|  |  |   |                         |            | 1,001,479 | 964,262      | 31.07% |
| <b>Healthcare-Services</b>   |  |   |                         |            |           |              |        |
| CCS Group Holdings, LLC  | Correctional facility healthcare operator            | Class A units (601,937 units)                         |                         | 8/19/2010  | 602       | 936          |        |
| CT Technologies Intermediate Holdings, Inc. and CT Technologies Holdings LLC (6) | Healthcare analysis services                         | Senior secured loan (\$7,263 par due 3/2017)          | 7.75% (Libor + 6.50%/Q) | 3/15/2011  | 7,263     | 6,900(2)(16) |        |
|  |  | Senior secured loan (\$7,661 par due 3/2017)          | 7.75% (Libor + 6.50%/Q) | 3/15/2011  | 7,661     | 7,278(3)(16) |        |
|  |  | Class A common stock (9,679 shares)                   |                         | 6/15/2007  | 4,000     | 9,337        |        |
|  |  | Class C common stock (1,546 shares)                   |                         | 6/15/2007  |           | 1,491        |        |
|  |  |   |                         |            | 18,924    | 25,006       |        |
| HCP Acquisition Holdings, LLC (7)  | Healthcare compliance advisory services              | Class A units (10,720,874 units)                      |                         | 6/26/2008  | 10,721    | 4,437        |        |
| INC Research, Inc.   | Pharmaceutical and biotechnology consulting services | Common stock (1,410,000 shares)                       |                         | 9/27/2010  | 1,512     | 1,101        |        |

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As of September 30, 2011

(dollar amounts in thousands)

(unaudited)

| Company(1)   | Business Description                    | Investment   | Interest(5)(12)         | Acquisition Date | Amortized Cost | Fair Value    | Percentage of Net Assets |
|--|---|--|-------------------------|------------------|----------------|---------------|--------------------------|
| Magnacare Holdings, Inc., Magnacare Administrative Services, LLC, and Magnacare, LLC | Healthcare professional provider        | Senior secured loan (\$12,973 par due 9/2016)          | 9.75% (Libor + 8.75%/Q) | 9/15/2010        | 12,973         | 12,973(16)    |                          |
|  |   | Senior secured loan (\$45,570 par due 9/2016)          | 9.75% (Libor + 8.75%/Q) | 9/15/2010        | 45,570         | 45,570(2)(16) |                          |
|  |   | Senior secured loan (\$8,476 par due 9/2016)           | 9.75% (Libor + 8.75%/Q) | 9/15/2010        | 8,476          | 8,476(3)(16)  |                          |
|  |   |  |                         |                  | 67,019         | 67,019        |                          |
| MW Dental Holding Corp.  | Dental services                         | Senior secured revolving loan (\$1,700 par due 4/2017) | 8.50% (Libor + 7.00%/M) | 4/12/2011        | 1,700          | 1,649(16)     |                          |
|  |   | Senior secured loan (\$30,723 par due 4/2017)          | 8.50% (Libor + 7.00%/M) | 4/12/2011        | 30,723         | 29,801(16)    |                          |
|  |   | Senior secured loan (\$49,875 par due 4/2017)          | 8.50% (Libor + 7.00%/M) | 4/12/2011        | 49,875         | 48,379(2)(16) |                          |
|  |   | Senior secured loan (\$2,693 par due 4/2017)           | 8.50% (Libor + 7.00%/M) | 4/12/2011        | 2,693          | 2,612(3)(16)  |                          |
|  |   |  | 84,991                  | 82,441           |                |               |                          |
| Napa Management Services Corporation   | Anesthesia management services provider | Senior secured loan (\$10,961 par due 4/2016)          | 8.50% (Libor + 7.00%/Q) | 4/15/2011        | 10,605         | 10,961(16)    |                          |
|  |   | Senior secured loan (\$29,625 par due 4/2016)          | 8.50% (Libor + 7.00%/Q) | 4/15/2011        | 29,625         | 29,625(2)(16) |                          |
|  |   | Senior secured loan (\$7,801 par due 4/2016)           | 8.50% (Libor + 7.00%/Q) | 4/15/2011        | 7,801          | 7,801(3)(16)  |                          |
|  |   | Common units (5,000 units)                             |                         |                  | 5,000          | 5,000         |                          |
|  |   |  | 53,031                  | 53,387           |                |               |                          |
| NS Merger Sub. Inc. and NS Holdings, Inc.  | Healthcare technology provider          | Senior subordinated loan (\$579 par due 6/2017)        | 13.50%                  | 6/21/2010        | 579            | 579           |                          |
|  |   | 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          | 2,388         |                          |
|  |   |  | 53,079                  | 52,967           |                |               |                          |
| OnCURE Medical Corp.   | Radiation oncology care provider        | Common stock (857,143 shares)                          |                         | 8/18/2006        | 3,000          | 3,038         |                          |

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|  |  |   |                         |            |        |               |
|--|--|---|-------------------------|------------|--------|---------------|
| Passport Health Communications, Inc., Passport Holding Corp. and Prism Holding Corp. | Healthcare technology provider   | Senior secured loan (\$10,202 par due 5/2014)     | 8.25% (Libor + 7.00%/M) | 5/9/2008   | 10,202 | 10,202(2)(16) |
|  |  | Senior secured loan (\$9,417 par due 5/2014)      | 8.25% (Libor + 7.00%/M) | 5/9/2008   | 9,417  | 9,417(3)(16)  |
|  |  | Series A preferred stock (1,594,457 shares)       |                         | 7/30/2008  | 11,156 | 8,550         |
|  |  | Common stock (16,106 shares)                      |                         | 7/30/2008  | 100    |               |
|  |  |   |                         |            | 30,875 | 28,169        |
| PG Mergersub, Inc. and PGA Holdings, Inc.  | Provider of patient surveys, management reports and national databases for the integrated healthcare delivery system | Senior secured loan (\$9,131 par due 11/2015)     | 6.75% (Libor + 5.00%/Q) | 11/3/2010  | 9,106  | 9,131(3)(16)  |
|  |  | Senior subordinated loan (\$4,000 par due 3/2016) | 12.50%                  | 3/12/2008  | 3,954  | 4,000         |
|  |  | Preferred stock (333 shares)                      |                         | 3/12/2008  | 125    | 14            |
|  |  | Common stock (16,667 shares)                      |                         | 3/12/2008  | 167    | 705           |
|  |  |   |                         |            | 13,352 | 13,850        |
| PRA Holdings, Inc.   | Drug testing services  | Senior secured loan (\$11,330 par due 12/2014)    | 4.35% (Libor + 4.00%/Q) | 12/14/2007 | 11,011 | 11,103(2)     |
|  |  | Senior secured loan (\$12,000 par due 12/2014)    | 4.35% (Libor + 4.00%/Q) | 12/14/2007 | 11,657 | 11,760(3)     |
|  |  |   |                         |            | 22,668 | 22,863        |

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As of September 30, 2011

(dollar amounts in thousands)

(unaudited)

| Company(1)                          | Business Description                            | Investment  | Interest(5)(12)         | Acquisition Date | Amortized Cost | Fair Value    | Percentage of Net Assets |
|-------------------------------------|---|---|-------------------------|------------------|----------------|---------------|--------------------------|
| Reed Group, Ltd.                    | Medical disability management services provider | Senior secured revolving loan (\$1,250 par due 12/2013) |                         | 4/1/2010         | 1,097          | 1,062(15)     |                          |
|                                     |   | Senior secured loan (\$10,755 par due 12/2013)          |                         | 4/1/2010         | 9,129          | 9,142(15)     |                          |
|                                     |   | Senior secured loan (\$20,576 par due 12/2013)          |                         | 4/1/2010         | 15,918         | 4,242(15)     |                          |
|                                     |   | Equity interests  |                         | 4/1/2010         | 203            |               |                          |
|                                     |   |   |                         |                  | 26,347         | 14,446        |                          |
| Soteria Imaging Services, LLC (6)   | Outpatient medical imaging provider             | Junior secured loan (\$1,275 par due 11/2010)           | 14.50%                  | 4/1/2010         | 1,134          | 914           |                          |
|                                     |   | Junior secured loan (\$1,822 par due 11/2010)           | 12.50%                  | 4/1/2010         | 1,640          | 1,305         |                          |
|                                     |   | Preferred member units (1,823,179 units)                |                         | 4/1/2010         |                |               |                          |
|                                     |   |   |                         |                  | 2,774          | 2,219         |                          |
| Sunquest Information Systems, Inc.  | Laboratory software solutions provider          | Junior secured loan (\$75,000 par due 6/2017)           | 9.75% (Libor + 8.50%/Q) | 12/16/2010       | 75,000         | 74,250(16)    |                          |
|                                     |   | Junior secured loan (\$50,000 par due 6/2017)           | 9.75% (Libor + 8.50%/Q) | 12/16/2010       | 50,000         | 49,500(2)(16) |                          |
|                                     |   |   |                         |                  | 125,000        | 123,750       |                          |
| U.S. Renal Care, Inc.               | Dialysis provider                               | Senior secured loan (\$7,462 par due 12/2016)           | 5.50% (Libor + 4.00%/Q) | 6/9/2011         | 7,425          | 7,164(16)     |                          |
|                                     |   | Senior subordinated loan (\$50,314 par due 6/2017)      | 11.25% Cash, 2.00% PIK  | 5/24/2010        | 50,314         | 50,314(2)(4)  |                          |
|                                     |   |   |                         |                  | 57,739         | 57,478        |                          |
| Vantage Oncology, Inc.              | Radiation oncology care provider                | Common stock (62,157 shares)                            |                         | 2/3/2011         | 4,670          | 6,005         |                          |
|                                     |   |   |                         |                  | 576,304        | 559,112       | 18.02%                   |
| <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         | 53,871        |                          |
|                                     |   | Warrants  |                         | 4/1/2010         |                |               |                          |

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|                                     |  |   |                             |           |        |              |
|-------------------------------------|--|---|-----------------------------|-----------|--------|--------------|
|                                     |  |   |                             |           | 93,836 | 94,197       |
| CitiPostal Inc. (7)                 | Document storage and management services                 | Senior secured revolving loan (\$1,950 par due 12/2013) | 6.50% (Libor + 4.50%/Q)     | 4/1/2010  | 1,950  | 1,950(16)    |
|                                     |  | Senior secured revolving loan (\$1,250 par due 12/2013) | 6.75% (Base Rate + 3.25%/Q) | 4/1/2010  | 1,250  | 1,250(16)    |
|                                     |  | Senior secured loan (\$492 par due 12/2013)             | 8.50% Cash, 5.50% PIK       | 4/1/2010  | 492    | 492(4)       |
|                                     |  | Senior secured loan (\$50,437 par due 12/2013)          | 8.50% Cash, 5.50% PIK       | 4/1/2010  | 50,437 | 50,437(2)(4) |
|                                     |  | Senior subordinated loan (\$14,108 par due 12/2015)     |                             | 4/1/2010  | 13,038 | 2,880(15)    |
|                                     |  | Common stock (37,024 shares)                            |                             | 4/1/2010  |        |              |
|                                     |  |   |                             |           | 67,167 | 57,009       |
| Cook Inlet Alternative Risk, LLC    | Risk management services                                 | Senior subordinated note (\$4,000 par due 9/2015)       | 9.00%                       | 9/30/2011 | 4,000  | 4,000        |
|                                     |  | Member interest (3.17%)                                 |                             | 4/1/2010  |        |              |
|                                     |  |   |                             |           | 4,000  | 4,000        |
| Cornerstone Records Management, LLC | Physical records storage and management service provider | Senior secured loan (\$16,277 par due 8/2016)           | 8.50% (Libor + 7.00%/M)     | 8/12/2011 | 16,277 | 15,951(16)   |
| Coverall North America, Inc. (7)    | Commercial janitorial service provider                   | Subordinated notes (\$9,386 par due 2/2016)             | 10.00% Cash, 2.00% PIK      | 2/22/2011 | 9,386  | 9,386(4)     |

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|--|--|---|-----------------------------|------------------|----------------|---------------|--------------------------|
| Diversified Collections Services, Inc. | Collections services   | Senior secured loan (\$34,000 par due 9/2012)                   | 13.75% (Libor + 11.75%/M)   | 6/25/2010        | 34,000         | 34,000(2)(16) |                          |
|  |  | Senior secured loan (\$5,719 par due 3/2012)                    | 7.50% (Libor + 5.50%/M)     | 6/25/2010        | 5,719          | 5,719(3)(16)  |                          |
|  |  | Senior secured loan (\$2,000 par due 9/2012)                    | 13.75% (Libor + 11.75%/M)   | 6/25/2010        | 2,000          | 2,000(3)(16)  |                          |
|  |  | Preferred stock (14,927 shares)                                 |                             | 5/18/2006        | 169            | 304           |                          |
|  |  | Common stock (478,816 shares)                                   |                             | 4/1/2010         | 1,478          | 3,091         |                          |
|  |  | Common stock (114,004 shares)                                   |                             | 2/5/2005         | 295            | 1,171         |                          |
|  |  |   |                             |                  | 43,661         | 46,285        |                          |
| Impact Innovations Group, LLC          | IT consulting and outsourcing services                       | Member interest (50.00% interest)                               |                             | 4/1/2010         |                | 200           |                          |
| Interactive Technology Solutions, LLC  | IT services provider   | Senior secured loan (\$7,391 par due 6/2015)                    | 8.75% (Base Rate + 5.50%/Q) | 10/21/2010       | 7,391          | 7,391(16)     |                          |
|  |  | Senior secured loan (\$8,281 par due 6/2015)                    | 8.75% (Base Rate + 5.50%/Q) | 10/21/2010       | 8,281          | 8,281(3)(16)  |                          |
|  |  |   |                             |                  | 15,672         | 15,672        |                          |
| Investor Group Services, LLC (6)       | Business consulting for private equity and corporate clients | Senior secured revolving loan (\$500 par due 6/2013)            | 5.75% (Libor + 5.50%/M)     | 6/22/2006        | 500            | 500           |                          |
|  |  | Limited liability company membership interest (10.00% interest) |                             | 6/22/2006        |                | 649           |                          |
|  |  |   |                             |                  | 500            | 1,149         |                          |
| Microstar Logistics LLC                | Keg management solutions provider                            | Junior secured loan (\$85,000 par due 8/2016)                   | 10.00% (Libor + 9.00%/Q)    | 8/5/2011         | 85,000         | 85,000(16)    |                          |
| Multi-Ad Services, Inc. (6)            | Marketing services and software provider                     | Preferred units (1,725,280 units)                               |                             | 4/1/2010         | 788            | 1,379         |                          |
|  |  | Common units (1,725,280 units)                                  |                             | 4/1/2010         |                |               |                          |
|  |  |   |                             |                  | 788            | 1,379         |                          |
| 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 (\$35,619 par due 7/2012)              | 12.00% Cash, 2.50% PIK      | 4/1/2010         | 35,050         | 35,619(4)     |                          |
|  |  |   | 10.00%                      | 4/1/2010         |                | 12            |                          |

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|   |  |  |                         |            |        |              |
|---|--|--|-------------------------|------------|--------|--------------|
|   |  | Junior subordinated loan (\$144 par due 7/2012)    |                         |            |        |              |
|   |  | Common stock (560,716 shares)                      |                         | 4/1/2010   |        |              |
|   |  |  |                         |            | 57,822 | 58,403       |
| 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 (\$7,253 par due 11/2013)      | 5.73% (Libor + 5.50%/M) | 11/20/2007 | 7,253  | 7,253(2)     |
|   |  | Senior secured loan (\$4,527 par due 11/2013)      | 5.73% (Libor + 5.50%/M) | 11/20/2007 | 4,527  | 4,527(3)     |
|   |  | Common stock (85 shares)                           |                         |            | 3,768  | 2,729        |
|   |  |  |                         |            | 22,923 | 21,884       |
| Prommis Solutions, LLC, E-Default Services, LLC, Statewide Tax and Title Services, LLC & Statewide Publishing Services, LLC | Bankruptcy and foreclosure processing services | Senior subordinated loan (\$17,126 par due 2/2014) |                         | 2/9/2007   | 16,788 | 5,819(15)    |
|   |  | Senior subordinated loan (\$27,576 par due 2/2014) |                         | 2/9/2007   | 27,032 | 9,371(2)(15) |
|   |  | Preferred units (30,000 units)                     |                         | 4/11/2006  | 3,000  |              |
|   |  |  |                         |            | 46,820 | 15,190       |



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|--|--|---|--------------------------|------------------|----------------|---------------|--------------------------|
| Promo Works, LLC                                 | Marketing services   | Senior secured loan (\$8,655 par due 12/2013)                   |                          | 4/1/2010         | 4,463          | 3,404(15)     |                          |
| R2 Acquisition Corp.                             | Marketing services   | Common stock (250,000 shares)                                   |                          | 5/29/2007        | 250            | 192           |                          |
| Summit Business Media Parent Holding Company LLC | Business media consulting services   | Limited liability company membership interest (45.98% interest) |                          | 5/20/2011        |                | 754           |                          |
| Tradesmen International, Inc.                    | Construction labor support   | Junior secured loan (\$14,014 par due 5/2014)                   | 13.00% Cash, 1.00% PIK   | 4/1/2010         | 10,718         | 14,014(4)     |                          |
|  |  | Warrants to purchase up to 771,036 shares                       |                          | 4/1/2010         |                | 3,411         |                          |
|  |  |   |                          |                  | 10,718         | 17,425        |                          |
| Tripwire, Inc.                                   | IT security software provider  | Senior secured loan (\$30,000 par due 5/2018)                   | 10.50% (Libor + 9.25%/Q) | 5/23/2011        | 30,000         | 30,000(16)    |                          |
|  |  | Senior secured loan (\$50,000 par due 5/2018)                   | 10.50% (Libor + 9.25%/Q) | 5/23/2011        | 50,000         | 50,000(2)(16) |                          |
|  |  | Class A common stock (2,970 shares)                             |                          | 5/23/2011        | 2,970          | 2,976         |                          |
|  |  | Class B common stock (2,655,638 shares)                         |                          | 5/23/2011        | 30             | 30            |                          |
|  |  |   |                          |                  | 83,000         | 83,006        |                          |
| Venturehouse-Cibernet Investors, LLC             | Financial settlement services for intercarrier wireless roaming  | Equity interest   |                          | 4/1/2010         |                |               |                          |
| VSS-Tranzact Holdings, LLC (6)                   | Management consulting services   | Common membership interest (8.51% interest)                     |                          | 10/26/2007       | 10,204         | 2,108         |                          |
|  |  |   |                          |                  | 572,487        | 532,594       | 17.16%                   |
| <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(16)     |                          |
|  |  | Senior secured loan (\$31,466 par due 3/2016)                   | 9.50% (Libor + 8.50%/Q)  | 3/18/2011        | 31,466         | 31,466(16)    |                          |
|  |  | Senior secured loan (\$49,012 par due 3/2016)                   | 9.50% (Libor + 8.50%/Q)  | 3/18/2011        | 49,012         | 49,012(2)(16) |                          |

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|  |  |  |  |            |        |            |
|--|--|--|--|------------|--------|------------|
|  |  |  |  |            | 81,478 | 81,478     |
| Campus Management Corp. and Campus Management Acquisition Corp. (6)                        | Education software developer                                 | Preferred stock (485,159 shares)                   |  | 2/8/2008   | 10,520 | 13,231     |
| Community Education Centers, Inc.  | Offender re-entry and in-prison treatment services provider  | Senior secured loan (\$18,571 par due 12/2014)     | 6.25% (Libor + 5.25%/Q)                    | 12/10/2010 | 18,571 | 18,571(16) |
|  |  | Junior secured loan (\$31,506 par due 12/2015)     | 15.25% (Libor + 11.00% Cash, 4.00% PIK /Q) | 12/10/2010 | 31,506 | 31,191(4)  |
|  |  | Junior secured loan (\$9,485 par due 12/2015)      | 15.29% (Libor + 11.00% Cash, 4.00% PIK /Q) | 12/10/2010 | 9,485  | 9,391(4)   |
|  |  | Warrants to purchase up to 578,427 shares          |  | 12/10/2010 |        | 389        |
|  |  |  |  |            | 59,562 | 59,542     |
| eInstruction Corporation   | Developer, manufacturer and retailer of educational products | Junior secured loan (\$17,000 par due 7/2014)      | 7.74% (Libor + 7.50%/M)                    | 4/1/2010   | 15,002 | 12,580     |
|  |  | Senior subordinated loan (\$26,209 par due 1/2015) |  | 4/1/2010   | 24,151 | 13,425(15) |
|  |  | Common stock (2,406 shares)                        |  | 4/1/2010   | 926    |            |
|  |  |  |  |            | 40,079 | 26,005     |
| ELC Acquisition Corp., ELC Holdings Corporation, and Excelligence Learning Corporation (6) | Developer, manufacturer and retailer of educational products | Preferred stock (99,492 shares)                    | 12.00% PIK                                 | 8/1/2011   | 10,149 | 10,149(4)  |
|  |  | Common stock (50,800 shares)                       |  | 8/1/2011   | 51     | 51         |

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|---|-------------------------------|--|------------------------------|------------------|----------------|--------------|--------------------------|
|   |                               |  |                              |                  | 10,200         | 10,200       |                          |
| Infilaw Holding, LLC  | Law school operator           | Senior secured loan (\$30,000 par due 8/2016)  | 10.75% (Base Rate + 7.50%/Q) | 8/25/2011        | 30,000         | 30,000(16)   |                          |
|   |                               | Series A preferred units (131,000 units)       | 10.75% (Base Rate + 7.50%/Q) | 8/25/2011        | 131,000        | 128,380(16)  |                          |
|   |                               |  |                              |                  | 161,000        | 158,380      |                          |
| Instituto de Banca y Comercio, Inc. & Leeds IV Advisors, Inc. | Private school operator       | Series B preferred stock (1,750,000 shares)    |                              | 8/5/2010         | 5,000          | 5,926        |                          |
|   |                               | Series C preferred stock (2,512,586 shares)    |                              | 6/7/2010         | 689            |              |                          |
|   |                               | Common stock (20 shares)                       |                              | 6/7/2010         |                |              |                          |
|   |                               |  |                              |                  | 5,689          | 5,926        |                          |
| JTC Education Holdings, Inc.                                  | Postsecondary school operator | Senior secured loan (\$20,302 par due 12/2014) | 12.50% (Libor + 9.50%/M)     | 12/31/2009       | 20,302         | 20,302(16)   |                          |
|   |                               | Senior secured loan (\$9,833 par due 12/2014)  | 12.50% (Libor + 9.50%/M)     | 12/31/2009       | 9,833          | 9,833(3)(16) |                          |
|   |                               |  |                              |                  | 30,135         | 30,135       |                          |
| R3 Education, Inc. and EIC Acquisitions Corp. (8)             | Medical school operator       | Senior secured loan (\$9,261 par due 4/2013)   | 9.00% (Libor + 6.00%/Q)      | 9/21/2007        | 9,261          | 15,091(16)   |                          |
|   |                               | Senior secured loan (\$3,663 par due 4/2013)   | 9.00% (Libor + 6.00%/Q)      | 9/21/2007        | 3,663          | 5,969(3)(16) |                          |
|   |                               | Senior secured loan (\$4,331 par due 4/2013)   | 9.00% (Libor + 6.00%/Q)      | 5/24/2007        | 4,331          | 7,058(16)    |                          |
|   |                               | Senior secured loan (\$6,304 par due 4/2013)   | 13.00% PIK                   | 12/8/2009        | 3,542          | 10,273(4)    |                          |
|   |                               | Preferred stock (8,800 shares)                 |                              | 7/30/2008        | 2,200          | 1,100        |                          |
|   |                               | Common membership interest (26.27% interest)   |                              | 9/21/2007        | 15,800         | 18,433       |                          |
|   |                               | Warrants to purchase up to 27,890 shares       |                              | 12/8/2009        |                |              |                          |
|   |                               |  |                              |                  | 38,797         | 57,924       |                          |
|   |                               |  |                              |                  | 437,460        | 442,821      | 14.27%                   |
| <b>Restaurants and Food Services</b>                          |                               |  |                              |                  |                |              |                          |
| ADF Capital, Inc. & ADF Restaurant Group, LLC                 | Restaurant owner and operator | Senior secured revolving loan (\$2,010)        | 6.50% (Libor + 3.50%/Q)      | 11/27/2006       | 2,010          | 2,010(16)    |                          |

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|                       |                             |   |                             |            |        |               |
|-----------------------|-----------------------------|---|-----------------------------|------------|--------|---------------|
|                       |                             | par due 11/2013)                                      |                             |            |        |               |
|                       |                             | Senior secured revolving loan (\$608 par due 11/2013) | 6.50% (Base Rate + 2.50%/Q) | 11/27/2006 | 608    | 608(16)       |
|                       |                             | Senior secured loan (\$66 par due 11/2013)            | 6.50% (Base Rate + 2.50%/Q) | 11/27/2006 | 66     | 66(16)        |
|                       |                             | Senior secured loan (\$7,449 par due 11/2013)         | 6.50% (Libor + 3.50%/Q)     | 11/27/2006 | 7,449  | 7,449(16)     |
|                       |                             | Senior secured loan (\$11,315 par due 11/2014)        | 12.50% (Libor + 9.50%/Q)    | 11/27/2006 | 11,318 | 11,315(2)(16) |
|                       |                             | Senior secured loan (\$9,434 par due 11/2014)         | 12.50% (Libor + 9.50%/Q)    | 11/27/2006 | 9,434  | 9,434(3)(16)  |
|                       |                             | Promissory note (\$14,897 par due 11/2016)            |                             | 6/1/2006   | 14,886 | 8,562         |
|                       |                             | Warrants to purchase up to 0.61 shares                |                             | 6/1/2006   |        |               |
|                       |                             |   |                             |            | 45,771 | 39,444        |
| 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)     |
|                       |                             | Common stock (19,672 shares)                          |                             | 5/28/2010  | 1,967  | 1,776         |
|                       |                             |   |                             |            | 41,967 | 41,776        |

