

ARES CAPITAL CORP
Form 10-Q
November 05, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013

OR

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

For the transition period to

Commission File No. 814-00663

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)

N/A

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

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 4, 2013
Common stock, \$0.001 par value	281,246,111

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	September 30, 2013 (unaudited)	As of	December 31, 2012
ASSETS			
Investments at fair value			
Non-controlled/non-affiliate investments	\$ 5,016,880	\$	3,822,715
Non-controlled affiliate company investments	278,630		323,059
Controlled affiliate company investments	2,089,775		1,778,781
Total investments at fair value (amortized cost of \$7,277,712 and \$5,823,451, respectively)	7,385,285		5,924,555
Cash and cash equivalents	135,487		269,043
Receivable for open trades	13,121		131
Interest receivable	120,503		108,998
Other assets	99,749		98,497
Total assets	\$ 7,754,145	\$	6,401,224
LIABILITIES			
Debt	\$ 3,137,883	\$	2,195,872
Management and incentive fees payable	136,196		131,585
Accounts payable and other liabilities	58,202		53,178
Interest and facility fees payable	28,860		30,603
Payable for open trades	648		1,640
Total liabilities	3,361,789		2,412,878
Commitments and contingencies (Note 6)			
STOCKHOLDERS EQUITY			
Common stock, par value \$.001 per share, 500,000 common shares authorized 268,596 and 248,653 common shares issued and outstanding, respectively	269		249
Capital in excess of par value	4,465,173		4,117,517
Accumulated overdistributed net investment income	(7,317)		(27,910)
Accumulated net realized loss on investments, foreign currency transactions, extinguishment of debt and other assets	(173,342)		(202,614)
Net unrealized gain on investments	107,573		101,104
Total stockholders equity	4,392,356		3,988,346
Total liabilities and stockholders equity	\$ 7,754,145	\$	6,401,224
NET ASSETS PER SHARE	\$ 16.35	\$	16.04

See accompanying notes to consolidated financial statements.

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(in thousands, except per share data)

	For the three months ended		For the nine months ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
INVESTMENT INCOME:				
From non-controlled/non-affiliate company investments:				
Interest income from investments	\$ 102,222	\$ 84,767	\$ 281,734	\$ 234,127
Capital structuring service fees	18,257	20,324	35,888	40,769
Dividend income	4,486	3,821	13,583	11,144
Management and other fees	286	334	949	994
Other income	3,612	2,156	12,944	9,371
Total investment income from non-controlled/non-affiliate company investments	128,863	111,402	345,098	296,405
From non-controlled affiliate company investments:				
Interest income from investments	4,097	6,185	15,748	16,444
Capital structuring service fees				895
Dividend income	5,258	147	6,421	786
Management and other fees		63		189
Other income	37	38	166	332
Total investment income from non-controlled affiliate company investments	9,392	6,433	22,335	18,646
From controlled affiliate company investments:				
Interest income from investments	63,304	53,686	174,287	164,994
Capital structuring service fees	13,298	9,251	25,807	26,838
Dividend income	25,104	5,432	62,711	15,627
Management and other fees	5,098	4,310	13,926	12,968
Other income	1,742	58	3,815	387
Total investment income from controlled affiliate company investments	108,546	72,737	280,546	220,814
Total investment income	246,801	190,572	647,979	535,865
EXPENSES:				
Interest and credit facility fees	44,424	35,702	124,032	103,496
Base management fees	27,467	22,316	75,587	63,113
Incentive fees	35,199	34,139	88,658	83,258
Professional fees	3,143	1,923	10,023	9,157
Administrative fees	3,346	2,269	8,544	6,806
Other general and administrative	3,009	2,726	10,525	8,001
Total expenses	116,588	99,075	317,369	273,831

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	For the three months ended		For the nine months ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
NET INVESTMENT INCOME BEFORE INCOME TAXES	130,213	91,497	330,610	262,034
Income tax expense, including excise tax	3,991	2,037	11,714	7,635
NET INVESTMENT INCOME	126,222	89,460	318,896	254,399
REALIZED AND UNREALIZED GAINS (LOSSES) ON INVESTMENTS:				
Net realized gains (losses):				
Non-controlled/non-affiliate company investments	7,877	26,134	24,305	(8,444)
Non-controlled affiliate company investments	63	51	208	122
Controlled affiliate company investments	1,006	1,482	4,759	(10,579)
Net realized gains (losses)	8,946	27,667	29,272	(18,901)
Net unrealized gains (losses):				
Non-controlled/non-affiliate company investments	3,817	14,293	27,915	53,515
Non-controlled affiliate company investments	(7,812)	2,425	(9,745)	16,556
Controlled affiliate company investments	9,624	2,710	(11,701)	30,143
Net unrealized gains	5,629	19,428	6,469	100,214
Net realized and unrealized gains from investments	14,575	47,095	35,741	81,313
REALIZED LOSS ON EXTINGUISHMENT OF DEBT				(2,678)
NET INCREASE IN STOCKHOLDERS' EQUITY RESULTING FROM OPERATIONS	\$ 140,797	\$ 136,555	\$ 354,637	\$ 333,034
BASIC AND DILUTED EARNINGS PER COMMON SHARE (Note 9)	\$ 0.52	\$ 0.59	\$ 1.36	\$ 1.49
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING BASIC AND DILUTED (Note 9)	268,312	233,126	261,120	224,049

See accompanying notes to consolidated financial statements.

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As of September 30, 2013

(dollar amounts in thousands)

(unaudited)

Investment Funds and Vehicles							
CIC Flex, LP (9)	Investment partnership	Limited partnership units (0.94 units)		9/7/2007	962	2,908(2)	
Dynamic India Fund IV, LLC (9)	Investment company	Member interest (5.44% interest)		4/1/2010	4,822	3,228	
Imperial Capital Private Opportunities, LP (9)	Investment partnership	Limited partnership interest (80.00% interest)		5/10/2007	5,731	12,571(2)	
Partnership Capital Growth Investors III, L.P. (9)	Investment partnership	Limited partnership interest (2.50% interest)		10/5/2011	2,632	2,610(2)	
Senior Secured Loan Fund LLC (7)(10)	Co-investment vehicle	Subordinated certificates (\$1,570,285 par due 12/2022)	8.27% (Libor + 8.00%/Q)(22)	10/30/2009	1,568,578	1,593,839	
					1,568,578	1,593,839	
					1,586,485	1,622,123	36.93%
AxelaCare Holdings, Inc. and AxelaCare Investment Holdings, L.P.	Provider of home infusion services	First lien senior secured loan (\$7,453 par due 4/2019)	5.75% (Libor + 4.50%/Q)	4/12/2013	7,453	7,453(2)(21)	
		Common units (75,000 units)		4/12/2013	7	9(2)	
				11/16/2012	53,775	53,775(3)(21)	

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California Forensic Medical Group, Incorporated	Correctional facility healthcare operator	First lien senior secured loan (\$53,775 par due 11/2018)	9.25% (Libor + 8.00%/Q)			
CT Technologies Intermediate Holdings, Inc. and CT Technologies Holdings LLC (6)	Healthcare analysis services provider	First lien senior secured loan (\$5,102 par due 3/2017)	8.75% (Base Rate + 5.50%/M)	3/15/2011	5,102	5,102(2)(21)
		First lien senior secured loan (\$2,348 par due 3/2017)	7.75% (Libor + 6.50%/M)	3/15/2011	2,348	2,348(2)(21)
		Class A common stock (9,679 shares)		6/15/2007	4,000	6,448(2)