

ARES CAPITAL CORP  
Form 10-K  
March 01, 2011

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-K**

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

**For the fiscal year ended December 31, 2010**

**OR**

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

**For the transition period from to**

**Commission File No. 000-50697**

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**ARES CAPITAL CORPORATION**

(Exact name of registrant as specified in its charter)

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

**33-1089684**  
(I.R.S. Employer  
Identification No.)

**245 Park Avenue, 44<sup>th</sup> Floor, New York, New York 10167**  
(Address of principal executive offices) (Zip Code)

**(212) 750-7300**  
(Registrant's telephone number, including area code)

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**Securities registered pursuant to Section 12(b) of the Act:**

**Title of each class**  
Common Stock, par value \$0.001 per share  
7.75% Senior Notes due 2040

**Name of each exchange on which registered**  
The NASDAQ Global Select Market  
The New York Stock Exchange

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6.875% Senior Notes due 2047

The New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 (Section §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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting company   
(Do not check if a 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

The aggregate market value of the voting stock held by non-affiliates of the registrant on June 30, 2010, based on the closing price on that date of \$12.53 on The NASDAQ Global Select Market, was approximately \$2,407,856,738. As of February 25, 2011, there were 204,418,725 shares of the registrant's common stock outstanding.

Portions of the registrant's Proxy Statement for its 2011 Annual Meeting of Stockholders to be filed not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K are incorporated by reference into Part III of this Form 10-K.

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**PART I**

**Item 1. Business**

**GENERAL**

Ares Capital Corporation, a Maryland corporation (together with its subsidiaries, where applicable, "Ares Capital" or the "Company," which may also be referred to as "we," "us" or "our"), is a specialty finance company that is a closed-end, non-diversified management investment company. We have elected to be regulated as a business development company, or a "BDC," under the Investment Company Act of 1940, or the "Investment Company Act." We were founded on April 16, 2004, were initially funded on June 23, 2004 and completed our initial public offering on October 8, 2004. We are one of the largest BDCs with approximately \$13 billion of total committed capital under management as of December 31, 2010, including available debt capacity (subject to leverage restrictions), funds directly or indirectly managed or co-managed by us or one of our wholly owned subsidiaries and funds managed or sub-managed by our wholly owned portfolio company, Ivy Hill Asset Management, L.P. ("IHAM").

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

On April 1, 2010, we consummated our acquisition (the "Allied 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 was valued at approximately \$908 million as of April 1, 2010. In connection therewith, we issued approximately 58.5 million shares of our common stock to Allied Capital's then-existing stockholders, thereby resulting in our then-existing stockholders owning approximately 69% of the combined company and the then-existing Allied Capital stockholders owning approximately 31% of the combined company.

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

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

Results of Operations Portfolio and Investment Activity" for further information on the rotation of investments acquired as part of the Allied Acquisition.

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

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

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

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

We and GE Commercial Finance Investment Advisory Services LLC ("GE") also co-manage an unconsolidated senior debt fund, the Senior Secured Loan Fund LLC, now called the "Senior Secured Loan Program" (the "SSLP"). The SSLP was initially formed in December 2007 to invest in "stretch senior" and "unitranche" loans (loans that combine both senior and subordinated debt, generally in a first lien position) of middle-market companies and currently has approximately \$5.1 billion of total

committed capital under management, approximately \$2.5 billion in aggregate principal amount of which was funded as of December 31, 2010. At December 31, 2010, our total commitment to the SSLP was approximately \$1 billion, of which approximately \$400 million was unfunded. The SSLP is capitalized as transactions are completed and both investment and portfolio management decisions must be approved by both the Company and GE.

We also manage an unconsolidated fund, AGILE Fund I, LLC (the "AGILE Fund"), which had approximately \$68 million of total committed capital under management as of December 31, 2010.

In addition, we have made investments in our portfolio company, IHAM, which manages ten unconsolidated senior debt funds, which are described in more detail under "Managed Funds Portfolio" below. We have also made direct investments in securities of certain of these vehicles. As of December 31, 2010, IHAM had total committed capital under management of approximately \$3.7 billion, which includes approximately \$360 million invested by Ares Capital in IHAM or funds managed by IHAM.

#### **About Ares**

Founded in 1997, Ares is a global alternative asset manager and Securities and Exchange Commission ("SEC") registered investment adviser with approximately \$39 billion of total committed capital under management and over 360 employees as of December 31, 2010.

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

Ares is comprised of the following groups:

**Global Private Debt Group.** The Ares Global Private Debt Group manages the assets of Ares Capital, Ares Credit Strategies Fund II, L.P., Ares Credit Strategies Fund III, L.P. and Ares' private debt middle-market financing business in Europe, Ares Capital Europe ("ACE"), which together had approximately \$15 billion of total committed capital under management as of December 31, 2010. Included within the \$15 billion of total committed capital under management is capital committed by third parties totaling \$4.1 billion attributable to the SSLP and \$3.3 billion attributable funds managed by IHAM. The Global Private Debt Group focuses primarily on non-syndicated first and second lien senior loans and mezzanine debt, which in some cases may include an equity component. The Global Private Debt Group also makes equity investments in private middle-market companies, usually in conjunction with a concurrent debt investment.

**Capital Markets Group.** The Ares Capital Markets Group managed approximately \$18 billion of total committed capital under management as of December 31, 2010 through a variety of funds and investment vehicles, focusing primarily on syndicated senior secured loans, high yield bonds, distressed debt, other liquid fixed income investments and other publicly traded debt securities.

**Private Equity Group.** The Ares Private Equity Group managed approximately \$6 billion of total committed capital under management as of December 31, 2010, primarily through Ares Corporate Opportunities Fund L.P., Ares Corporate Opportunities Fund II, L.P. and Ares Corporate Opportunities Fund III, L.P. (collectively referred to as "ACOF"). ACOF generally makes private equity investments in amounts substantially larger than the private equity investments anticipated to be made by Ares Capital. In particular, the Private Equity Group

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generally focuses on control-oriented equity investments in under-capitalized companies or companies with capital structure issues.

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

### **Ares Capital Management**

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

### **MARKET OPPORTUNITY**

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

We believe that the dislocation in the credit markets that began in 2007 resulted in reduced competition, a widening of interest spreads, increased fees and generally more conservative capital structures and deal terms. These previous market conditions may continue to create favorable opportunities to invest at attractive risk-adjusted returns.

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

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

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

### **COMPETITIVE ADVANTAGES**

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

#### **The Ares Platform**

As of December 31, 2010, Ares managed approximately \$39 billion of total committed capital under management in the related asset classes of non-syndicated first and second lien senior loans,

syndicated loans, high yield bonds, mezzanine debt and private equity. We believe Ares' current investment platform provides a competitive advantage in terms of access to origination and marketing activities and diligence for Ares Capital. Specifically, the Ares platform provides the Company an advantage through its deal flow generation and investment evaluation process. Ares' asset management platform also provides additional market information, company knowledge and industry insight that benefit the investment and due diligence process. Ares' professionals maintain extensive financial sponsor and intermediary relationships, which provide valuable insight and access to transactions and information.

### **Seasoned Management Team**

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

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

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

### **Disciplined Investment Philosophy**

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

businesses with strong franchises and sustainable competitive advantages;

industries with positive long-term dynamics;

businesses and industries with cash flows that are dependable and predictable;

management teams with demonstrated track records and appropriate economic incentives;

rates of return commensurate with the perceived risks;

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

businesses backed by experienced private equity sponsors.





### **Extensive Industry Focus**

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

### **Flexible Transaction Structuring**

We are flexible in structuring investments, including the types of securities in which we invest and the terms associated with such investments. Ares has extensive experience investing in a wide variety of securities for leveraged companies with a diverse set of terms and conditions. We believe this approach and experience enables our investment adviser to identify attractive investment opportunities throughout economic cycles and across a company's capital structure so we can make investments consistent with our stated investment objective and preserve principal while seeking appropriate risk adjusted returns. In addition, we have the ability to provide "one stop" financing with the ability to invest capital across the balance sheet and syndicate and hold larger investments than many of our competitors. We believe that the ability to underwrite, syndicate and hold larger investments benefits our stockholders by (a) potentially increasing net income and earnings through syndication, (b) increasing originated deal flow flexibility, (c) broadening market relationships and deal flow, (d) allowing us to optimize our portfolio composition and (e) allowing us to provide capital to middle-market companies, which we believe currently have limited access to capital from traditional lending sources. In addition, we believe that the ability to provide capital at every level of the balance sheet provides a strong value proposition to middle-market borrowers and our senior debt capabilities provide superior deal origination and relative value analysis capabilities compared to traditional "mezzanine only" lenders.

### **Broad Origination Strategy**

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

### **OPERATING AND REGULATORY STRUCTURE**

Our investment activities are managed by Ares Capital Management, which is wholly owned by Ares, and supervised by our board of directors, a majority of whom are independent of Ares and its affiliates. Ares Capital Management is registered under the Investment Advisers Act of 1940, or the "Advisers Act." Under our amended and restated investment advisory and management agreement with Ares Capital Management, referred to herein as our "investment advisory and management agreement," we have agreed to pay Ares Capital Management an annual base management fee based on our total assets, as defined under the Investment Company Act (other than cash and cash

equivalents, but including assets purchased with borrowed funds), and an incentive fee based on our performance.

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

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

## **ARES CAPITAL CORPORATION PORTFOLIO**

### **General**

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

In addition, the proportion of these types of investments will change over time given our views on, among other things, the economic and credit environment we are operating in. In connection with our

investing activities, we may make commitments with respect to indebtedness or securities of a potential portfolio company substantially in excess of our final investment. In such situations, while we may initially agree to fund up to a certain dollar amount of an investment, we may subsequently syndicate a portion of such amount to third parties prior to closing such investment, such that we are left with a smaller investment than what was reflected in our original commitment. In addition to originating investments, we may also acquire investments in the secondary market.

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

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

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

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

Business Services

Consumer Products

Education

Financial Services

Food and Beverage

Healthcare Services

Investment Funds

Manufacturing

Retail

Restaurants and Food Services

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

The industrial and geographic compositions of our portfolio at fair value as of December 31, 2010 and 2009 were as follows:

<b>Industry</b>	<b>As of December 31,</b>	
	<b>2010</b>	<b>2009</b>
Investment Funds(1)	21.4%	12.9%
Healthcare Services	15.6	18.3
Business Services	12.2	5.8
Restaurants and Food Services	8.8	7.8
Consumer Products	8.3	3.2
Financial Services	6.7	3.3
Education	5.2	10.1
Manufacturing	4.2	3.8
Other Services	3.3	8.2
Telecommunications	2.5	1.8
Food and Beverage	2.4	6.1
Retail	2.4	5.9
Commercial Real Estate	1.5	0.0
Wholesale Distribution	1.3	0.0
Other	4.2	12.8
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

- (1) Includes our investment in the SSLP, which had issued loans to 20 and 11 different issuers as of December 31, 2010 and December 31, 2009, respectively. The portfolio companies in the SSLP are in industries similar to the companies in our portfolio.

<b>Geographic Region</b>	<b>As of December 31,</b>	
	<b>2010</b>	<b>2009</b>
West	34.5%	29.4%
Mid-Atlantic	24.4	19.9
Midwest	20.2	19.8
Southeast	16.5	19.7
International	3.0	7.5
Northeast	1.4	3.7
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

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

## Managed Funds Portfolio

We and GE co-manage the SSLP. The SSLP is an unconsolidated senior debt fund that primarily invests in "stretch senior" and "unitranche" loans (loans that combine both senior and subordinated debt, generally in a first lien position) of middle-market companies. The SSLP has approximately \$5.1 billion of total committed capital under management, approximately \$2.5 billion in aggregate principal amount of which was funded as of December 31, 2010. As of December 31, 2010, our total commitment to the SSLP was approximately \$1 billion, of which approximately \$400 million was unfunded. The SSLP is capitalized as transactions are completed. Investments and portfolio decisions made by the SSLP must be approved by both GE and us. Our investment in the SSLP entitles us to a coupon of LIBOR plus 8.0% and also entitles us to receive a portion of the excess cash flow from the loan portfolio, which may result in a return greater than the contractual coupon. We are also entitled to certain other sourcing and management fees in connection with the SSLP. At December 31, 2010, our investment in the SSLP was \$561.7 million at fair value, including an unrealized gain of \$24.3 million.

We also manage the AGILE Fund, an unconsolidated fund that had approximately \$68 million of total committed capital under management as of December 31, 2010. At December 31, 2010 our investment in the AGILE Fund was \$0.2 million at fair value, including an unrealized loss of \$0.05 million.

In addition, we have made investments in our portfolio company, IHAM, which manages ten unconsolidated senior debt funds: Ivy Hill Middle Market Credit Fund, Ltd. ("Ivy Hill I"), Ivy Hill Middle Market Credit Fund II, Ltd. ("Ivy Hill II"), Ivy Hill Senior Debt Fund, L.P. and related vehicles ("Ivy Hill SDF" and, together with Ivy Hill I and Ivy Hill II, the "Ivy Hill Funds"), Knightsbridge CLO 2007-1, Ltd. and Knightsbridge CLO 2008-1, Ltd. (collectively, the "Knightsbridge Funds"), Emporia Preferred Funding I, Ltd., Emporia Preferred Funding II, Ltd. and Emporia Preferred Funding III, Ltd. (collectively, the "Emporia Funds") and Ares Private Debt Strategies Fund II, L.P. and Ares Private Debt Strategies Fund III, L.P. (collectively, the "PDS Funds"). In addition, IHAM serves as the sub-adviser/sub-manager for four others: CoLTS 2005-1 Ltd., CoLTS 2005-2 Ltd. and CoLTS 2007-1 Ltd. (collectively, the "CoLTS Funds") and FirstLight Funding I, Ltd. ("FirstLight"). As of December 31, 2010, IHAM had total committed capital under management of approximately \$3.7 billion, which includes approximately \$360 million invested by Ares Capital in IHAM or funds managed by IHAM. We have also made direct investments in securities of certain of these vehicles.