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|---|-----------------------------------|---|------------------------------|------------------|----------------|--------------|--------------------------|
| Huddle House, Inc. (7)                          | Restaurant owner and operator     | Senior subordinated loan (\$20,765 par due 12/2015)       | 12.00% Cash, 3.00% PIK       | 4/1/2010         | 20,481         | 19,772(4)    |                          |
|   |                                   | Common stock (358,279 shares)                             |                              | 4/1/2010         |                |              |                          |
|   |                                   |   |                              |                  | 20,481         | 19,772       |                          |
| Orion Foods, LLC (fka Hot Stuff Foods, LLC) (7) | Convenience food service retailer | Senior secured revolving loan (\$3,300 par due 9/2014)    | 10.75% (Base Rate + 7.50%/M) | 4/1/2010         | 3,300          | 3,300(16)    |                          |
|   |                                   | Senior secured loan (\$34,027 par due 9/2014)             | 10.00% (Libor + 8.50%/Q)     | 4/1/2010         | 34,027         | 34,027(16)   |                          |
|   |                                   | Junior secured loan (\$37,552 par due 9/2014)             | 14.00%                       | 4/1/2010         | 25,976         | 28,163       |                          |
|   |                                   | 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         |                |              |                          |
|   |                                   |   |                              |                  | 63,303         | 65,490       |                          |
| OTG Management, Inc.                            | Airport restaurant operator       | Senior secured revolving loan (\$937 par due 8/2016)      | 8.50% (Libor + 7.00%/Q)      | 8/9/2011         | 937            | 937(16)      |                          |
|   |                                   | Senior secured loan (\$19,687 par due 8/2016)             | 8.50% (Libor + 7.00%/M)      | 8/9/2011         | 19,687         | 19,687(16)   |                          |
|   |                                   | Junior secured loan (\$34,285 par due 8/2016)             | 14.50% (Libor + 13.00%/Q)    | 8/9/2011         | 34,285         | 34,285(16)   |                          |
|   |                                   | Common units (3,000,000 units)                            |                              | 1/5/2011         | 3,000          | 3,175        |                          |
|   |                                   | Warrants to purchase up to 100,866 shares of common stock |                              | 6/19/2008        | 100            | 5,527        |                          |
|   |                                   |   |                              |                  | 58,009         | 63,611       |                          |
| PMI Holdings, Inc.                              | Restaurant owner and operator     | Senior secured loan (\$9,022 par due 5/2015)              | 10.00% (Libor + 8.00%/M)     | 5/5/2010         | 9,022          | 9,022(2)(16) |                          |
|   |                                   | Senior secured loan (\$36 par due 5/2015)                 | 10.25% (Base Rate + 7.00%/M) | 5/5/2010         | 36             | 36(2)(16)    |                          |
|   |                                   | Senior secured loan (\$9,022 par due 5/2015)              | 10.00% (Libor + 8.00%/M)     | 5/5/2010         | 9,022          | 9,022(3)(16) |                          |
|   |                                   | Senior secured loan (\$36 par due 5/2015)                 | 10.25% (Base Rate + 7.00%/M) | 5/5/2010         | 36             | 36(3)(16)    |                          |

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|  |                               |   |   |           |         |               |        |
|--|-------------------------------|---|---|-----------|---------|---------------|--------|
|  |                               |   |   |           | 18,116  | 18,116        |        |
| S.B. Restaurant Company                              | Restaurant owner and operator | Senior secured loan (\$34,712 par due 7/2012)             | 13.00% (Libor + 9.00% Cash, 2.00% PIK /Q) | 4/1/2010  | 29,970  | 34,712(4)(16) |        |
|  |                               | Preferred stock (46,690 shares)                           |   | 4/1/2010  |         | 117           |        |
|  |                               | Warrants to purchase up to 257,429 shares of common stock |   | 4/1/2010  |         |               |        |
|  |                               |   |   |           | 29,970  | 34,829        |        |
| Vistar Corporation and Wellspring Distribution Corp. | Food service distributor      | Junior secured loan (\$80,250 par due 5/2015)             | 11.00%                                    | 5/23/2008 | 78,800  | 80,250        |        |
|  |                               | Junior secured loan (\$30,000 par due 5/2015)             | 11.00%                                    | 5/23/2008 | 30,000  | 30,000(2)     |        |
|  |                               | Class A non-voting common stock (1,366,120 shares)        |   | 5/3/2008  | 7,500   | 5,957         |        |
|  |                               |   |   |           | 116,300 | 116,207       |        |
|  |                               |   |   |           | 393,917 | 399,245       | 12.87% |
| <b>Financial Services</b>                            |                               |   |   |           |         |               |        |
| AllBridg Financial, LLC (7)                          | Asset management services     | Equity interests  |   | 4/1/2010  | 11,395  | 12,607        |        |
| Callidus Capital Corporation (7)                     | Asset management services     | Common stock (100 shares)                                 |   | 4/1/2010  | 6,000   | 2,798         |        |

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| Company(1)                                      | Business Description   | Investment   | Interest(5)(12)         | Acquisition Date | Amortized Cost | Fair Value    | Percentage of Net Assets |
|---|--|--|-------------------------|------------------|----------------|---------------|--------------------------|
| Ciena Capital LLC (7)                           | Real estate and small business loan servicer                           | Senior secured revolving loan (\$14,000 par due 12/2013) | 6.00%                   | 11/29/2010       | 14,000         | 14,000        |                          |
|   |  | Senior secured loan (\$32,000 par due 12/2015)           | 12.00%                  | 11/29/2010       | 32,000         | 32,000        |                          |
|   |  | Equity interests   |                         | 11/29/2010       | 53,374         | 30,400        |                          |
|   |  |  |                         |                  | 99,374         | 76,400        |                          |
| Commercial Credit Group, Inc.                   | Commercial equipment finance and leasing company                       | Senior subordinated loan (\$19,500 par due 6/2015)       | 15.00%                  | 4/1/2010         | 19,500         | 19,500        |                          |
| Compass Group Diversified Holdings, LLC (10)    | Middle market business manager   | Senior secured revolving loan (\$16,176 par due 12/2012) | 2.73% (Libor + 2.50%/M) | 4/1/2010         | 16,176         | 16,176        |                          |
| Financial Pacific Company                       | Commercial finance leasing   | Preferred stock (6,500 shares)                           | 8.00% PIK               | 10/13/2010       | 7,020          | 8,028(4)      |                          |
|   |  | Common stock (650,000 shares)                            |                         | 10/13/2010       |                |               |                          |
|   |  |  |                         |                  | 7,020          | 8,028         |                          |
| Imperial Capital Group, LLC                     | Investment services  | Class A common units (15,420 units)                      |                         | 5/10/2007        | 14,997         | 19,944        |                          |
|   |  | 2006 Class B common units (5,052 units)                  |                         | 5/10/2007        | 3              | 4             |                          |
|   |  | 2007 Class B common units (630 units)                    |                         | 5/10/2007        |                |               |                          |
|   |  |  |                         |                  | 15,000         | 19,948        |                          |
| Ivy Hill Asset Management, L.P. (7)(9)          | Asset management services  | Member interest (100.00% interest)                       |                         | 6/15/2009        | 112,876        | 186,823       |                          |
|   |  |  |                         |                  | 287,341        | 342,280       | 11.03%                   |
| <b>Aerospace and Defense</b>                    |  |  |                         |                  |                |               |                          |
| AP Global Holdings, Inc.                        | Safety and security equipment manufacturer                             | Senior secured loan (\$209,475 par due 7/2017)           | 7.25% (Libor + 5.75%/M) | 7/22/2011        | 209,475        | 202,667(16)   |                          |
|   |  | Senior secured loan (\$49,875 par due 7/2017)            | 7.25% (Libor + 5.75%/M) | 7/22/2011        | 49,875         | 48,254(2)(16) |                          |
|   |  |  |                         |                  | 259,350        | 250,921       |                          |
| 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        | 93             | 93(4)         |                          |
|   |  | Common stock (1,885,195 shares)                          |                         | 1/17/2008        | 2,291          | 1,873         |                          |
|   |  |  |                         |                  | 2,384          | 1,966         |                          |
|   |  |  |                         |                  | 261,734        | 252,887       | 8.15%                    |

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| <b>Consumer Products - Non-durable</b>  |  |  |                           |           |        |              |
|---|--|--|---------------------------|-----------|--------|--------------|
| Augusta Sportswear, Inc.                | Manufacturer of athletic apparel           | Senior secured loan (\$9,113 par due 7/2015)           | 8.50% (Libor + 7.50%/Q)   | 9/3/2010  | 9,113  | 9,113(3)(16) |
| Gilchrist & Soames, Inc.                | Personal care manufacturer                 | Senior secured loan (\$21,941 par due 10/2013)         | 13.44%                    | 4/1/2010  | 21,372 | 21,941       |
| Insight Pharmaceuticals Corporation (6) | OTC drug products manufactuer              | Junior secured loan (\$25,000 par due 8/2017)          | 13.25% (Libor + 11.75%/Q) | 8/26/2011 | 24,733 | 24,000(16)   |
|   |  | Class A common stock (155,000 shares)                  |                           | 8/26/2011 | 6,035  | 9,302        |
|   |  | Class B common stock (155,000 shares)                  |                           | 8/26/2011 | 6,035  | 9,302        |
|   |  |  |                           |           | 36,803 | 42,604       |
| Making Memories Wholesale, Inc. (7)     | Scrapbooking branded products manufacturer | Senior secured revolving loan (\$2,250 par due 8/2014) |                           | 8/21/2009 | 2,229  | 2,052(15)    |
|   |  | Senior secured loan (\$9,625 par due 8/2014)           |                           | 8/21/2009 | 7,193  | (15)         |
|   |  | Senior secured loan (\$5,861 par due 8/2014)           |                           | 8/21/2009 | 3,874  | (15)         |
|   |  | Common stock (100 shares)                              |                           | 8/21/2009 |        |              |
|   |  |  |                           |           | 13,296 | 2,052        |



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|---|---|---|---------------------------|------------------|----------------|---------------|--------------------------|
| Matrixx Initiatives, Inc. and Wonder Holdings Acquisition Corp. | Developer and marketer of OTC healthcare products             | Senior secured revolving loan (\$13,300 par due 6/2016)     | 13.00% (Libor + 12.00%/Q) | 6/30/2011        | 13,300         | 12,901(16)    |                          |
|   |   | Senior secured loan (\$41,969 par due 6/2016)               | 13.00% (Libor + 12.00%/Q) | 6/30/2011        | 41,695         | 40,710(2)(16) |                          |
|   |   | Warrants to purchase up to 1,654,678 shares of common stock |                           | 7/27/2011        |                | 238           |                          |
|   |   | Warrants to purchase up to 1,489 shares of preferred stock  |                           | 7/27/2011        |                | 1,509         |                          |
|   |   |   |                           |                  | 54,995         | 55,358        |                          |
| The Step2 Company, LLC  | Toy manufacturer  | Junior secured loan (\$27,000 par due 4/2015)               | 10.00%                    | 4/1/2010         | 25,696         | 27,000        |                          |
|   |   | Junior secured loan (\$30,776 par due 4/2015)               | 10.00% Cash, 5.00% PIK    | 4/1/2010         | 29,172         | 27,773(4)     |                          |
|   |   | Common units (1,116,879 units)                              |                           | 4/1/2010         | 24             |               |                          |
|   |   | Warrants to purchase up to 3,157,895 units                  |                           | 4/1/2010         |                |               |                          |
|   |   |   |                           |                  | 54,892         | 54,773        |                          |
| The Thymes, LLC (7)   | Cosmetic products manufacturer                                | Preferred units (6,283 units)                               | 8.00% PIK                 | 6/21/2007        | 6,200          | 6,632(4)      |                          |
|   |   | Common units (5,400 units)                                  |                           | 6/21/2007        |                | 195           |                          |
|   |   |   |                           |                  |                | 6,200         | 6,827                    |
| Woodstream Corporation  | Pet products manufacturer                                     | Senior subordinated loan (\$45,000 par due 2/2015)          | 12.00%                    | 1/22/2010        | 40,175         | 43,200        |                          |
|   |   | Common stock (4,254 shares)                                 |                           | 1/22/2010        | 1,222          | 2,090         |                          |
|   |   |   |                           |                  |                | 41,397        | 45,290                   |
|   |   |   |                           |                  | 238,068        | 237,958       | 7.67%                    |
| <b>Containers and Packaging</b>                                 |   |   |                           |                  |                |               |                          |
| ICSH, Inc.  | Industrial container manufacturer, reconditioner and servicer | Senior secured loan (\$153,500 par due 8/2016)              | 8.00% (Libor + 7.00%/Q)   | 8/31/2011        | 153,500        | 149,662(16)   |                          |
|   |   | Senior secured loan (\$23,000 par due 8/2016)               | 8.00% (Libor + 7.00%/Q)   | 8/31/2011        | 23,000         | 22,425(2)(16) |                          |
|   |   |   |                           |                  | 176,500        | 172,087       |                          |

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|  |  |   |                         |            |         |           |       |
|--|--|---|-------------------------|------------|---------|-----------|-------|
|  |  |   |                         |            | 176,500 | 172,087   | 5.55% |
| <b>Services-Other</b>                          |  |   |                         |            |         |           |       |
| Growing Family, Inc. and GFH Holdings, LLC (6) | Photography services   | Senior secured loan (\$9,645 par due 12/2014)       | 6.50% (Libor + 6.00%/Q) | 7/01/2011  | 9,424   | 8,719(16) |       |
|  |  | Series D preferred units (8,750 units)              |                         | 7/01/2011  |         |           |       |
|  |  | Common stock (552,430 shares)                       |                         | 3/16/2007  | 872     |           |       |
|  |  | Warrants to purchase up to 11,313,678 shares        |                         | 7/01/2011  |         |           |       |
|  |  |   |                         |            | 10,296  | 8,719     |       |
| 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 | 6,405   | 7,582(4)  |       |
|  |  |   |                         |            | 31,530  | 32,707    |       |
| The Dwyer Group (6)                            | Operator of multiple franchise concepts primarily related to home maintenance or repairs | Senior subordinated loan (\$17,100 par due 12/2016) | 14.50%                  | 12/22/2010 | 17,100  | 17,100    |       |
|  |  | Series A preferred units (13,292,377 units)         | 8.00% PIK               | 12/22/2010 | 14,131  | 15,396(4) |       |
|  |  |   |                         |            | 31,231  | 32,496    |       |

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|---|--|---|---|------------------|----------------|---------------|--------------------------|
| United Road Towing, Inc.  | Towing company                         | Warrants to purchase up to 607 shares               |   | 4/1/2010         |                |               |                          |
| Wash Multifamily Laundry Systems, LLC (fka Web Services Company, LLC)                                       | Laundry service and equipment provider | Senior secured loan (\$4,850 par due 8/2014)        | 7.00% (Base Rate + 3.75%/Q)               | 6/15/2009        | 4,712          | 4,850(3)      |                          |
|   |  | Junior secured loan (\$36,900 par due 8/2015)       | 10.88% (Libor + 9.38%/Q)                  | 1/25/2011        | 36,900         | 36,531(16)    |                          |
|   |  | Junior secured loan (\$50,000 par due 8/2015)       | 10.88% (Libor + 9.38%/Q)                  | 1/25/2011        | 50,000         | 49,500(2)(16) |                          |
|   |  | Junior secured loan (\$3,100 par due 8/2015)        | 10.88% (Libor + 9.38%/Q)                  | 1/25/2011        | 3,100          | 3,069(3)(16)  |                          |
|   |  |   |   |                  | 94,712         | 93,950        |                          |
|   |  |   |   |                  | 167,769        | 167,872       | 5.41%                    |
| <b>Telecommunications</b>   |  |   |   |                  |                |               |                          |
| American Broadband Communications, LLC, American Broadband Holding Company and Cameron Holdings of NC, Inc. | Broadband communication services       | Senior secured loan (\$12,675 par due 9/2013)       | 7.50% (Libor + 5.50%/Q)                   | 9/1/2010         | 12,183         | 12,548(2)(16) |                          |
|   |  | Senior secured loan (\$8,930 par due 9/2013)        | 7.50% (Libor + 5.50%/Q)                   | 9/1/2010         | 8,930          | 8,841(3)(16)  |                          |
|   |  | Senior subordinated loan (\$10,476 par due 11/2014) | 12.00% Cash, 2.00% PIK                    | 11/7/2007        | 10,476         | 10,476(4)     |                          |
|   |  | Senior subordinated loan (\$26,799 par due 11/2014) | 12.00% Cash, 4.00% PIK                    | 9/1/2010         | 26,799         | 26,799(4)     |                          |
|   |  | Senior subordinated loan (\$33,263 par due 11/2014) | 12.00% Cash, 2.00% PIK                    | 2/8/2008         | 33,263         | 33,263(2)(4)  |                          |
|   |  | Warrants to purchase up to 378 shares               |   | 11/7/2007        |                | 6,165         |                          |
|   |  | Warrants to purchase up to 200 shares               |   | 9/1/2010         |                | 3,262         |                          |
|   |  |   |   |                  | 91,651         | 101,354       |                          |
| Dialog Telecom LLC  | Broadband communication services       | Senior secured loan (\$16,259 par due 12/2012)      | 12.00% (Libor + 5.50% Cash, 6.00% PIK /Q) | 6/20/2011        | 16,259         | 16,259(4)(16) |                          |
| Startec Equity, LLC (7)   | Communication services                 | Member interest                                     |   | 4/1/2010         |                |               |                          |
|   |  |   |   |                  | 107,910        | 117,613       | 3.79%                    |
| <b>Environmental Services</b>   |  |   |   |                  |                |               |                          |
| AWTP, LLC (7)   | Water treatment services               | Junior secured loan (\$4,058 par due 6/2015)        | 5.00% Cash, 5.00% PIK                     | 4/18/2011        | 4,058          | 4,058(4)      |                          |

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|   |  |  |   |           |        |               |       |
|---|--|--|---|-----------|--------|---------------|-------|
|   |  | Junior secured loan (\$863 par due 6/2015)       | 15.00% PIK                                | 4/18/2011 | 863    | 661(4)        |       |
|   |  | Junior secured loan (\$4,353 par due 6/2015)     | 15.00% PIK                                | 4/18/2011 | 4,353  | 3,331(3)(4)   |       |
|   |  | Membership interests (90% interest)              |   | 4/18/2011 |        |               |       |
|   |  |  |   |           | 9,274  | 8,050         |       |
| 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%/Q)                  | 3/1/2011  | 36,700 | 36,700(2)(16) |       |
|   |  | Senior secured loan (\$8,300 par due 3/2016)     | 11.50% (Libor + 9.75%/Q)                  | 3/1/2011  | 8,300  | 8,300(3)(16)  |       |
|   |  | Preferred stock (1,000 shares)                   | 12.50% PIK                                | 3/1/2011  | 8,059  | 8,047(4)      |       |
|   |  |  |   |           | 53,059 | 53,047        |       |
| Sigma International Group, Inc. (8)                               | Water treatment parts manufacturer         | Junior secured loan (\$4,000 par due 4/2014)     | 10.00% (Libor + 3.50% Cash, 5.00% PIK /A) | 7/8/2011  | 4,000  | 3,000(4)(16)  |       |
| Waste Pro USA, Inc  | Waste management services                  | Preferred Class A common equity (611,615 shares) |   | 11/9/2006 | 12,263 | 19,621        |       |
|   |  |  |   |           | 78,596 | 83,718        | 2.70% |
| <b>Manufacturing</b>  |  |  |   |           |        |               |       |
| Component Hardware Group, Inc.                                    | Commercial equipment manufacturer          | Junior secured loan (\$3,083 par due 12/2014)    | 7.00% Cash, 3.00% PIK                     | 8/4/2010  | 3,083  | 3,083(4)      |       |

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|-----------------------------|--|---|-------------------------|------------------|----------------|------------|--------------------------|
|                             |  | Senior subordinated loan (\$10,463 par due 12/2014)         | 7.50% Cash, 5.00% PIK   | 4/1/2010         | 6,618          | 10,463(4)  |                          |
|                             |  | Warrants to purchase up to 1,462,500 shares of common stock |                         | 8/4/2010         |                | 2,942      |                          |
|                             |  |   |                         |                  | 9,701          | 16,488     |                          |
| HOPPY Holdings Corp.        | Manufacturer of automotive and recreational vehicle aftermarket products | Senior secured loan (\$14,550 par due 6/2016)               | 5.25% (Libor + 4.00%/Q) | 6/3/2011         | 14,550         | 13,823(16) |                          |
| NetShape Technologies, Inc. | Metal precision engineered components manufacturer                       | Senior secured revolving loan (\$849 par due 2/2013)        | 4.08% (Libor + 3.75%/Q) | 4/1/2010         | 398            | 527        |                          |
| Saw Mill PCG Partners LLC   | Metal precision engineered components manufacturer                       | Common units (1,000 units)                                  |                         | 1/30/2007        | 1,000          |            |                          |
| UL Holding Co., LLC         | Petroleum product manufacturer   | Junior secured loan (\$2,098 par due 12/2012)               | 9.14% (Libor + 8.88%/Q) | 12/24/2007       | 2,098          | 2,098      |                          |
|                             |  | Junior secured loan (\$4,091 par due 12/2012)               | 14.00%                  | 12/24/2007       | 4,091          | 4,091      |                          |
|                             |  | Junior secured loan (\$2,000 par due 12/2012)               | 9.24% (Libor + 8.88%/Q) | 6/17/2011        | 2,000          | 2,000      |                          |
|                             |  | Junior secured loan (\$5,000 par due 12/2012)               | 15.00%                  | 8/13/2010        | 5,000          | 5,000      |                          |
|                             |  | Junior secured loan (\$2,933 par due 12/2012)               | 14.00%                  | 12/24/2007       | 2,933          | 2,933(2)   |                          |
|                             |  | Junior secured loan (\$835 par due 12/2012)                 | 9.14% (Libor + 8.88%/Q) | 12/24/2007       | 835            | 835(3)     |                          |
|                             |  | Junior secured loan (\$1,810 par due 12/2012)               | 14.00%                  | 12/24/2007       | 1,810          | 1,810(3)   |                          |
|                             |  | Junior secured loan (\$10,755 par due 12/2012)              | 9.15% (Libor + 8.88%/Q) | 12/24/2007       | 10,755         | 10,755(3)  |                          |
|                             |  | Class A common units (8,982 units)                          |                         | 6/17/2011        | 90             | 41         |                          |
|                             |  | Class B-4 common units (50,000 units)                       |                         | 4/25/2008        | 500            | 229        |                          |
|                             |  | Class B-5 common units (499,000 units)                      |                         | 6/17/2011        | 4,990          | 2,285      |                          |
|                             |  |   |                         | 4/25/2008        |                | 2,517      |                          |

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|   |  |   |                          |           |        |               |       |
|---|--|---|--------------------------|-----------|--------|---------------|-------|
|   |  | Class C common units<br>(549,491 units)                 |                          |           | 35,102 | 34,594        |       |
|   |  |   |                          |           | 60,751 | 65,432        | 2.11% |
| <b>Energy</b>                                   |  |   |                          |           |        |               |       |
| La Paloma Generating Company, LLC               | Natural gas fired, combined cycle plant operator | Junior secured loan (\$59,000 par due 8/2018)           | 10.25% (Libor + 8.75%/Q) | 8/9/2011  | 57,744 | 57,525(16)    |       |
|   |  |   |                          |           | 57,744 | 57,525        | 1.85% |
| <b>Food and Beverage</b>                        |  |   |                          |           |        |               |       |
| Apple & Eve, LLC and US Juice Partners, LLC (6) | Juice manufacturer                               | Senior secured revolving loan (\$3,000 par due 10/2013) | 12.00% (Libor + 9.00%/M) | 10/5/2007 | 3,000  | 3,000(16)     |       |
|   |  | Senior secured loan (\$13,363 par due 10/2013)          | 12.00% (Libor + 9.00%/M) | 10/5/2007 | 13,363 | 13,363(16)    |       |
|   |  | Senior secured loan (\$14,060 par due 10/2013)          | 12.00% (Libor + 9.00%/M) | 10/5/2007 | 14,060 | 14,060(3)(16) |       |
|   |  | Senior units (50,000 units)                             |                          |           | 5,000  | 3,921         |       |
|   |  |   |                          |           | 35,423 | 34,344        |       |
| Charter Baking Company, Inc.                    | Baked goods manufacturer                         | Senior subordinated loan (\$7,615 par due 2/2013)       | 16.00% PIK               | 2/6/2008  | 7,615  | 7,615(4)      |       |
|   |  | Preferred stock (6,258 shares)                          |                          | 9/1/2006  | 2,500  | 1,500         |       |
|   |  |   |                          |           | 10,115 | 9,115         |       |

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|---|---|--|-----------------------------|------------------|----------------|--------------|--------------------------|
| Distant Lands Trading Co.                           | Coffee manufacturer   | Class A common stock (1,294 shares)                      |                             | 4/1/2010         | 980            | 728          |                          |
|   |   | Class A-1 common stock (2,157 shares)                    |                             | 4/1/2010         |                |              |                          |
|   |   |  |                             |                  | 980            | 728          |                          |
| Fleischmann's Vinegar Company, Inc.                 | Leading manufacturer, supplier, and distributor of industrial vinegar products      | Senior secured loan (\$12,540 par due 5/2016)            | 8.75% (Libor + 7.25%/Q)     | 6/1/2011         | 12,540         | 12,540(16)   |                          |
|   |   |  |                             |                  | 59,058         | 56,727       | 1.83%                    |
| <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          | 2,589        |                          |
| 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(16)   |                          |
|   |   | Preferred stock (4,200 shares)                           | 16.50% PIK                  | 9/30/2010        | 3,013          | 4,200(4)     |                          |
|   |   | Common stock (10,200 shares)                             |                             | 9/30/2010        |                | 12,765       |                          |
|   |   |  |                             |                  | 37,513         | 51,465       |                          |
|   |   |  |                             |                  | 40,013         | 54,054       | 1.74%                    |
| <b>Retail</b>                                       |   |  |                             |                  |                |              |                          |
| Savers, Inc. and SAI Acquisition Corporation        | For-profit thrift retailer  | Common stock (1,218,481 shares)                          |                             | 8/8/2006         | 4,909          | 11,633       |                          |
| Things Remembered Inc. and TRM Holdings Corporation | Personalized gifts retailer   | Senior secured loan (\$26,433 par due 3/2014)            | 9.00% (Base Rate + 7.00%/M) | 9/28/2006        | 26,409         | 26,433(16)   |                          |
|   |   | Senior secured loan (\$8,226 par due 3/2014)             | 9.00% (Base Rate + 7.00%/M) | 9/28/2006        | 8,302          | 8,226(3)(16) |                          |
|   |   | Class B preferred stock (73 shares)                      |                             | 3/19/2009        |                | 2,056        |                          |
|   |   | Preferred stock (80 shares)                              |                             | 9/28/2006        | 1,800          | 2,249        |                          |
|   |   | Common stock (800 shares)                                |                             | 9/28/2006        | 200            | 465          |                          |
|   |   | Warrants to purchase up to 859 shares of preferred stock |                             | 3/19/2009        |                | 497          |                          |
|   |   |  |                             |                  | 36,711         | 39,926       |                          |
|   |   |  |                             |                  | 41,620         | 51,559       | 1.66%                    |
| <b>Commercial Real Estate Finance</b>               |   |  |                             |                  |                |              |                          |

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|                                      |                              |   |                       |          |        |           |
|--------------------------------------|------------------------------|---|-----------------------|----------|--------|-----------|
| 10th Street, LLC (6)                 | Real estate holding company  | Senior subordinated loan (\$23,964 par due 11/2014) | 8.93% Cash, 4.07% PIK | 4/1/2010 | 23,964 | 23,964(4) |
|                                      |                              | Member interest (10.00% interest)                   |                       | 4/1/2010 | 594    |           |
|                                      |                              | Option (25,000 units)                               |                       | 4/1/2010 | 25     | 556       |
|                                      |                              |   |                       |          | 24,583 | 24,520    |
| Allied Capital REIT, Inc. (7)        | Real estate investment trust | Real estate equity interests                        |                       | 4/1/2010 |        | 428       |
|                                      |                              | Real estate equity interests                        |                       | 4/1/2010 | 50     |           |
|                                      |                              |   |                       |          | 50     | 428       |
| American Commercial Coatings, Inc.   | Real estate property         | Commercial mortgage loan (\$2,000 par due 12/2025)  |                       | 4/1/2010 | 1,611  | 1,727(15) |
| Aquila Binks Forest Development, LLC | Real estate developer        | Commercial mortgage loan (\$13,118 par due 12/2014) |                       | 4/1/2010 | 11,541 | 5,022(15) |
|                                      |                              | Real estate equity interests                        |                       | 4/1/2010 |        |           |
|                                      |                              |   |                       |          | 11,541 | 5,022     |
| Cleveland East Equity, LLC           | Hotel operator               | Real estate equity interests                        |                       | 4/1/2010 | 1,026  | 2,508     |