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

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

## ALLIED ACQUISITION

On October 26, 2009, we entered into a definitive agreement to acquire Allied Capital in an all stock transaction. On April 1, 2010, we completed the Allied Acquisition by acquiring the outstanding

shares of Allied Capital in exchange for shares of our common stock in a transaction valued at approximately \$908 million as of the closing date. Concurrently with the completion of the Allied Acquisition, we repaid in full the \$137 million of remaining principal amounts outstanding on Allied Capital's \$250 million senior secured term loan. We also assumed all of Allied Capital's other outstanding debt obligations, including approximately \$745 million in aggregate principal amount outstanding of Allied Capital's unsecured notes.

Under the terms of the Allied Acquisition, each Allied Capital stockholder received 0.325 shares of our common stock for each share of Allied Capital common stock then owned by such stockholder. In connection with the Allied Acquisition, approximately 58.5 million shares of our 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 Accounting Standards Codification ("ASC") 805-10 (previously Statement of Financial Accounting Standards ("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.

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

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

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

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

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

### INVESTMENT SELECTION

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

This investment philosophy involves, among other things,

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

company-specific research and analysis; and

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

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

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

an evaluation of management and its economic incentives;

an analysis of business strategy and industry trends; and

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

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

### Intensive Due Diligence

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

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



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checking management's backgrounds and references;

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

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

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

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

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

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

investigating legal risks and financial and accounting systems.

### **Selective Investment Process**

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

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

### **Issuance of Formal Commitment**

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

### **Debt Investments**

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

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

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

In the case of our first and second lien senior loans and mezzanine debt, we tailor the terms of the investment to the facts and circumstances of the transaction and the prospective portfolio company, negotiating a structure that aims to protect our rights and manage our risk while creating incentives for the portfolio company to achieve its business plan and improve its profitability. For example, in addition to seeking a senior position in the capital structure of our portfolio companies, we will seek, where appropriate, to limit the downside potential of our investments by:

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

incorporating "put" rights, call protection and LIBOR floors into the investment structure; and

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

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

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

### Equity Investments

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

Results of Operations Portfolio and Investment Activity" for further information on the rotation of investments acquired as part of the Allied Acquisition.

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

We closely monitor each investment we make, maintain a regular dialogue with both the management team and other stakeholders and seek specifically tailored financial reporting. In addition, senior investment professionals may take board seats or obtain board observation rights for our portfolio companies. As of December 31, 2010, of our 170 portfolio companies, we were entitled to board seats or board observation rights on 54% of these companies.

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

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

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

As of December 31, 2010, the weighted average grade of our portfolio was 3.1. For more information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations Portfolio and Investment Activity."

## MANAGERIAL ASSISTANCE

As a BDC, we must offer, and must provide upon request, significant managerial assistance to certain of our portfolio companies. This assistance could involve, among other things, monitoring the operations of our portfolio companies, participating in board and management meetings, consulting with and advising officers of portfolio companies and providing other organizational and financial guidance. We may receive fees for these services.

## COMPETITION

Our primary competitors include public and private funds, commercial and investment banks, commercial financing companies and private equity funds, each of which we compete with for financing opportunities. Many of our competitors are substantially larger and have considerably greater financial and marketing resources than we do. For example, some competitors may have access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than Ares Capital. Furthermore, many of our competitors are not subject to the regulatory restrictions that the Investment Company Act imposes on us as a BDC. For additional information concerning the competitive risks we face, see "Risk Factors Risks Relating to Our Business We operate in a highly competitive market for investment opportunities."

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

## MARKET CONDITIONS

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

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

## STAFFING

We do not currently have any employees and do not expect to have any employees. Services necessary for our business are provided by individuals who are employees of our investment adviser, Ares Capital Management, and our administrator, Ares Operations, each of which is a wholly owned subsidiary of Ares Management, pursuant to the terms of the investment advisory and management agreement and our amended and restated administration agreement with our administrator, referred to herein as our "administration agreement," respectively, each as described below. Each of our executive officers is an employee of Ares Operations or Ares Capital Management. Our day-to-day investment activities are managed by our investment adviser. Most of the services necessary for the origination and administration of our investment portfolio are provided by investment professionals employed by Ares Capital Management. Ares Capital Management has approximately 55 investment professionals who focus on origination, transaction development, investment and the ongoing monitoring of our investments. We reimburse both Ares Capital Management and Ares Operations for a certain portion of expenses incurred in connection with such staffing, as described in more detail below.

## INVESTMENT ADVISORY AND MANAGEMENT AGREEMENT

### *Management Services*

Ares Capital Management serves as our investment adviser and is registered as an investment adviser under the Advisers Act. Subject to the overall supervision of our board of directors, our investment adviser manages the day-to-day operations of, and provides investment advisory and management services to, Ares Capital. Under the terms of the investment advisory and management agreement, Ares Capital Management:

determines the composition of our portfolio, the nature and timing of the changes to our portfolio and the manner of implementing such changes;

identifies, evaluates and negotiates the structure of the investments we make (including performing due diligence on our prospective portfolio companies);

closes and monitors the investments we make; and

determines the investments and other assets that we purchase, retain or sell.

While Ares Capital Management was initially formed to provide investment advisory services to us, it also provides investment advisory services to other funds managed by Ares that may have investment objectives that compete or overlap with, and may from time to time invest in asset classes similar to those targeted by, us. Ares Capital Management's services to us under the investment advisory and management agreement are not exclusive, and it furnishes similar services to other entities. We may compete with these Ares funds or other investment vehicles managed by our investment adviser and its affiliates for capital and investment opportunities. Ares Capital Management endeavors to allocate investment opportunities in a fair and equitable manner, and in any event consistent with any fiduciary duties owed to Ares Capital. Nevertheless, it is possible that we may not be given the opportunity to participate in certain investments made by investment funds managed by Ares Capital Management or its affiliates.

The sole member of Ares Capital Management is Ares Management, a global alternative asset manager and SEC registered investment adviser. Ares funds, including funds managed by Ares, had, as of December 31, 2010, approximately \$39 billion of total committed capital under management.

### *Management Fee*

Pursuant to the investment advisory and management agreement and subject to the overall supervision of our board of directors, Ares Capital Management provides investment advisory and

management services to us. For providing these services, Ares Capital Management receives a fee from us consisting of two components a base management fee and an incentive fee. Ares Capital Management has committed to defer up to \$15 million in base management and incentive fees for each of the first two years following the Allied Acquisition if certain earnings targets are not met.

The base management fee is calculated at an annual rate of 1.5% based on the average value of our total assets (other than cash or cash equivalents but including assets purchased with borrowed funds) at the end of the two most recently completed calendar quarters. The base management fee is payable quarterly in arrears.

The incentive fee has two parts. One part is calculated and payable quarterly in arrears based on our pre-incentive fee net investment income for the quarter. Pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees such as commitment, origination, structuring, diligence and consulting fees or other fees that we receive from portfolio companies but excluding fees for providing managerial assistance) accrued during the calendar quarter, minus operating expenses for the quarter (including the base management fee, any expenses payable under the administration agreement, and any interest expense and dividends paid on any outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature such as market discount, debt instruments with PIK interest, preferred stock with PIK dividends and zero coupon securities, accrued income that we have not yet received in cash. Our investment adviser is not under any obligation to reimburse us for any part of the incentive fee it received that was based on such accrued income that we never actually receive in cash. See "Risk Factors There are significant potential conflicts of interest that could impact our investment returns" and "Risk Factors We may be obligated to pay our investment adviser incentive compensation even if we incur a loss."

Pre-incentive fee net investment income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Because of the structure of the incentive fee, it is possible that we may pay an incentive fee in a quarter where we incur a loss. For example, if we receive pre-incentive fee net investment income in excess of the hurdle rate (as defined below) for a quarter, we will pay the applicable incentive fee even if we have incurred a loss in that quarter due to realized and/or unrealized capital losses.

Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets (defined as total assets less indebtedness and before taking into account any incentive fees payable during the period) at the end of the immediately preceding calendar quarter, is compared to a fixed "hurdle rate" of 2% per quarter. If market interest rates rise, we may be able to invest our funds in debt instruments that provide for a higher return, which may increase our pre-incentive fee net investment income and make it easier for our investment adviser to surpass the fixed hurdle rate and receive an incentive fee based on such net investment income. Our pre-incentive fee net investment income used to calculate this part of the incentive fee is also included in the amount of our total assets (other than cash and cash equivalents but including assets purchased with borrowed funds) used to calculate the 1.5% base management fee.

We pay our investment adviser an incentive fee with respect to our pre-incentive fee net investment income in each calendar quarter as follows:

no incentive fee in any calendar quarter in which the pre-incentive fee net investment income does not exceed the hurdle rate;

100% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.5% in any calendar quarter. We refer to this portion of our pre-incentive fee net investment income (which exceeds the hurdle rate but is less than 2.5%) as the "catch-up" provision. The catch-up is meant to provide our investment adviser with 20% of the pre-incentive fee net investment income as if a hurdle rate did not apply if this net investment income exceeds 2.5% in any calendar quarter; and

20% of the amount of our pre-incentive fee net investment income, if any, that exceeds 2.50% in any calendar quarter.

These calculations are adjusted for any share issuances or repurchases during the quarter.

The second part of the incentive fee (the "Capital Gains Fee"), is determined and payable in arrears as of the end of each calendar year (or, upon termination of the investment advisory and management agreement, as of the termination date) and is calculated at the end of each applicable year by subtracting (a) the sum of our cumulative aggregate realized capital losses and aggregate unrealized capital depreciation from (b) our cumulative aggregate realized capital gains, in each case calculated from October 8, 2004. Realized capital gains and losses include gains and losses on investments and foreign currencies, as well as gains and losses on extinguishment of debt and other assets. If such amount is positive at the end of such year, then the Capital Gains Fee for such year is equal to 20% of such amount, less the aggregate amount of Capital Gains Fees paid in all prior years. If such amount is negative, then there is no Capital Gains Fee for such year.

The cumulative aggregate realized capital gains are calculated as the sum of the differences, if positive, between (a) the net sales price of each investment in our portfolio when sold and (b) the accreted or amortized cost basis of such investment.

The cumulative aggregate realized capital losses are calculated as the sum of the amounts by which (a) the net sales price of each investment in our portfolio when sold is less than (b) the accreted or amortized cost basis of such investment.

The aggregate unrealized capital depreciation is calculated as the sum of the differences, if negative, between (a) the valuation of each investment in our portfolio as of the applicable Capital Gains Fee calculation date and (b) the accreted or amortized cost basis of such investment.

We defer cash payment of any incentive fee otherwise earned by our investment adviser if, during the most recent four full calendar quarter period ending on or prior to the date such payment is to be made, the sum of (a) the aggregate distributions to our stockholders and (b) the change in net assets (defined as total assets less indebtedness and before taking into account any incentive fees payable during the period) is less than 8.0% of our net assets at the beginning of such period. These calculations were appropriately pro rated during the first three calendar quarters following October 8, 2004 and are adjusted for any share issuances or repurchases. Any deferred incentive fees will be carried over for payment in subsequent calculation periods to the extent such payment can then be made under the investment advisory and management agreement.

#### ***Payment of Our Expenses***

The services of all investment professionals and staff of our investment adviser, when and to the extent engaged in providing investment advisory and management services to Ares Capital, and the compensation and routine overhead expenses of such personnel allocable to such services, are provided and paid for by Ares Capital Management. We bear all other costs and expenses of our operations and transactions, including those relating to: rent; organization; calculation of our net asset value (including the cost and expenses of any independent valuation firm); expenses incurred by Ares Capital Management payable to third parties, including agents, consultants or other advisers, in monitoring our



financial and legal affairs and in monitoring our investments and performing due diligence on our prospective portfolio companies; interest payable on indebtedness, if any, incurred to finance our investments; offerings of our common stock and other securities; investment advisory and management fees; administration fees; fees payable to third parties, including agents, consultants or other advisers, relating to, or associated with, evaluating and making investments; transfer agent and custodial fees; registration fees; listing fees; taxes; independent directors' fees and expenses; costs of preparing and filing reports or other documents with the SEC; the costs of any reports, proxy statements or other notices to stockholders, including printing costs; to the extent we are covered by any joint insurance policies, our allocable portion of the insurance premiums for such policies; direct costs and expenses of administration, including auditor and legal costs; and all other expenses incurred by us or Ares Operations in connection with administering our business as described in more detail under "Administration Agreement" below.

***Duration, Termination and Amendment***

At a meeting of our board of directors on February 24, 2006, the current investment advisory and management agreement was approved by our board of directors with the recommendation that stockholders of the Company vote to approve the agreement. A discussion regarding the basis for our board of directors' approval is available in our proxy statement for our 2006 Annual Stockholders Meeting. Our stockholders approved the investment advisory and management agreement on May 30, 2006, which was entered into on June 1, 2006. Unless terminated earlier, the investment advisory and management agreement will automatically renew for successive annual periods if approved annually by our board of directors or by the affirmative vote of the holders of a majority of our outstanding voting securities, including, in either case, approval by a majority of our directors who are not interested persons.

At a meeting of our board of directors held on May 3, 2010, our board of directors, including all of the directors who are not "interested persons" of the Company (as defined in the Investment Company Act), voted to approve the continuation of the investment advisory and management agreement through June 1, 2011. The independent directors had the opportunity to consult in executive session with counsel to the Company regarding the approval of such agreement. In reaching a decision to approve the continuation of the investment advisory and management agreement, our board of directors reviewed a significant amount of information and considered:

- (i) the nature, extent and quality of the advisory and other services to be provided to the Company by our investment adviser;
- (ii) the investment performance of the Company and our investment adviser;
- (iii) the costs of the services to be provided by our investment adviser (including management fees, advisory fees and expense ratios);
- (iv) the limited potential for economies of scale in investment management associated with a larger capital base for investments in first and second lien senior loans and mezzanine debt and whether such limited economies of scale would benefit our stockholders;
- (v) our investment adviser's estimated pro forma profitability with respect to managing us;
- (vi) the limited potential for additional benefits to be derived by our investment adviser and its affiliates as a result of our relationship with our investment adviser; and
- (vii) various other matters.

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In approving the continuation of the investment advisory and management agreement, our board of directors, including all of the directors who are not "interested persons," of the Company, made the following conclusions:

**Nature, Extent and Quality of Services.** Our board of directors considered the nature, extent and quality of the investment selection process employed by our investment adviser, including the flow of transaction opportunities resulting from Ares Capital Management's investment professionals' significant capital markets, trading and research expertise, the employment of Ares Capital Management's investment philosophy, diligence procedures, credit recommendation process, investment structuring, and ongoing relationships with and monitoring of portfolio companies, in light of the investment objective of the Company. Our board of directors also considered our investment adviser's personnel and their prior experience in connection with the types of investments made by us, including such personnel's network of relationships with intermediaries focused on middle-market companies. In addition, our board of directors considered the other terms and conditions of the investment advisory and management agreement. Our board of directors concluded that the substantive terms of the investment advisory and management agreement (other than the fees payable thereunder, which our board of directors reviewed separately), including the services to be provided, are generally the same as those of comparable BDCs described in the available market data and that it would be difficult to obtain similar services on a comparable basis from other third party services providers or through an internally managed structure. In addition, our board of directors considered the fact that we have the ability to terminate the investment advisory and management agreement without penalty upon 60 days' written notice to our investment adviser. Our board of directors further concluded that our investment adviser is served by a dedicated origination, transaction development and investment team of investment professionals, and that these investment professionals have historically focused on investments in middle-market companies and have developed an investment evaluation process and an extensive network of relationships with financial sponsors and intermediaries focused on middle-market companies, which experience and relationships coincide with our investment objective and generally equal or exceed those of the management teams of other comparable BDCs described in the available market data.

**Investment Performance.** Our board of directors reviewed the long-term and short-term investment performance of the Company and our investment adviser, as well as comparative data with respect to the long-term and short-term investment performance of other BDCs and their externally managed investment advisers. Our board of directors concluded that our investment adviser was delivering results consistent with the investment objective of the Company and that the Company's investment performance was generally above average when compared to comparable BDCs.

**Costs of the Services Provided to the Company.** Our board of directors considered comparative data based on publicly available information with respect to services rendered and the advisory fees (including the management fees and incentive fees) of other BDCs with similar investment objectives, our projected operating expenses and expense ratio compared to other BDCs with similar investment objectives, as well as the administrative services that our administrator will provide to us at cost. Based upon its review, our board of directors concluded that the fees to be paid under the investment advisory and management agreement are generally equal to or less than those payable under agreements of comparable BDCs described in the available market data. In addition, our board of directors concluded that our expected expenses as a percentage of net assets attributable to common stock are generally equal to or less than those typically incurred by comparable BDCs described in the available market data.

**Economies of Scale.** Our board of directors considered information about the potential of our stockholders to experience economies of scale as the Company grows in size. Our board of

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directors considered that because there are no break points in our investment adviser's fees, any benefits resulting from the growth in the Company's assets where the Company's fixed costs did not increase proportionately would not inure to the benefit of the stockholders. Our board of directors also considered that the growth of the Company's portfolio has been originated by our investment adviser and that increased expenses have resulted in connection with such growth.

**Estimated Pro Forma Profitability of the Investment Adviser.** Our board of directors concluded that our investment adviser's estimated pro forma profitability with respect to managing us was generally less than the profitability of investment advisers managing comparable BDCs described in the available market data and noted in particular that the management fee is 1.50% (compared to 2.00% for certain of the Company's competitors) and is not paid on cash or cash equivalents held by the Company;

**Additional Benefits Derived by the Investment Adviser.** Our board of directors concluded that there is limited potential for additional benefits, such as soft dollar arrangements with brokers, to be derived by our investment adviser and its affiliates as a result of our relationship with our investment adviser; and

**Other Matters Considered.** Our board of directors considered the interests of senior management and concluded that the judgment and performance of our senior management will not be impaired by those interests.

In view of the wide variety of factors that our board of directors considered in connection with its evaluation of the investment advisory and management agreement, it is not practical to quantify, rank or otherwise assign relative weights to the specific factors it considered in reaching its decision. Our board of directors did not undertake to make any specific determination as to whether any particular factor, or any aspect of any particular factor, was favorable or unfavorable to the ultimate determination of our board of directors. Rather, our board of directors based its approval on the totality of information presented to, and the investigation conducted by, it. In considering the factors discussed above, individual directors may have given different weights to different factors.

Based on the information reviewed and the factors discussed above, our directors (including those directors who are not "interested persons" of the Company) concluded that the terms of the investment advisory and management agreement, including the fee rates thereunder, are fair and reasonable in relation to the services provided and approved the continuation of the investment advisory and management agreement with our investment adviser as being in the best interests of the Company and its stockholders.

The investment advisory and management agreement will automatically terminate in the event of its assignment. The investment advisory and management agreement may be terminated by either party without penalty upon 60 days' written notice to the other party.

Conflicts of interest may arise if our investment adviser seeks to change the terms of our investment advisory and management agreement, including, for example, the amount of the management fee, the incentive fee or other compensation terms. Any material change to the investment advisory and management agreement must be submitted to stockholders for approval under the Investment Company Act and we may from time to time decide it is appropriate to seek stockholder approval to change the terms of the agreement. See "Risk Factors Risks Relating to our Business We are dependent upon Ares Capital Management's key personnel for our future success and upon their access to Ares investment professionals."

### ***Indemnification***

The investment advisory and management agreement provides that, absent willful misfeasance, bad faith or gross negligence in the performance of its duties or by reason of the reckless disregard of its

duties and obligations, Ares Capital Management, its members and their respective officers, managers, partners, agents, employees, controlling persons and members and any other person or entity affiliated with it are entitled to indemnification from us for any damages, liabilities, costs and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) arising from the rendering of Ares Capital Management's services under the investment advisory and management agreement or otherwise as our investment adviser.

#### ***Organization of the Investment Adviser***

Ares Capital Management is a Delaware limited liability company that is registered as an investment adviser under the Advisers Act. The principal executive offices of Ares Capital Management are located at 2000 Avenue of the Stars, 12th Floor, Los Angeles, California 90067.

#### **ADMINISTRATION AGREEMENT**

We are also party to a separate administration agreement with Ares Operations, an affiliate of our investment adviser and a wholly owned subsidiary of Ares Management. Our board of directors approved the continuation of our administration agreement on May 3, 2010, which extended the term of the agreement until June 1, 2011. Pursuant to the administration agreement, Ares Operations furnishes us with office equipment and clerical, bookkeeping and record keeping services at our office facilities. Under the administration agreement, Ares Operations also performs, or oversees the performance of, our required administrative services, which include, among other things, providing assistance in accounting, legal, compliance, operations, technology, and investor relations, being responsible for the financial records that we are required to maintain and preparing reports to our stockholders and reports filed with the SEC. In addition, Ares Operations assists us in determining and publishing our net asset value, oversees the preparation and filing of our tax returns and the printing and dissemination of reports to our stockholders, and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. Payments under the administration agreement are equal to an amount based upon our allocable portion of Ares Operations' overhead and other expenses (including travel expenses) incurred by Ares Operations in performing its obligations under the administration agreement, including our allocable portion of the cost of certain of our officers (including our chief compliance officer, chief financial officer, general counsel, secretary and treasurer) and their respective staffs.

#### ***Indemnification***

The administration agreement provides that, absent willful misfeasance, bad faith or negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations, Ares Operations, its members and their respective officers, managers, partners, agents, employees, controlling persons and members and any other person or entity affiliated with it are entitled to indemnification from us for any damages, liabilities, costs and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) arising from the rendering of Ares Operations' services under the administration agreement or otherwise as our administrator.

#### **LEVERAGE**

We borrow funds to make additional investments, a practice known as "leverage," to attempt to increase return to our common stockholders. With certain limited exceptions, we are only allowed to borrow amounts such that our asset coverage, as defined in the Investment Company Act, equals at least 200% after such borrowing. The amount of leverage that we employ at any particular time will depend on our investment adviser's and our board of directors' assessments of market and other factors at the time of any proposed borrowing. As of February 25, 2011, we had \$1.62 billion of total principal debt outstanding under the various debt instruments described below.

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

We are party to a revolving credit facility that currently provides for up to \$810.0 million of borrowings (the "Revolving Credit Facility"). The Revolving Credit Facility also includes an "accordion" feature that allows us, under certain circumstances, to increase the size of the facility to a maximum of \$1.05 billion. The Revolving Credit Facility expires on January 22, 2013.

In addition, our wholly owned subsidiary Ares Capital CP Funding LLC ("Ares Capital CP") is party to a revolving funding facility, which, as amended, currently provides for up to \$400.0 million of borrowings (the "Revolving Funding Facility" and, together with the Revolving Credit Facility, the "Facilities"). The Revolving Funding Facility provides for a three-year reinvestment period until January 18, 2014 (with two one-year extension options, subject to our and the lenders' consent) and has a stated maturity of January 18, 2016 (with two one-year extension options, subject to our and the lenders' consent).

Through our wholly owned subsidiary ARCC CLO 2006 LLC ("ARCC CLO") we completed a \$400.0 million debt securitization referred to herein as the "Debt Securitization" and issued approximately \$314.0 million aggregate principal amount of asset-backed notes (including \$50.0 million revolving notes, \$22.1 million of which were drawn down as of December 31, 2010), which we refer to as the "CLO Notes," to third parties that are secured by a pool of middle-market loans that were purchased or originated by the Company. We retained approximately \$86.0 million of certain "BBB" and non-rated securities in the Debt Securitization and had repurchased \$34.8 million of various tranches of the CLO Notes as of December 31, 2010. During the year ended December 31, 2010, we repaid \$118.5 million of the CLO Notes. The CLO Notes provide for a reinvestment period until June 21, 2011 and mature on December 20, 2019.

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 \$319.9 million principal amount outstanding of unsecured 6.625% Notes due on July 15, 2011 (the "2011 Notes"), \$195.6 million principal amount outstanding of unsecured 6.000% Notes due on April 1, 2012 (the "2012 Notes") and \$230.0 million principal amount outstanding of unsecured 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"). Since the closing of the Allied Acquisition through December 31, 2010, the Company purchased \$19.4 million aggregate principal amount outstanding of the 2011 Notes and \$34.4 million aggregate principal amount outstanding of the 2012 Notes. On February 24, 2011 we notified the holders of our 2011 Notes that we are redeeming the \$300.6 million aggregate principal amount of our 2011 Notes remaining outstanding, together with a redemption premium, in accordance with the terms of the indenture governing the 2011 Notes. We expect the redemption to be completed on March 16, 2011. See "Management, Discussion and Analysis Recent Developments" and Note 19 to the consolidated financial statements for the year ended December 31, 2010 for information on the redemption of the 2011 Notes.

In October 2010, we issued \$200.0 million of unsecured 7.75% senior notes that mature on October 15, 2040 (the "2040 Notes" and, together with the Allied Unsecured Notes, the "Unsecured Notes"). The 2047 Notes and the 2040 Notes are listed on the New York Stock Exchange.

In January 2011, we issued \$575.0 million of convertible senior unsecured notes that mature on February 1, 2016 (the "2016 Convertible Notes"). See "Management, Discussion and Analysis Recent Developments" and Note 19 to our consolidated financial statements for the year ended December 31, 2010 for information on the issuance of the 2016 Convertible Notes.

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We intend to continue borrowing under the Facilities in the future and we may increase the size of the Facilities or otherwise issue additional debt securities or other evidences of indebtedness in the future.

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

### REGULATION

We have elected to be regulated as a BDC under the Investment Company Act and have elected to be treated as a RIC under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"). As with other companies regulated by the Investment Company Act, a BDC must adhere to certain substantive regulatory requirements. The Investment Company Act contains prohibitions and restrictions relating to transactions between BDCs and their affiliates (including any investment advisers or sub-advisers), principal underwriters and certain affiliates of those affiliates or underwriters. Among other things, we generally cannot invest in any portfolio company in which funds managed by Ares or any of its downstream affiliates (including Ares Capital Management) (other than Ares Capital and its downstream affiliates) currently has an investment (although we may co-invest on a concurrent basis with other funds managed by Ares or any of its downstream affiliates (including Ares Capital Management), subject to compliance with existing regulatory guidance, applicable regulations and our allocation procedures). Some of these co-investments would only be permitted pursuant to an exemptive order from the SEC. We have applied for an exemptive order from the SEC that would permit us to co-invest with funds managed by Ares or its downstream affiliates (including Ares Capital Management). Any such order will be subject to certain terms and conditions. There is no assurance that the application for exemptive relief will be granted by the SEC. Accordingly, we cannot assure you that we will be permitted to co-invest with funds managed by Ares or any of its downstream affiliates (including Ares Capital Management). See "Risk Factors Risks Relating to Our Business We may not replicate Ares' historical success and our ability to enter into transactions with Ares and our other affiliates is restricted."

The Investment Company Act also requires that a majority of our directors be persons other than "interested persons," as that term is defined in the Investment Company Act. In addition, the Investment Company Act provides that we may not change the nature of our business so as to cease to be, or to withdraw our election as, a BDC unless that change is approved by holders of at least a majority of our outstanding voting securities. Under the Investment Company Act, the vote of holders of at least a majority of outstanding voting securities means the vote of the holders of the lesser of: (a) 67% or more of the outstanding shares of our common stock present at a meeting or represented by proxy if holders of more than 50% of the shares of our common stock are present or represented by proxy or (b) more than 50% of the outstanding shares of our common stock.

We may invest up to 100% of our assets in securities acquired directly from issuers in privately negotiated transactions. With respect to such securities, we may, for the purpose of public resale, be deemed an "underwriter" as that term is defined in the Securities Act of 1933 (the "Securities Act"). Our intention is to not write (sell) or buy put or call options to manage risks associated with the publicly traded securities of our portfolio companies. We may enter into hedging transactions to manage the risks associated with interest rate and currency fluctuations. We may purchase or otherwise receive warrants or options to purchase the common stock of our portfolio companies in connection with acquisition financings or other investments. In connection with such an acquisition, we may acquire rights to require the issuers of acquired securities or their affiliates to repurchase them under certain circumstances.