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As of September 30, 2011

(dollar amounts in thousands)

(unaudited)

| Company(1)   | Business Description                                 | Investment   | Interest(5)(12)         | Acquisition Date | Amortized Cost | Fair Value | Percentage of Net Assets |
|--|--|--|-------------------------|------------------|----------------|------------|--------------------------|
| 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 (\$8,891 par due 1/2012)  |                         | 4/1/2010         | 1,475          | 372(15)    |                          |
|  |  | Senior subordinated loan (\$12,408 par due 6/2017) |                         | 4/1/2010         | 2,410          | 650(15)    |                          |
|  |  | Senior subordinated loan (\$10,967 par due 9/2012) |                         | 4/1/2010         | 2,051          | 546(15)    |                          |
|  |  | Senior subordinated loan (\$261 par due 3/2013)    |                         | 4/1/2010         | 263            | 24(15)     |                          |
|  |  | Senior subordinated loan (\$2,236 par due 9/2011)  |                         | 4/1/2010         |                | (15)       |                          |
|  |  | Preferred equity interest                          |                         | 4/1/2010         |                | 39         |                          |
|  |  | Common equity interest                             |                         | 4/1/2010         | 35             |            |                          |
|  |  |  |                         |                  | 6,667          | 2,075      |                          |
| DI Safford, LLC  | Hotel operator                                       | Commercial mortgage loan (\$5,423 par due 5/2032)  |                         | 4/1/2010         | 2,667          | 2,400(15)  |                          |
| Hot Light Brands, Inc. (7)                                 | Real estate holding company                          | Senior secured loan (\$35,239 par due 2/2011)      |                         | 4/1/2010         | 3,945          | 3,770(15)  |                          |
|  |  | Common stock (93,500 shares)                       |                         | 4/1/2010         |                |            |                          |
|  |  |  |                         |                  | 3,945          | 3,770      |                          |
| MGP Park Place Equity, LLC                                 | Office building operator                             | Commercial mortgage loan (\$6,500 par due 5/2011)  |                         | 4/1/2010         |                | (15)       |                          |
| NPH, Inc.  | Hotel property                                       | Real estate equity interests                       |                         | 4/1/2010         | 5,291          | 7,970      |                          |
|  |  |  |                         |                  | 57,381         | 50,420     | 1.62%                    |
| <b>Consumer Products - Durable</b>                         |  |  |                         |                  |                |            |                          |
| Bushnell Inc.  | Sports optics manufacturer                           | Junior secured loan (\$41,325 par due 2/2014)      | 6.75% (Libor + 6.50%/Q) | 4/1/2010         | 32,367         | 35,126     |                          |
| 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)      |                         | 1/21/2011        | 30,761         | 10,082(15) |                          |
|  |  | Limited partnership interest (66,667 shares)       |                         | 4/1/2010         | 2,594          |            |                          |

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|                                       |   |   |                              |            |        |              |       |
|---------------------------------------|---|---|------------------------------|------------|--------|--------------|-------|
|                                       |   | Limited partnership interest (83,333 shares)    |                              | 11/30/2007 | 8,333  |              |       |
|                                       |   |   |                              |            | 41,688 | 10,082       |       |
|                                       |   |   |                              |            | 74,055 | 45,208       | 1.46% |
| <b>Chemicals, Plastics and Rubber</b> |   |   |                              |            |        |              |       |
| Emerald Performance Materials, LLC    | Polymers and performance materials manufacturer | Senior secured loan (\$3,576 par due 11/2013)   | 13.00% Cash, 3.00% PIK       | 5/22/2006  | 3,576  | 3,576(4)     |       |
|                                       |   | Senior secured loan (\$9,967 par due 11/2013)   | 10.25% (Base Rate + 3.50%/M) | 6/29/2011  | 9,967  | 9,967(16)    |       |
|                                       |   | Senior secured loan (\$6,639 par due 11/2013)   | 10.00% (Libor + 6.00%/M)     | 6/29/2011  | 6,639  | 6,639(16)    |       |
|                                       |   | Senior secured loan (\$5,207 par due 11/2013)   | 13.00% Cash, 3.00% PIK       | 5/22/2006  | 5,207  | 5,207(2)(4)  |       |
|                                       |   | Senior secured loan (\$8,227 par due 11/2013)   | 8.25% (Libor + 4.25%/M)      | 5/22/2006  | 8,227  | 8,227(3)(16) |       |
|                                       |   | Senior secured loan (\$915 par due 11/2013)     | 10.25% (Base Rate + 3.50%/M) | 6/29/2011  | 915    | 915(3)(16)   |       |
|                                       |   | Senior secured loan (\$610 par due 11/2013)     | 10.00% (Libor + 6.00%/M)     | 6/29/2011  | 610    | 610(3)(16)   |       |
|                                       |   |   |                              |            | 35,141 | 35,141       |       |
| Protective Industries, Inc.           | Manufacturer of plastic protection products     | Senior secured loan (\$5,603 par due 5/2017)    | 5.75% (Libor + 4.25%/M)      | 5/23/2011  | 5,603  | 5,435(16)    |       |
|                                       |   | Senior subordinated loan (\$707 par due 5/2018) | 8.00% Cash, 7.25% PIK        | 5/23/2011  | 707    | 707(4)       |       |
|                                       |   | Preferred stock (2,379,361 shares)              |                              | 5/23/2011  | 2,307  | 2,307        |       |
|                                       |   |   |                              |            | 8,617  | 8,449        |       |

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As of September 30, 2011

(dollar amounts in thousands)

(unaudited)

| Company(1)  | Business Description                       | Investment  | Interest(5)(12)                               | Acquisition Date | Amortized Cost | Fair Value      | Percentage of Net Assets |
|---|--|---|---|------------------|----------------|-----------------|--------------------------|
|   |  |   |   |                  | 43,758         | 43,590          | 1.40%                    |
| <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        | 3,131          | 3,200(3)(16)    |                          |
|   |  | Senior secured loan (\$201 par due 10/2014)             | 7.00% (Base Rate + 3.75%/M)                   | 5/12/2010        | 197            | 201(3)(16)      |                          |
|   |  | Common stock (3,772,098 shares)                         |   | 4/1/2010         | 4,939          | 7,543           |                          |
|   |  |   |   |                  | 8,267          | 10,944          |                          |
| Penn Detroit Diesel Allison, LLC (7)                              | Diesel engine manufacturer                 | Member interest (70,249 shares)                         |   | 4/1/2010         | 15,993         | 21,601          |                          |
|   |  |   |   |                  | 24,260         | 32,545          | 1.05%                    |
| <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 10/2012) | 9.00% (Libor + 6.00%/Q)                       | 3/2/2006         | 1,141          | 982(16)         |                          |
|   |  | Senior secured revolving loan (\$1,128 par due 10/2012) | 9.00% (Base Rate + 5.00%/M)                   | 3/2/2006         | 1,128          | 970(16)         |                          |
|   |  | Senior secured loan (\$7,629 par due 10/2012)           | 16.00% (Libor + 6.00% Cash, 5.00% PIK /Q)     | 3/2/2006         | 7,315          | 7,171(3)(4)(16) |                          |
|   |  | Senior secured loan (\$70 par due 10/2012)              | 15.00% (Base Rate + 5.00% Cash, 5.00% PIK /M) | 3/2/2006         | 67             | 66(3)(4)(16)    |                          |
|   |  | Preferred stock (9,344 shares)                          |   | 3/2/2006         | 2,000          |                 |                          |
|   |  |   |   |                  | 11,651         | 9,189           |                          |
| The Teaching Company, LLC and The Teaching Company Holdings, Inc. | Education publications provider            | Preferred stock (21,711 shares)                         |   | 9/29/2006        | 2,171          | 4,172           |                          |
|   |  | Common stock (15,393 shares)                            |   | 9/29/2006        | 3              | 10              |                          |
|   |  |   |   |                  | 2,174          | 4,182           |                          |

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|                                    |   |  |                         |            |              |              |         |
|------------------------------------|---|--|-------------------------|------------|--------------|--------------|---------|
|                                    |   |  |                         |            | 20,425       | 13,371       | 0.43%   |
| <b>Health Clubs</b>                |   |  |                         |            |              |              |         |
| Athletic Club Holdings, Inc.       | Premier health club operator            | Senior secured loan (\$11,500 par due 10/2013)           | 4.74% (Libor + 4.50%/M) | 10/11/2007 | 11,500       | 11,270(3)    |         |
|                                    |   |  |                         |            | 11,500       | 11,270       | 0.36%   |
| <b>Housing- Building Materials</b> |   |  |                         |            |              |              |         |
| HB&G Building Products, Inc.       | Synthetic and wood product manufacturer | Senior subordinated loan (\$9,627 par due 3/2013)        |                         | 10/8/2004  | 8,991        | 1,003(15)    |         |
|                                    |   |  |                         | 10/8/2004  | 753          |              |         |
|                                    |   |  |                         | 10/8/2004  | 653          |              |         |
|                                    |   |  |                         |            | 10,397       | 1,003        |         |
|                                    |   |  |                         |            | 10,397       | 1,003        | 0.03%   |
| <b>Oil and Gas</b>                 |   |  |                         |            |              |              |         |
| Geotrace Technologies, Inc.        | Reservoir processing, development       | Warrants to purchase up to 69,978 shares of common stock |                         | 4/1/2010   | 88           |              |         |
|                                    |   |  |                         | 4/1/2010   | 2,805        |              |         |
|                                    |   |  |                         |            | 2,893        |              |         |
|                                    |   |  |                         |            | 2,893        |              | 0.00%   |
|                                    |   |  |                         |            | \$ 4,803,420 | \$ 4,755,153 | 153.23% |

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- (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, as amended (together with the rules and regulations promulgated thereunder, 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, which as of September 30, 2011 represented 153% of the Company s net assets or 94% of the Company s total assets, are subject to legal restrictions on sales.

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 nine months ended September 30, 2011 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  | \$        | \$                 | \$           | \$ 2,309        | \$                               | \$              | \$           | \$                          | \$ (45)                       |
| Apple & Eve, LLC and US Juice Partners, LLC                                   | \$ 3,000  | \$ 2,839           | \$           | \$ 2,554        | \$                               | \$              | \$ 25        | \$                          | \$ (1,114)                    |
| BB&T Capital Partners/Windsor Mezzanine Fund, LLC                             | \$        | \$ 2,640           | \$ 9,260     | \$              | \$                               | \$              | \$           | \$ 3,902                    | \$ (3,805)                    |
| Carador, PLC  | \$        | \$                 | \$ 9,033     | \$              | \$                               | \$ 160          | \$           | \$ (2,989)                  | \$ 3,699                      |
| Campus Management Corp. and Campus Management Acquisition Corp.               | \$ 571    | \$                 | \$           | \$              | \$                               | \$              | \$           | \$                          | \$ (1,174)                    |
| CT Technologies Intermediate Holdings, Inc. and CT Technologies Holdings, LLC | \$        | \$ 75              | \$ 8,763     | \$ 648          | \$                               | \$ 2,589        | \$           | \$ 1,561                    | \$ (679)                      |
| Direct Buy Holdings, Inc. and Direct Buy Investors, LP                        | \$ 38,800 | \$ 80,315          | \$ 9,946     | \$ 2,637        | \$                               | \$              | \$           | \$ 2,770                    | \$ (30,025)                   |
| Driven Brands, Inc.   | \$        | \$ 237             | \$           | \$ 202          | \$                               | \$              | \$           | \$ 13                       | \$ 1,205                      |
| DSI Renal, Inc.   | \$        | \$ 77,774          | \$ 19,684    | \$ 7,919        | \$                               | \$              | \$ 33        | \$ 27,522                   | \$ (21,565)                   |
| The Dwyer Group   | \$        | \$                 | \$ 11,708    | \$ 2,854        | \$                               | \$ 853          | \$           | \$                          | \$ 1,266                      |
| ELC Acquisition Corp. and ELC Holdings Corporation                            | 137,200   | 135,661            |              | 1,056           |                                  | 200             | 19           |                             |                               |
| Firstflight Financial Corporation   | \$        | \$ 2,988           | \$           | \$ 501          | \$                               | \$              | \$ 188       | \$ 12                       | \$ 4,348                      |
| Growing Family, Inc. and GFH Holdings, LLC                                    | \$        | \$ 34              | \$           | \$ 551          | \$                               | \$              | \$ 6         | \$ 1                        | \$ 4,414                      |
| Industrial Container Services, LLC  | \$ 3,304  | \$ 8,491           | \$ 1,800     | \$ 69           | \$                               | \$              | \$ 121       | \$ 19,880                   | \$ (13,403)                   |
| Insight Pharmaceuticals Corporation   | \$ 24,730 | \$ 56,080          | \$           | \$ 3,569        | \$ 730                           | \$              | \$ 765       | \$                          | \$ 4,439                      |

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|   |    |     |    |        |    |        |    |       |    |   |    |          |    |         |
|---|----|-----|----|--------|----|--------|----|-------|----|---|----|----------|----|---------|
| Investor Group Services, LLC                          | \$ | 500 | \$ | \$     | \$ | 1      | \$ | 206   | \$ | 5 | \$ | 85       |    |         |
| Multi-Ad Services, Inc.                               | \$ |     | \$ | \$     | \$ |        | \$ |       | \$ |   | \$ | 13       |    |         |
| Pillar Processing LLC and PHL Holding Co.             | \$ |     | \$ | 12,144 | \$ |        | \$ | 1,606 | \$ |   | \$ | 148      | \$ | (2,972) |
| Primis Marketing Group, Inc. and Primis Holdings, LLC | \$ |     | \$ | 154    | \$ | 14,068 | \$ |       | \$ |   | \$ | (14,068) | \$ | 14,120  |
| Regency Healthcare Group, LLC                         | \$ |     | \$ |        | \$ | 2,007  | \$ |       | \$ |   | \$ | 380      | \$ | 335     |
| Soteria Imaging Services, LLC                         | \$ |     | \$ | 1,231  | \$ |        | \$ | 324   | \$ |   | \$ | 50       | \$ | 81      |
| VSS-Tranzact Holdings, LLC                            | \$ |     | \$ |        | \$ |        | \$ |       | \$ |   | \$ |          | \$ | (4,367) |
| Universal Environmental Services, LLC                 | \$ |     | \$ |        | \$ |        | \$ |       | \$ |   | \$ |          | \$ |         |
| Universal Trailer Corporation                         | \$ |     | \$ |        | \$ | 7,930  | \$ |       | \$ |   | \$ | (7,930)  | \$ | 7,930   |

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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 nine months ended September 30, 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                             | \$         | \$ 7               | \$           | \$              | \$                               | \$ 4            | \$           | \$                          | \$ (68)                       |
| Allied Capital REIT, Inc.                     | \$         | \$ 115             | \$           | \$              | \$                               | \$              | \$           | \$ 585                      | \$ (190)                      |
| AllBridge Financial, LLC                      | \$         | \$                 | \$           | \$              | \$                               | \$              | \$           | \$                          | \$ (506)                      |
| Aviation Properties Corporation               | \$         | \$                 | \$           | \$              | \$                               | \$              | \$           | \$                          | \$                            |
| AWTP, LLC                                     | \$ 2,926   | \$                 | \$           | \$ 445          | \$                               | \$              | \$           | \$                          | \$ (1,225)                    |
| BenefitMall Holdings, Inc.                    | \$         | \$                 | \$           | \$ 5,505        | \$                               | \$              | \$ 375       | \$                          | \$ 3,421                      |
| Border Foods, Inc.                            | \$         | \$ 28,526          | \$ 34,818    | \$ 1,401        | \$                               | \$              | \$           | \$ 5,174                    | \$ 3,601                      |
| Callidus Capital Corporation                  | \$ 6,000   | \$                 | \$           | \$              | \$                               | \$              | \$           | \$                          | \$ (3,448)                    |
| Ciena Capital LLC                             | \$         | \$                 | \$           | \$ 2,353        | \$                               | \$              | \$           | \$                          | \$ (16,663)                   |
| Citipostal, Inc.                              | \$ 2,850   | \$ 2,802           | \$           | \$ 5,454        | \$                               | \$              | \$ 265       | \$                          | \$ (9,654)                    |
| Coverall North America, Inc.                  | \$         | \$ 30,907          | \$           | \$ 642          | \$                               | \$              | \$ 75        | \$ (7,640)                  | \$ 7,624                      |
| Crescent Hotels & Resorts, LLC and affiliates | \$         | \$                 | \$           | \$ 202          | \$                               | \$              | \$           | \$                          | \$ (1,664)                    |
| EarthColor, Inc.                              | \$         | \$                 | \$           | \$              | \$                               | \$              | \$           | \$                          | \$                            |
| HCI Equity, LLC                               | \$         | \$                 | \$           | \$              | \$                               | \$              | \$           | \$                          | \$ (278)                      |
| HCP Acquisition Holdings, LLC                 | \$ 677     | \$                 | \$           | \$              | \$                               | \$              | \$           | \$                          | \$ (1,310)                    |
| Hot Light Brands, Inc.                        | \$         | \$ 929             | \$           | \$              | \$                               | \$              | \$           | \$                          | \$ 70                         |
| Huddle House Inc.                             | \$         | \$                 | \$           | \$ 2,323        | \$                               | \$              | \$ 563       | \$                          | \$ 3,121                      |
| Industrial Air Tool, LP and affiliates        | \$         | \$                 | \$ 13,419    | \$              | \$                               | \$ 370          | \$ 185       | \$ 581                      | \$ (1,517)                    |
| Ivy Hill Asset Management, L.P.               | \$ 9,419   | \$                 | \$           | \$              | \$                               | \$ 14,286       | \$           | \$                          | \$ 41,169                     |
| Ivy Hill Middle Market Credit Fund, Ltd.      | \$         | \$                 | \$           | \$ 3,589        | \$                               | \$              | \$           | \$                          | \$ 1,499                      |
| Knightsbridge CLO 2007-1 Ltd.                 | \$         | \$                 | \$ 14,852    | \$ 1,019        | \$                               | \$              | \$           | \$ 3,724                    | \$ 307                        |
| Knightsbridge CLO 2008-1 Ltd.                 | \$         | \$                 | \$           | \$ 2,045        | \$                               | \$              | \$           | \$                          | \$ 3,262                      |
| LVCG Holdings, LLC                            | \$         | \$                 | \$           | \$              | \$                               | \$              | \$           | \$                          | \$                            |
| Making Memories Wholesale, Inc.               | \$ 1,750   | \$ 345             | \$           | \$ 23           | \$                               | \$              | \$ 2         | \$                          | \$ (5,880)                    |
| MVL Group, Inc.                               | \$         | \$                 | \$           | \$ 6,431        | \$                               | \$              | \$           | \$                          | \$ (505)                      |
| Orion Foods, LLC                              | \$ 3,300   | \$ 220             | \$           | \$ 7,828        | \$                               | \$              | \$ 609       | \$                          | \$ (9,017)                    |
| Penn Detroit Diesel Allison, LLC              | \$         | \$ 4,077           | \$           | \$              | \$                               | \$              | \$ 375       | \$ 1,095                    | \$ 3,621                      |
| Reflexite Corporation                         | \$         | \$ 9,281           | \$ 27,435    | \$ 1,129        | \$                               | \$              | \$ 39        | \$ 40,923                   | \$ (3,088)                    |
| Senior Secured Loan Fund LLC*                 | \$ 239,967 | \$                 | \$           | \$ 81,073       | \$ 20,020                        | \$              | \$ 9,152     | \$                          | \$ (5,128)                    |
| Stag-Parkway, Inc.                            | \$         | \$                 | \$           | \$ 3,270        | \$                               | \$ 685          | \$ 187       | \$                          | \$ (1,907)                    |
| Startec Equity, LLC                           | \$         | \$                 | \$           | \$              | \$                               | \$              | \$           | \$                          | \$                            |
| The Thymes, LLC                               | \$         | \$ 947             | \$           | \$              | \$                               | \$ 363          | \$           | \$                          | \$ 509                        |

\* Together with GE Global Sponsor Finance LLC and General Electric Capital Corporation (together, "GE"), we co-invest through the Senior Secured Loan Fund LLC d/b/a the Senior Secured Loan Program (the "SSLP"). 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 GE and the Company; 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

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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) Excepted from the definition of 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) 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.
- (11) 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



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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). Subsequently, in August 2011 the Securities and Exchange Commission issued a concept release (the Concept Release ) which states that [a]s a general matter, the Commission presently does not believe that Rule 3a-7 issuers are the type of small, developing and financially troubled businesses in which Congress intended BDCs primarily to invest and requested comment on whether or not a 3a-7 issuer should be considered an eligible portfolio company . 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 (including the language in the Concept Release), 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.

- (12) 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.
- (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 5.00% on \$40 million aggregate principal amount outstanding of the portfolio company s senior term debt previously syndicated by us.
- (14) 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.
- (15) Loan was on non-accrual status as of September 30, 2011.
- (16) Loan includes interest rate floor feature.
- (17) 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.

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)  | Business Description   | Investment                                    | Interest(5)(11)         | Acquisition Date | Amortized Cost | Fair Value | Percentage of Net Assets |
|---|------------------------|---|-------------------------|------------------|----------------|------------|--------------------------|
| <b>Investment Funds and Vehicles</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)      |                         | 4/1/2010         | 2,669          | 1,239      |                          |
|   |                        | Class D notes (\$9,400 par due 12/2013)       |                         | 4/1/2010         |                |            | (14)                     |
|   |                        |   |                         |                  | 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)        | 4.84% (Libor + 4.55%/Q) | 4/1/2010         | 1,824          | 1,817      |                          |
|   |                        | Subordinated notes (\$17,500 par due 4/2020)  | 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)       | 6.29% (Libor + 6.00%/Q) | 4/1/2010         | 4,039          | 5,538      |                          |
|   |                        | Subordinated notes (\$25,500 par due 10/2021) | 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)      | 5.79% (Libor + 5.5%/Q)  | 4/1/2010         | 11,863         | 11,535     |                          |
|   |                        | Subordinated notes (\$47,900 par due 12/2017) | 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)        | 4.54% (Libor + 4.25%/Q) | 4/1/2010         | 3,428          | 4,364      |                          |
|   |                        | Subordinated notes (\$17,900 par due 7/2022)  | 18.41%                  | 4/1/2010         | 8,857          | 13,624     |                          |
|   |                        |   |                         |                  | 12,285         | 17,988     |                          |

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|   |                        |  |                         |            |         |           |
|---|------------------------|--|-------------------------|------------|---------|-----------|
| Carador PLC(6)(8)(9)(10)                          | 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 (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 (\$9,000 par due 10/2019)                      | 4.79% (Libor + 4.50%/Q) | 4/1/2010   | 3,816   | 4,823     |
|   |                        | Subordinated notes (\$21,164 par due 10/2019)                | 23.01%                  | 4/1/2010   | 12,266  | 19,436    |
| 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     |
| Firstflight 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(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    |

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As of December 31, 2010

(dollar amounts in thousands)

| Company(1)   | Business Description                      | Investment  | Interest(5)(11)         | Acquisition Date | Amortized Cost | Fair Value | Percentage of Net Assets |
|--|---|---|-------------------------|------------------|----------------|------------|--------------------------|
|  |   | 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)(16)  | Co-investment vehicle                     | Subordinated certificates (\$548,161 par due 12/2020) | 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        |                          |
|  |   |   |                         |                  | 924,287        | 924,423    | 30.30%                   |
| <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         | 2,915          | 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      |                          |
| 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(15)  |                          |
|  |   | 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     |                          |

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|  |  |  |                         |            |         |               |
|--|--|--|-------------------------|------------|---------|---------------|
|  |  |  |                         |            | 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) | 9/15/2010  | 66,169  | 66,169(15)    |
|  |  | Senior secured loan (\$48,511 par due 9/2016)      | 9.75% (Libor + 8.75%/Q) | 9/15/2010  | 48,511  | 48,511(2)(15) |
|  |  | Senior secured loan (\$9,023 par due 9/2016)       | 9.75% (Libor + 8.75%/Q) | 9/15/2010  | 9,023   | 9,023(3)(15)  |
|  |  |  |                         |            | 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(14)       |
|  |  | Junior secured loan (\$11,310 par due 1/2014)      |                         | 1/31/2007  | 11,310  | 566(3)(14)    |

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As of December 31, 2010

(dollar amounts in thousands)

| Company(1)   | Business Description   | Investment  | Interest(5)(11)         | Acquisition Date | Amortized Cost | Fair Value    | Percentage of Net Assets |
|--|--|---|-------------------------|------------------|----------------|---------------|--------------------------|
|  |  | Common stock (50,000 shares)                            |                         | 1/31/2007        | 5,000          |               |                          |
|  |  |   |                         |                  | 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 6/2017)         | 13.50%                  | 6/21/2010        | 579            | 579           |                          |
|  |  | 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)(15) |                          |
|  |  | Senior secured loan (\$10,419 par due 5/2014)           | 8.25% (Libor + 7.0%/Q)  | 5/9/2008         | 10,419         | 10,419(3)(15) |                          |
|  |  | 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(15)     |                          |
|  |  | Senior secured loan (\$9,200 par due 11/3/2015)         | 6.75% (Libor + 5.0%/Q)  | 11/3/2010        | 9,171          | 9,200(3)(15)  |                          |
|  |  | 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(14)     |                          |
|  |  | Senior secured revolving loan (\$1,250 par due 12/2013) |                         | 4/1/2010         | 1,097          | 1,063(14)     |                          |
|  |  | Senior subordinated loan (\$19,625 par due              |                         | 4/1/2010         | 15,918         | 10,714(14)    |                          |

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|                                    |  |   |                         |            |  |         |               |        |
|------------------------------------|--|---|-------------------------|------------|--|---------|---------------|--------|
|                                    |  | 12/2013)  |                         |            |  |         |               |        |
|                                    |  | 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         |        |
| 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(14)     |        |
|                                    |  | Junior secured loan (\$2,422 par due 11/2010)       |                         | 4/1/2010   |  | 2,361   | 1,986(14)     |        |
|                                    |  | 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(15)    |        |
|                                    |  | Junior secured loan (\$50,000 par due 6/2017)       | 9.75% (Libor + 8.50%/M) | 12/16/2010 |  | 50,000  | 50,000(2)(15) |        |
|                                    |  |   |                         |            |  | 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   |  |         |               |        |

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(dollar amounts in thousands)

| Company(1)                       | Business Description                        | Investment  | Interest(5)(12)             | Acquisition Date | Amortized Cost | Fair Value   | Percentage of Net Assets |
|----------------------------------|---|---|-----------------------------|------------------|----------------|--------------|--------------------------|
| 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)(15)   |                          |
|                                  |   | 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(15)      |                          |
|                                  |   | Senior secured revolving loan (\$700 par due 12/2013)   | 6.50% (Libor + 4.50%/Q)     | 4/1/2010         | 700            | 700(15)      |                          |
|                                  |   | Senior secured revolving loan (\$1,250 par due 12/2013) | 6.75% (Base Rate + 3.25%/Q) | 4/1/2010         | 1,250          | 1,250(15)    |                          |
|                                  |   | 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)       |                          |
|                                  |   | Senior subordinated loan (\$12,526 par due 12/2015)     | 16.00% PIK                  | 4/1/2010         | 12,526         | 12,022(4)    |                          |
|                                  |   | 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       |                          |
|                                  |   | 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)    |                          |