We also do not intend to acquire securities issued by any investment company that exceed the limits imposed by the Investment Company Act. Under these limits, we generally cannot acquire more

than 3% of the voting stock of any investment company (as defined in the Investment Company Act), invest more than 5% of the value of our total assets in the securities of one investment company or invest more than 10% of the value of our total assets in the securities of investment companies in the aggregate. With regard to that portion of our portfolio invested in securities issued by investment companies, it should be noted that such investments might subject our stockholders to additional expenses.

## PRIVACY PRINCIPLES

We are committed to maintaining the privacy of our stockholders and to safeguarding their non-public personal information. The following information is provided to help you understand what personal information we collect, how we protect that information and why, in certain cases, we may share information with select other parties.

Generally, we do not receive any non-public personal information relating to our stockholders, although certain non-public personal information of our stockholders may become available to us. The non-public personal information that we may receive falls into the following categories:

information we receive from stockholders, whether we receive it orally, in writing or electronically. This includes stockholders' communications to us concerning their investment;

information about stockholders' transactions and history with us; or

other general information that we may obtain about stockholders, such as demographic and contact information such as a person's address.

We do not disclose any non-public personal information about our stockholders or former stockholders to anyone, except:

to our affiliates (such as our investment adviser and administrator) and their employees that have a legitimate business need for the information;

to our service providers (such as our accountants, attorneys, custodians, transfer agent, underwriters and proxy solicitors) and their employees, as is necessary to service recordholder accounts or otherwise provide the applicable services;

to comply with court orders, subpoenas, lawful discovery requests or other legal or regulatory requirements; or

as allowed or required by applicable law or regulation.

When the Company shares non-public stockholder personal information referred to above, the information is made available for limited business purposes and under controlled circumstances designed to protect our stockholders' privacy. The Company does not permit use of stockholder information for any non-business or marketing purpose, nor does the Company permit third parties to rent, sell, trade or otherwise release or disclose information to any other party.

The Company's service providers, such as its investment adviser, administrator and transfer agent, are required to maintain physical, electronic, and procedural safeguards to protect stockholder non-public personal information to prevent unauthorized access or use and to dispose of such information when it is no longer required.

Personnel of our affiliates may access stockholder information only for business purposes. The degree of access is based on the sensitivity of the information and on personnel need for the information to service a stockholder's account or comply with legal requirements.

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If a stockholder ceases to be a stockholder, we will adhere to the privacy policies and practices as described above. We may choose to modify our privacy policies at any time. Before we do so, we will notify stockholders and provide a description of our privacy policy.

In the event of a corporate change in control resulting from, for example, a sale to, or merger with, another entity, or in the event of a sale of assets, we reserve the right to transfer stockholders' non-public personal information to the new party in control or the party acquiring assets.

### AVAILABLE INFORMATION

We file with or submit to the SEC annual, quarterly and current periodic reports, proxy statements and other information meeting the informational requirements of the Securities Exchange Act of 1934 (the "Exchange Act"). This information is available free of charge by calling us collect at (310) 201-4200 or on our website at [www.arescapitalcorp.com](http://www.arescapitalcorp.com). The information on our website is not deemed incorporated by reference in this Annual Report. You also may inspect and copy these reports, proxy statements and other information, as well as the Annual Report and related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street, NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information filed electronically by us with the SEC which are available on the SEC's Internet site at [www.sec.gov](http://www.sec.gov). Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following e-mail address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the SEC's Public Reference Room, 100 F Street, NE, Washington, D.C. 20549.



**Item 1A. Risk Factors**

**RISK FACTORS**

*You should carefully consider these risk factors, together with all of the other information included in this Annual Report, including our consolidated financial statements and the related notes thereto, before you decide whether to make an investment in our securities. The risks set out below are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. If any of the following events occur, our business, financial condition and results of operations could be materially adversely affected. In such case, the net asset value of our common stock and the trading price of our securities could decline, and you may lose all or part of your investment.*

**RISKS RELATING TO OUR BUSINESS**

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

Beginning in 2007, the U.S. capital markets entered into a period of disruption as evidenced by a lack of liquidity in the debt capital markets, significant write-offs in the financial services sector, the re-pricing of credit risk in the broadly syndicated credit market and the failure of major financial institutions. Despite actions of the U.S. federal government, these events contributed to worsening general economic conditions that materially and adversely impacted the broader financial and credit markets and reduced the availability of debt and equity capital for the market as a whole and financial services firms in particular. While these conditions have improved, there can be no assurance that they will not worsen in the future. If these adverse market conditions return, we and other companies in the financial services sector may have to access, if available, alternative markets for debt and equity capital in order to grow. Equity capital may be difficult to raise because, subject to some limited exceptions, as a BDC, we are generally not able to issue additional shares of our common stock at a price less than net asset value without first obtaining approval for such issuance from our stockholders and our independent directors. At our 2010 Annual Stockholders Meeting, subject to certain determinations required to be made by our board of directors, our stockholders approved our ability to sell or otherwise issue shares of our common stock, not exceeding 25% of our then outstanding common stock, at a price below the then current net asset value per share during a period beginning on June 7, 2010 and expiring on the earlier of the one-year anniversary of the date of our 2010 Annual Stockholders Meeting and the date of our 2011 Annual Stockholders Meeting. In addition, our ability to incur indebtedness (including by issuing preferred stock) is limited by applicable regulations such that our asset coverage, as defined in the Investment Company Act, must equal at least 200% immediately after each time we incur indebtedness. The debt capital that will be available to us in the future, if at all, may be at a higher cost and on less favorable terms and conditions than what we currently experience. Any inability to raise capital could have a negative effect on our business, financial condition and results of operations.

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

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

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

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

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

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

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

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

Our ability to achieve our investment objective depends on our ability to acquire suitable investments and monitor and administer those investments, which depends, in turn, on our investment adviser's ability to identify, invest in and monitor companies that meet our investment criteria.

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

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

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

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

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

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

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

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

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

We may issue senior securities or borrow money from banks or other financial institutions, up to the maximum amount permitted by the Investment Company Act. Under the provisions of the Investment Company Act, we are permitted, as a BDC, to incur indebtedness or issue senior securities only in amounts such that our asset coverage, as defined in the Investment Company Act, equals at least 200% after each such incurrence or issuance. If the value of our assets declines, we may be unable to satisfy this test, which may prohibit us from paying dividends and could prevent us from maintaining our status as a RIC or may prohibit us from repurchasing shares of our common stock. In addition, our inability to satisfy this test could cause an event of default under our existing

indebtedness. If we cannot satisfy this test, we may be required to sell a portion of our investments at a time when such sales may be disadvantageous and, depending on the nature of our leverage, repay a portion of our indebtedness. Accordingly, any failure to satisfy this test could have a material adverse effect on our business, financial condition or results of operations. As of December 31, 2010, our asset coverage for senior securities was 321%.

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

At our 2010 Annual Stockholders Meeting, subject to certain determinations required to be made by our board of directors, our stockholders approved our ability to sell or otherwise issue shares of our common stock, not exceeding 25% of our then outstanding common stock, at a price below the then current net asset value per share during a period beginning on June 7, 2010 and expiring on the earlier of the one-year anniversary of the date of our 2010 Annual Stockholders Meeting and the date of our 2011 Annual Stockholder Meeting.

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

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

Borrowings, also known as leverage, magnify the potential for gain or loss on amounts invested and, therefore, increase the risks associated with investing in our securities. We currently borrow under our Facilities and have issued or assumed other senior securities, and in the future may borrow from, or issue additional senior securities to, banks, insurance companies, funds, institutional investors and other lenders and investors. Lenders and holders of such senior securities have fixed dollar claims on our consolidated assets that are superior to the claims of our common stockholders or any preferred stockholders. If the value of our consolidated assets increases, then leveraging would cause the net asset value per share of our common stock to increase more sharply than it would have had we not incurred leverage.

Conversely, if the value of our consolidated assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had we not incurred leverage. Similarly, any

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

As of December 31, 2010, we had \$388.1 million in principal amount outstanding under our Facilities, \$155.3 million in aggregate principal amount outstanding of the CLO Notes (excluding the Retained Notes (as defined below)), \$691.8 million in aggregate principal amount outstanding of the Allied Unsecured Notes and \$200 million in aggregate principal amount outstanding of the 2040 Notes. In order for us to cover our annual interest payments on indebtedness, we must achieve annual returns on our December 31, 2010 total assets of at least 1.6%. The weighted average stated interest rate charged on our borrowings as of December 31, 2010 was 5.2%. We intend to continue borrowing under the Facilities in the future and we may increase the size of the Facilities or issue additional debt securities or other evidences of indebtedness (although there can be no assurance that we will be successful in doing so). Our ability to service our debt depends largely on our financial performance and is subject to prevailing economic conditions and competitive pressures. The amount of leverage that we employ at any particular time will depend on our investment adviser's and our board of directors' assessments of market and other factors at the time of any proposed borrowing.

Our Facilities, the CLO Notes, the Unsecured Notes and the 2016 Convertible Notes impose financial and operating covenants that restrict our business activities, including limitations that could hinder our ability to finance additional loans and investments or to make the distributions required to maintain our status as a RIC. A failure to renew our Facilities or to add new or replacement debt facilities or issue additional debt securities or other evidences of indebtedness could have a material adverse effect on our business, financial condition or results of operations.

The following table illustrates the effect on return to a holder of our common stock of the leverage created by our use of borrowing at the weighted average stated interest rate of 5.2% as of December 31, 2010, together with (a) our total value of net assets as of December 31, 2010; (b) \$1,435.1 million of principal indebtedness outstanding as of December 31, 2010 and (c) hypothetical annual returns on our portfolio of minus 15% to plus 15%.

Assumed Return on Portfolio (Net of Expenses)(1)	-15%	-10%	-5%	0%	5%	10%	15%
Corresponding Return to Common Stockholders(2)	-25%	-17%	-10%	-2%	5%	13%	20%

(1) The assumed portfolio return is required by regulation of the SEC and is not a prediction of, and does not represent, our projected or actual performance. Actual returns may be greater or less than those appearing in the table.

(2) In order to compute the "Corresponding Return to Common Stockholders," the "Assumed Return on Portfolio" is multiplied by the total value of our assets at December 31, 2010 to obtain an assumed return to us. From this amount, the interest expense (calculated by multiplying the weighted average stated interest rate of 5.2% by the \$1,435.1 million of principal debt) is subtracted to determine the return available to stockholders. The return available to stockholders is then divided by the total value of our net assets as of December 31, 2010 to determine the "Corresponding Return to Common Stockholders."

**In addition to regulatory requirements that restrict our ability to raise capital, the Facilities, the CLO Notes, the Unsecured Notes and the 2016 Convertible Notes contain various covenants that, if not complied with, could accelerate repayment under the Facilities, the CLO Notes, the Unsecured Notes and the 2016 Convertible Notes, thereby materially and adversely affecting our liquidity, financial condition and results of operations.**

The agreements governing the Facilities, the CLO Notes, the Unsecured Notes and the 2016 Convertible Notes require us to comply with certain financial and operational covenants. These covenants include:

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

restrictions on our ability to incur liens; and

maintenance of a minimum level of stockholders' equity.

As of the date of this Annual Report, we are in material compliance with the covenants of the Facilities, the CLO Notes, the Unsecured Notes and the 2016 Convertible Notes. However, our continued compliance with these covenants depends on many factors, some of which are beyond our control. For example, depending on the condition of the public debt and equity markets and pricing levels, net unrealized depreciation in our portfolio may increase in the future. Any such increase could result in our inability to comply with our obligation to restrict the level of indebtedness that we are able to incur in relation to the value of our assets or to maintain a minimum level of stockholders' equity.

Accordingly, although we believe we will continue to be in compliance, there are no assurances that we will continue to comply with the covenants in the Facilities, the CLO Notes, the Unsecured Notes and the 2016 Convertible Notes. Failure to comply with these covenants could result in a default under the Revolving Credit Facility, the Revolving Funding Facility, the CLO Notes, the Unsecured Notes or the 2016 Convertible Notes, that, if we were unable to obtain a waiver from the lenders under the Revolving Credit Facility, the purchasers under the Revolving Funding Facility or the trustee or holders of the CLO Notes, the Unsecured Notes or the 2016 Convertible Notes, as applicable, could accelerate repayment under such indebtedness and thereby have a material adverse impact on our business, financial condition and results of operations.

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

As of December 31, 2010, we had a long-term counterparty credit rating from Standard & Poor's Ratings Service of "BBB," a long-term issuer default rating from Fitch Ratings of "BBB" and a long-term issuer rating from Moody's Investor Service of "Ba1." Interest expense on our Revolving Credit Facility and the Revolving Funding Facility is based on a pricing grid that fluctuates depending on our credit ratings. There can be no assurance that our ratings will be maintained. If our ratings are downgraded, our cost of borrowing will increase.

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

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

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

A number of entities compete with us to make the types of investments that we make in middle-market companies. We compete with other BDCs, public and private funds, commercial and investment banks, commercial financing companies, insurance companies, high yield investors, hedge funds, and, to the extent they provide an alternative form of financing, private equity funds. Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. Some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the Investment Company Act imposes on us as a BDC and that the Code imposes on us as a RIC. We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations. Also, as a result of this competition, we may not be able to pursue attractive investment opportunities from time to time.

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

We may lose investment opportunities if we do not match our competitors' pricing, terms and structure. If we match our competitors' pricing, terms and structure, we may experience decreased net interest income and increased risk of credit loss. As a result of operating in such a competitive environment, we may make investments that are on less favorable terms than what we may have originally anticipated, which may impact our return on these investments.

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

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

The annual distribution requirement for a RIC is satisfied if we distribute to our stockholders on a timely basis generally an amount equal to at least 90% of our investment company taxable income for each year. Because we use debt financing, we are subject to certain asset coverage ratio requirements under the Investment Company Act and financial covenants under our indebtedness that could, under certain circumstances, restrict us from making distributions necessary to qualify as a RIC. If we are unable to obtain cash from other sources, we may fail to qualify as a RIC and, thus, may be subject to corporate-level income tax. Because we must make distributions to our stockholders as described above, such amounts, to the extent a stockholder is not participating in our dividend reinvestment plan, will not be available to fund investment originations. We will be subject to corporate-level U.S. federal income tax on any undistributed income and/or gain.

To qualify as a RIC, we must also meet certain annual income source requirements at the end of each taxable year and asset diversification requirements at the end of each calendar quarter. Failure to meet these tests may result in our having to (a) dispose of certain investments quickly or (b) raise

additional capital to prevent the loss of RIC status. Because most of our investments are in private companies and are generally illiquid, any such dispositions may be at disadvantageous prices and may result in losses. Also, the rules applicable to our qualification as a RIC are complex with many areas of uncertainty. Accordingly, no assurance can be given that we have qualified or will qualify as a RIC. If we fail to qualify as a RIC for any reason and become subject to regular "C" corporation income tax, the resulting corporate taxes could substantially reduce our net assets, the amount of income available for distribution and the amount of our distributions. Such a failure would have a material adverse effect on us and our stockholders. The recently enacted "Regulated Investment Company Modernization Act of 2010," which is effective for 2011 and later tax years, provides some relief from RIC disqualification due to failures of the income source and asset diversification requirements, although there may be additional taxes due in such cases. We cannot assure you that we would qualify for any such relief should we fail the income source or asset diversification requirements.

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

For U.S. federal income tax purposes, we include in income certain amounts that we have not yet received in cash, such as original issue discount, which may arise if we receive warrants in connection with the making of a loan or possibly in other circumstances, or PIK interest, which represents contractual interest added to the loan balance and due at the end of the loan term. Such original issue discount or increases in loan balances are included in income before we receive any corresponding cash payments. We also may be required to include in income certain other amounts that we will not receive in cash, including, for example, non-cash income from PIK securities, deferred payment securities or hedging and foreign currency transactions.

Since, in certain cases, we may recognize income before or without receiving cash representing such income, we may have difficulty meeting the U.S. federal income tax requirement to distribute generally an amount equal to at least 90% of our investment company taxable income to maintain our status as a RIC. Accordingly, we may have to sell some of our investments at times we would not consider advantageous, raise additional debt or equity capital or reduce new investment originations to meet these distribution requirements. If we are not able to obtain cash from other sources, we may fail to qualify as a RIC and thus be subject to additional corporate-level taxes.

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

Because preferred stock is another form of leverage and the dividends on any preferred stock we issue must be cumulative, preferred stock has the same risks to our common stockholders as borrowings. Payment of such dividends and repayment of the liquidation preference of such preferred stock must take preference over any dividends or other payments to our common stockholders, and preferred stockholders are not subject to any of our expenses or losses and are not entitled to participate in any income or appreciation in excess of their stated preference.

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

General interest rate fluctuations may have a substantial negative impact on our investments and investment opportunities and, accordingly, may have a material adverse effect on our investment objective and rate of return on invested capital. Because we borrow money and may issue debt securities or preferred stock to make investments, our net investment income is dependent upon the difference between the rate at which we borrow funds or pay interest or dividends on such debt securities or preferred stock and the rate at which we invest these funds. As a result, there can be no



assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income.

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

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

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

A large percentage of our portfolio investments are not publicly traded. The fair value of investments that are not publicly traded may not be readily determinable. We value these investments quarterly at fair value as determined in good faith by our board of directors based on the input of our management and audit committee and independent valuation firms that have been engaged at the direction of our board of directors to assist in the valuation of each portfolio investment without a readily available market quotation at least once during a trailing 12-month period. The valuation process is conducted at the end of each fiscal quarter, with approximately 50% (based on value) of our valuations of portfolio companies without readily available market quotations subject to review by an independent valuation firm each quarter. However, we may use additional independent valuation firms to review the value of our investments more frequently, including in connection with the occurrence of significant events or changes in value affecting a particular investment. The types of factors that may be considered in valuing our investments include the enterprise value of the portfolio company (an estimate of the total fair value of the portfolio company's debt and equity), the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings, the markets in which the portfolio company does business, comparison to publicly traded companies, discounted cash flow and other relevant factors. Because such valuations, and particularly valuations of private investments and private companies, are inherently uncertain, may fluctuate over short periods of time and may be based on estimates, our determinations of fair value may differ materially from the values that would have been used if a ready market for these investments existed and may differ materially from the values that we may ultimately realize. Our net asset value per share could be adversely affected if our determinations regarding the fair value of these investments are materially higher than the values that we realize upon disposition of such investments.

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

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

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

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

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

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

In addition, certain Ares funds may have investment objectives that compete or overlap with, and may from time to time invest in asset classes similar to those targeted by, Ares Capital. Consequently, we, on the one hand, and these other entities, may from time to time pursue the same or similar capital and investment opportunities. Ares Capital Management endeavors to allocate investment opportunities in a fair and equitable manner, and in any event consistent with any fiduciary duties owed to Ares Capital. Nevertheless, it is possible that we may not be given the opportunity to participate in certain investments made by investment funds managed by investment managers affiliated with our investment adviser. In addition, there may be conflicts in the allocation of investment opportunities among us and the funds managed by us or one or more of our controlled affiliates, including IHAM, or among the funds they manage. We may or may not participate in investments made by funds managed by us or one or more of our controlled affiliates.

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

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

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

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

Our investment advisory and management agreement renews for successive annual periods if approved by our board of directors or by the affirmative vote of the holders of a majority of our outstanding voting securities, including, in either case, approval by a majority of our directors who are not "interested persons" of the Company as defined in Section 2(a)(19) of the Investment Company Act. However, both we and Ares Capital Management have the right to terminate the agreement without penalty upon 60 days' written notice to the other party. Moreover, conflicts of interest may arise if our investment adviser seeks to change the terms of our investment advisory and management agreement, including, for example, the terms for compensation. While any material change to the investment advisory and management agreement must be submitted to stockholders for approval under the Investment Company Act, we may from time to time decide it is appropriate to seek stockholder approval to change the terms of the agreement.

Pursuant to our administration agreement, Ares Operations, an affiliate of Ares Capital Management, furnishes us with administrative services and we pay Ares Operations at cost our allocable portion of overhead and other expenses (including travel expenses) incurred by Ares Operations in performing its obligations under our administration agreement, including our allocable portion of the cost of certain of our officers (including our chief compliance officer, chief financial officer, general counsel, secretary and treasurer) and their respective staffs.

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

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

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

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

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

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

On July 21, 2010, President Obama signed into law the Dodd-Frank Act. Many of the provisions of the Dodd-Frank Act have extended implementation periods and delayed effective dates and will require extensive rulemaking by regulatory authorities. In particular, Title IV of the Dodd-Frank Act, the Private Fund Investment Advisers Registration Act of 2010 (the "Advisers Registration Act"), becomes effective one year after the date of enactment and eliminates the "private adviser exemption" from SEC registration currently contained in Section 203(b)(3) of the Advisers Act. This provision exempted from registration investment advisers who do not hold themselves out to the public as investment advisers and have fewer than 15 clients. As a result, many investment advisers to private funds (with some exceptions) will be required to register with the SEC and will become subject to substantial regulatory reporting and recordkeeping requirements regarding the private funds they advise. Consequently, the Advisers Registration Act will likely require our wholly owned portfolio company, IHAM, to register as an investment adviser under the Advisers Act. This would require IHAM to comply with the regulatory restrictions and obligations imposed on registered investment advisers generally. In addition, as a BDC, we are currently restricted in our ability to invest in a registered investment adviser.

We currently intend to seek relief from the SEC to enable us to continue to invest in IHAM; however, there can be no assurance that such relief will be granted. If we are not able to obtain such relief, we may not be able to make future investments in IHAM, which could harm IHAM's business and the performance of our investment in IHAM.

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

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

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

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

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

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

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

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

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

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

We have applied for an exemptive order from the SEC that would permit us and certain of our controlled affiliates to co-invest with funds managed by Ares. Any such order, if issued, will be subject to certain terms and conditions and there can be no assurance that such order will be granted by the SEC. Accordingly, we cannot assure you that we or our controlled affiliates will be permitted to co-invest with funds managed by Ares, other than in the limited circumstances currently permitted by regulatory guidance or in the absence of a joint transaction.

**RISKS RELATING TO OUR INVESTMENTS**

**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.**

As a BDC, we are required to carry our investments at market value or, if no market value is ascertainable, at fair value as determined in good faith by or under the direction of our board of directors. We may take into account the following types of factors, if relevant, in determining the fair value of our investments: the enterprise value of a portfolio company (an estimate of the total fair value of the portfolio company's debt and equity), the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, a comparison of the portfolio company's securities to similar publicly traded securities, changes in the interest rate environment and the credit markets generally that may affect the price at which similar investments may be made in the future and other relevant factors. When an external event such as a purchase transaction, public offering or subsequent

equity sale occurs, we use the pricing indicated by the external event to corroborate our valuation. Decreases in the market values or fair values of our investments are recorded as unrealized depreciation. The effect of all of these factors on our portfolio reduced our net asset value at such time by increasing net unrealized depreciation in our portfolio. Depending on market conditions, we could incur substantial realized losses and may suffer unrealized losses in future periods as well, which could have a material adverse impact on our business, financial condition and results of operations.

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

Many of our portfolio companies may be susceptible to economic slowdowns or recessions (including the recent economic downturn that began in 2007 and slowdowns or recessions less severe) and may be unable to repay our loans during these periods. Therefore, during these periods our non-performing assets may increase and the value of our portfolio may decrease if we are required to write down the values of our investments. Adverse economic conditions may also decrease the value of collateral securing some of our loans and the value of our equity investments. Economic slowdowns or recessions could lead to financial losses in our portfolio and a decrease in revenues, net income and assets. Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events could prevent us from increasing investments and harm our operating results. We have recently experienced to some extent such effects during the recent economic downturn and may experience such effects again in the future.

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

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

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

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

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

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

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

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

our executive officers, directors and our investment adviser may, in the ordinary course of business, be named as defendants in litigation arising from our investments in the portfolio companies; and

they may have difficulty accessing the capital markets to meet future capital needs.

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

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

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

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

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

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

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

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



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

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

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

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

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

Additionally, when we invest in first and second lien senior loans or mezzanine debt, we may acquire warrants or other equity securities as well. Our goal is ultimately to dispose of such equity interests and realize gains upon our disposition of such interests. However, the equity interests we receive may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our equity interests and any gains that we do realize on the disposition of any equity interests may not be sufficient to offset any other losses we experience.

We may invest, to the extent permitted by law, in the equity securities of investment funds that are operating pursuant to certain exceptions to the Investment Company Act and in advisers to similar investment funds and, to the extent we so invest, will bear our ratable share of any such company's expenses, including management and performance fees. We will also remain obligated to pay management and incentive fees to Ares Capital Management with respect to the assets invested in the securities and instruments of such companies. With respect to each of these investments, each of our common stockholders will bear his or her share of the management and incentive fee of Ares Capital Management as well as indirectly bearing the management and performance fees and other expenses of any such investment funds or advisers.

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

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

If one of our portfolio companies were to go bankrupt, even though we may have structured our interest as senior debt, depending on the facts and circumstances, a bankruptcy court might recharacterize our debt holding as an equity investment and subordinate all or a portion of our claim to that of other creditors. In addition, lenders can be subject to lender liability claims for actions taken by them where they become too involved in the borrower's business or exercise control over the borrower. For example, we could become subject to a lender's liability claim, if, among other things, we actually render significant managerial assistance.

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

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

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

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

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

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

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

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

The incentive fee payable by us to Ares Capital Management may create an incentive for Ares Capital Management to make investments on our behalf that are risky or more speculative than would be the case in the absence of such compensation arrangement. The way in which the incentive fee payable to our investment adviser is determined, which is calculated as a percentage of the return on

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

The part of the incentive fee payable by us that relates to our pre-incentive fee net investment income will be computed and paid on income that may include interest that is accrued but not yet received in cash. If a portfolio company defaults on a loan that is structured to provide accrued interest, it is possible that accrued interest previously used in the calculation of the incentive fee will become uncollectible. Our investment adviser is not under any obligation to reimburse us for any part of the incentive fee it received that was based on such accrued interest that we never actually receive.

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

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

Our investment strategy contemplates potential investments in foreign companies. Investing in foreign companies may expose us to additional risks not typically associated with investing in U.S. companies. These risks include changes in exchange control regulations, political and social instability, expropriation, imposition of foreign taxes (potentially at confiscatory levels), less liquid markets, less available information than is generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility.

Although most of our investments will be U.S. dollar denominated, our investments that are denominated in a foreign currency will be subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments. We may employ hedging techniques to minimize these risks, but we cannot assure you that such strategies will be effective or without risk to us.

We have and may in the future enter into hedging transactions, which may expose us to risks associated with such transactions. We may utilize instruments such as forward contracts, currency options and interest rate swaps, caps, collars and floors to seek to hedge against fluctuations in the relative values of our portfolio positions from changes in currency exchange rates and market interest rates. Use of these hedging instruments may include counter-party credit risk.

Hedging against a decline in the values of our portfolio positions does not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of such positions decline.

However, such hedging can establish other positions designed to gain from those same developments, thereby offsetting the decline in the value of such portfolio positions. Such hedging transactions may also limit the opportunity for gain if the values of the underlying portfolio positions should increase. Moreover, it may not be possible to hedge against an exchange rate or interest rate fluctuation that is so generally anticipated that we are not able to enter into a hedging transaction at an acceptable price.