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|   |   |  |                             |           |        |               |
|---|---|--|-----------------------------|-----------|--------|---------------|
|   |   | Senior subordinated loan (\$5,557 par due 7/2011)      |                             | 4/1/2010  | 5,554  | 928(14)       |
|   |   | 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)(15)  |
|   |   | Senior secured loan (\$79 par due 3/2012)              | 7.50% (Libor + 5.50%/Q)     | 4/1/2010  | 79     | 79(3)(15)     |
|   |   | Senior secured loan (\$34,000 par due 9/2012)          | 13.75% (Libor + 11.75%/Q)   | 4/1/2010  | 34,000 | 34,000(2)(15) |
|   |   | Senior secured loan (\$2,000 par due 9/2012)           | 13.75% (Libor + 11.75%/Q)   | 4/1/2010  | 2,000  | 2,000(2)(15)  |
|   |   | 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(15)     |
| Impact Innovations Group, LLC(7)        | IT consulting and outsourcing services      | Member interest (50% interest)                         |                             | 4/1/2010  |        |               |

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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(15)    |                          |
|  |  | Senior secured loan (\$8,900 par due 6/2015)                    | 9.50% (Libor + 6.50%/Q) | 10/21/2010       | 8,900          | 8,900(3)(15) |                          |
|  |  |   |                         |                  | 16,844         | 16,844       |                          |
| Investor Group Services, LLC(6)                          | Business consulting for private equity and corporate clients | Limited liability company membership interest (10.00% interest) |                         | 6/22/2006        |                | 564          |                          |
| Multi-Ad Services, Inc.(6)                               | Marketing services and software provider                     | Preferred units (1,725,280 units)                               |                         | 4/1/2010         | 788            | 1,366        |                          |
|  |  | Common units (1,725,280 units)                                  |                         | 4/1/2010         |                |              |                          |
|  |  |   |                         |                  | 788            | 1,366        |                          |
| 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         | 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(14)      |                          |

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|   |  |  |                        |            |        |              |
|---|--|--|------------------------|------------|--------|--------------|
|   |  | 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) | 11.50% Cash, 2.00% PIK | 2/9/2007   | 16,788 | 16,788(4)    |
|   |  | Senior subordinated loan (\$27,032 par due 2/2014) | 11.50% Cash, 2.00% PIK | 2/9/2007   | 27,032 | 27,032(2)(4) |
|   |  | Preferred units (30,000 units)                     |                        | 4/11/2006  | 3,000  | 4,661        |
|   |  |  |                        |            | 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        |
| 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)(14)   |
| 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       |
|   |  | Warrants to purchase up to 771,036 shares          |                        | 4/1/2010   |        | 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        |

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|--|---|---|-----------------------------|------------------|----------------|---------------|--------------------------|
| Venturehouse-Ciberneta Investors, LLC          | Financial settlement services for intercarrier wireless roaming | Equity interest   |                             | 4/1/2010         |                |               |                          |
|  |   | Equity interest   |                             | 4/1/2010         |                |               |                          |
|  |   |   |                             |                  | 563,365        | 542,673       | 17.79%                   |
| <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(15)     |                          |
|  |   | Senior secured revolving loan (\$108 par due 11/2012)   | 6.50% (Base Rate + 2.50%/Q) | 11/27/2006       | 108            | 108(15)       |                          |
|  |   | Senior secured loan (\$22,839 par due 11/2013)          | 12.50% (Libor + 9.50%/Q)    | 11/27/2006       | 22,845         | 22,839(2)(15) |                          |
|  |   | Senior secured loan (\$10,705 par due 11/2013)          | 12.50% (Libor + 9.50%/Q)    | 11/27/2006       | 10,705         | 10,705(3)(15) |                          |
|  |   | 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%                      | 8/2/2006         | 20,997         | 19,947(2)     |                          |
|  |   | Junior secured loan (\$3,999 par due 8/2013)            | 11.00%                      | 8/2/2006         | 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)(12) |                          |
|  |   | Common stock (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 (\$34,357 par due 9/2014)           | 10.00% (Libor + 8.50%/Q)    | 4/1/2010         | 34,357         | 34,357(15)    |                          |
|  |   | Junior secured loan (\$37,552 par due 9/2014)           | 14.00%                      | 4/1/2010         | 24,881         | 36,085        |                          |
|  |   | Preferred stock (\$10,000 par due)                      |                             | 4/1/2010         |                |               |                          |
|  |   | Class A common units (25,001 units)                     |                             | 4/1/2010         |                |               |                          |
|  |   | Class B common units (1,122,452 units)                  |                             | 4/1/2010         |                |               |                          |
|  |   |   |                             |                  | 59,238         | 70,442        |                          |
| Huddle House, Inc.(7)                          |   |   |                             | 4/1/2010         | 20,032         | 16,202(4)     |                          |

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|                         |                               |  |   |           |        |               |
|-------------------------|-------------------------------|--|---|-----------|--------|---------------|
|                         | Restaurant owner and operator | Senior subordinated loan (\$20,300 par due 12/2015)<br>Common stock (358,428 shares) | 12.00% Cash, 3.00% PIK                    | 4/1/2010  | 20,032 | 16,202        |
| OTG Management, Inc.    | Airport restaurant operator   | Junior secured loan (\$12,603 par due 6/2013)  | 16.00% (Libor + 11.00% Cash, 2.00% PIK/M) | 6/19/2008 | 12,603 | 12,603(4)(15) |
|                         |                               | Junior secured loan (\$42,030 par due 6/2013)  | 18.00% (Libor + 11.00% Cash, 4.00% PIK/M) | 6/19/2008 | 42,030 | 42,030(4)(15) |
|                         |                               | Warrants to purchase up to 100,857 shares of common stock                            |   | 6/19/2008 | 100    | 4,939         |
|                         |                               | Warrants to purchase up to 9 shares of common stock                                  |   | 6/19/2008 |        |               |
|                         |                               |  |   |           | 54,733 | 59,572        |
| 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(15)       |
|                         |                               | Senior secured loan (\$9,918 par due 5/2015)   | 10.00% (Libor + 8.00%/M)                  | 5/5/2010  | 9,918  | 9,918(2)(15)  |
|                         |                               | Senior secured loan (\$9,918 par due 5/2015)   | 10.00% (Libor + 8.00%/M)                  | 5/5/2010  | 9,918  | 9,918(3)(15)  |
|                         |                               | 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(15)    |

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|--|--|---|--------------------------|------------------|----------------|------------|--------------------------|
|  |  | Preferred stock (46,690 shares)                           |                          | 4/1/2010         |                |            |                          |
|  |  | Warrants to purchase up to 257,429 shares of common stock |                          | 4/1/2010         |                |            |                          |
|  |  |   |                          |                  | 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     |                          |
|  |  | 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      |                          |
|  |  |   |                          |                  | 69,125         | 66,912     |                          |
|  |  |   |                          |                  | 367,942        | 379,983    | 12.46%                   |
| <b>Financial Services</b>                            |  |   |                          |                  |                |            |                          |
| 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        |                          |
| 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(10)          | 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 ibor + 2.50%/M) | 4/1/2010         | 882            | 882        |                          |
|  |  |   |                          |                  | 1,617          | 1,617      |                          |

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|  |                                  |   |                         |            |         |                  |       |
|--|----------------------------------|---|-------------------------|------------|---------|------------------|-------|
| 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% |
| <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)(15)     |       |
|  |                                  | Senior secured loan (\$9,353 par due 7/2015)        | 8.50% (Libor + 7.50%/Q) | 9/3/2010   | 9,353   | 9,353(3)(15)     |       |
|  |                                  |   |                         |            | 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)(15) |       |
|  |                                  | Senior subordinated loan (\$5,298 par due 9/2012)   | 13.00% Cash, 2.00% PIK  | 4/1/2010   | 5,298   | 5,298(4)(15)     |       |
|  |                                  | Common stock (155,000 shares)                       |                         | 4/1/2010   | 12,070  | 13,432           |       |
|  |                                  |   |                         |            | 67,623  | 68,985           |       |

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|--|---|--|---------------------------|------------------|----------------|---------------|--------------------------|
| 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(15)       |                          |
|  |   | Senior secured revolving loan (\$250 par due 8/2014) | 10.00% (Libor + 6.50%/Q)  | 8/21/2009        | 250            | 250(15)       |                          |
|  |   | Senior secured loan (\$9,388 par due 8/2014)         |                           | 8/21/2009        | 7,433          | 6,048(14)(15) |                          |
|  |   | Senior secured loan (\$5,129 par due 8/2014)         |                           | 8/21/2009        | 3,979          | (14)          |                          |
|  |   | 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(15)    |                          |
|  |   | Junior secured loan (\$9,231 par due 12/2015)        | 15.28% (Libor + 15.00%/M) | 12/10/2010       | 9,231          | 9,231         |                          |
|  |   | Junior secured loan (\$30,769 par due 12/2015)       | 15.30% (Libor + 15.00%/M) | 12/10/2010       | 30,769         | 30,769        |                          |



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|   |  |  |                          |            |        |               |
|---|--|--|--------------------------|------------|--------|---------------|
|   |  | Warrants to purchase up to 578,407 shares          |                          | 12/13/2010 |        | 1,009         |
|   |  |  |                          |            | 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)     |
|   |  | 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 (\$17,942 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(15)    |
|   |  | Senior secured loan (\$10,863 par due 12/2014)     | 12.50% (Libor + 9.50%/M) | 12/31/2009 | 10,863 | 10,863(3)(15) |
|   |  |  |                          |            | 30,860 | 30,860        |

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|---|---|---|---|------------------|----------------|--------------|--------------------------|
| 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)(15) |                          |
|   |   | Senior secured loan (\$10,113 par due 4/2013)               | 9.00% (Libor + 6.00%/Q)                       | 9/21/2007        | 10,113         | 15,555(15)   |                          |
|   |   | Senior secured loan (\$4,000 par due 4/2013)                | 9.00% (Libor + 6.00%/Q)                       | 9/21/2007        | 4,000          | 6,153(3)(15) |                          |
|   |   | 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       |                          |
|   |   | Warrants to purchase up to 27,890 shares                    |   | 12/8/2009        |                |              |                          |
|   |   |   |   |                  | 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)     |                          |
|   |   | 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       |                          |
| 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)(15) |                          |

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|  |  |  |   |            |        |                 |
|--|--|--|---|------------|--------|-----------------|
|  |  | 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)(15) |
|  |  | 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 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)(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          |
| 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)                       | 12/21/2007 | 2,108  | 2,108           |
|  |  | Junior secured loan (\$839 par due 12/2012)        | 9.66% (Libor + 9.38%/Q)                       | 12/21/2007 | 839    | 839(3)          |
|  |  | Junior secured loan (\$2,119 par due 12/2012)      | 14.50%  | 12/21/2007 | 2,119  | 2,119           |
|  |  | Junior secured loan (\$844 par due 12/2012)        | 14.50%  | 12/21/2007 | 844    | 844(3)          |
|  |  | Junior secured loan (\$10,809 par due 12/2012)     | 9.66% (Libor + 9.38%/Q)                       | 12/21/2007 | 10,809 | 10,809(3)       |

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|---|--|--|---|------------------|----------------|--------------|--------------------------|
|   |  | Junior secured loan (\$2,963 par due 12/2012)          | 14.50%                                      | 12/21/2007       | 2,963          | 2,963(2)     |                          |
|   |  | Junior secured loan (\$988 par due 12/2012)            | 14.50%                                      | 12/21/2007       | 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          |              |                          |
|   |  |  |   |                  | 148,608        | 150,832      | 4.94%                    |
| <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)(15)    |                          |
|   |  | 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)(15)   |                          |
|   |  | 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)(15)   |                          |
|   |  | 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)(15) |                          |
|   |  | 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        |                |              |                          |
|   |  |  |   |                  | 10,149         | 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)     |                          |

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|   |  |  |   |            |                  |                         |
|---|--|--|---|------------|------------------|-------------------------|
| 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   | 31,415<br>18,606 | 32,555<br>18,840(4)(15) |
|   |  | Warrants to purchase up to 607 shares              |   | 4/1/2010   |                  | 4                       |
| 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  | 18,606<br>4,718  | 18,844<br>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)(14)              |
|   |  | 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)(15)            |
|   |  | 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                   |

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|---|--|---|------------------------------|------------------|----------------|---------------|--------------------------|
|   |  | 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(15)     |                          |
|   |  | Senior secured loan (\$17,775 par due 9/2013)             | 7.50% (Libor + 5.50%/Q)      | 9/1/2010         | 16,924         | 17,775(2)(15) |                          |
|   |  | Senior secured loan (\$9,283 par due 9/2013)              | 7.50% (Libor + 5.50%/Q)      | 9/1/2010         | 9,283          | 9,283(3)(15)  |                          |
|   |  | 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 11/2014)       | 12.00% Cash, 4.00% PIK       | 2/8/2008         | 32,768         | 32,768(2)(4)  |                          |
|   |  | Senior subordinated loan (\$10,321 par due 11/2014)       | 12.00% Cash, 4.00% PIK       | 11/7/2007        | 10,321         | 10,321(4)     |                          |
|   |  | Warrants to purchase up to 200 shares                     |                              | 11/7/2007        |                | 3,915         |                          |
|   |  | Warrants to purchase up to 208 shares                     |                              | 9/1/2010         |                |               |                          |
|   |  |   |                              |                  | 105,751        | 110,186       |                          |
| Startec Equity, LLC(7)  | Communication services                         | Member interest   |                              | 4/1/2010         |                |               |                          |
|   |  |   |                              |                  | 105,751        | 110,186       | 3.61%                    |
| <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(15)     |                          |
|   |  | Senior secured loan (\$14,162 par due 10/2013)            | 12.00% (Libor + 9.00%/M)     | 10/5/2007        | 14,162         | 14,162(15)    |                          |
|   |  | Senior secured loan (\$14,900 par due 10/2013)            | 12.00% (Libor + 9.00%/M)     | 10/5/2007        | 14,900         | 14,900(3)(15) |                          |
|   |  | 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         |                          |

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|  |                            |  |                             |           |         |           |       |
|--|----------------------------|--|-----------------------------|-----------|---------|-----------|-------|
|  |                            | 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(15)   |       |
|  |                            |  |                             |           | 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) |       |
|  |                            | 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     |       |

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|--|------------------------------|--|---|------------------|----------------|-----------------|--------------------------|-------|
| 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)(15) |                          |       |
|  |                              | 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)(15)   |                          |       |
|  |                              | 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)(15) |                          |       |
|  |                              | 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</b>                        |                              |  |   |                  |                |                 |                          |       |
| <b>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(14)       |                          |       |
| Aquila Binks Forest Development, LLC                 | Real estate developer        | Commercial mortgage loan (\$12,870 par due 6/2011)       |   | 4/1/2010         | 11,293         | 4,812(14)       |                          |       |
|  |                              | 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         |                |                 |                          |       |
|  | Hotel operator               |  |   | 4/1/2010         | 433            | 444(14)         |                          |       |



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|  |                             |   |          |       |           |
|--|-----------------------------|---|----------|-------|-----------|
| Crescent Hotels & Resorts, LLC and affiliates(7)   |                             | Senior subordinated loan (\$433 par due 6/2010)   |          |       |           |
|  |                             | Senior subordinated loan (\$4,124 par due 1/2012) | 4/1/2010 | 1,475 | (14)      |
|  |                             | Senior subordinated loan (\$4,348 par due 6/2017) | 4/1/2010 | 1,482 | 1,288(14) |
|  |                             | Senior subordinated loan (\$2,722 par due 6/2017) | 4/1/2010 | 928   | 1,963(14) |
|  |                             | Senior subordinated loan (\$5,974 par due 9/2012) | 4/1/2010 | 2,051 | (14)      |
|  |                             | Senior subordinated loan (\$263 par due 3/2013)   | 4/1/2010 | 263   | (14)      |
|  |                             | Senior subordinated loan (\$2,112 par due 9/2011) | 4/1/2010 |       | (14)      |
|  |                             | Senior subordinated loan (\$3,078 par due 1/2012) | 4/1/2010 |       | (14)      |
|  |                             | Senior subordinated loan (\$2,926 par due 6/2017) | 4/1/2010 |       | (14)      |
|  |                             | Senior subordinated loan (\$2,050 par due 6/2017) | 4/1/2010 |       | (14)      |
|  |                             | Senior subordinated loan (\$4,826 par due 9/2012) | 4/1/2010 |       | (14)      |
|  |                             | Preferred equity interest                         | 4/1/2010 |       |           |
|  | Preferred equity interest   | 4/1/2010  |          | 43    |           |
|  | Common equity interest      | 4/1/2010  | 35       |       |           |
|  | Member interests            | 4/1/2010  |          |       |           |
|  |                             |   | 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(14) |
| Holiday Inn West Chester Hot Light Brands, Inc.(7) | Hotel property              | Real estate owned                                 | 4/1/2010 | 3,513 | 3,330     |
|  | Real estate holding company | Senior secured loan (\$27,393 par due 2/2011)     | 4/1/2010 | 4,875 | 4,629(14) |
|  |                             | 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(14)   |
| NPH, Inc.  | Hotel property              | Real estate equity interest                       | 4/1/2010 | 5,291 | 6,907     |

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(dollar amounts in thousands)

| Company(1)                       | Business Description  | Investment  | Interest(5)(11)              | Acquisition Date | Amortized Cost | Fair Value    | Percentage of Net Assets |
|----------------------------------|---|---|------------------------------|------------------|----------------|---------------|--------------------------|
| Van Ness Hotel, Inc.             | Hotel operator  | Commercial mortgage loan (\$3,750 par due 8/2013)               |                              | 4/1/2010         | 1,027          | (14)          |                          |
|                                  |   | 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% (Libor + 11.00%/Q)    | 9/30/2010        | 34,500         | 34,500(15)    |                          |
|                                  |   | 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%                    |
| <b>Computers and Electronics</b> |   |   |                              |                  |                |               |                          |
| 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)(15) |                          |
|                                  |   | 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        |                          |
| 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)      |                          |
|                                  |   |   |                              |                  |                |               | 34,620                   |
| <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(14)     |                          |
|                                  |   | Junior secured loan (\$2,086 par due 12/2012)                   |                              | 12/21/2005       | 2,086          | 666(3)(14)    |                          |
|                                  |   | Junior secured loan (\$4,755 par due 12/2012)                   |                              | 12/21/2005       | 4,755          | 1,517(14)     |                          |
|                                  |   | Junior secured loan (\$2,086 par due 12/2012)                   |                              | 12/21/2005       | 2,086          | 666(3)(14)    |                          |

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|                                       |  |  |                          |            |        |              |
|---------------------------------------|--|--|--------------------------|------------|--------|--------------|
| Mactec, Inc.                          | Engineering and environmental services                                   | Class B-4 stock (16 shares)                      |                          | 11/3/2004  | 13,682 | 4,366        |
|                                       |  | 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(15)    |
|                                       |  | Junior secured loan (\$917 par due 10/2013)      | 16.00% (Libor + 8.00%/Q) | 10/11/2007 | 917    | 642(15)      |
|                                       |  | Junior secured loan (\$2,778 par due 10/2013)    | 16.00% (Libor + 8.00%/Q) | 10/11/2007 | 2,778  | 1,944(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) |
|                                       |  | Junior secured loan (\$2,000 par due 10/2013)    | 16.00% (Libor + 8.00%/Q) | 10/11/2007 | 2,000  | 1,400(3)(15) |
|                                       |  | Junior secured loan (\$6,060 par due 10/2013)    | 16.00% (Libor + 8.00%/Q) | 10/11/2007 | 6,060  | 4,242(3)(15) |
|                                       |  |  |                          |            | 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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| Company(1)                            | Business Description  | Investment   | Interest(5)(11)             | Acquisition Date | Amortized Cost | Fair Value   | Percentage of Net Assets |       |
|---------------------------------------|---|--|-----------------------------|------------------|----------------|--------------|--------------------------|-------|
| Wastequip, Inc.(6)                    | Waste management equipment manufacturer                       | Senior subordinated loan (\$12,669 par due 2/2015) |                             | 2/5/2007         | 12,581         | 760(14)      |                          |       |
|                                       |   | Common stock (13,889 shares)                       |                             | 2/2/2007         | 1,389          |              |                          |       |
|                                       |   |  |                             |                  |                | 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)(15) |                          |       |
|                                       |   | Senior secured loan (\$520 par due 10/2014)        | 6.50% (Libor + 5.00%/M)     | 4/1/2010         | 506            | 520(3)(15)   |                          |       |
|                                       |   | 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>Chemicals, Plastics and Rubber</b> |   |  |                             |                  |                |              |                          |       |
| Emerald Performance Materials, LLC    | Polymers and performance materials manufacturer               | Senior secured loan (\$375 par due 5/2011)         | 8.25% (Libor + 4.25%/M)     | 5/22/2006        | 375            | 375(15)      |                          |       |
|                                       |   | Senior secured loan (\$5,801 par due 5/2011)       | 8.25% (Libor + 4.25%/M)     | 5/22/2006        | 5,801          | 5,801(15)    |                          |       |
|                                       |   | Senior secured loan (\$536 par due 5/2011)         | 8.25% (Libor + 4.25%/M)     | 5/22/2006        | 536            | 536(3)(15)   |                          |       |
|                                       |   | Senior secured loan (\$8,296 par due 5/2011)       | 8.25% (Libor + 4.25%/M)     | 5/22/2006        | 8,296          | 8,296(3)(15) |                          |       |
|                                       |   | Senior secured loan (\$3,806 par due 5/2011)       | 10.00% (Libor + 6.00%/M)    | 5/22/2006        | 3,806          | 3,806(15)    |                          |       |
|                                       |   | Senior secured loan (\$1,579 par due 5/2011)       | 10.00% (Libor + 6.00%/M)    | 5/22/2006        | 1,579          | 1,579(3)(15) |                          |       |
|                                       |   | Senior secured loan (\$3,558 par due 5/2011)       | 13.00% Cash, 3.00% PIK      | 5/22/2006        | 3,558          | 3,558(4)     |                          |       |
|                                       |   | Senior secured loan (\$5,089 par due 5/2011)       | 13.00% Cash, 3.00% PIK      | 5/22/2006        | 5,089          | 5,089(2)(4)  |                          |       |
|                                       |   |  |                             |                  |                | 29,040       | 29,040                   | 0.95% |
| <b>Containers and 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)       |                          |       |

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|                     |  |  |                             |            |        |               |       |
|---------------------|--|--|-----------------------------|------------|--------|---------------|-------|
|                     |  | 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 Inc.  | Holdings, 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)(13)  |       |
|                     |  | Senior secured loan (\$11,500 par due 10/2013) | 4.76% (Libor + 4.50%/M)     | 10/11/2007 | 11,500 | 10,235(3)(13) |       |
|                     |  |  |                             |            | 18,750 | 16,688        |       |
|                     |  |  |                             |            | 18,750 | 16,688        | 0.55% |

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|---|--|--|--|------------------|----------------|-----------------|--------------------------|
| <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 10/2012)  | 9.00% (Libor + 6.00%/Q)                      | 3/2/2006         | 1,141          | 965(15)         |                          |
|   |  | Senior secured revolving loan (\$1,250 par due 10/2012)  | 9.00% (Base Rate + 5.00%/Q)                  | 3/2/2006         | 1,250          | 1,057(15)       |                          |
|   |  | 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)(15) |                          |
|   |  | 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)(15)   |                          |
|   |  | 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             |                 |                          |
|   |  |  |  | 4/1/2010         | 1,738          | 207             |                          |

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|                         |   |  |           |              |              |         |
|-------------------------|---|--|-----------|--------------|--------------|---------|
|                         |   | Warrants to purchase up to 80,063 shares of preferred stock  |           |              |              |         |
|                         |   | 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%   |
| <b>Housing Building</b> |   |  |           |              |              |         |
| <b>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(14)      |         |
|                         |   | 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          |         |
|                         |   |  |           | 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, as amended (together with the rules and regulations promulgated thereunder, the

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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, which as of December 31, 2010 represented 142% of the Company's net assets or 95% of the Company's total assets, are subject to legal restrictions on sales.

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<br>(cost) | Sales (cost) | Interest<br>income | Capital<br>structuring<br>service fees | Dividend<br>Income | Other<br>income | Net realized<br>gains (losses) | Net unrealized<br>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<br>Juice Partners, LLC   | \$ 3,500   | \$ 5,022              | \$ 2,816     | \$ 3,753           | \$                                     | \$                 | \$ 47           | \$                             | \$ 36                            |
| BB&T Capital<br>Partners/Windsor Mezzanine<br>Fund, LLC                                | \$ 13,943  | \$ 2,043              | \$           | \$                 | \$                                     | \$                 | \$              | \$                             | \$ 3,804                         |
| Carador PLC  | \$         | \$                    | \$           | \$                 | \$                                     | \$ 616             | \$              | \$                             | \$ 2,844                         |
| Campus Management Corp.<br>and Campus Management<br>Acquisition Corp.                  | \$         | \$ 43,462             | \$           | \$ 4,829           | \$                                     | \$                 | \$ 1            | \$                             | \$ (197)                         |
| CT Technologies<br>Intermediate Holdings, Inc.<br>and CT Technologies<br>Holdings, LLC | \$         | \$                    | \$           | \$ 297             | \$                                     | \$                 | \$              | \$                             | \$ 3,070                         |
| Direct Buy Holdings, Inc. and<br>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                        |
| The Dwyer Group  | \$ 42,100  | \$                    | \$           | \$ 97              | \$ 813                                 | \$                 | \$              | \$                             | \$                               |
| Firstlight Financial<br>Corporation  | \$         | \$                    | \$           | \$ 545             | \$                                     | \$                 | \$ 312          | \$                             | \$ (1,295)                       |
| Growing Family, Inc. and<br>GFH Holdings, LLC  | \$         | \$                    | \$           | \$ 1,097           | \$                                     | \$                 | \$              | \$ (7,659)                     | \$ 1,668                         |
| Imperial Capital Group, LLC  | \$         | \$                    | \$ 151       | \$                 | \$                                     | \$ 1,509           | \$              | \$                             | \$ 464                           |
| Industrial Container Services,<br>LLC  | \$ 1,446   | \$ 10,692             | \$           | \$ 391             | \$                                     | \$                 | \$ 148          | \$                             | \$ 7,049                         |
| Insight Pharmaceuticals<br>Corporation   | \$ 66,790  | \$                    | \$           | \$ 6,325           | \$                                     | \$                 | \$ 375          | \$                             | \$ 1,362                         |
| Investor Group Services, LLC   | \$ 100     | \$ 100                | \$           | \$ 203             | \$                                     | \$                 | \$ 20           | \$                             | \$ 64                            |



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|   |    |        |    |        |    |        |    |     |    |         |
|---|----|--------|----|--------|----|--------|----|-----|----|---------|
| 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 Healthcare Group, LLC                         | \$ | 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 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

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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:

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| Company  | Purchases  | Redemptions<br>(cost) | Sales (cost) | Interest<br>income | Capital<br>structuring<br>service fees | Dividend<br>Income | Other<br>income | Net realized<br>gains<br>(losses) | Net unrealized<br>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<br>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 Hotels & Resorts,<br>LLC and affiliates | \$ 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,<br>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)                       |
| Industrial Air Tool, LP and<br>affiliates        | \$ 13,419  | \$                    | \$           | \$                 | \$                                     | \$                 | \$ 130          | \$                                | \$ 1,432                         |
| Ivy Hill Asset Management,<br>L.P.               | \$ 71,116  | \$ 4,834              | \$           | \$                 | \$                                     | \$ 7,320           | \$              | \$                                | \$ 21,633                        |
| Ivy Hill Middle Market<br>Credit Fund, Ltd.      | \$         | \$                    | \$ 330       | \$ 6,859           | \$                                     | \$                 | \$              | \$                                | \$ 884                           |
| Knightsbridge CLO 2007-1<br>Ltd.                 | \$ 14,852  | \$                    | \$           | \$ 1,823           | \$                                     | \$                 | \$              | \$                                | \$ (307)                         |
| Knightsbridge CLO 2008-1<br>Ltd.                 | \$ 36,996  | \$                    | \$           | \$ 2,189           | \$                                     | \$                 | \$              | \$                                | \$ (3,108)                       |
| LVCG Holdings, LLC                               | \$         | \$                    | \$           | \$                 | \$                                     | \$                 | \$              | \$                                | \$ (330)                         |
| Making Memories<br>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<br>LLC               | \$ 20,069  | \$                    | \$           | \$                 | \$                                     | \$                 | \$ 375          | \$                                | \$ 1,987                         |
| Reflexite Corporation                            | \$         | \$                    | \$ 8,450     | \$ 3,568           | \$                                     | \$                 | \$ 141          | \$ 950                            | \$ 5,928                         |
| Senior Secured Loan Fund<br>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 Global Sponsor Finance LLC and General Electric Capital Corporation (together, "GE"), we co-invest through the Senior Secured Loan Fund LLC d/b/a the Senior Secured Loan Program (the "SSLP"). 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 GE and the Company; 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)

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Excepted from the definition of 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) 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.
- (11) 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.
- (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 5% on \$40 million aggregate principal amount outstanding of the portfolio company's senior term debt previously syndicated by us.

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- (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 million aggregate principal amount outstanding of the portfolio company's senior term debt previously syndicated by us.
- (14) Loan was on non-accrual status as of December 31, 2010.
- (15) Loan includes interest rate floor feature.
- (16) 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.

See accompanying notes to consolidated financial statements.

Table of Contents**ARES CAPITAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**

For the Nine Months Ended September 30, 2011 (unaudited)

(in thousands, except per share data)

|  | Common Stock |        | Capital in   | Accumulated     | Accumulated       | Net Unrealized | Total        |
|--|--------------|--------|--------------|-----------------|-------------------|----------------|--------------|
|  | Shares       | Amount | Excess of    | Overdistributed | Net Realized      | Gain (Loss) on | Stockholders |
|  |              |        | Par Value    | Net Investment  | Loss on           | Investments    | Equity       |
|  |              |        |              | Income          | Investments,      | and Foreign    |              |
|  |              |        |              |                 | Foreign Currency  | Currency       |              |
|  |              |        |              |                 | Transactions,     | Transactions   |              |
|  |              |        |              |                 | Extinguishment of |                |              |
|  |              |        |              |                 | Debt and          |                |              |
|  |              |        |              |                 | Other Assets      |                |              |
| 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 dividend reinvestment plan    | 711          | 1      | 11,552       |                 |                   |                | 11,553       |
| Issuance of the Convertible Notes (see Note 5)                 |              |        | 54,717       |                 |                   |                | 54,717       |
| Net increase in stockholders' equity resulting from operations |              |        |              | 189,944         | 85,686            | (74,302)       | 201,328      |
| Dividends declared (\$1.05 per share)                          |              |        |              | (214,853)       |                   |                | (214,853)    |
| Balance at September 30, 2011                                  | 205,130      | \$ 205 | \$ 3,271,595 | \$ (36,245)     | \$ (84,010)       | \$ (48,267)    | \$ 3,103,278 |

See accompanying notes to consolidated financial statements.

Table of Contents**ARES CAPITAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF CASH FLOWS****(in thousands)**

|  | <b>For the nine months ended</b> |                           |
|--|----------------------------------|---------------------------|
|  | <b>September 30, 2011</b>        | <b>September 30, 2010</b> |
|  | <b>(unaudited)</b>               | <b>(unaudited)</b>        |
| <b>OPERATING ACTIVITIES:</b>   |                                  |                           |
| Net increase in stockholders' equity resulting from operations                           | \$ 201,328                       | \$ 534,946                |
| Adjustments to reconcile net increase in stockholders' equity resulting from operations: |                                  |                           |
| Gain on the acquisition of Allied Capital Corporation                                    |                                  | (195,876)                 |
| Realized loss on extinguishment of debt  | 19,318                           | 1,961                     |
| Net realized gains from investments  | (105,004)                        | (8,654)                   |
| Net unrealized (gains) losses from investments and foreign currency transactions         | 74,302                           | (179,911)                 |
| Net accretion of discount on securities  | (11,188)                         | (8,031)                   |
| Increase in accrued payment-in-kind interest and dividends                               | (25,522)                         | (34,117)                  |
| Collections of payment-in-kind interest and dividends                                    | 51,213                           | 28,525                    |
| Amortization of debt issuance costs  | 9,653                            | 6,802                     |
| Accretion of discount on the Allied Unsecured Notes                                      | 2,574                            | 5,644                     |
| Accretion of discount on the Convertible Notes   | 5,996                            |                           |
| Depreciation   | 674                              | 662                       |
| Proceeds from sales and repayments of investments  | 1,911,497                        | 1,183,275                 |
| Purchase of investments  | (2,369,031)                      | (1,126,780)               |
| Acquisition of Allied Capital, net of cash acquired                                      |                                  | (774,190)                 |
| Changes in operating assets and liabilities:   |                                  |                           |
| Interest receivable  | (11,831)                         | (19,712)                  |
| Other assets   | (5,751)                          | 4,515                     |
| Management and incentive fees payable  | 31,446                           | (33,254)                  |
| Accounts payable and accrued expenses  | 2,459                            | (48,676)                  |
| Interest and facility fees payable   | (791)                            | (1)                       |
| Net cash used in operating activities  | (218,658)                        | (662,872)                 |
| <b>FINANCING ACTIVITIES:</b>   |                                  |                           |
| Net proceeds from issuance of common stock   |                                  | 1,149,773                 |
| Borrowings on debt   | 2,018,888                        | 1,192,264                 |
| Repayments and repurchases of debt   | (1,570,356)                      | (1,461,693)               |
| Debt issuance costs  | (24,180)                         | (18,208)                  |
| Dividends paid in cash   | (203,300)                        | (164,129)                 |
| Net cash provided by financing activities  | 221,052                          | 698,007                   |
| <b>CHANGE IN CASH AND CASH EQUIVALENTS</b>   | <b>2,394</b>                     | <b>35,135</b>             |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>                                    | <b>100,752</b>                   | <b>99,227</b>             |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>  | <b>\$ 103,146</b>                | <b>\$ 134,362</b>         |
| <b>Supplemental Information:</b>   |                                  |                           |
| Interest paid during the period  | \$ 66,098                        | \$ 39,418                 |
| Taxes, including excise tax, paid during the period                                      | \$ 8,818                         | \$ 1,683                  |
| Dividends declared during the period   | \$ 215,005                       | \$ 180,873                |

See accompanying notes to consolidated financial statements.





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**ARES CAPITAL CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**As of September 30, 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, as amended (together with the rules and regulations promulgated thereunder, 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 historically 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 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.

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*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, among other things, 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. In addition, our independent accountants review our valuation process as part of their overall integrated audit.

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.

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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 third parties, including independent third-party valuation firms, with respect to the valuations of a minimum of 50% of our portfolio at fair value.

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- 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, among other things, 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 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 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 and nine months ended September 30, 2011, \$6,803, and \$25,522, respectively, in PIK income were recorded. For the three and nine months ended September 30, 2011, \$32,603, and \$51,213, respectively, of PIK income were collected. For the three and nine months ended September 30, 2010, \$13,345 and \$34,117 respectively, in PIK income were recorded. For the three and nine months ended September 30, 2010, \$3,126 and \$28,525 respectively, of PIK income were collected.

*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.

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***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 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 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, the Company accrues excise tax, if any, on estimated excess taxable income as such taxable income is earned. For the three and nine months ended September 30, 2011 a net expense of \$2,299 and \$4,069, respectively, were recorded for U.S. federal excise tax. For the three and nine months ended September 30, 2010, no amounts were 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 and nine months ended September 30, 2011, we recorded a tax (benefit) expense of approximately \$(1,616) and \$568, respectively, for these subsidiaries. For the three and nine months ended September 30, 2010, we recorded a tax (benefit) expense of approximately \$(164) and \$360, respectively, 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.



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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.

*New Accounting Pronouncements*

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

**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. In connection with the Allied Acquisition, Ares Capital Management has committed to

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defer up to \$15,000 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.

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.

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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 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 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.

Notwithstanding the foregoing, as a result of an amendment to the capital gains portion of the incentive fee under the investment advisory and management agreement (the "Capital Gains Amendment") that was adopted on June 6, 2011, 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 the Company for such investment plus (y) any amounts recorded in the Company's financial statements as required by GAAP that

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are attributable to the accretion of such investment plus (z) any other adjustments made to the cost basis included in the Company's financial statements, including payment-in-kind interest or additional amounts funded (net of repayments) minus (2) any amounts recorded in the Company's 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. 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 and nine months ended September 30, 2011 was \$0. However, in accordance with GAAP, for the three months ended September 30, 2011, the Company recorded a net reduction of the capital gains incentive fee of \$11,544, and for the nine months ended September 30, 2011, the Company accrued a capital gains incentive fee of \$28,215, including \$26,012 recognized in the second quarter of 2011 as a result of the application of the Capital Gains Amendment described above with respect to the assets purchased in the Allied Acquisition, bringing the total GAAP accrual related to the capital gains incentive fee to \$43,823 as of September 30, 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 cumulative amount, less the aggregate amount of actual Capital Gains Fees paid or capital gains incentive fees accrued under GAAP in all prior periods. The resulting accrual for any capital gains incentive fee under GAAP in a given period may result in an additional expense if such cumulative amount is greater than in the prior period or a reversal of previously recorded expense if such cumulative amount is less than in the prior period. If such cumulative amount is negative, then there is no accrual. There can be no assurance that such unrealized capital appreciation will be realized in the future. There was no similar GAAP expense for the three or nine months ended September 30, 2010.

For the three and nine months ended September 30, 2011, base management fees were \$18,317 and \$52,461, respectively, incentive management fees related to pre-incentive fee net investment income were \$21,703 and \$54,631, respectively, and incentive management fees related to capital gains were \$(11,544) and \$28,215, respectively.

As of September 30, 2011, \$83,843 was included in management and incentive fees payable in the accompanying consolidated balance sheet, of which \$40,020 is currently payable to the Company's investment adviser under the investment advisory and management agreement.

For the three and nine months ended September 30, 2010, base management fees were \$15,436 and \$35,574, respectively, incentive management fees related to realized pre-incentive fee net investment income were \$17,805 and \$40,922, respectively, and there were no incentive management fees related to capital gains.

*Administration Agreement*

We are party to an amended and restated 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 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 compensation of certain of our officers (including our chief compliance officer, chief financial officer, general counsel, treasurer and assistant 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.

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For the three and nine months ended September 30, 2011, we incurred \$2,017 and \$6,901, respectively, in fees under the administrative agreement. For the three and nine months ended September 30, 2010, we incurred \$2,642 and \$6,251, respectively, in administrative fees. As of September 30, 2011, \$2,017 was unpaid and included in accounts payable and accrued expenses in the accompanying consolidated balance sheet.

**4. INVESTMENTS**

As of September 30, 2011 and December 31, 2010, investments consisted of the following:

|  | September 30, 2011 |              | December 31, 2010 |              |
|--|--------------------|--------------|-------------------|--------------|
|  | Amortized Cost(1)  | Fair Value   | Amortized Cost(1) | Fair Value   |
| Senior term debt                         | \$ 2,587,442       | \$ 2,547,129 | \$ 1,722,130      | \$ 1,695,532 |
| Subordinated Certificates of the SSLP(2) | 777,406            | 796,513      | 537,439           | 561,674      |
| Senior subordinated debt                 | 599,126            | 529,809      | 1,055,440         | 1,014,514    |
| Collateralized loan obligations          | 92,511             | 90,749       | 219,324           | 261,156      |
| Preferred equity securities              | 243,977            | 236,353      | 137,424           | 143,546      |
| Other equity securities                  | 480,770            | 534,545      | 579,177           | 607,656      |
| Commercial real estate                   | 22,188             | 20,055       | 41,021            | 33,912       |
| Total                                    | \$ 4,803,420       | \$ 4,755,153 | \$ 4,291,955      | \$ 4,317,990 |

(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) The proceeds from these certificates were applied to co-investments with GE Global Sponsor Finance LLC and General Electric Capital Corporation to fund first lien senior secured loans to 25 and 20 different borrowers as of September 30, 2011 and December 31, 2010, respectively.

The industrial and geographic compositions of our portfolio at fair value at September 30, 2011 and December 31, 2010 were as follows:

| Industry                         | As of              |                   |
|----------------------------------|--------------------|-------------------|
|                                  | September 30, 2011 | December 31, 2010 |
| Investment Funds and Vehicles(1) | 20.3%              | 21.4%             |
| Healthcare Services              | 11.8               | 15.6              |
| Business Services                | 11.2               | 12.6              |
| Education                        | 9.3                | 5.2               |
| Restaurants and Food Services    | 8.4                | 8.8               |
| Financial Services               | 7.2                | 6.7               |

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|                          |        |        |
|--------------------------|--------|--------|
| Consumer Products        | 6.0    | 8.3    |
| Aerospace and Defense    | 5.3    | 0.2    |
| Containers and Packaging | 3.6    | 0.5    |
| Other Services           | 3.5    | 3.3    |
| Telecommunications       | 2.5    | 2.6    |
| Environmental Services   | 1.8    | 0.8    |
| Manufacturing            | 1.4    | 3.5    |
| Energy                   | 1.2    | 0.0    |
| Food and Beverage        | 1.2    | 2.4    |
| Other                    | 5.3    | 8.1    |
| Total                    | 100.0% | 100.0% |

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(1) Includes our investment in the SSLP (as defined below), which represented 16.8% and 13.0% of the Company's total portfolio at fair value as of September 30, 2011 and December 31, 2010, respectively. The SSLP had issued loans to 25 and 20 different borrowers as of September 30, 2011 and December 31, 2010, respectively. The portfolio companies in the SSLP are in industries similar to the companies in our portfolio.



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| Geographic Region | As of              |                   |
|-------------------|--------------------|-------------------|
|                   | September 30, 2011 | December 31, 2010 |
| West              | 43.4%              | 34.5%             |
| Southeast         | 22.4               | 16.5              |
| Midwest           | 15.4               | 20.2              |
| Mid-Atlantic      | 15.3               | 24.4              |
| Northeast         | 2.1                | 1.4               |
| International     | 1.4                | 3.0               |
| <b>Total</b>      | 100.0%             | 100.0%            |

As of September 30, 2011, 4.0% of total investments at amortized cost (or 1.6% of total investments at fair value), were on non-accrual status, including 2.6% of total investments at amortized cost (or 1.2% 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.

**SSLP**

In October 2009, the Company completed its acquisition from Allied Capital of subordinated certificates (the SSLP Certificates) issued by the Senior Secured Loan Fund LLC, which operates using the name Senior Secured Loan Program (the SSLP), an unconsolidated vehicle. The SSLP was formed in December 2007 to co-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 with GE Global Sponsor Finance LLC and General Electric Capital Corporation (together, GE). 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 the Company and GE.

As of September 30, 2011, the SSLP had available capital of approximately \$5.1 billion, approximately \$3.7 billion in aggregate principal amount of which was funded at September 30, 2011 (see Note 17 for subsequent events relating to the SSLP). At September 30, 2011, the Company had agreed to make available to the SSLP \$962,500, of which \$174,372 was unfunded. It is within the Company's discretion to make these additional amounts available to the SSLP.

The amortized cost and fair value of the SSLP Certificates held by the Company was \$777,406 and \$796,513, respectively, at September 30, 2011, and \$537,439 and \$561,674, respectively, at December 31, 2010. The SSLP Certificates 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's yield on its investment in the SSLP at fair value was 15.6% and 15.8% at September 30, 2011 and December 31, 2010, respectively. For the three and nine months ended September 30, 2011, the Company earned interest income of \$30,749 and \$81,073, respectively, in respect of its SSLP investment. The Company is also entitled to certain other sourcing and management fees in connection with the SSLP.

As of September 30, 2011 and December 31, 2010, the SSLP had total assets of \$3.6 billion and \$2.6 billion, respectively. GE's investment in the SSLP consisted of senior notes of \$2.8 billion and \$1.9 billion and subordinated certificates of \$113 million and \$78 million at September 30, 2011 and December 31, 2010, respectively. The subordinated certificates are junior to the senior notes invested by GE and the Company owned 87.5% of the outstanding subordinated certificates as of September 30, 2011. The SSLP's portfolio consisted of senior and unitranche loans to 25

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and 20 different issuers as of September 30, 2011 and December 31, 2010, respectively. At September 30, 2011 and December 31, 2010, the portfolio was comprised of all first lien senior secured loans to U.S. middle-market companies and none of these loans were on non-accrual status. At September 30, 2011 and December 31, 2010, the largest loan to a single issuer in the SSLP's portfolio in aggregate principal amount was \$287.0 million and \$270.0 million, respectively, and loans to 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.

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**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 September 30, 2011 our asset coverage was 272%.

Our debt obligations consisted of the following as of September 30, 2011 and December 31, 2010:

|  | September 30, 2011 |                    | As of             |                    | December 31, 2010 |                    |
|--|--------------------|--------------------|-------------------|--------------------|-------------------|--------------------|
|  | Carrying Value(1)  | Total Available(2) | Carrying Value(1) | Total Available(2) | Carrying Value(1) | Total Available(2) |
| Revolving Funding Facility   | \$ 383,000         | \$ 400,000         | \$ 242,050        | \$ 400,000         | \$ 242,050        | \$ 400,000         |
| Revolving Credit Facility  | 189,820            | 810,000(3)         | 146,000           | 810,000(3)         | 146,000           | 810,000(3)         |
| Debt Securitization  | 91,808             | 91,808             | 155,297           | 183,190            | 155,297           | 183,190            |
| 2011 Notes (principal amount outstanding of \$0 and \$300,584, respectively) |                    |                    | 296,258(4)        | 300,584            | 296,258(4)        | 300,584            |
| 2012 Notes (principal amount outstanding of \$0 and \$161,210, respectively) |                    |                    | 158,108(4)        | 161,210            | 158,108(4)        | 161,210            |
| February 2016 Convertible Notes (principal amount outstanding of \$575,000)  | 539,394(5)         | 575,000            |                   |                    |                   |                    |
| June 2016 Convertible Notes (principal amount outstanding of \$230,000)      | 215,252(5)         | 230,000            |                   |                    |                   |                    |
| 2040 Notes (principal amount outstanding of \$200,000)                       | 200,000            | 200,000            | 200,000           | 200,000            | 200,000           | 200,000            |
| 2047 Notes (principal amount outstanding of \$230,000)                       | 180,938(4)         | 230,000            | 180,796(4)        | 230,000            | 180,796(4)        | 230,000            |
|  | \$ 1,800,212(6)    | \$ 2,536,808       | \$ 1,378,509(6)   | \$ 2,284,984       | \$ 1,378,509(6)   | \$ 2,284,984       |

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

(2) Subject to borrowing base and leverage restrictions. Represents the total aggregate amount available under such instrument.

(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.

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(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 \$49,062 and \$56,633 at September 30, 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 \$35,606 and \$14,748, respectively, at September 30, 2011.

(6) Total principal amount of debt outstanding totaled \$1,899,628 and \$1,435,141 at September 30, 2011 and December 31, 2010, respectively.

The weighted average stated interest rate of all our debt obligations at principal as of September 30, 2011 and December 31, 2010 was 5.0% 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 (see Note 17 for subsequent events relating to the Revolving Funding 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.

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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 that we may borrow 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 September 30, 2011, the Company and Ares Capital CP were in material compliance with the terms of the Revolving Funding Facility.

As of September 30, 2011 and December 31, 2010, there was \$383,000 and \$242,050 outstanding, respectively, under the Revolving Funding Facility.

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 September 30, 2011, for the nine months ended September 30, 2011 and for the period from January 22, 2010 through September 30, 2010, the effective LIBOR spread under the Revolving Funding Facility was 2.75%. As of September 30, 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 which is included in facility fees below.

The components of interest and credit facility fees expense, cash paid for interest expense, average stated interest rates (i.e., rate in effect plus the spread) and average outstanding balances for the Revolving Funding Facility were as follows:

|   | <b>For the three months ended September 30,</b> |             | <b>For the nine months ended September 30,</b> |             |
|---|---|-------------|--|-------------|
|   | <b>2011</b>                                     | <b>2010</b> | <b>2011</b>                                    | <b>2010</b> |
| Stated interest expense                         | \$ 2,804  | \$ 2,119    | \$ 3,929                                       | \$ 5,106    |
| Facility fees                                   | 37  | 285         | 2,178  | 1,319       |
| Amortization of debt issuance costs             | 545   | 454         | 1,613  | 1,330       |
| Total interest and credit facility fees expense | \$ 3,386  | \$ 2,858    | \$ 7,720                                       | \$ 7,755    |
| Cash paid for interest expense                  | \$ 448  | \$ 1,497    | \$ 3,477                                       | \$ 5,106    |
| Average stated interest rate                    | 3.03%   | 3.11%       | 3.00%  | 2.99%       |
| Average outstanding balance                     | \$ 370,667                                      | \$ 272,558  | \$ 174,649                                     | \$ 227,838  |

*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

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the creation or existence of agreements that prohibit liens on certain properties of the Company and its subsidiaries. As of September 30, 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 September 30, 2011, and December 31, 2010, there was \$189,820 and \$146,000 outstanding, respectively, 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 September 30, 2011 and December 31, 2010. As of September 30, 2011 and December 31, 2010, the Company had \$43,789 and \$7,281 in standby letters of credit issued, respectively, 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 September 30, 2011, subject to borrowing base availability, there was \$576,391 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 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 September 30, 2011, for the nine months ended September 30, 2011 and for the period from January 22, 2010 through September 30, 2010, the effective LIBOR spread under the Revolving Credit Facility was 3.00%. As of September 30, 2011, the one, two, three and six month LIBOR was 0.24%, 0.30%, 0.37% and 0.56%, 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 and included in facility fees below. The letter of credit fee is also based on a pricing grid depending on our credit rating. 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 stated 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 ended September 30, |          | For the nine months ended September 30, |          |
|----------------------------|--|----------|---|----------|
|                            | 2011                                     | 2010     | 2011                                    | 2010     |
| Stated interest expense(1) | \$ 2,161                                 | \$ 2,264 | \$ 2,383                                | \$ 8,328 |

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|   |            |            |           |            |
|---|------------|------------|-----------|------------|
| Facility fees                                   | 839        | 708        | 2,957     | 2,199      |
| Amortization of debt issuance costs             | 1,640      | 1,553      | 4,873     | 5,036      |
| Total interest and credit facility fees expense | \$ 4,640   | \$ 4,525   | \$ 10,213 | \$ 15,563  |
| Cash paid for interest expense(1)               | \$ 2,161   | \$ 1,837   | \$ 2,724  | \$ 7,796   |
| Average stated interest rate(1)                 | 3.48%      | 4.66%      | 3.43%     | 4.09%      |
| Average outstanding balance                     | \$ 248,579 | \$ 194,570 | \$ 92,558 | \$ 271,637 |

(1) The stated interest expense, cash paid for interest expense and average stated interest rate for the three and nine months ended September 30, 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 (the CLO Notes ) to third parties that were secured by a pool of middle-market



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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 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 nine months ended September 30, 2011, we repaid \$25,483, \$34,126, \$20,819 and \$14,715 of the Class A-1-A, Class A-1A-VFN, Class A-2A Notes and Class A-2B Notes, respectively. The CLO Notes mature on December 20, 2019, and, as of September 30, 2011, there was \$91,808 outstanding under the CLO Notes (excluding the Retained Notes).

During the first five years from the closing date, principal collections received on the underlying collateral could be used to purchase new collateral. This reinvestment period expired on June 17, 2011. Because the reinvestment period expired, all principal collections received on the underlying collateral will be used to paydown the CLO Notes outstanding in their order of legal priority.

All of the CLO 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. 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 September 30, 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 September 30, 2011 and December 31, 2010 are as follows:

| Class    | September 30, 2011 |                                | As of      |                                | December 31, 2010 |                                |
|----------|--------------------|--------------------------------|------------|--------------------------------|-------------------|--------------------------------|
|          | Amount             | LIBOR Spread<br>(basis points) | Amount     | LIBOR Spread<br>(basis points) | Amount            | LIBOR Spread<br>(basis points) |
| A-1A     | \$ 7,678           | 25                             | \$ 33,161  | 25                             |                   |                                |
| A-1A VFN | 19,635             | 28                             | 22,107     | 28                             |                   |                                |
| A-1B     | 14,000             | 37                             | 14,000     | 37                             |                   |                                |
| A-2A     |                    | 22                             | 20,819     | 22                             |                   |                                |
| A-2B     | 18,285             | 35                             | 33,000     | 35                             |                   |                                |
| B        | 9,000              | 43                             | 9,000      | 43                             |                   |                                |
| C        | 23,210             | 70                             | 23,210     | 70                             |                   |                                |
| Total    | \$ 91,808          |                                | \$ 155,297 |                                |                   |                                |

The interest charged under the Debt Securitization is based on 3-month LIBOR, which as of September 30, 2011 was 0.37% and as of December 31, 2010 was 0.30%. The blended pricing of the CLO Notes, excluding fees, at September 30, 2011, was approximately 3-month LIBOR plus 43 basis points and at December 31, 2010, was approximately 3-month LIBOR plus 36 basis points.

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The Company was also required to pay a commitment fee of 0.175% for any unused portion of the Class A-1A VFN Notes through June 17, 2011 which is included in facility fees below.

The components of interest and credit facility fees expense, cash paid for interest expense, average stated 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 ended September 30, |            | For the nine months ended September 30, |            |
|---|--|------------|---|------------|
|   | 2011                                     | 2010       | 2011                                    | 2010       |
| Stated interest expense                         | \$ 219                                   | \$ 469     | \$ 709                                  | \$ 1,248   |
| Facility fees                                   |  | 7          | 25                                      | 11         |
| Amortization of debt issuance costs             | 89                                       | 90         | 266                                     | 268        |
| Total interest and credit facility fees expense | \$ 308                                   | \$ 566     | \$ 1,000                                | \$ 1,527   |
| Cash paid for interest expense                  | \$ 222                                   | \$ 476     | \$ 722                                  | \$ 1,250   |
| Average stated interest rate                    | 0.66%                                    | 0.91%      | 0.69%                                   | 0.68%      |
| Average outstanding balance                     | \$ 132,759                               | \$ 209,996 | \$ 141,450                              | \$ 246,364 |

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*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 September 30, 2011 and December 31, 2010, the Company had the following outstanding Allied Unsecured Notes:

|            | September 30, 2011    |                   | As of                 |                   | December 31, 2010     |                   |
|------------|-----------------------|-------------------|-----------------------|-------------------|-----------------------|-------------------|
|            | Outstanding Principal | Carrying Value(1) | Outstanding Principal | Carrying Value(1) | Outstanding Principal | Carrying Value(1) |
| 2011 Notes | \$                    |                   | \$                    | 300,584           | \$                    | 296,258           |
| 2012 Notes |                       |                   |                       | 161,210           |                       | 158,108           |
| 2047 Notes | 230,000               | 180,938           | 230,000               | 180,795           |                       |                   |
| Total      | \$ 230,000            | \$ 180,938        | \$ 691,794            | \$ 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 \$306,800 in accordance with the terms of the indenture governing the 2011 Notes, which resulted in a loss on the extinguishment of debt of \$8,860. On April 27, 2011, we redeemed the remaining balance of the 2012 Notes for a total redemption price (including a redemption premium) of \$169,338 in accordance with the terms of the indenture governing the 2012 Notes, which resulted in a loss on the extinguishment of debt of \$10,458.