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

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

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

**RISKS RELATING TO OUR COMMON STOCK**

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

Shares of closed-end investment companies frequently trade at a market price that is less than the net asset value that is attributable to those shares. This characteristic of closed-end investment companies is separate and distinct from the risk that our net asset value per share may decline. It is not possible to predict whether any shares of our common stock will trade at, above, or below net asset value. In the recent past, including during much of 2009, the stocks of BDCs as an industry, including at times shares of our common stock, traded below net asset value and at near historic lows as a result of concerns over liquidity, leverage restrictions and distribution requirements. When our common stock is trading below its net asset value per share, we will generally not be able to issue additional shares of our common stock at its market price without first obtaining approval for such issuance from our stockholders and our independent directors. At our 2010 Annual Stockholders Meeting, subject to certain determinations required to be made by our board of directors, our stockholders approved our ability to sell or otherwise issue shares of our common stock, not exceeding 25% of our then outstanding common stock, at a price below the then current net asset value per share during a period beginning on June 7, 2010 and expiring on the earlier of the one-year anniversary of the date of our 2010 Annual Stockholders Meeting and the date of our 2011 Annual Stockholders Meeting.

**There is a risk that investors in our common stock may not receive dividends or that our dividends may not grow over time.**

We intend to make distributions on a quarterly basis to our stockholders out of assets legally available for distribution. We cannot assure you that we will achieve investment results that will allow us to make a specified level of cash distributions or year-to-year increases in cash distributions. If we declare a dividend and if more stockholders opt to receive cash distributions rather than participate in our dividend reinvestment plan, we may be forced to sell some of our investments in order to make cash dividend payments.

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

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

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

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

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

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

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

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

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

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

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

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

loss of our RIC status;

changes in our earnings or variations in our operating results;

changes in the value of our portfolio of investments;

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

departure of Ares Capital Management's key personnel;

operating performance of companies comparable to us;

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

future sales of our securities convertible into or exchangeable or exercisable for our common stock or the conversion of such securities, including the 2016 Convertible Notes;

general economic trends and other external factors; and

loss of a major funding source.

In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been brought against that company. If our stock price fluctuates significantly, we may be the target of securities litigation in the future. Securities litigation could result in substantial costs and divert management's attention and resources from our business.

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

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

### **Our stockholders may experience dilution upon the conversion of the 2016 Convertible Notes.**

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

any dividends paid on our common stock will also be paid on shares issued in connection with such conversion after such issuance.

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

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

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

Sales of substantial amounts of our common stock, or the availability of such common stock for sale (including as a result of the conversion of our 2016 Convertible Notes into common stock), could adversely affect the prevailing market prices for our common stock. If this occurs and continues, it could impair our ability to raise additional capital through the sale of securities should we desire to do so.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

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

**Item 3. Legal Proceedings**

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

**Item 4. Submission Of Matters To A Vote Of Security Holders**

No matters were submitted to a vote of stockholders through the solicitation of proxies or otherwise during the fourth quarter of the fiscal year ended December 31, 2010.



**PART II****Item 5. Market For Registrant's Common Equity, Related Stockholder Matters And Issuer Purchases Of Equity Securities****PRICE RANGE OF COMMON STOCK**

Our common stock is traded on The NASDAQ Global Select Market under the symbol "ARCC." We completed our initial public offering in October 2004 at a price of \$15.00 per share. Prior to October 2004, there was no public market for our common stock. Our common stock has historically traded at prices both above and below our net asset value per share. It is not possible to predict whether our common stock will trade at, above or below net asset value. See "Risk Factors Risks Relating to our Common Stock Our shares of common stock may trade at discounts from net asset value, which limits our ability to raise additional equity capital."

The following table sets forth the net asset value per share of our common stock, the range of high and low closing sales prices of our common stock as reported on The NASDAQ Global Select Market and the dividends declared by us for each fiscal quarter for the years ended December 31, 2009 and 2010. On February 25, 2011, the last reported closing sales price of our common stock on The NASDAQ Global Select Market was \$17.66 per share, which represented a premium of approximately 18% to the net asset value per share reported by us as of December 31, 2010.

	Net Asset Value(1)	Price Range		Cash Dividend Per Share(2)
		High	Low	
<b>Fiscal 2009</b>				
First quarter	\$ 11.20	\$ 7.39	\$ 3.21	\$ 0.42
Second quarter	\$ 11.21	\$ 8.31	\$ 4.53	\$ 0.35
Third quarter	\$ 11.16	\$ 11.02	\$ 7.04	\$ 0.35
Fourth quarter	\$ 11.44	\$ 12.71	\$ 10.21	\$ 0.35
<b>Fiscal 2010</b>				
First quarter	\$ 11.78	\$ 14.82	\$ 11.75	\$ 0.35
Second quarter	\$ 14.11	\$ 16.40	\$ 12.53	\$ 0.35
Third quarter	\$ 14.43	\$ 15.89	\$ 12.44	\$ 0.35
Fourth quarter	\$ 14.92	\$ 17.26	\$ 15.64	\$ 0.35

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

**HOLDERS**

As of February 25, 2011, there were 2,177 holders of record of our common stock (including Cede & Co.).

**DIVIDEND/DISTRIBUTION POLICY**

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

The following table summarizes our dividends and distributions declared during 2009 and 2010:

<b>Date Declared</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Amount</b>
March 2, 2009	March 16, 2009	March 31, 2009	\$ 0.42
May 7, 2009	June 15, 2009	June 30, 2009	\$ 0.35
August 6, 2009	September 15, 2009	September 30, 2009	\$ 0.35
November 5, 2009	December 15, 2009	December 31, 2009	\$ 0.35
Total declared for 2009			\$ 1.47
February 25, 2010	March 15, 2010	March 31, 2010	\$ 0.35
May 10, 2010	June 15, 2010	June 30, 2010	\$ 0.35
August 5, 2010	September 15, 2010	September 30, 2010	\$ 0.35
November 4, 2010	December 15, 2010	December 31, 2010	\$ 0.35
Total declared for 2010			\$ 1.40

Of the dividends and distributions declared during the year ended December 31, 2009, \$1.36 comprised ordinary income and \$0.11 comprised non-dividend distributions. Of the dividends and distributions declared during the year ended December 31, 2010, the entire \$1.40 was comprised of ordinary income.

To maintain our RIC status, we must timely distribute an amount equal to at least 90% of our investment company taxable income (as defined by the Code, which generally includes net ordinary income and net short term taxable gains) to our stockholders. In addition, the Company generally will be required to pay an excise tax equal to 4% of the amount by which 98% of the Company's (i) ordinary income recognized during a calendar year and (ii) net capital gain income, as defined by the Code, recognized for the one year period ending on October 31<sup>st</sup> of a calendar year exceeds the distributions for the year. For 2011 and beyond, 98.2% of net capital gain income must be distributed to avoid excise tax. The taxable income on which excise tax is paid is generally distributed to stockholders in the next tax year. Depending on the level of taxable income earned in a tax year, we may choose to carry forward taxable income for distribution in the following year, and pay any applicable excise tax. For the year ended December 31, 2010 we recorded an excise tax expense of \$2.2 million. For the year ended December 31, 2009 we recorded a net excise tax benefit of \$0.1 million. We cannot assure you that we will achieve results that will permit the payment of any cash distributions. We maintain an "opt out" dividend reinvestment plan for our common stockholders. As a result, if we declare a cash dividend, then stockholders' cash dividends will be automatically reinvested in additional shares of our common stock, unless they specifically opt out of the dividend reinvestment plan so as to receive cash dividends.

**RECENT SALES OF UNREGISTERED SECURITIES**

We did not sell any securities during the period covered by this report that were not registered under the Securities Act.

**ISSUER PURCHASES OF EQUITY SECURITIES**

For the year ended December 31, 2010, there were no purchases of shares of our common stock by the Company.

**COMPARISON OF CUMULATIVE TOTAL RETURN AMONG ARES CAPITAL CORPORATION, S&P 500 AND S&P SPECIALIZED FINANCE INDEX**

**Comparison of Cumulative Five-Year Total Return**

SOURCE: Standard & Poor's Institutional Market Services

NOTES: Assumes \$100 invested on 10/8/2004 (the date of Ares Capital's initial public offering) in Ares Capital, in S&P 500 and in S&P Specialized Finance Index. Assumes all dividends are reinvested on a monthly basis.

	<b>Dec05</b>	<b>Dec06</b>	<b>Dec07</b>	<b>Dec08</b>	<b>Dec09</b>	<b>Dec10</b>
Ares Capital	100	130	110	58	137	199
S&P 500 Index	100	116	122	77	97	112
S&P Specialized Finance Index	100	105	100	35	44	46

The graph and other information furnished under this Part II Item 5(d) of this Form 10-K shall not be deemed to be "soliciting material" or to be "filed" with the Commission or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Exchange Act, as amended.

**Item 6. Selected Consolidated Financial Data**

The following selected financial and other data for the years ended December 31, 2010, 2009, 2008, 2007 and 2006 are derived from our consolidated financial statements which have been audited by KPMG LLP, an independent registered public accounting firm whose report thereon is included elsewhere in this Annual Report. The data should be read in conjunction with our consolidated financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations," which are included elsewhere in this Annual Report.

**ARES CAPITAL CORPORATION AND SUBSIDIARIES**  
**SELECTED FINANCIAL DATA**  
(dollar amounts in millions, except per share data)

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

(1)

In accordance with ASC 260-10 (previously Statement of Financial Accounting Standards No. 128, Earnings Per Share), the weighted average shares of common stock outstanding used in computing basic and diluted

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earnings per common share have been adjusted retroactively by a factor of 1.02% to recognize the bonus element associated with rights to acquire shares of common stock that we issued to stockholders of record as of March 24, 2008 in connection with a rights offering.

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

**Item 7. Management's Discussion And Analysis Of Financial Condition And Results Of Operations**

*The information contained in this section should be read in conjunction with the Selected Financial Data and our financial statements and notes thereto appearing elsewhere in this Annual 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;

the return or impact of current and future investments;

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

the impact of fluctuations in interest rates on our business;

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

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

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

our ability to recover unrealized losses;

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

our contractual arrangements and relationships with third parties;

the general economy and its impact on the industries in which we invest;

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

our expected financings and investments;

our ability to successfully integrate any acquisitions;

the adequacy of our cash resources and working capital;

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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. Our actual results could differ materially from those projected in the forward-looking statements for any reason, including the factors set forth in "Risk Factors" and elsewhere in this Annual Report.

We have based the forward-looking statements included in this Annual Report on information available to us on the date of this Annual 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 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 BDC under the Investment Company Act. We were founded on April 16, 2004, were initially funded on June 23, 2004 and on October 8, 2004 completed our initial public offering.

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

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

We are externally managed by Ares Capital Management, an affiliate of Ares, a global alternative asset manager and an SEC-registered investment adviser, pursuant to an investment advisory and management agreement. Ares Operations, an affiliate 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 RIC under Subchapter M of the Code and operates in a manner so as to qualify for the tax treatment applicable to RICs. To qualify as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements and timely distribute to our stockholders generally at least 90% of our investment company taxable income, as defined by the Code, for each year. Pursuant to this election, we generally will not have to pay corporate level taxes on any income that we distribute to our stockholders provided that we satisfy those requirements.

### *Allied Acquisition*

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

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

### PORTFOLIO AND INVESTMENT ACTIVITY

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

(dollar amounts in millions)	Year Ended December 31,		
	2010	2009	2008
<b>New investment commitments(1):</b>			
New portfolio companies	\$ 774.3	\$ 317.6	\$ 600.5
Existing portfolio companies	933.8	162.2	305.0
 Total new investment commitments(5)	 1,708.1	 479.8	 905.5
<b>Less:</b>			
Investment commitments exited(2)	1,644.5	604.4	430.3
 Net investment commitments	 \$ 63.6	 \$ (124.6)	 \$ 475.2
<b>Principal amount of investments funded excluding investments acquired as part of the Allied Acquisition:</b>			
Senior term debt	\$ 715.3	\$ 289.5	\$ 529.2
Senior subordinated debt	308.7	59.4	336.3
Subordinated Notes of SSLP	391.6	165.0	
Equity and other	168.3	61.1	60.4
 Total	 \$ 1,583.9	 \$ 575.0	 \$ 925.9
<b>Principal amount of investments sold or repaid excluding investments acquired as part of the Allied Acquisition:</b>			
Senior term debt	\$ 779.7	\$ 283.4	\$ 448.8
Senior subordinated debt	234.0	202.4	29.0
Subordinated Notes of SSLP	15.4		
Equity and other	18.3	29.4	7.4
 Total	 \$ 1,047.4	 \$ 515.2	 \$ 485.2
<b>Principal amount of investments acquired as part of the Allied Acquisition:</b>			
Senior term debt	\$ 661.1	\$	\$
Senior subordinated debt	746.6		
Collateralized loan obligation	114.3		
Commercial real estate	41.0		
Equity and other	270.8		
 Total	 \$ 1,833.8	 \$	 \$
<b>Principal amount of investments acquired as part of the Allied Acquisition sold or repaid:</b>			
Senior term debt	\$ 207.7	\$	\$
Senior subordinated debt	227.9		
Collateralized loan obligation	6.5		
Equity and other	66.4		
 Total	 \$ 508.5	 \$	 \$

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(dollar amounts in millions)	Year Ended December 31,		
	2010	2009	2008
<b>Number of new investment commitments(3)(5)</b>	63	33	39
<b>Average new investment commitment amount(5)</b>	\$ 27.1	\$ 14.5	\$ 23.2
<b>Weighted average term for new investment commitments (in months)(5)</b>	61	74	66
<b>Percentage of new investment commitments at floating rates(5)</b>	70.8%	65.2%	27.0%
<b>Percentage of new investment commitments at fixed rates(5)</b>	23.0%	22.2%	65.5%
<b>Weighted average yield of debt and income producing securities(4)(5):</b>			
Funded during the period at fair value	13.1%	13.4%	12.6%
Funded during the period at amortized cost	13.2%	13.7%	12.6%
Exited or repaid during the period at fair value	12.9%	13.4%	9.5%
Exited or repaid during the period at amortized cost	12.9%	12.2%	9.8%
<b>Weighted average yield of debt and income producing securities acquired as part of the Allied Acquisition(4):</b>			
Funded during the period at fair value and amortized cost	14.0%	%	%
Exited or repaid during the period at fair value	11.9%	%	%
Exited or repaid during the period at amortized cost	13.2%	%	%

- (1) New investment commitments include new agreements to fund revolving credit facilities or delayed draw loans.
- (2) Investment commitments exited for the year ended December 31, 2010 include \$527.9 million from the Allied Acquisition.
- (3) Number of new investment commitments represents each commitment to a particular portfolio company.
- (4) When we refer to the "weighted average yield at fair value" in this report, we compute it with respect to particular securities by taking the (a) annual stated interest rate or yield earned plus the net annual amortization of original issue discount and market discount earned on accruing debt included in such securities, and dividing it by (b) total debt and income producing securities at fair value included in such securities. When we refer to the "weighted average yield at amortized cost" in this report, we compute it with respect to particular securities by taking the (a) annual stated interest rate or yield earned plus the net annual amortization of original issue discount and market discount earned on accruing debt included in such securities, and dividing it by (b) total debt and income producing securities at amortized cost included in such securities.
- (5) Excludes investment commitments acquired as a part of the Allied Acquisition on April 1, 2010.