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.

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 \$49,062. Accretion expense related to this discount is included in interest and credit facility fees in the accompanying consolidated statement of operations.

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The components of interest expense and cash paid for interest expense for the Allied Unsecured Notes are as follows:

|                                | For the three months ended September 30, |       |      |        | For the nine months ended September 30, |        |      |        |
|--------------------------------|--|-------|------|--------|---|--------|------|--------|
|                                | 2011                                     |       | 2010 |        | 2011                                    |        | 2010 |        |
| Stated interest expense        | \$                                       | 3,953 | \$   | 11,838 | \$                                      | 19,125 | \$   | 23,964 |
| Accretion of discount          |  | 49    |      | 2,968  |   | 2,574  |      | 5,644  |
| Total interest expense         | \$                                       | 4,002 | \$   | 14,806 | \$                                      | 21,699 | \$   | 29,608 |
| Cash paid for interest expense | \$                                       | 3,953 | \$   | 15,278 | \$                                      | 30,725 | \$   | 25,266 |

### *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. For the three and nine months ended September 30, 2011, the Company incurred \$3,875 and \$11,625, respectively, of interest expense on the 2040 Notes and the cash paid for interest on the 2040 Notes was \$3,875 and \$11,368, respectively. Also for the three and nine months ended September 30, 2011, the Company incurred \$62 and \$181, respectively, in amortization of debt issuance costs related to the 2040 Notes.

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The 2047 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 September 30, 2011, the Company was in material compliance with the terms of the 2047 Notes and the 2040 Notes.

*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. 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 Convertible Notes prior to maturity. The February 2016 Convertible Notes and the June 2016 Convertible Notes bear interest at a rate of 5.75% and 5.125%, respectively, 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 of 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 of the February 2016 Convertible Notes was approximately 17.5% above the \$16.28 per share closing price of our common stock on January 19, 2011. 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 of the June 2016 Convertible Notes was approximately 17.5% above the \$16.20 per share closing price of our common stock on March 22, 2011. At September 30, 2011, the principal amounts of both the February 2016 Convertible Notes and the June 2016 Convertible Notes exceeded the value of the underlying shares multiplied times the per share closing price of our common stock.

The 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 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.

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. 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.

In addition, if we engage in certain corporate events as described in both the February 2016 Indenture and the June 2016 Indenture (collectively, the Convertible Notes Indentures ), holders of the Convertible Notes may require us to repurchase for cash all or part of the Convertible Notes at a repurchase price equal to 100% of the principal amount of the Convertible Notes to be repurchased, plus accrued and unpaid interest through, but excluding, the required repurchase date.

The Convertible Notes Indentures contain 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 Convertible Notes under certain circumstances. These covenants are subject to important limitations and exceptions that are described in the Convertible Notes Indentures. As September 30, 2011, the Company was in material compliance with the terms of the Convertible Notes Indentures.

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The 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 of the Convertible Notes, 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 Convertible Notes Indentures. The Company has determined that the embedded conversion options in both the February 2016 Convertible Notes and the June 2016 Convertible Notes are 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. 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 both the June 2016 Convertible Notes and the February 2016 Convertible Notes was recorded in capital in excess of par value in the accompanying consolidated balance sheet. As a result, we 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 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 for the February 2016 Convertible Notes were \$14,672 and \$1,104, respectively, and for the June 2016 Convertible Notes were \$5,348 and \$403, respectively. At the time of issuance and as of September 30, 2011, the equity component, net of issuance costs as recorded in the capital in excess of par value in the consolidated balance sheet for the February 2016 Convertible Notes and the June 2016 Convertible Notes was \$39,062 and \$15,655, respectively.

As of September 30, 2011, the components of the carrying value of the Convertible Notes were as follows:

|   | <b>February 2016<br/>Convertible Notes</b> |          | <b>June 2016<br/>Convertible Notes</b> |          |
|---|--|----------|--|----------|
| Principal amount of debt                  | \$   | 575,000  | \$                                     | 230,000  |
| Original issue discount, net of accretion |  | (35,606) |  | (14,748) |
| Carrying value of debt                    | \$   | 539,394  | \$                                     | 215,252  |

For the three and nine months ended September 30, 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/>September 30, 2011</b> |        | <b>For the nine<br/>months ended<br/>September 30, 2011</b> |        |
|--------------------------------------|--|--------|---|--------|
| Stated interest expense              | \$   | 8,266  | \$  | 22,593 |
| Accretion of original issue discount |  | 1,726  |   | 4,644  |
| Amortization of debt issuance cost   |  | 802    |   | 2,136  |
| Total interest expense               | \$   | 10,794 | \$  | 29,373 |
| Cash paid for interest expense       | \$   | 17,082 | \$  | 17,082 |

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 7.51% and 7.48%, respectively, for the three and nine months ended September 30, 2011.

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For the three and nine months ended September 30, 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/>September 30, 2011</b> |       | <b>For the nine<br/>months ended<br/>September 30, 2011</b> |       |
|--------------------------------------|--|-------|---|-------|
| Stated interest expense              | \$   | 2,947 | \$  | 5,992 |
| Accretion of original issue discount |  | 667   |   | 1,352 |
| Amortization of debt issuance cost   |  | 290   |   | 584   |
| Total interest expense               | \$   | 3,904 | \$  | 7,928 |
| Cash paid for interest expense       | \$   |       | \$  |       |



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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 6.79% and 6.78%, respectively, for the three and nine months ended September 30, 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 and nine months ended September 30, 2010, we recognized \$401 and \$1,293, respectively, 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 as described below.

As of September 30, 2011 and December 31, 2010, the Company had the following commitments to fund various revolving and delayed draw senior secured and subordinated loans, including commitments the funding of which is at (or substantially at) the Company's discretion:

|  | September 30, 2011 | As of | December 31, 2010 |
|--|--------------------|-------|-------------------|
| Total revolving and delayed draw commitments                                       | \$ 713,677         | \$    | 260,691           |
| Less: funded commitments   | (107,069)          |       | (59,980)          |
| Total unfunded commitments   | 606,608            |       | 200,711           |
| Less: commitments substantially at discretion of the Company                       | (11,932)           |       | (19,922)          |
| Less: unavailable commitments due to borrowing base or other covenant restrictions | (63,203)           |       | (6,738)           |
| Total net adjusted unfunded revolving and delayed draw commitments                 | \$ 531,473         | \$    | 174,051           |

Included within the total revolving and delayed draw commitments as of September 30, 2011 are commitments to issue up to \$73,422 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 September 30, 2011, the Company had \$41,477 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

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valuation of the investments in the portfolio company. Of these letters of credit, \$175 expire in December 2011, \$163 expire in January 2012, \$65 expire in February 2012, \$778 expire in April 2012, \$647 expire in July 2012, \$12,547 expire in August 2012 and \$27,102 expire in September 2012.

As of September 30, 2011 and December 31, 2010, the Company was party to subscription agreements to fund equity investments in private equity investment partnerships:

|   | As of              |                   |
|---|--------------------|-------------------|
|   | September 30, 2011 | December 31, 2010 |
| Total private equity commitments  | \$ 181,318         | \$ 537,600        |
| Less: funded private equity commitments                                     | (68,295)           | (104,300)         |
| Total unfunded private equity commitments                                   | 113,023            | 433,300           |
| Less: private equity commitments substantially at discretion of the Company | (103,741)          | (400,400)         |
| Total net adjusted unfunded private equity commitments                      | \$ 9,282           | \$ 32,900         |

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 September 30, 2011 and December 31, 2010, the Company had outstanding guarantees or similar obligations totaling \$800.

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

As of September 30, 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 September 30, 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.

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- 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.

Transfers between levels, if any, are recognized at the beginning of the quarter in which the transfers occur. 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

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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 September 30, 2011:

|                           | Total        | Fair Value Measurements Using |           |              |
|---------------------------|--------------|-------------------------------|-----------|--------------|
|                           |              | Level 1                       | Level 2   | Level 3      |
| Cash and cash equivalents | \$ 103,146   | \$ 103,146                    | \$        | \$           |
| Investments               | \$ 4,755,153 | \$                            | \$ 10,080 | \$ 4,745,073 |

The following table presents changes in investments that use Level 3 inputs as of and for the three and nine months ended September 30, 2011:

|  | As of and for the<br>three months ended<br>September 30, 2011 |
|--|---|
| Balance as of June 30, 2011            | \$ 4,630,043  |
| Net realized and unrealized losses     | (54,999)  |
| Purchases                              | 1,131,704   |
| Sales                                  | (216,608)   |
| Redemptions                            | (756,491)   |
| Payment-in-kind interest and dividends | 8,086   |
| Accretion of discount on securities    | 3,338   |
| Net transfers in and/or out of Level 3 |   |
| Balance as of September 30, 2011       | \$ 4,745,073  |

|  | As of and for the<br>nine months ended<br>September 30, 2011 |
|--|--|
| Balance as of December 31, 2010        | \$ 4,312,657   |
| Net realized and unrealized gains      | 44,231   |
| Purchases                              | 2,344,429  |
| Sales                                  | (620,041)  |
| Redemptions                            | (1,348,793)  |
| Payment-in-kind interest and dividends | 26,042   |
| Accretion of discount on securities    | 11,188   |
| Net transfers in and/or out of Level 3 | (24,640)   |
| Balance as of September 30, 2011       | \$ 4,745,073   |

As of September 30, 2011, the net unrealized depreciation on the investments that use Level 3 inputs was \$27,556.

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The following table presents changes in investments that use Level 3 inputs as of and for the three and nine months ended September 30, 2010:

|  |    | <b>As of and for the<br/>three months ended<br/>September 30, 2010</b> |
|--|----|--|
| Balance as of June 30, 2010            | \$ | 3,790,038  |
| Net realized and unrealized gains      |    | 58,131   |
| Net purchases, sales or redemptions    |    | 297,035  |
| Net transfers in and/or out of Level 3 |    |  |
| Balance as of September 30, 2010       | \$ | 4,145,204  |

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|  | <b>As of and for the<br/>nine months ended<br/>September 30, 2010</b> |           |
|--|---|-----------|
| Balance as of December 31, 2009        | \$  | 2,166,687 |
| Net realized and unrealized gains      |   | 186,029   |
| Net purchases, sales or redemptions    |   | 1,792,488 |
| Net transfers in and/or out of Level 3 |   |           |
| Balance as of September 30, 2010       | \$  | 4,145,204 |

As of September 30, 2010, the net unrealized depreciation on the investments that use Level 3 inputs was \$19,900. Transfers between levels, if any, are recognized at the beginning of the quarter in which transfers occur.

Following are the carrying and fair values of our debt instruments as of September 30, 2011 and December 31, 2010. Fair value is estimated by discounting remaining payments using applicable current market rates, which take into account changes in the Company's marketplace credit ratings, or market quotes, if available.

|  | September 30, 2011 |              | As of | December 31, 2010 |              |
|--|--------------------|--------------|-------|-------------------|--------------|
|  | Carrying value(1)  | Fair value   |       | Carrying value(1) | Fair value   |
| Revolving Funding Facility   | \$ 383,000         | 383,000      | \$    | 242,050           | \$ 242,000   |
| Revolving Credit Facility  | 189,820            | 189,820      |       | 146,000           | 146,000      |
| Debt Securitization  | 91,808             | 81,280       |       | 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 \$0 and \$161,210, respectively) |                    |              |       | 158,108(2)        | 164,595      |
| February 2016 Convertible Notes (principal amount outstanding of \$575,000)  | 539,394(3)         | 545,106      |       |                   |              |
| June 2016 Convertible Notes (principal amount outstanding of \$230,000)      | 215,252(3)         | 214,169      |       |                   |              |
| 2040 Notes (principal amount outstanding of \$200,000)                       | 200,000            | 193,288      |       | 200,000           | 184,986      |
| 2047 Notes (principal amount outstanding of \$230,000)                       | 180,938(2)         | 201,638      |       | 180,796(2)        | 197,314      |
|  | \$ 1,800,212(4)    | \$ 1,808,301 | \$    | 1,378,509(4)      | \$ 1,365,185 |

(1) Except for the Allied Unsecured Notes, the 2040 Notes and the Convertible 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.

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(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 \$1,899,628 and \$1,435,141 as of September 30, 2011 and December 31, 2010, respectively.

### 9. STOCKHOLDERS EQUITY

There were no sales of our equity securities during the nine months ended September 30, 2011.

The following table summarizes the total number of 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 nine months ended September 30, 2010:

|  | Shares issued | Offering price<br>per share | Proceeds net of<br>underwriting and<br>offering costs |
|--|---------------|-----------------------------|---|
| February 2010 public offering                      | 22,958        | \$ 12.75                    | \$ 277,207  |
| Total for the nine months ended September 30, 2010 | 22,958        |                             | \$ 277,207  |



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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 and nine months ended September 30, 2011 and 2010:

|  | Three months ended |                    | Nine months ended  |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | September 30, 2011 | September 30, 2010 | September 30, 2011 | September 30, 2010 |
| Net increase in stockholders' equity resulting from operations available to common stockholders: | \$ 40,639          | \$ 128,377         | \$ 201,328         | \$ 534,946         |
| Weighted average shares of common stock outstanding - basic and diluted:                         | 205,130            | 192,167            | 204,770            | 169,500            |
| Basic and diluted net increase in stockholders' equity resulting from operations per share:      | \$ 0.20            | \$ 0.67            | \$ 0.98            | \$ 3.16            |

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 September 30, 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.

**11. DIVIDENDS AND DISTRIBUTIONS**

The following table summarizes our dividends declared during the nine months ended September 30, 2011 and 2010:

| Date Declared   | Record Date        | Payment Date       | Per Share Amount | Total Amount |
|---|--------------------|--------------------|------------------|--------------|
| August 4, 2011  | September 15, 2011 | September 30, 2011 | \$ 0.35          | \$ 71,795    |
| May 5, 2011   | June 15, 2011      | June 30, 2011      | \$ 0.35          | \$ 71,663    |
| March 1, 2011   | March 15, 2011     | March 31, 2011     | \$ 0.35          | \$ 71,547    |
| Total declared for the nine months ended September 30, 2011 |                    |                    | \$ 1.05          | \$ 215,005   |

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|   |                    |                    |    |      |    |         |
|---|--------------------|--------------------|----|------|----|---------|
| 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 the nine months ended September 30, 2010 |                    |                    | \$ | 1.05 | \$ | 180,873 |

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 nine months ended September, 2011 and 2010, was as follows:

|   | For the nine months ended September 30, |          |
|---|---|----------|
|   | 2011                                    | 2010     |
| Shares issued                                   | 711                                     | 1,171    |
| Average price per share                         | \$ 16.24                                | \$ 14.29 |
| Shares purchased by plan agent for shareholders | 372                                     |          |
| Average price per share                         | \$ 13.92                                | \$       |

**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.

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For the three and nine months ended September 30, 2011, the investment adviser incurred such expenses totaling \$698 and \$3,810, respectively. For the three and nine months ended September 30, 2010, the investment adviser incurred such expenses totaling \$721 and \$2,253, respectively. As of September 30, 2011, \$412 was unpaid and such payable is included in accounts payable and accrued expenses in the accompanying consolidated balance sheet.

We have 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 Company's New York office space for a fixed rent equal to 15% and 20%, respectively, of the base annual rent payable by us under the Company's lease for this space, plus certain additional costs and expenses. For the three and nine months ended September 30, 2011, such amounts payable to the Company totaled \$340 and \$477, respectively. 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 nine months ended September 30, 2011, such amounts payable to the Company totaled \$396. For the three and nine months ended September 30, 2010, such amounts payable to the Company totaled \$1,231 and \$1,917, respectively.

As of September 30, 2011, Ares Investments Holdings LLC, 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 1.4% of the total shares outstanding as of September 30, 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 equity investment of \$3,816 into IHAM in June 2009. As of September 30, 2011, the Company's total investment in IHAM at fair value was \$186,823, including an unrealized gain of \$73,947. As of December 31, 2010, the Company's total investment in IHAM at fair value was \$136,235, including an unrealized gain of \$32,777. For the three and nine months ended September 30, 2011, the Company received distributions from IHAM consisting entirely of dividend income of \$4,762 and \$14,286, respectively. For the three and nine months ended September 30, 2010, the Company received distributions from IHAM consisting entirely of dividend income of \$2,500 and \$4,296 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 and nine months ended September 30, 2011, the Company earned \$1,256 and \$3,589, respectively, from its investments in Ivy Hill I. For the three and nine months ended September 30, 2010, the Company earned \$1,723 and \$5,208, respectively, from its investments in Ivy Hill I.

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Ivy Hill I purchased investments from the Company of \$10,205 during the nine months ended September 30, 2011, and may from time to time purchase additional investments from the Company. A realized gain of \$4 was recorded on these transactions for the nine months ended September 30, 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

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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 \$15,800 of investments from the Company during the nine months ended September 30, 2011. A realized loss of \$174 was recorded on these transactions for the nine months ended September 30, 2011.

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 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 of approximately \$9,400 in IHAM to facilitate IHAM's acquisition of equity interests in certain of the Emporia Funds. The Emporia Funds purchased \$32,817 of investments from the Company during the nine months ended September 30, 2011. A realized loss of \$336 was recorded on these transactions for the nine months ended September 30, 2011.

In addition to the Ivy Hill Funds and the Knightsbridge Funds, IHAM also serves as the sub-adviser/sub-manager to four other funds: CoLTS 2005-1 Ltd., CoLTS 2005-2 Ltd., CoLTS 2007-1 Ltd. (collectively, the CoLTS Funds ) and FirstLight Funding I, Ltd. ( FirstLight ), which is affiliated with the Company's portfolio company, Firstlight Financial Corporation. The CoLTS Funds purchased \$5,225 of investments from the Company during the nine months ended September 30, 2011. A realized loss of \$52 was recorded on these transactions for the nine months ended September 30, 2011.

In addition, IHAM serves as the general partner of, and manages, 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 PDS Funds ). The PDS Funds purchased \$109,849 of investments from the Company during the nine months ended September 30, 2011. A realized loss of \$2,422 was recorded on these transactions for the nine months ended September 30, 2011. Additionally, IHAM purchased \$4,949 of investments from the Company during the nine months ended September 30, 2011. A realized loss of \$48 was recorded on these transactions for the nine months ended September 30, 2011. Lastly, the Company purchased \$3,777 of investments from FirstLight during the nine months ended September 30, 2011. IHAM or the funds managed by IHAM may, from time to time, buy or sell additional investments from or to the Company. For any such purchases or sales by IHAM or by funds managed by IHAM from or to the Company, approval is obtained from third parties unaffiliated with the Company or IHAM or funds managed by IHAM, as applicable.

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 \$64 million of total committed capital under management as of September 30, 2011. The Company's investment in AGILE Fund I, LLC was \$130 at fair value, including an unrealized loss of \$115 as of September 30, 2011.



Table of Contents**14. FINANCIAL HIGHLIGHTS**

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

| Per Share Data:  | For the nine months ended |                    |
|--|---------------------------|--------------------|
|  | September 30, 2011        | September 30, 2010 |
| Net asset value, beginning of period(1)                    | \$ 14.92                  | \$ 11.44           |
| Issuance of common stock                                   |                           | 1.15               |
| Issuances of the Convertible Notes                         | 0.27                      |                    |
| Effect of antidilution                                     |                           | (0.27)             |
| Net investment income for period(2)                        | 0.93                      | 0.90               |
| Gain on the acquisition of Allied Capital Corporation      |                           | 1.16               |
| Net realized and unrealized gains for period(2)            | 0.06                      | 1.10               |
| Net increase in stockholders' equity                       | 0.99                      | 3.16               |
| Total distributions to stockholders                        | (1.05)                    | (1.05)             |
| Net asset value at end of period(1)                        | \$ 15.13                  | \$ 14.43           |
| Per share market value at end of period                    | \$ 13.77                  | \$ 15.65           |
| Total return based on market value(3)                      | 7.14%                     | 34.14%             |
| Total return based on net asset value(4)                   | 6.57%                     | 24.10%             |
| Shares outstanding at end of period                        | 205,130                   | 192,566            |
| Ratio/Supplemental Data:                                   |                           |                    |
| Net assets at end of period                                | \$ 3,103,278              | \$ 2,778,476       |
| Ratio of operating expenses to average net assets(5)(6)    | 10.69%                    | 10.51%             |
| Ratio of net investment income to average net assets(5)(7) | 8.04%                     | 9.24%              |
| Portfolio turnover rate(5)                                 | 56%                       | 48%                |

(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 nine months ended September 30, 2011, the total return based on market value equals the decrease of the ending market value at September 30, 2011 of \$13.77 per share from the ending market value at December 31, 2010 of \$16.48 per share, plus the declared dividends of \$1.05 per share for the nine months ended September 30, 2011, divided by the market value at December 31, 2010. For the nine months ended September 30, 2010, the total return based on market value equals the increase of the ending market value at September 30, 2010 of \$15.65 per share over the ending market value at December 31, 2009 of \$12.45 per share, plus the declared dividend of \$1.05 per share for the nine months

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ended September 30, 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 nine months ended September 30, 2011, the total return based on net asset value equals the change in net asset value during the period plus the declared dividends of \$1.05 per share for the nine months ended September 30, 2011, divided by the beginning net asset value at January 1, 2011. For the nine months ended September 30, 2010, the total return based on net asset value equals the change in net asset value during the period plus the declared dividend of \$1.05 per share for the nine months ended September 30, 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



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results.

(5) The ratios reflect an annualized amount.

(6) For the nine months ended September 30, 2011, the ratio of operating expenses to average net assets consisted of 2.22% of base management fees, 3.50% of incentive management fees, 3.80% of the cost of borrowing and 1.17% of other operating expenses. For the nine months ended September 30, 2010, the ratio of operating expenses to average net assets consisted of 2.16% of base management fees, 2.48% of incentive management fees, 3.30% of the cost of borrowing and 2.57% 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).

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

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

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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

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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 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 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, or would be required to be recognized in, the Consolidated Financial Statements as of and for the nine months ended September 30, 2011, except as disclosed below.

In October 2011, we and Ares Capital CP entered into an amendment to the Revolving Funding Facility to, among other things, increase the amount of the Revolving Funding Facility from \$400 million to \$500 million.

In October 2011, the total available capital for the SSLP was increased from \$5.1 billion to \$7.7 billion. In connection with this increase, GE and Ares Capital agreed to make available to the SSLP up to \$6.2 billion and \$1.5 billion, respectively.

**Item 2. Management's Discussion And Analysis Of Financial Condition And Results Of Operations.**

The information contained in this section should be read in conjunction with the financial data and financial statements and notes thereto appearing elsewhere in this quarterly report. In addition, some of the statements in this report (including in the following discussion) constitute forward-looking statements, which relate to future events or the future performance or financial condition of Ares Capital Corporation (the Company, ARCC, Ares Capital, we, us, or our). The forward-looking statements contained in this report involve a number of risks and uncertainties, including statements concerning:

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

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- 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 the 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;
- United States and European sovereign debt issues;

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- 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;

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- 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 in our annual report on Form 10-K for the fiscal year ended December 31, 2010.

We have based the forward-looking statements included in this report on information available to us on the date of this report, and we assume no obligation to update any such forward-looking statements. Although we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through reports that we have filed or in the future may file with the Securities and Exchange Commission (the SEC), including annual reports on Form 10-K, registration statements on Form N-2, quarterly reports on Form 10-Q and current reports on Form 8-K.

**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 business development company (a BDC) under the Investment Company Act of 1940, as amended (together with the rules and regulations promulgated thereunder, 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 (as defined below), Allied Capital Corporation'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,

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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 LLC, a wholly owned subsidiary of Ares Management LLC ( Ares ), a global alternative asset manager and an SEC-registered investment adviser, pursuant to an investment advisory and management agreement. Ares Operations LLC ( Ares Operations ), a wholly owned subsidiary of Ares, 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 regulated investment company (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. 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.

Table of Contents*Allied Acquisition*

On April 1, 2010, we consummated the acquisition of Allied Capital Corporation ( "Allied Capital" ) 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" ). 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, 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 the three and nine months ended September 30, 2011 and as of the three and nine months ended September 30, 2010 includes the results of operations and financial condition of the combined company following the Allied Acquisition unless otherwise indicated in the footnotes.

**PORTFOLIO AND INVESTMENT ACTIVITY**

The Company's investment activity for the three months ended September 30, 2011 and 2010 is presented below (information presented herein is at amortized cost unless otherwise indicated).

| (dollar amounts in millions)  | For the three months ended |                    |
|---|----------------------------|--------------------|
|   | September 30, 2011         | September 30, 2010 |
| <b>New investment commitments (1):</b>  |                            |                    |
| New portfolio companies   | \$ 418.7                   | \$ 39.5            |
| Existing portfolio companies(2)   | 1,011.1                    | 472.3              |
| Total new investment commitments  | 1,429.8                    | 511.8              |
| Less:   |                            |                    |
| Investment commitments exited(3)  | 971.8                      | 230.7              |
| Net investment commitments  | \$ 458.0                   | \$ 281.1           |
| <b>Principal amount of investments funded:</b>  |                            |                    |
| Senior term debt  | \$ 933.1                   | \$ 236.0           |
| Senior subordinated debt  |                            | 40.4               |
| Subordinated Certificates of the Senior Secured Loan Fund LLC (the "SSLP" ) (4)   | 56.4                       | 209.9              |
| Equity and other  | 142.2                      | 23.0               |
| Total   | \$ 1,131.7                 | \$ 509.3           |
| <b>Principal amount of investments sold or repaid excluding investments acquired as part of the Allied Acquisition:</b> |                            |                    |
| Senior term debt  | \$ 621.8                   | \$ 74.7            |
| Senior subordinated debt  | 123.4                      | 56.5               |
| Equity and other  | 69.7                       | 0.1                |
| Total   | \$ 814.9                   | \$ 131.3           |
| <b>Principal amount of investments acquired as part of the Allied Acquisition sold or repaid:</b>                       |                            |                    |
| Senior term debt  | \$ 60.8                    | \$ 90.5            |
| Senior subordinated debt  | 35.3                       | 5.0                |
| Collateralized loan obligations   |                            | 2.5                |



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|  |    |       |    |       |
|--|----|-------|----|-------|
| Equity and other   |    | 13.6  |    | 1.4   |
| Total  | \$ | 109.7 | \$ | 99.4  |
| <b>Number of new investment commitments (5)</b>  |    | 20    |    | 19    |
| <b>Average new investment commitment amount</b>  | \$ | 71.5  | \$ | 26.9  |
| <b>Weighted average term for new investment commitments (in months) (7)</b>  |    | 62    |    | 57    |
| <b>Percentage of new investment commitments at floating rates</b>  |    | 96%   |    | 44%   |
| <b>Percentage of new investment commitments at fixed rates</b>   |    | 4%    |    | 51%   |
| <b>Weighted average yield of debt and income producing securities (6)(7):</b>  |    |       |    |       |
| Funded during the period at fair value   |    | 9.9%  |    | 13.0% |
| Funded during the period at amortized cost   |    | 10.0% |    | 13.1% |
| Exited or repaid during the period at fair value (8)   |    | 9.9%  |    | 13.2% |
| Exited or repaid during the period at amortized cost   |    | 9.9%  |    | 13.2% |
| <b>Weighted average yield of debt and income producing securities acquired as part of the Allied Acquisition(6):</b> |    |       |    |       |
| Exited or repaid during the period at fair value   |    | 15.5% |    | 13.3% |
| Exited or repaid during the period at amortized cost   |    | 13.1% |    | 13.2% |

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- (1) New investment commitments include new agreements to fund revolving credit facilities or delayed draw loans.
- (2) Includes investment commitments to the SSLP of \$56.4 million and \$209.9 million for the three months ended September 30, 2011 and 2010, respectively.
- (3) Investment commitments exited for the three months ended September 30, 2011 and 2010 include \$105.3 million and \$99.1 million, respectively, of investment commitments acquired in connection with the Allied Acquisition.
- (4) See Notes 4 and 17 to our consolidated financial statements for the three and nine months ended September 30, 2011 for more detail on the SSLP.
- (5) Number of new investment commitments represents each commitment to a particular portfolio company.
- (6) Weighted average yield at fair value is computed as 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 and income producing securities, divided by (b) total debt and income producing securities at fair value. Weighted average yield at amortized cost is computed as 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 and income producing securities, divided by (b) total debt and income producing securities at amortized cost.
- (7) Excludes investment commitments acquired as part of the Allied Acquisition on April 1, 2010.
- (8) Represents fair value as of the most recent quarter end.

As of September 30, 2011 and December 31, 2010, investments consisted of the following:

| (in millions)                            | September 30, 2011 |            | As of<br>December 31, 2010 |            |
|--|--------------------|------------|----------------------------|------------|
|  | Amortized Cost     | Fair Value | Amortized Cost             | Fair Value |
| Senior term debt                         | \$ 2,587.4         | \$ 2,547.1 | \$ 1,722.1                 | \$ 1,695.5 |
| Subordinated Certificates of the SSLP(1) | 777.4              | 796.5      | 537.5                      | 561.7      |
| Senior subordinated debt                 | 599.1              | 529.9      | 1,055.5                    | 1,014.5    |
| Collateralized loan obligations          | 92.5               | 90.7       | 219.3                      | 261.2      |

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|                             |            |            |            |            |
|-----------------------------|------------|------------|------------|------------|
| Preferred equity securities | 244.0      | 236.4      | 137.4      | 143.5      |
| Other equity securities     | 480.8      | 534.5      | 579.2      | 607.7      |
| Commercial real estate      | 22.2       | 20.1       | 41.0       | 33.9       |
| Total                       | \$ 4,803.4 | \$ 4,755.2 | \$ 4,292.0 | \$ 4,318.0 |

(1) The proceeds from these certificates were applied to co-investments with GE Global Sponsor Finance LLC and General Electric Capital Corporation (together, GE) to fund first lien senior secured loans to 25 and 20 different borrowers as of September 30, 2011 and December 31, 2010, respectively.

The weighted average yields at fair value and amortized cost of the following portions of our portfolio as of September 30, 2011 and December 31, 2010 were as follows:

|   | September 30, 2011 |            | As of December 31, 2010 |            |
|---|--------------------|------------|-------------------------|------------|
|   | Amortized Cost     | Fair Value | Amortized Cost          | Fair Value |
| Debt and income producing securities  | 11.9%              | 11.9%      | 13.2%                   | 12.9%      |
| Debt and income producing securities for investments acquired as part of the Allied Acquisition | 15.1%              | 14.7%      | 15.2%                   | 14.0%      |
| Total portfolio   | 10.1%              | 10.2%      | 10.6%                   | 10.5%      |
| Senior term debt  | 10.3%              | 10.5%      | 10.6%                   | 10.8%      |
| First lien senior term debt   | 9.8%               | 9.9%       | 10.3%                   | 10.2%      |
| Second lien senior term debt  | 11.6%              | 11.9%      | 11.3%                   | 12.1%      |
| Subordinated Certificates of the SSLP (1)   | 16.0%              | 15.6%      | 16.5%                   | 15.8%      |
| Senior subordinated debt  | 11.1%              | 12.6%      | 13.1%                   | 13.6%      |
| Collateralized loan obligations   | 8.2%               | 8.4%       | 18.7%                   | 15.7%      |
| Income producing equity securities (excluding collateralized loan obligations)                  | 10.7%              | 10.6%      | 7.7%                    | 7.7%       |

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- (1) The proceeds from these certificates were applied to co-investments with GE to fund first lien senior secured loans.

Below is certain information regarding changes in the investments acquired in the Allied Acquisition since April 1, 2010 through September 30, 2011:

| (dollar amounts in millions)                                       | \$                | Investments at Fair Value as of |                              | \$              | Investments at Fair Value as of |                              | Net Change<br>in Fair Value |
|--|-------------------|---------------------------------|------------------------------|-----------------|---------------------------------|------------------------------|-----------------------------|
|  |                   | April 1, 2010                   | Weighted<br>Average<br>Yield |                 | September 30, 2011              | Weighted<br>Average<br>Yield |                             |
|  |                   | % of Total<br>Investments       |                              |                 | % of Total<br>Investments       |                              | \$                          |
| <b><i>Investments with yields less than 10%</i></b>                |                   |                                 |                              |                 |                                 |                              |                             |
| Debt with yields less than 10%                                     | \$ 128.3          | 7.0%                            | 6.5%                         | \$ 38.4         | 4.5%                            | 5.0%                         | \$ (89.9)                   |
| Debt on non-accrual status   | 335.6             | 18.3%                           | %                            | 58.7            | 6.8%                            | %                            | (276.9)                     |
| Equity securities  | 270.8             | 14.8%                           | %                            | 183.4           | 21.4%                           | 0.4%                         | (87.4)                      |
| Commercial real estate and other                                   | 34.5              | 1.9%                            | 3.3%                         | 10.9            | 1.3%                            | %                            | (23.6)                      |
| <b>Total</b>   | <b>\$ 769.2</b>   | <b>42.0%</b>                    | <b>1.2%</b>                  | <b>\$ 291.4</b> | <b>34.0%</b>                    | <b>0.9%</b>                  | <b>\$ (477.8)</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%                        | \$ 567.2        | 66.0%                           | 15.3%                        | \$ (383.0)                  |
| 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>\$ 567.2</b> | <b>66.0%</b>                    | <b>15.3%</b>                 | <b>\$ (497.4)</b>           |
| <b>Total</b>   | <b>\$ 1,833.8</b> | <b>100.0%</b>                   | <b>9.1%</b>                  | <b>\$ 858.6</b> | <b>100.0%</b>                   | <b>10.4%</b>                 | <b>\$ (975.2)</b>           |

Since April 1, 2010 and through September 30, 2011, we have decreased the assets comprising the legacy Allied Capital portfolio by approximately \$975 million, primarily as a result of exits and repayments, at cost, of approximately \$1,128 million and net unrealized depreciation in the portfolio of approximately \$42 million, net of other increases of approximately \$195 million due to fundings of revolving and other commitments of \$128 million, payment-in-kind (PIK) interest and accretion of purchase discounts. From April 1, 2010 through September 30, 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 \$1,252 million. 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.

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

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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

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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 September 30, 2011 and December 31, 2010:

| (dollar amounts in millions) | September 30, 2011 |        |                     |        | As of      |        | December 31, 2010   |        |  |  |
|------------------------------|--------------------|--------|---------------------|--------|------------|--------|---------------------|--------|--|--|
|                              | Fair Value         | %      | Number of Companies | %      | Fair Value | %      | Number of Companies | %      |  |  |
| Grade 1                      | \$ 28.3            | 0.6%   | 7                   | 5.0%   | \$ 13.5    | 0.3%   | 10                  | 5.9%   |  |  |
| Grade 2                      | 267.7              | 5.6%   | 13                  | 9.2%   | 153.9      | 3.6%   | 12                  | 7.1%   |  |  |
| Grade 3                      | 4,135.6            | 87.0%  | 116                 | 82.3%  | 3,503.4    | 81.1%  | 127                 | 74.7%  |  |  |
| Grade 4                      | 323.6              | 6.8%   | 5                   | 3.5%   | 647.2      | 15.0%  | 21                  | 12.3%  |  |  |
|                              | \$ 4,755.2         | 100.0% | 141                 | 100.0% | \$ 4,318.0 | 100.0% | 170                 | 100.0% |  |  |

As of September 30, 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 3.0, 2.8 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.

Investments on non-accrual status as of September 30, 2011 and December 31, 2010, were as follows:

|   | September 30, 2011 |            | As of          |            | December 31, 2010 |  |
|---|--------------------|------------|----------------|------------|-------------------|--|
|   | Amortized Cost     | Fair Value | Amortized Cost | Fair Value |                   |  |
| Investments, excluding investments acquired in connection with the Allied Acquisition | 1.4%               | 0.4%       | 2.3%           | 0.3%       |                   |  |
| Investments acquired in connection with the Allied Acquisition                        | 2.6%               | 1.2%       | 1.5%           | 1.0%       |                   |  |
|   | 4.0%               | 1.6%       | 3.8%           | 1.3%       |                   |  |

**RESULTS OF OPERATIONS**

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*For the three and nine months ended September 30, 2011 and 2010*

Operating results for the three and nine months ended September 30, 2011 and 2010 are as follows:

| (in millions)  | For the three months ended |                    | For the nine months ended |                    |
|--|----------------------------|--------------------|---------------------------|--------------------|
|  | September 30, 2011         | September 30, 2010 | September 30, 2011        | September 30, 2010 |
| Total investment income  | \$ 167.4                   | \$ 138.1           | \$ 447.3                  | \$ 326.2           |
| Total expenses   | 68.4                       | 67.1               | 252.8                     | 173.4              |
| Net investment income before income taxes                      | 99.0                       | 71.0               | 194.5                     | 152.8              |
| Income tax expense (benefit), including excise tax             | 0.7                        | (0.2)              | 4.6                       | 0.4                |
| Net investment income  | 98.3                       | 71.2               | 189.9                     | 152.4              |
| Net realized gains from investments and foreign currencies     | 48.8                       | 1.2                | 105.0                     | 8.7                |
| Net unrealized gains (losses) from investments                 | (106.5)                    | 57.5               | (74.3)                    | 179.9              |
| Gain from the acquisition of Allied Capital                    |                            |                    |                           | 195.9              |
| Realized losses on extinguishment of debt                      |                            | (1.6)              | (19.3)                    | (2.0)              |
| Net increase in stockholders' equity resulting from operations | \$ 40.6                    | \$ 128.3           | \$ 201.3                  | \$ 534.9           |

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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 months ended |                    | For the nine months ended |                    |
|----------------------------------|----------------------------|--------------------|---------------------------|--------------------|
|                                  | September 30, 2011         | September 30, 2010 | September 30, 2011        | September 30, 2010 |
| Interest                         | \$ 121.5                   | \$ 107.9           | \$ 343.4                  | \$ 273.4           |
| Capital structuring service fees | 28.1                       | 20.6               | 59.2                      | 30.4               |
| Dividend income                  | 11.3                       | 3.9                | 26.8                      | 7.8                |
| Management fees                  | 4.2                        | 4.4                | 12.2                      | 10.1               |
| Other income                     | 2.3                        | 1.3                | 5.7                       | 4.5                |
| Total investment income          | \$ 167.4                   | \$ 138.1           | \$ 447.3                  | \$ 326.2           |

The increase in interest income for the three months ended September 30, 2011 was primarily due to the increase in the size of the portfolio from an average of \$4.0 billion at amortized cost for the three months ended September 30, 2010 to an average of \$4.7 billion at amortized cost for the comparable period in 2011. The increase in capital structuring service fees for the three months ended September 30, 2011 compared to the same period in 2010 was primarily due to the increase in new investment commitments, which increased from \$512 million for the three months ended September 30, 2010 to \$1.4 billion for the comparable period in 2011. The increase in dividend income for the three months ended September 30, 2011 was due to an increase in dividend income from Ivy Hill Asset Management, L.P. ( IHAM ) which was \$4.8 million for the three months ended September 30, 2011 and \$2.5 million for the comparable period in 2010, as well as an increase in dividends from certain portfolio companies. Total dividend income for the three months ended September 30, 2011 included \$3.5 million of dividend income that were non-recurring in nature.

The increase in interest income for the nine months ended September 30, 2011 was primarily due to the increase in the size of the portfolio which increased from an average of \$3.5 billion at amortized cost for the nine months ended September 30, 2010 to an average of \$4.5 billion at amortized cost for the comparable period in 2011. The increase in capital structuring service fees for the nine months ended September 30, 2011 was primarily due to the increase in new investment commitments, which increased from \$1.2 billion for the nine months ended September 30, 2010 to \$2.8 billion for the comparable period in 2011. The increase in dividend income for the nine months ended September 30, 2011 was due to increase in dividend income from IHAM, which was \$14.3 million for the nine months ended September 30, 2011, compared to \$4.3 million for the comparable period in 2010, as well as an increase in dividends from certain portfolio companies. Total dividend income for the nine months ended September 30, 2011 included \$7.9 million of dividends that were non-recurring in nature.

**Operating Expenses**

| (in millions)  | For the three months ended |                    | For the nine months ended |                    |
|--|----------------------------|--------------------|---------------------------|--------------------|
|  | September 30, 2011         | September 30, 2010 | September 30, 2011        | September 30, 2010 |
| Interest and credit facility fees  | \$ 31.0                    | \$ 22.8            | \$ 89.7                   | \$ 54.5            |
| Incentive management fees related to pre-incentive fee net investment income | 21.7                       | 17.8               | 54.6                      | 40.9               |
| Incentive management fees related to capital gains per GAAP                  | (11.5)                     |                    | 28.2                      |                    |
| Base management fees   | 18.3                       | 15.4               | 52.5                      | 35.6               |



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|   |         |         |          |          |
|---|---------|---------|----------|----------|
| Professional fees   | 3.7     | 3.2     | 11.0     | 9.2      |
| Administrative fees   | 2.0     | 2.6     | 6.9      | 6.2      |
| Professional fees and other costs related to the Allied Acquisition | 1.1     | 1.5     | 2.0      | 17.8     |
| Other general and administrative                                    | 2.1     | 3.8     | 7.9      | 9.2      |
| Total operating expenses  | \$ 68.4 | \$ 67.1 | \$ 252.8 | \$ 173.4 |

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Interest and credit facility fees for the three and nine months ended September 30, 2011 and 2010, were comprised of the following:

| (in millions)   | For the three months ended |                    | For the nine months ended |                    |
|---|----------------------------|--------------------|---------------------------|--------------------|
|   | September 30, 2011         | September 30, 2010 | September 30, 2011        | September 30, 2010 |
| Stated interest expense                                       | \$ 24.2                    | \$ 16.7            | \$ 66.3                   | \$ 38.7            |
| Facility fees   | 0.9                        | 1.0                | 5.2                       | 3.5                |
| Amortization of debt issuance costs                           | 3.4                        | 2.1                | 9.6                       | 6.6                |
| Accretion of discount related to the Allied Unsecured Notes   | 0.1                        | 3.0                | 2.6                       | 5.7                |
| Accretion of original issue discount on the Convertible Notes | 2.4                        |                    | 6.0                       |                    |
| Total interest and credit facility fees expense               | \$ 31.0                    | \$ 22.8            | \$ 89.7                   | \$ 54.5            |

Stated interest expense for the three and nine months ended September 30, 2011 increased from the comparable periods in 2010 due to the increase in our average principal debt outstanding for such periods and an increase in our weighted average stated interest rate. For the three months ended September 30, 2011, the average principal debt outstanding was \$2.0 billion as compared to \$1.4 billion for the comparable period in 2010, and the weighted averaged stated interest rate was 4.9% as compared to 4.8% for the comparable period in 2010. For the nine months ended September 30, 2011, the average principal debt outstanding was \$1.7 billion as compared to \$1.5 billion for the comparable period in 2010, and the weighted average stated interest rate was 5.3% as compared to 2.6% for the comparable period in 2010. Our weighted average stated interest rate of indebtedness for 2011 increased from the comparable periods in 2010 due to having higher amounts of unsecured indebtedness, with longer durations to maturity and higher stated interest rates, outstanding during the respective periods. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition, Liquidity and Capital Resources, Debt Capital Activities below.

The increase in base management fees and incentive management fees related to pre-incentive fee net investment income for the three and nine months ended September 30, 2011 from the comparable periods in 2010 was primarily due to the increase in the size of the portfolio and in the case of incentive management fees, the related increase in pre-incentive fee net investment income. For the three months ended September 30, 2011, we recorded a reduction in accrued capital gains incentive fees in accordance with United States generally accepted accounting principles (GAAP) of \$11.5 million due to a reduction in cumulative net realized and unrealized gains since June 30, 2011. For the nine months ended September 30, 2011, the capital gains incentive fee expense was \$28.2 million bringing the total capital gains incentive fee accrual in accordance with GAAP to \$43.8 million (included in management and incentive fees payable in the consolidated balance sheet) as of September 30, 2011. As a result of an amendment to the capital gains portion of the incentive fee under the investment advisory and management agreement (the Capital Gains Amendment) that was adopted June 6, 2011, the nine months ended September 30, 2011 included an accrual of \$26.0 million of capital gains incentive fees in accordance with GAAP as a result of the application of the Capital Gains Amendment with respect to the assets purchased in the Allied Acquisition. The accrual for any capital gains incentive fee under GAAP in a given period may result in an additional expense if such cumulative amount is greater than in the prior period or a reduction of previously recorded expense if such cumulative amount is less than in the prior period. If such cumulative amount is negative, then there is no accrual. There can be no assurance that such unrealized capital appreciation will be realized in the future. For the three and nine months ended September 30, 2011 we did not incur a capital gains fee under the investment advisory and management agreement (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 and nine months ended September 30, 2010. See Note 3 to the Company's consolidated financial statements for the three and nine months ended September 30, 2011 for more information on the incentive and base management fees.

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. The general increases in professional fees and administrative fees were primarily due to the increase in the size of the

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company following the Allied Acquisition and the various associated costs of managing a larger portfolio. The decline in professional fees and other costs related to the Allied Acquisition primarily resulted from having substantially completed the integration of Allied Capital by December 31, 2010, and thus we incurred a lower level of expenses in 2011. Other general and administrative expenses include rent, insurance, depreciation, director s fees and other costs.

Table of Contents**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 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 and nine months ended September 30, 2011, a net expense of \$2.3 million and \$4.1 million, respectively, was recorded for U.S. federal excise tax. For the three and nine months ended September 30, 2010, the Company recorded no amounts 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 and nine months ended September 30, 2011, we recorded a tax (benefit) expense of \$(1.6) million and \$0.5 million, respectively, for these subsidiaries, and for the three and nine months ended September 30, 2010, we recorded a tax (benefit) expense of \$(0.2) million and \$0.4 million, respectively, for these subsidiaries.

**Net Realized Gains/Losses**

During the three months ended September 30, 2011, the Company had \$973.7 million of sales, repayments or exits of investments resulting in \$48.8 million of net realized gains. These sales, repayments or exits included \$98.3 million of investments sold to IHAM or certain funds managed by IHAM (see Note 13 to the Company's consolidated financial statements for the three and nine months ended September 30, 2011 for more detail on IHAM and its managed funds). Net realized gains on investments were comprised of \$96.0 million of gross realized gains and \$47.2 million of gross realized losses. The \$48.8 million of net realized gains included approximately \$16.2 million in net realized losses from investments acquired as part of the Allied Acquisition (see Note 15 to the Company's consolidated financial statements for the three and nine months ended September 30, 2011). The realized gains and losses on investments during the three months ended September 30, 2011 consisted of the following:

| (in millions)                      | Net Realized<br>Gains (Losses) |
|------------------------------------|--------------------------------|
| <b>Portfolio Company</b>           |                                |
| Reflexite Corporation              | \$ 40.9                        |
| DSI Renal, Inc.                    | 27.5                           |
| Industrial Container Services, LLC | 19.9                           |
| Knightsbridge CLO 2007-1 Ltd.      | 3.7                            |
| INC Research, Inc.                 | 2.0                            |
| Sigma International Group, Inc.    | (4.3)                          |
| Wastequip, Inc.                    | (10.2)                         |
| Primis Marketing Group, Inc        | (14.1)                         |
| Cook Inlet Alternative Risk, LLC   | (16.5)                         |
| Other                              | (0.1)                          |

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|       |    |      |
|-------|----|------|
| Total | \$ | 48.8 |
|-------|----|------|

Additionally, during the three months ended September 30, 2010, the Company had \$231.8 million of sales and repayments resulting in \$1.2 million of net realized gains. Net realized gains on investments were comprised of \$3.6 million of gross realized gains and \$2.4 million of gross realized losses. Of the \$1.2 million of net realized gains, approximately \$1.0 million were from investments acquired as part of the Allied Acquisition. The realized gains and losses on investments for the three months ended September 30, 2010 consisted of the following:

| (in millions)<br>Portfolio Company |    | Net Realized<br>Gains (Losses) |
|------------------------------------|----|--------------------------------|
| Component Hardware Group, Inc.     | \$ | 1.9                            |
| Promo Works, LLC                   |    | 1.4                            |
| Distant Lands Trading Co.          |    | (1.8)                          |
| Other                              |    | (0.3)                          |
| Total                              | \$ | 1.2                            |

During the nine months ended September 30, 2011, the Company had \$1,976.4 million of sales, repayments or exits of investments resulting in \$105.0 million of net realized gains. These sales, repayments or exits included \$178.8 million of investments sold to IHAM or certain funds managed by IHAM. Net realized gains on investments were comprised of \$225.1 million of gross

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realized gains and \$120.1 million of gross realized losses. The \$105.0 million of net realized gains included approximately \$93.0 million in net realized gains from investments acquired as part of the Allied Acquisition. The realized gains and losses on investments during the nine months ended September 30, 2011 consisted of the following:

| (in millions)<br>Portfolio Company                | Net Realized<br>Gains (Losses) |
|---|--------------------------------|
| Reflexite Corporation                             | \$ 40.9                        |
| DSI Renal, Inc.                                   | 27.5                           |
| Callidus Debt Partners CLO Fund VI, Ltd.          | 23.9                           |
| Industrial Container Services, LLC                | 19.9                           |
| 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                            |
| Border Foods, Inc.                                | 5.2                            |
| Callidus Debt Partners CLO Fund III, Ltd.         | 4.4                            |
| BB&T Capital Partners/Windsor Mezzanine Fund, LLC | 3.9                            |
| Knightsbridge CLO 2007-1 Ltd.                     | 3.7                            |
| Direct Buy Holdings, Inc.                         | 2.8                            |
| Network Hardware Resale, Inc.                     | 2.8                            |
| Univita Health Inc.                               | 2.1                            |
| INC Research, Inc.                                | 2.0                            |
| Pangaea CLO 2007-1 Ltd.                           | 2.0                            |
| Van Ness Hotel, Inc.                              | (2.3)                          |
| Carador PLC                                       | (3.0)                          |
| Trivergance Capital Partners, LP                  | (3.8)                          |
| Sigma International Group, Inc.                   | (4.3)                          |
| AWTP, LLC   | (7.6)                          |
| Universal Trailer Corporation                     | (7.9)                          |
| Coverall North America, Inc.                      | (8.4)                          |
| Summit Business Media, LLC                        | (10.1)                         |
| Wastequip, Inc.                                   | (10.2)                         |
| Primis Marketing Group, Inc.                      | (14.1)                         |
| Cook Inlet Alternative Risk, LLC                  | (16.5)                         |
| MPBP Holdings, Inc.                               | (27.7)                         |
| Other   | 12.8                           |
| <b>Total</b>                                      | <b>\$ 105.0</b>                |

Also during the nine months ended September 30, 2011, in connection with the redemptions of the remaining balances of the 6.000% Notes due on April, 2012 (the 2012 Notes ) and the 6.625% Notes due on July 15, 2011 (the 2011 Notes ), the Company recognized a loss on the extinguishment of debt of \$19.3 million.