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As of December 31, 2010 and 2009, investments consisted of the following:

(in millions)	December 31,			
	2010		2009	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Senior term debt	\$ 1,722.1	\$ 1,695.5	\$ 1,152.4	\$ 1,072.1
Senior subordinated debt	1,055.5	1,014.5	658.8	595.7
Subordinated notes of SSLP	537.5	561.7	165.0	165.0
Collateralized loan obligations	219.3	261.2	55.7	51.4
Equity securities	716.6	751.2	344.5	287.6
Commercial real estate	41.0	33.9		
<b>Total</b>	<b>\$ 4,292.0</b>	<b>\$ 4,318.0</b>	<b>\$ 2,376.4</b>	<b>\$ 2,171.8</b>

The weighted average yields at fair value and amortized cost of the following portions of our portfolio as of December 31, 2010 and 2009 were as follows:

	As of December 31,			
	2010		2009	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Debt and income producing securities	12.9%	13.2%	12.7%	12.1%
Debt and income producing securities for investments acquired as part of the Allied Acquisition	14.0%	15.2%	%	%
<b>Total portfolio</b>	<b>10.5%</b>	<b>10.6%</b>	<b>11.2%</b>	<b>10.2%</b>
Senior term debt	10.8%	10.6%	11.4%	10.6%
First lien senior term debt	10.2%	10.3%	10.7%	10.4%
Second lien senior term debt	12.1%	11.3%	12.9%	11.1%
Senior subordinated debt	13.6%	13.1%	13.7%	12.5%
Subordinated Notes of SSLP	15.8%	16.5%	17.0%	17.0%
Collateralized loan obligations	15.7%	18.7%	10.8%	9.9%
Income producing equity securities (excluding collateralized loan obligations)	7.7%	7.7%	9.6%	10.5%

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

(dollar amounts in millions)	Investments at Fair Value as of April 1, 2010			Investments at Fair Value as of December 31, 2010			Net Change in Fair Value
	\$	% of Total Investments	Weighted Average Yield	\$	% of Total Investments	Weighted Average Yield	\$
<b><i>Investments with yields less than 10%</i></b>							
Debt with yields less than 10%	\$ 128.3	7.0%	6.5%	\$ 153.6	10.4%	9.7%	\$ 25.3
Debt on non-accrual status	335.6	18.3%	%	43.9	3.0%	%	(291.7)
Equity securities	270.8	14.8%	%	266.4	18.0%	0.3%	(4.4)
Commercial real estate and other	34.5	1.9%	3.3%	24.3	1.6%	3.1%	(10.2)
<b>Total</b>	<b>\$ 769.2</b>	<b>42.0%</b>	<b>1.2%</b>	<b>\$ 488.2</b>	<b>33.0%</b>	<b>3.3%</b>	<b>\$ (281.0)</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%	\$ 828.9	56.1%	13.7%	\$ (121.3)
Collateralized loan obligations	114.4	6.2%	18.9%	160.8	10.9%	19.8%	46.5
<b>Total</b>	<b>\$ 1,064.6</b>	<b>58.0%</b>	<b>14.8%</b>	<b>\$ 989.7</b>	<b>67.0%</b>	<b>14.7%</b>	<b>\$ (74.8)</b>
<b>Total</b>	<b>\$ 1,833.8</b>	<b>100.0%</b>	<b>9.1%</b>	<b>\$ 1,477.9</b>	<b>100.0%</b>	<b>11.0%</b>	<b>\$ (355.8)</b>

Since April 1, 2010 through December 31, 2010, we have decreased the assets comprising the legacy Allied Capital portfolio by approximately \$356 million, primarily as a result of exits and repayments of approximately \$509 million, offset by an increase in net unrealized appreciation in the portfolio of approximately \$82 million, and other increases of approximately \$70 million due to fundings of revolving and other commitments of \$43 million, PIK interest and accretion of purchase discounts. From April 1, 2010 through December 31, 2010 we also recognized \$29 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 \$538 million. See the Recent Developments section for more information on exits and repayments of investments in the legacy Allied Capital portfolio since December 31, 2010. Ares Capital intends to continue its strategy of rotating and repositioning a portion of the legacy Allied Capital portfolio, with a focus on reducing our holdings of lower and non-yielding investments, investments on non-accrual and investments that may not be core to our investment strategy. However, there can be no assurance that this strategy will be successful. For risks relating to our equity investments, see the "Risk Factors Risks Relating to Our Investments Investments in equity securities involve a substantial degree of risk."

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

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

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

Set forth below is the grade distribution of our portfolio companies as of December 31, 2010 and 2009 (dollar amounts in thousands):

(dollar amounts in millions)	As of December 31, 2010				As of December 31, 2009			
	Fair Value	%	Number of Companies	%	Fair Value	%	Number of Companies	%
Grade 1	\$ 13.5	0.3%	10	5.9%	\$ 7.2	0.3%	8	8.4%
Grade 2	153.9	3.6%	12	7.1%	154.5	7.1%	9	9.5%
Grade 3	3,503.4	81.1%	127	74.7%	1,796.6	82.8%	70	73.7%
Grade 4	647.2	15.0%	21	12.3%	213.5	9.8%	8	8.4%
	\$ 4,318.0	100.0%	170	100.0%	\$ 2,171.8	100.0%	95	100.0%

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. The weighted average grade of the investments in our portfolio as of December 31, 2009 was 3.0.

As of December 31, 2010:

2.3% of our investments (excluding investments acquired in connection with the Allied Acquisition) at amortized cost (0.3% at fair value) were on non-accrual status;

1.5% of our investments acquired in connection with the Allied Acquisition at amortized cost (1.0% at fair value) were on non-accrual status; and

3.8% of the investments in our portfolio as a whole at amortized cost (or 1.3% at fair value) were on non-accrual status.

As of December 31, 2009, 2.5% of our investments at amortized cost (or 0.5% at fair value) were on non-accrual status.

**RESULTS OF OPERATIONS**

*For the years ended December 31, 2010, 2009 and 2008*

Operating results for the years ended December 31, 2010, 2009 and 2008 are as follows:

(in millions)	For the Year Ended December 31,		
	2010	2009	2008
Total Investment Income	\$ 483.4	\$ 245.3	\$ 240.4
Total Expenses	262.2	111.3	113.2
Net Investment Income Before Income Taxes	221.2	134.0	127.2
Income Tax Expense (Benefit), Including Excise Tax	5.4	0.6	0.2
Net Investment Income	215.8	133.4	127.0
Net Realized Gains (Losses)	49.4	(19.4)	6.4
Net Unrealized Gains (Losses)	230.7	88.7	(272.8)
Gain from Allied Acquisition	195.9		
Net Increase (Decrease) in Stockholders' Equity Resulting From Operations	\$ 691.8	\$ 202.7	\$ (139.4)

**Investment Income**

(in millions)	For the Year Ended December 31,		
	2010	2009	2008
Interest	\$ 393.6	\$ 225.3	\$ 210.1
Capital Structuring Service Fees	54.7	5.6	21.2
Management Fees	14.4	3.5	2.4
Dividend Income	14.4	3.9	2.6
Other Income	6.3	7.0	4.1
Total Investment Income	\$ 483.4	\$ 245.3	\$ 240.4

The increase in interest income for the year ended December 31, 2010 was primarily due to the increase in the size of the portfolio, which was largely due to the investments acquired as part of the Allied Acquisition. Interest income from investments acquired as part of the Allied Acquisition was approximately \$139.2 million for the year ended December 31, 2010. The remainder of the increase in interest income was due to an increase in the Ares Capital investments portfolio which increased from an average of \$2.3 billion at amortized cost for the year ended December 31, 2009 to an average of \$2.5 billion at amortized cost for the comparable period in 2010. The increase in capital structuring service fees for the year ended December 31, 2010 was primarily due to the increase in new investment commitments, which increased from \$480 million for the year ended December 31, 2009 to \$1.7 billion for the comparable period in 2010. The increase in management fees for the year ended December 31, 2010 was primarily due to the management fees earned from the SSLP which increased from \$0.6 million for the year ended December 31, 2009 to \$5.9 million for the comparable period in 2010 as the SSLP increased from approximately \$900 million aggregate principal amount of investments at December 31, 2009 to approximately \$2.5 billion principal amount of investments at December 31, 2010. Additionally, management fees earned related to investments and management contracts acquired in the Allied Acquisition were \$7.2 million for the year ended December 31, 2010. The increase in dividend income for the year ended December 31, 2010 is primarily attributable to dividend income from IHAM which was \$2.4 million for the year ended December 31, 2009 and \$7.3 million for the

comparable period in 2010. Total dividend income for the year ended December 31, 2010 included \$2.6 million of dividends that are non-recurring in nature from non-income producing equity securities.

For the year ended December 31, 2009, the increase in total investment income from the year ended December 31, 2008 was primarily attributable to an increase in interest income, other income and management fees offset by a decline in capital structuring service fees. The increase in interest income for the year ended December 31, 2009 was primarily due to the increase in the size of the portfolio as well as increases in the weighted average yield on the portfolio. The average investments, at amortized cost, for the year increased to \$2.3 billion for the year ended December 31, 2009 from \$2.2 billion for the comparable period in 2008. The decrease in capital structuring service fees was primarily due to the decrease in new investment commitments, which declined from \$906 million for the year ended December 31, 2008 to \$480 million for the comparable period in 2009.

### Operating Expenses

(in millions)	For the Year Ended		
	December 31,		
	2010	2009	2008
Interest and Credit Facility Fees	\$ 79.4	\$ 24.3	\$ 36.5
Incentive Management Fees	76.9	33.4	31.7
Base Management Fees	52.0	30.4	30.5
Professional Fees and Other Costs			
Related to the Allied Acquisition	19.8	4.9	
Professional Fees	12.3	7.8	6.0
Administrative Fees	8.7	4.0	2.7
Other General and Administrative	13.1	6.5	5.8
<b>Total Operating Expenses</b>	<b>\$ 262.2</b>	<b>\$ 111.3</b>	<b>\$ 113.2</b>

Interest and credit facility fees for the years ended December 31, 2010 and 2009, were comprised of the following:

(in millions)	For the Year Ended		
	December 31,		
	2010	2009	2008
Stated Interest Expense	\$ 57.7	\$ 18.8	\$ 33.4
Facility Fees	4.6	1.3	0.9
Amortization of Debt Issuance Costs	8.8	4.2	2.2
Accretion of Discount Related to Allied Unsecured Notes	8.2		
<b>Total Interest and Credit Facility Fees</b>	<b>\$ 79.3</b>	<b>\$ 24.3</b>	<b>\$ 36.5</b>

Stated interest expense increased due to the increase in our principal debt outstanding and an increase in our weighted average stated interest rate. The average principal debt outstanding for 2010 was \$1.5 billion as compared to \$870 million for 2009. The weighted average stated interest rate on our debt for the year ending December 31, 2010 was 3.9% as compared to 2.2% for the comparable period in 2009. In connection with the Allied Acquisition, we acquired \$746 million in principal amount of debt on April 1, 2010, which had a weighted average stated interest rate of 6.56% and resulted in total interest expense for the year ended December 31, 2010 of \$43.5 million, including \$8.2 million of purchased discount accretion.

Incentive and base management fees increased primarily due to the increase in the size of the portfolio and in the case of the incentive fees, the related increase in net investment income as well as the net appreciation of the investment portfolio. In 2010 we did not incur a Capital Gains Fee under the investment advisory and management agreement; however, in accordance with Generally Accepted



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Accounting Principles ("GAAP"), we accrued \$15.6 million in incentive management fees as a result of the unrealized appreciation in the portfolio (see Note 3 to the Company's consolidated financial statements). Professional fees include legal, accounting, valuation and other professional fees incurred related to the management of the Company. Administrative fees represent fees paid to Ares Operations for our allocable portion of overhead and other expenses incurred by Ares Operations in performing its obligations under the administration agreement, including our allocable portion of the cost of certain of our executive officers and their respective staffs. Other general and administrative expenses include rent, insurance, depreciation, directors fees and other costs. The increase in professional fees and other costs related to the Allied Acquisition was primarily as a result of the completion of the Allied Acquisition in 2010 and the occurrence of various closing and transition related costs following the Allied Acquisition. The increases in professional fees, administrative fees and other general and administrative expenses were primarily due to the increase in the size of the company following the Allied Acquisition and the various costs of managing a larger portfolio.

For the year ended December 31, 2009, the decline in total expenses from the year ended December 31, 2008 was primarily attributable to a decline in interest and credit facility fees offset by professional fees and other costs related to the Allied Acquisition that were not incurred in 2008 and an increase in incentive management fees. Interest expense and credit facility fees decreased despite increases in the principal debt outstanding for the period. The average principal debt outstanding during the year ended December 31, 2009 was \$870 million compared to average principal debt outstanding borrowings of \$819 million for the comparable period in 2008. The increase in principal debt outstanding was more than offset by the decline in the weighted average stated interest rate which went from 4.1% for the year ended December 31, 2008 to 2.2% for the year ended December 31, 2009. Incentive fees related to pre-incentive fee net investment income increased primarily due to the increase in the size of the portfolio and the related increase in net investment income.