During the nine months ended September 30, 2010, the Company recognized a gain on the acquisition of Allied Capital of \$195.9 million. Additionally, during the nine months ended September 30, 2010, the Company had \$1.2 billion of sales and repayments resulting in \$8.7 million of net realized gains. The \$8.7 million of net realized gains included approximately \$1.6 million in net realized gains from investments acquired as part of the Allied Acquisition. These sales and repayments included \$94.5 million of loans sold to certain funds managed by IHAM (see Note 13 to the Company's consolidated financial statements for the three and nine months ended September 30, 2011 for more detail on IHAM and its managed funds). Net realized gains on investments were comprised of \$26.2 million of gross realized gains and \$17.5 million of gross realized losses. The realized gains and losses on investments for the nine months ended September 30, 2010 consisted of the following:

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| (in millions)                       |    | Net Realized   |
|-------------------------------------|----|----------------|
| Portfolio Company                   |    | Gains (Losses) |
| DSI Renal, Inc.                     | \$ | 3.9            |
| Instituto de Banca y Comercio, Inc. |    | 3.6            |
| Best Brands Corp.                   |    | 2.4            |
| Component Hardware Group, Inc.      |    | 1.9            |
| The Kenan Advantage Group, Inc.     |    | 1.8            |
| Capella Healthcare, Inc.            |    | 1.6            |
| Promo Works, LLC                    |    | 1.4            |
| Daily Candy, Inc.                   |    | 1.3            |
| Magnacare Holdings, Inc.            |    | 1.2            |
| Wyle Laboratories, Inc.             |    | 1.2            |
| Savers, Inc.                        |    | 1.0            |
| Arrow Group Industries              |    | (1.2)          |
| Distant Lands Trading Co.           |    | (1.8)          |
| Planet Organic Health Corp.         |    | (1.8)          |
| 3091779 Nova Scotia, Inc.           |    | (3.2)          |
| Growing Family, Inc.                |    | (7.6)          |
| Other                               |    | 3.0            |
| Total                               | \$ | 8.7            |

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 and nine months ended September 30, 2011 and 2010 for the Company's portfolio were comprised of the following:

| (in millions)   | For the three months ended |                    | For the nine months ended |                    |
|---|----------------------------|--------------------|---------------------------|--------------------|
|   | September 30, 2011         | September 30, 2010 | September 30, 2011        | September 30, 2010 |
| Unrealized appreciation   | \$ 25.5                    | \$ 115.6           | \$ 114.7                  | \$ 298.6           |
| Unrealized depreciation   | (92.7)                     | (59.4)             | (193.3)                   | (119.2)            |
| Net unrealized (appreciation) depreciation reversed related to net realized gains or losses (1) | (39.3)                     | 1.3                | 4.3                       | 0.5                |
| Total net unrealized gains (losses)   | \$ (106.5)                 | \$ 57.5            | \$ (74.3)                 | \$ 179.9           |

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

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 |                    | For the nine months ended September 30, |                    |
|---|----------------------------|--------------------|---|--------------------|
|   | September 30, 2011         | September 30, 2010 | September 30, 2011                      | September 30, 2010 |
| Unrealized appreciation   | \$ 6.3                     | \$ 59.3            | \$ 24.6                                 | \$ 132.4           |
| Unrealized depreciation   | (38.5)                     | (41.5)             | (98.4)                                  | (68.3)             |
| Net unrealized (appreciation) depreciation reversed related to net realized gains or losses (1) | 12.4                       | 1.3                | (50.7)                                  | 1.3                |
| Total net unrealized gains (losses)   | \$ (19.8)                  | \$ 19.1            | \$ (124.5)                              | \$ 65.4            |

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

The changes in unrealized appreciation and depreciation during the three months ended September 30, 2011 consisted of the following:

| (in millions)     | Net unrealized appreciation (depreciation) |
|-------------------|--|
| Portfolio Company |  |



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|   |    |        |
|---|----|--------|
| Ivy Hill Asset Management, L.P.             | \$ | 9.4    |
| Penn Detroit Diesel Allison, LLC            |    | 2.3    |
| CT Technologies Intermediate Holdings, Inc. |    | (2.5)  |
| MWD Acquisition Sub, Inc.                   |    | (2.5)  |
| Infilaw Holding, LLC                        |    | (2.6)  |
| Direct Buy Holdings, Inc.                   |    | (2.7)  |
| Stag-Parkway, Inc.                          |    | (2.9)  |
| CitiPostal Inc.                             |    | (3.0)  |
| Allbridge Financial, LLC                    |    | (3.5)  |
| Orion Foods, LLC                            |    | (3.7)  |
| ADF Restaurant Group, LLC                   |    | (4.0)  |
| Industrial Container Services, LLC          |    | (4.4)  |
| Reed Group, Ltd.                            |    | (7.1)  |
| eInstruction Corporation                    |    | (7.2)  |
| AP Global Holdings, Inc.                    |    | (8.4)  |
| Prommis Solutions, LLC                      |    | (10.4) |
| Other                                       |    | (14.0) |
| Total                                       | \$ | (67.2) |

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The changes in unrealized appreciation and depreciation during the three months ended September 30, 2010 consisted of the following:

| (in millions)<br>Portfolio Company         | Net unrealized<br>appreciation<br>(depreciation) |
|--|--|
| Senior Secured Loan Fund LLC (1)           | \$ 12.8  |
| Air Medical Group Holdings LLC             | 10.3   |
| Stag-Parkway, Inc.                         | 9.6  |
| Orion Foods, LLC                           | 6.0  |
| DSI Renal, Inc.                            | 5.2  |
| Reflexite Corporation                      | 4.5  |
| Ivy Hill Asset Management, L.P.            | 4.0  |
| American Broadband Holding Company         | 4.0  |
| Things Remembered, Inc.                    | 3.2  |
| National Print Group, Inc.                 | 3.1  |
| Bumble Bee Foods, LLC                      | 2.7  |
| Canon Communications LLC                   | 2.4  |
| Insight Pharmaceuticals Corporation        | 2.4  |
| CT Technologies Intermediate Holdings, Inc | 2.3  |
| Callidus Capital Corporation               | 2.1  |
| Pillar Processing, LLC                     | (2.1)  |
| ADF Restaurant Group, LLC                  | (2.3)  |
| Making Memories Wholesale, Inc.            | (2.3)  |
| Aquila Binks Forest Development, LLC       | (2.4)  |
| Ciena Capital LLC                          | (3.3)  |
| Campus Management Corp.                    | (4.2)  |
| Reed Group, Ltd.                           | (5.2)  |
| BenefitMall Holdings, Inc.                 | (8.0)  |
| Coverall North America, Inc.               | (8.7)  |
| Other                                      | 20.1   |
| Total                                      | \$ 56.2  |

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(1) See Notes 4 and 17 to the Company's consolidated financial statements for the three and nine months ended September 30, 2011.

The changes in unrealized appreciation and depreciation during the nine months ended September 30, 2011 consisted of the following:

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| (in millions)<br>Portfolio Company     | Net unrealized<br>appreciation<br>(depreciation) |
|--|--|
| Ivy Hill Asset Management, L.P.        | \$ 41.2  |
| American Broadband Holding Company     | 5.4  |
| Insight Pharmaceuticals Corporation    | 4.4  |
| Growing Family, Inc.                   | 4.4  |
| Penn Detroit Diesel Allison LLC        | 4.0  |
| Savers, Inc.                           | 4.0  |
| Firstlight Financial Corporation       | 3.6  |
| BenefitMall Holdings, Inc.             | 3.4  |
| Knightsbridge CLO 2008-1 Ltd.          | 3.3  |
| Huddle House, Inc.                     | 3.1  |
| AWTP, LLC                              | 2.9  |
| Waste Pro USA, Inc.                    | 2.8  |
| Bushnell Inc.                          | 2.5  |
| DSI Renal, Inc.                        | 2.4  |
| Diversified Collections Services, Inc. | 2.2  |
| Vistar Corporation                     | 2.1  |
| R3 Education, Inc.                     | (2.2)  |
| MWD Acquisition Sub, Inc.              | (2.3)  |
| ADF Restaurant Group, LLC              | (2.4)  |
| Passport Health Communications, Inc.   | (2.4)  |
| Infilaw Holding, LLC                   | (2.6)  |
| Instituto de Banca y Comercio, Inc.    | (2.6)  |
| Pillar Processing, LLC                 | (3.0)  |
| Callidus Capital Corporation           | (3.4)  |
| The Step2 Company, LLC                 | (4.2)  |
| VSS-Tranzact Holdings, LLC             | (4.4)  |
| Industrial Container Services, LLC     | (4.4)  |
| Senior Secured Loan Fund LLC (1)       | (5.1)  |
| Making Memories Wholesale, Inc.        | (5.9)  |
| Reed Group, Ltd.                       | (6.5)  |
| AP Global Holdings, Inc.               | (8.4)  |
| Orion Foods, LLC                       | (9.0)  |
| CitiPostal Inc.                        | (9.7)  |
| eInstruction Corporation               | (15.4)   |
| Ciena Capital LLC                      | (16.7)   |
| Direct Buy Holdings, Inc.              | (26.2)   |
| Prommis Solutions, LLC                 | (33.3)   |
| Other                                  | (0.2)  |
| Total                                  | \$ (78.6)  |

(1) See Notes 4 and 17 to the Company's consolidated financial statements for the three and nine months ended September 30, 2011.

The changes in unrealized appreciation and depreciation during the nine months ended September 30, 2010 consisted of the following:

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| <b>(in millions)</b>                                |    | <b>Net unrealized<br/>appreciation<br/>(depreciation)</b> |
|---|----|---|
| <b>Portfolio Company</b>                            |    |   |
| Senior Secured Loan Fund LLC (1)                    | \$ | 25.0  |
| R3 Education, Inc.                                  |    | 15.7  |
| Air Medical Group Holdings LLC                      |    | 15.1  |
| Stag-Parkway, Inc.                                  |    | 14.1  |
| Ivy Hill Asset Management, L.P.                     |    | 12.5  |
| DSI Renal, Inc.                                     |    | 11.6  |
| Things Remembered, Inc.                             |    | 10.1  |
| S.B. Restaurant Company                             |    | 7.1   |
| Orion Foods, LLC                                    |    | 6.8   |
| Callidus Debt Partners CDO Fund VI, Ltd.            |    | 6.4   |
| Component Hardware Group, Inc.                      |    | 5.5   |
| Woodstream Corporation                              |    | 5.4   |
| American Broadband Holding Company                  |    | 4.9   |
| Industrial Container Services, LLC                  |    | 4.9   |
| Canon Communications LLC                            |    | 4.8   |
| Callidus Debt Partners CDO Fund VII, Ltd.           |    | 4.7   |
| Callidus MAPS CLO Fund II, Ltd.                     |    | 4.7   |
| Reflexite Corporation                               |    | 4.5   |
| Bumble Bee Foods, LLC                               |    | 4.4   |
| Callidus MAPS CLO Fund I LLC                        |    | 4.1   |
| Tradesmen International, Inc.                       |    | 4.0   |
| Vantage Oncology, Inc                               |    | 3.7   |
| Vistar Corporation                                  |    | 3.7   |
| Instituto de Banca y Comercio, Inc.                 |    | 3.7   |
| Dryden XVIII Leveraged Loan 2007 Limited            |    | 3.6   |
| Network Hardware Resale, Inc.                       |    | 3.4   |
| National Print Group, Inc.                          |    | 3.2   |
| OTG Management, Inc.                                |    | 3.1   |
| Callidus Debt Partners Equity Interest, Ltd.        |    | 3.1   |
| CT Technologies Intermediate Holdings, Inc.         |    | 3.0   |
| Callidus Debt Partners CDO Fund IV, Ltd.            |    | 2.9   |
| Waste Pro USA, Inc.                                 |    | 2.7   |
| Callidus Debt Partners CDO Fund V, Ltd.             |    | 2.4   |
| NPH, Inc.   |    | 2.3   |
| BB&T Capital Partners / Windsor Mezzanine Fund, LLC |    | 2.3   |
| Promo Works, LLC                                    |    | 2.3   |
| eInstruction Corporation                            |    | 2.2   |
| Web Services Company, LLC                           |    | 2.2   |
| Community Education Centers, Inc.                   |    | 2.1   |
| Callidus Debt Partners CDO Fund III, Ltd.           |    | 2.1   |
| Carador PLC   |    | 2.1   |
| Border Foods, Inc.                                  |    | (2.4)   |
| Crescent Hotels & Resorts, LLC                      |    | (2.6)   |
| Making Memories Wholesale, Inc.                     |    | (2.6)   |
| The Step2 Company, LLC                              |    | (2.8)   |
| Trivergance Capital Partners, LP                    |    | (2.9)   |
| Huddle House, Inc.                                  |    | (3.4)   |
| Knightsbridge CLO 2007-1 Ltd.                       |    | (3.6)   |
| Knightsbridge CLO 2008-1 Ltd.                       |    | (3.7)   |
| BenefitMall Holdings, Inc.                          |    | (3.8)   |
| ADF Restaurant Group, LLC                           |    | (4.4)   |
| Reed Group, Ltd.                                    |    | (5.1)   |
| Ciena Capital LLC                                   |    | (5.1)   |
| Aquila Binks Forest Development, LLC                |    | (5.2)   |

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|                                  |    |       |
|----------------------------------|----|-------|
| MPBP Holdings, Inc.              |    | (5.2) |
| Coverall North America, Inc.     |    | (7.3) |
| FirstLight Financial Corporation |    | (7.4) |
| Other                            |    | 14.5  |
| Total                            | \$ | 179.4 |

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(1) See Notes 4 and 17 to the Company's consolidated financial statements for the three and nine months ended September 30, 2011.

### FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

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 (each as defined below), 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 (as defined below).

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As of September 30, 2011, the Company had \$103.1 million in cash and cash equivalents and \$1.8 billion in total indebtedness outstanding at carrying value (\$1.9 billion at principal amount). Subject to leverage and borrowing base restrictions, the Company had approximately \$593.4 million available for additional borrowings under the Revolving Funding Facility and the Revolving Credit Facility as of September 30, 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 indebtedness 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 nine months ended September 30, 2011.

The following table summarizes the total number of 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 nine months ended September 30, 2010:

| (in millions, except per share data)               | Shares of common<br>stock issued | Offering price<br>per share | Proceeds net of<br>underwriter and<br>offering costs |
|--|----------------------------------|-----------------------------|--|
| February 2010 public offering                      | 23.0                             | \$ 12.75                    | \$ 277.2   |
| Total for the nine months ended September 30, 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 and strategies and market conditions.

As of September 30, 2011, the Company's total market capitalization was \$2.8 billion compared to \$3.4 billion as of December 31, 2010.

**Debt Capital Activities**

Our debt obligations consisted of the following as of September 30, 2011 and December 31, 2010:

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| (in millions)  | September 30, 2011 |                    | As of          |                    | December 31, 2010 |                    |
|--|--------------------|--------------------|----------------|--------------------|-------------------|--------------------|
|  | Carrying Value(1)  | Total Available(2) | Carrying Value | Total Available(2) | Carrying Value    | Total Available(2) |
| Revolving Funding Facility   | \$ 383.0           | \$ 400.0           | \$ 242.0       | \$ 400.0           | \$ 242.0          | \$ 400.0           |
| Revolving Credit Facility  | 189.8              | 810.0(3)           | 146.0          | 810.0(3)           | 146.0             | 810.0(3)           |
| Debt Securitization  | 91.8               | 91.8               | 155.3          | 183.2              | 155.3             | 183.2              |
| 2011 Notes (principal amount outstanding of \$0 and \$300.6, respectively) |                    |                    | 296.3(4)       | 300.6              | 296.3(4)          | 300.6              |
| 2012 Notes (principal amount outstanding of \$0 and \$161.2, respectively) |                    |                    | 158.1(4)       | 161.2              | 158.1(4)          | 161.2              |
| February 2016 Convertible Notes (principal amount outstanding of \$575.0)  | 539.4(5)           | 575.0              |                |                    |                   |                    |
| June 2016 Convertible Notes (principal amount outstanding of \$230.0)      | 215.3(5)           | 230.0              |                |                    |                   |                    |
| 2040 Notes (principal amount outstanding of \$200.0)                       | 200.0              | 200.0              | 200.0          | 200.0              | 200.0             | 200.0              |
| 2047 Notes (principal amount outstanding of \$230.0)                       | 180.9(4)           | 230.0              | 180.8(4)       | 230.0              | 180.8(4)          | 230.0              |
|  | \$ 1,800.2(6)      | \$ 2,536.8         | \$ 1,378.5(6)  | \$ 2,285.0         | \$ 1,378.5(6)     | \$ 2,285.0         |

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

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- (2) Subject to borrowing base and leverage restrictions. Represents the total aggregate amount available under such instrument.
- (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 (as defined below) was \$49.1 million and \$56.6 million at September 30, 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 \$35.6 million and \$14.7 million, respectively, at September 30, 2011.
- (6) Total principal amount of debt outstanding totaled \$1,899.6 million and \$1,435.1 million at September 30, 2011 and December 31, 2010, respectively.

The weighted average stated interest rate and weighted average maturity, both on principal value, of all our principal indebtedness outstanding as of September 30, 2011 were 5.0% and 10.6 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 September 30, 2011 was 0.61:1.00 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 September 30, 2011 was 0.58:1.00 compared to 0.45:1.00 as of December 31, 2010.

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 September 30, 2011, our asset coverage was 272%.

***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 (see the Recent Developments section as well as Note 17 to our consolidated financial statements for the three and nine months ended September 30, 2011 for more information regarding the Revolving Funding 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 September 30, 2011, the effective LIBOR spread under the Revolving Funding Facility was 2.75%.

As of September 30, 2011, there was \$383.0 million outstanding under the Revolving Funding Facility and the Company and Ares Capital CP were in material compliance with the terms of the Revolving Funding Facility. See Note 5 to the Company s consolidated financial statements for the three and nine months ended September 30, 2011 for more detail on the Revolving Funding Facility.

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***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 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 September 30, 2011, there was \$189.8 million outstanding under the *Revolving Credit Facility* and the Company was in material compliance with the terms of the *Revolving Credit Facility*. As of September 30, 2011, subject to borrowing base availability, there was \$576.4 million available for borrowing (net of standby letters of credits issued).

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 September 30, 2011, the effective LIBOR spread under the *Revolving Credit Facility* was 3.00%.

See Note 5 to the Company's consolidated financial statements for the three and nine months ended September 30, 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 a \$400 million debt securitization (the *Debt Securitization*) and issued approximately \$314 million aggregate principal amount of asset-backed notes (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 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 September 30, 2011, we repaid \$46.5 million of the *CLO Notes*. At September 30, 2011, \$91.8 million was outstanding under the *CLO Notes* (excluding the *Retained Notes*), which are included in the September 30, 2011 consolidated balance sheet. As of September 30, 2011, the Company was in material compliance with the terms of the *Debt Securitization*.

The *CLO Notes* provided for a reinvestment period which ended on June 17, 2011, has a stated maturity of December 20, 2019 and has a blended pricing of LIBOR plus 0.43% as of September 30, 2011. See Note 5 to the Company's consolidated financial statements for the three and nine months ended September 30, 2011 for more detail on the *Debt Securitization*.

***Unsecured Notes***

***Allied Unsecured Notes***

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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 the 2011 Notes, 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). 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, in accordance with the terms of the indenture governing the 2011 Notes, which resulted in a loss on the extinguishment of debt of \$8.9 million. On April 27, 2011, we redeemed the remaining balance of the 2012 Notes for a total redemption price (including a redemption premium) of \$169.3 million, in accordance with the terms of the indenture governing the 2012 Notes, which resulted in a loss on the extinguishment of debt of \$10.5 million.

As of September 30, 2011, there was \$230.0 million principal amount outstanding of the 2047 Notes which 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 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.

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As of September 30, 2011 the Company was in material compliance with the terms of the 2047 Notes and the 2040 Notes.

See Note 5 to the Company's consolidated financial statements for the three and nine months ended September 30, 2011 for more detail on the Allied Unsecured Notes and the 2040 Notes.

*Convertible Notes*

| (in millions)   | Carrying value as of<br>September 30, 2011(1) |              |
|---|---|--------------|
| February 2016 Convertible Notes (principal amount of \$575.0) | \$  | 539.4        |
| June 2016 Convertible Notes (principal amount of \$230.0)     | \$  | 215.3        |
| <b>Total</b>  | <b>\$</b>                                     | <b>754.7</b> |

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

*February 2016 Convertible Notes.* In January 2011, we issued \$575 million 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 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 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 \$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.

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As of September 30, 2011, the Company was in material compliance with the terms of the indentures governing the Convertible Notes. See Note 5 to the Company's consolidated financial statements for the three and nine months ended September 30, 2011 for more detail on the Convertible Notes.

**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, among other things, 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. In addition, our independent accountants review our valuation process as part of their overall integrated audit.

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 the factors set forth in "Risk Factors" included in our annual report on Form 10-K for the fiscal year ended December 31, 2010, including the risk factor entitled "Risk Factors - Risks Relating to our Investments - Recent unprecedented declines in market prices and liquidity in the corporate debt markets resulted in significant net unrealized depreciation of our portfolio in the recent past, reducing our net asset value, and such conditions may occur again in the future."

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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 third parties, including independent third-party valuation firms, with respect to the valuations of a minimum of 50% of our portfolio at fair value.

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- 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, among other things, 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 to the Company's consolidated financial statements for the three and nine months ended September 30, 2011). 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 to the Company's consolidated financial statements for the three and nine months ended September 30, 2011).

**OFF BALANCE SHEET ARRANGEMENTS**

The Company has various commitments to fund investments in its portfolio, as described below.

As of September 30, 2011 and December 31, 2010, the Company had the following commitments to fund various revolving and delayed draw senior secured and subordinated loans, including commitments the funding of which is at (or substantially at) the Company's discretion:

| (in millions)  | September 30, 2011 | As of | December 31, 2010 |
|--|--------------------|-------|-------------------|
| Total revolving and delayed draw commitments                                       | \$ 713.7           | \$    | 260.7             |
| Less: funded commitments   | (107.1)            |       | (60.0)            |
| Total unfunded commitments   | 606.6              |       | 200.7             |
| Less: commitments substantially at discretion of the Company                       | (11.9)             |       | (19.9)            |
| Less: unavailable commitments due to borrowing base or other covenant restrictions | (63.2)             |       | (6.7)             |
| Total net adjusted unfunded revolving and delayed draw commitments                 | \$ 531.5           | \$    | 174.1             |

Included within the total revolving and delayed draw commitments as of September 30, 2011 are commitments to issue up to \$73.4 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 September 30, 2011, the Company had \$41.5 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, \$0.2 million expire in December 2011, \$0.2 million expire in January 2012, \$0.1 million expire in February 2012, \$0.8 million expire in April 2012, \$0.6 million expire in July 2012, \$12.5 million expire in August 2012 and \$27.1 million expire in September 2012.

As of September 30, 2011 and December 31, 2010, the Company was party to subscription agreements to fund equity investments in private equity investment partnerships:



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| (in millions)   | As of              |                   |
|---|--------------------|-------------------|
|   | September 30, 2011 | December 31, 2010 |
| Total private equity commitments  | \$ 181.3           | \$ 537.6          |
| Less: funded private equity commitments                                     | (68.3)             | (104.3)           |
| Total unfunded private equity commitments                                   | 113.0              | 433.3             |
| Less: private equity commitments substantially at discretion of the Company | (103.7)            | (400.4)           |
| Total net adjusted unfunded private equity commitments                      | \$ 9.3             | \$ 32.9           |

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 September 30, 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

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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 September 30, 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 September 30, 2011, there are no known issues or claims with respect to this performance guaranty.

**RECENT DEVELOPMENTS**

In October 2011, Ares Capital and Ares Capital CP Funding LLC, a wholly owned subsidiary of Ares Capital, amended its revolving funding facility to, among other things, increase the commitment size from \$400 million to \$500 million.

In October 2011, the total available capital for the Senior Secured Loan Program was increased from \$5.1 billion to \$7.7 billion. In connection with this increase, GE and Ares Capital agreed to make available to the SSLP up to \$6.2 billion and \$1.5 billion, respectively.

As of November 4, 2011, since September 30, 2011 we had made new investment commitments of \$537 million, of which \$532 million were funded. Of these new commitments, 57% were in first lien senior secured debt, 29% were in investments in subordinated certificates of the SSLP, 12% were in second lien senior secured debt, and 2% were in equity securities. Of the \$537 million of new investment commitments, 98% were floating rate, 1% were fixed rate, and 1% were non-interest bearing. The weighted average yield of debt and income producing securities funded during the period at amortized cost was 12.0%. We may seek to syndicate a portion of these new investment commitments to third parties, although there can be no assurance that we will be able to do so.

As of November 4, 2011, since September 30, 2011 we had exited \$183 million of investment commitments. Of these investment commitments, 80% were in first lien senior secured debt, 17% were in second lien senior secured debt, and 3% were in senior subordinated debt. Of the \$183 million of exited investment commitments, 80% were floating rate investments, 3% were fixed rate investments, and 17% were on non-accrual status. The weighted average yield of debt and income producing securities exited or repaid during the period at amortized cost was 9.4%. On the \$183 million of investment commitments exited since September 30, 2011, we recognized total net realized losses of approximately \$21 million. Included within the \$183 million of investment commitments exited since September 30, 2011 were \$56 million of investment commitments acquired as part of the Allied Acquisition. We recognized net realized losses of approximately \$21 million on the investments exited that were acquired as part of the Allied Acquisition.

In addition, as of November 4, 2011, we had an investment backlog and pipeline of \$140 million and \$340 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.

## **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.

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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, among other things, 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. In addition, our independent accountants review our valuation process as part of their overall integrated audit.

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

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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 third parties, including independent third-party valuation firms, with respect to the valuations of a minimum of 50% of our portfolio at fair value.

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- 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, among other things, 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), which expands the application of fair value accounting for investments (see Note 8 to the Company's consolidated financial statements for the three and nine months ended September 30, 2011). 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 to the Company's consolidated financial statements for the three and nine months September 30, 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.

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:

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- (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 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 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, the Company accrues excise tax, if any, on estimated excess taxable income as such taxable income is earned.

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

#### *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.

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*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.

**Item 3. 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.

As of September 30, 2011, approximately 21% of the investments at fair value in our portfolio were at fixed rates, approximately 65% were at variable rates, 12% were non-interest earning and 2% were on non-accrual status. Additionally, for the investments at variable rates, 66% of the investments contained interest rate floors (representing 43% 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 2047 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.

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 September 30, 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:

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| (in millions)<br>Basis Point Change | Interest<br>Income | Interest<br>Expense | Net<br>Income |
|-------------------------------------|--------------------|---------------------|---------------|
| Up 300 basis points                 | \$ 47.3            | \$ 19.9             | \$ 27.4       |
| Up 200 basis points                 | \$ 26.6            | \$ 13.3             | \$ 13.3       |
| Up 100 basis points                 | \$ 8.0             | \$ 6.6              | \$ 1.4        |
| Down 100 basis points               | \$ (0.8)           | \$ (1.7)            | \$ 0.9        |
| Down 200 basis points               | \$ (0.9)           | \$ (1.7)            | \$ 0.8        |
| Down 300 basis points               | \$ (0.9)           | \$ (1.7)            | \$ 0.8        |

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)<br>Basis Point Change | Interest<br>Income | Interest<br>Expense | Net<br>Income |
|-------------------------------------|--------------------|---------------------|---------------|
| 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)      |

**Item 4. Controls and Procedures.**

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the

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participation of our management, including our President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15 of the Securities Exchange Act of 1934). Based on that evaluation, our President and our Chief Financial Officer have concluded that our current disclosure controls and procedures are effective in timely alerting them of material information relating to the Company that is required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934.

There have been no changes in our internal control over financial reporting during the three months ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings.**

The Company is party to certain lawsuits in the normal course of business. In addition, Allied Capital was involved in various 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.

**Item 1A. Risk Factors.**

In addition to the other information set forth in this report, you should carefully consider the risk factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, which could materially affect our business, financial condition and/or operating results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results.

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

We did not sell any equity securities during the period covered in this report that were not registered under the Securities Act of 1933.

**Issuer Purchases of Equity Securities**

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In September 2011, as a part of the Company's dividend reinvestment plan for our common stockholders, we purchased 371,908 shares of our common stock for \$5.2 million in the open market in order to satisfy the reinvestment portion of our dividends. The following chart outlines repurchases of our common stock during the quarter ended September 30, 2011.

| Period                                       | Total Number<br>of Shares<br>Purchased | Average<br>Price Paid<br>per Share | Total Number of<br>Shares Purchased<br>as Part of Publicly<br>Announced Plans<br>or Programs | Maximum Number (or<br>Approximate Dollar<br>Value) of Shares that<br>May Yet Be<br>Purchased Under the<br>Plans or Programs |
|--|--|------------------------------------|--|---|
| July 1, 2011 through July 31, 2011           |  |                                    |  |   |
| August 1, 2011 through August 31, 2011       |  |                                    |  |   |
| September 1, 2011 through September 30, 2011 | 371,908(1)                             | \$ 13.92                           |  |   |
| Total  | 371,908                                | \$ 13.92                           |  |   |

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(1) Pursuant to our dividend reinvestment plan, we directed our plan administrator to purchase 371,908 shares in the open market in order to satisfy our obligations to deliver shares of common stock to our stockholders with respect to our dividend for the third quarter of 2011.

### Item 3. Defaults Upon Senior Securities.

Not applicable.

### Item 4. (Removed and Reserved)

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**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

**EXHIBIT INDEX**

| <b>Number</b> | <b>Description</b>   |
|---------------|--|
| 31.1          | Certification by President pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*                        |
| 31.2          | Certification by Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*          |
| 32.1          | Certification by President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002* |

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\* Filed herewith

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**ARES CAPITAL CORPORATION**

Dated: November 8, 2011

By

/s/ Michael J. Arougheti  
Michael J. Arougheti  
President

Dated: November 8, 2011

By

/s/ Penni F. Roll  
Penni F. Roll  
Chief Financial Officer