### **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 as taxable income is earned. For the year ended December 31, 2010, a net expense of \$2.2 million was recorded for federal excise tax. For the year ended December 31, 2009, a net benefit of \$0.1 million was recorded for federal excise tax. For the year ended December 31, 2008 a net expense of approximately \$0.1 million was recorded for federal excise tax.

Certain of our wholly owned subsidiaries are subject to U.S. federal and state income taxes. For the years ended December 31, 2010, 2009 and 2008, we recorded tax expense of approximately \$3.2 million, \$0.6 million and \$0.1 million, respectively, for these subsidiaries.

**Net Realized Gains/Losses**

During the year ended December 31, 2010, the Company had \$1.6 billion of sales, repayments or exits of investments resulting in \$45.4 million of net realized gains. These sales, repayments or exits included \$113.1 million of loans sold to certain funds managed by IHAM. Net realized gains on investments were comprised of \$64.6 million of gross realized gains and \$19.2 million of gross realized losses. Of the \$45.4 million of net realized gains, approximately \$29.2 million were from investments acquired as part of the Allied Acquisition. The most significant realized gains and losses on investments during the year ended December 31, 2010 were as follows:

(in millions) Portfolio Company	Net Realized Gain (Losses)
Air Medical Group Holdings, LLC	\$ 14.9
Bumble Bee Foods, LLC	6.1
DSI Renal, Inc.	3.9
Instituto de Banca y Comercio, Inc.	3.6
Cortec Group Fund IV, L.P.	3.4
Community Education Centers, Inc.	2.9
Callidus Capital Corporation	2.6
Best Brands Corporation	2.4
The Step2 Company, LLC	2.0
3091779 Nova Scotia Inc.	(3.3)
Growing Family, Inc.	(7.7)
Other	14.6
<b>Total</b>	<b>\$ 45.4</b>

During the year ended December 31, 2009, the Company had \$461.8 million of sales, repayments or exits of investments resulting in \$46.2 million of net realized losses. These sales, repayments or exits included \$44.1 million of loans sold to the Ivy Hill Funds. Net realized losses were comprised of \$20.3 million of gross realized gains and \$66.5 million of gross realized losses. The most significant realized gains and losses during the year ended December 31, 2009 were as follows:

(in millions) Portfolio Company	Net Realized Gain (Losses)
Waste Pro USA, Inc.	\$ 12.3
Bumble Bee Foods, LLC.	3.6
Making Memories Wholesale, Inc	(14.2)
Wear Me Apparel, LLC	(15.0)
Courtside Acquisition Corp.	(34.3)
Other	1.4
<b>Total</b>	<b>\$ (46.2)</b>

During the year ended December 31, 2008, the Company had \$495.6 million of sales, repayments or exits of investments resulting in \$6.6 million of net realized gains. These sales, repayments or exits included the \$75.5 million of loans sold to the Ivy Hill Funds. Net realized gains were comprised of

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\$6.8 million of gross realized gains and \$0.2 million of gross realized losses. The most significant realized gains and losses during the year ended December 31, 2008 were as follows:

(in millions) Portfolio Company	Net Realized Gain (Losses)
Dufry AG	\$ 2.8
Waste Pro USA, Inc.	2.0
Other	1.8
 Total	 \$ 6.6

### Net Unrealized Gains/Losses

We value our portfolio investments and the changes in value are recorded as unrealized gains or losses. See "Portfolio Valuation" below. Net unrealized gains and losses for the Company's total portfolio were comprised of the following:

(in millions)	For the Year Ended December 31,		
	2010	2009	2008
Unrealized Appreciation	\$ 317.5	\$ 125.0	\$ 54.9
Unrealized Depreciation	(85.3)	(92.4)	(323.9)
Net Unrealized (Appreciation) Depreciation Reversed Related to Net Realized Gains (Losses)(1)	(1.5)	56.1	(3.8)
 Total Net Unrealized Gains (Losses)	 \$ 230.7	 \$ 88.7	 \$ (272.8)

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

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

(in millions)	For the Year Ended December 31, 2010	
Unrealized Appreciation	\$	134.6
Unrealized Depreciation		(52.1)
Net Unrealized (Appreciation) Depreciation Reversed Related to Net Realized Gains (Losses) (1)		
 Total Net Unrealized Gains (Losses)	 \$	 82.5

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

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The most significant changes in net unrealized appreciation and depreciation during the year ended December 31, 2010 were as follows:

(in millions) Portfolio Company	Net Unrealized Appreciation (Depreciation)
DSI Renal, Inc.	\$ 24.7
Senior Secured Loan Fund LLC (1)	24.3
Ivy Hill Asset Management, L.P.	21.6
R3 Education, Inc.	16.3
Stag-Parkway, Inc.	15.5
Callidus Debt Partners CDO Fund VI, Ltd.	12.7
Hot Stuff Foods, LLC	11.3
Things Remembered, Inc.	11.1
Dryden XVIII Leveraged Loan 2007 Limited	8.2
Vantage Oncology, Inc.	7.8
Tradesmen International, Inc.	7.7
Industrial Container Services, LLC	7.0
Callidus Debt Partners CDO Fund VII, Ltd.	7.0
S.B. Restaurant Company	6.8
Callidus MAPS CLO Fund I, Ltd.	6.2
Reflexite Corporation	5.9
Callidus MAPS CLO Fund II, Ltd.	5.7
Component Hardware Group, Inc.	5.5
Woodstream Corporation	5.2
American Broadband Holding Company	4.8
Callidus Debt Partners CDO Fund IV, Ltd.	4.7
Direct Buy Holdings, Inc.	4.2
The Step2 Company, LLC	4.0
MPBP Holdings, Inc.	(4.7)
Reed Group, Ltd.	(5.6)
Ciena Capital LLC	(6.1)
Aquila Binks Forest Development, LLC	(6.5)
ADF Restaurant Group, LLC	(6.7)
Coverall North America, Inc.	(7.6)
Other	41.2
<b>Total</b>	<b>\$ 232.2</b>

(1)

See Note 14 to our consolidated financial statements for the year ended December 31, 2010.

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The most significant changes in net unrealized appreciation and depreciation during the year ended December 31, 2009 were as follows:

(in millions) Portfolio Company	Net Unrealized Appreciation (Depreciation)
DSI Renal, Inc.	\$ 19.0
Apple & Eve, LLC	12.4
Ivy Hill Asset Management, L.P.	11.6
Best Brands Corporation	7.9
Capella Healthcare, Inc.	7.2
Wear Me Apparel, LLC	6.0
Prommis Solutions, LLC	4.8
Waste Pro USA, Inc.	4.2
Growing Family, Inc.	(5.0)
AWTP, LLC.	(5.5)
Summit Business Media, LLC	(5.7)
Wastequip, Inc.	(5.9)
LVCG Holdings LLC	(8.2)
Reflexite Corporation	(10.9)
Firstlight Financial Corporation	(11.1)
Other	11.8
<b>Total</b>	<b>\$ 32.6</b>

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The most significant changes in net unrealized appreciation and depreciation during the year ended December 31, 2008 were as follows:

(in millions) Portfolio Company	Net Unrealized Appreciation (Depreciation)
R3 Education, Inc.	\$ 5.0
Instituto de Banco Y Comercio, Inc.	4.5
Industrial Container Services LLC	4.1
VSS-Tranzact Holdings, LLC	(4.0)
Summit Business Media, LLC	(4.0)
Best Brands Corporation	(4.3)
GG Merger Sub I, Inc.	(4.7)
Apogee Retail, LLC	(4.8)
Ivy Hill Middle Market Credit Fund, Ltd.	(5.6)
Making Memories Wholesale, Inc.	(6.7)
Vistar Corporation	(6.9)
HB&G Building Products	(7.4)
Growing Family, Inc.	(7.5)
Primis Marketing Group, Inc.	(7.6)
Capella Healthcare, Inc.	(9.5)
Wear Me Apparel, LLC	(12.1)
Things Remembered, Inc.	(12.3)
Apple & Eve, LLC	(12.4)
MPBP Holdings, Inc.	(15.3)
DSI Renal, Inc.	(18.1)
Reflexite Corporation	(19.2)
Courtside Acquisition Corp.	(30.9)
Firstlight Financial Corporation	(37.0)
Other	(52.3)
<b>Total</b>	<b>\$ (269.0)</b>

### 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, the Debt Securitization, advances from the Facilities, net proceeds from the issuance of unsecured notes as well as cash flows from operations. As part of the Allied Acquisition, the Company assumed all outstanding debt obligations of Allied Capital, including the Allied Unsecured Notes, which consisted of the 2011 Notes, the 2012 Notes and the 2047 Notes.

As of December 31, 2010, the Company had \$100.8 million in cash and cash equivalents and \$1.4 billion in total indebtedness outstanding at carrying value (\$1.4 billion at principal amount). Subject to leverage and borrowing base restrictions, the Company had approximately \$842.6 million available for additional borrowings under the Facilities and the Debt Securitization as of December 31, 2010.

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

**Equity Issuances**

The following table summarizes the total shares issued and proceeds we received in underwritten public offerings of our common stock net of underwriter and offering costs for the years ended December 31, 2010, 2009 and 2008:

(in millions, except per share data)	Shares issued	Offering price per share	Proceeds net of underwriting and offering costs
<b>2010</b>			
November 2010 public offering	11.5	\$ 16.50	\$ 180.6
February 2010 public offering	23.0	\$ 12.75	\$ 277.2
Total for the year ended December 31, 2010	34.5		\$ 457.8
<b>2009</b>			
August 2009 public offering	12.4	\$ 9.25	\$ 109.1
Total for the year ended December 31, 2009	12.4		\$ 109.1
<b>2008</b>			
April 2008 public offering	24.2	\$ 11.00	\$ 259.8
Total for the year ended December 31, 2008	24.2		\$ 259.8

Part of the proceeds from our underwritten public equity offerings in 2010, 2009 and 2008 were used to repay outstanding indebtedness. The remaining unused portions of the proceeds from our underwritten public equity offerings were used to fund investments in portfolio companies in accordance with our investment objective and strategies or other general corporate purposes.

In February 2010, we completed a public add-on equity offering (the "February Add-on Offering") of approximately 23 million shares of common stock (including approximately 2 million shares purchased pursuant to the partial exercise by the underwriters of their over-allotment option) at a price of \$12.75 per share, less an underwriting discount totaling approximately \$0.6375 per share. Total proceeds received from the February Add-on Offering, net of underwriters' discount and offering costs, were approximately \$277.2 million.

In November 2010, we completed a public add-on equity offering (the "November Add-on Offering") of 11.5 million shares of common stock (including 1.5 million shares purchased pursuant to the exercise in full by the underwriters of their over-allotment option) at a price of \$16.50 per share, less an underwriting discount totaling approximately \$0.7425 per share. Total proceeds received from the November Add-on Offering, net of underwriters' discount and offering costs, were approximately \$180.6 million.

In addition, in connection with the closing of the Allied Acquisition, on April 1, 2010, we issued approximately 58.5 million shares of common stock valued at approximately \$872.7 million.

As of December 31, 2010, total market capitalization for the Company was \$3.4 billion compared to \$1.4 billion as of December 31, 2009.

**Debt Capital Activities**

Our debt obligations consisted of the following as of December 31, 2010 and 2009:

(in millions)	December 31, 2010		December 31, 2009	
	Carrying Value(1)	Total Available(2)	Carrying Value	Total Available(2)
Revolving Funding Facility	\$ 242.0	\$ 400.0	\$ 221.6	\$ 221.6
Revolving Credit Facility	146.0	810.0(6)	474.1	525.0
Revolving Funding II Facility(3)				200.0
Debt Securitization	155.3	183.2	273.8	275.0
2011 Notes (principal amount outstanding of \$300.6)	296.3(4)	300.6		
2012 Notes (principal amount outstanding of \$161.2)	158.1(4)	161.2		
2040 Notes	200.0	200.0		
2047 Notes (principal amount outstanding of \$230.0)	180.8(4)	230.0		
	\$ 1,378.5(5)	\$ 2,285.0	\$ 969.5	\$ 1,221.6

- (1) Except for the Allied Unsecured Notes, all carrying values are the same as the principal amounts outstanding.
- (2) Subject to borrowing base and leverage restrictions.
- (3) The Revolving Funding II Facility was combined with the Revolving Funding Facility on January 22, 2010. In connection therewith, the Revolving Funding II Facility was terminated.
- (4) Represents the aggregate principal amount outstanding of the applicable series of notes less the unaccreted discount recorded as a part of the Allied Acquisition.
- (5) Total principal amount of debt outstanding totals \$1,435.1 million.
- (6) Includes an "accordian" feature that allows us, under certain circumstances, to increase the size of the facility to a maximum of \$1,050.0 million

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

The weighted average stated interest rate and weighted average maturity of all our principal debt outstanding as of December 31, 2009 were 2.1% and 3.8 years, respectively.

The ratio of total principal amount of debt outstanding to stockholders' equity as of December 31, 2010 was 0.47:1.00 compared to 0.77:1.00 as of December 31, 2009.

The ratio of total carrying value of debt outstanding to stockholders' equity as of December 31, 2010 was 0.45:1.00 compared to 0.77:1.00 as of December 31, 2009.

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 December 31, 2010, our asset coverage for borrowed amounts was 321%.

***Revolving Funding Facility***



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In October 2004, we formed Ares Capital CP, a wholly owned subsidiary of the Company, through which we established the Revolving Funding Facility that, as amended at such time, allowed Ares Capital CP to issue up to \$350 million of variable funding certificates. On May 7, 2009, the Company and Ares Capital CP entered into an amendment that, among other things, converted the Revolving Funding Facility from a revolving facility to an amortizing facility, extended the maturity from July 21, 2009 to May 7, 2012 and reduced the availability from \$350 million to \$225 million.

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On July 21, 2009, we and Ares Capital CP entered into an agreement with Wells Fargo N.A. ("Wells Fargo") to establish an additional revolving facility (the "Revolving Funding II Facility") whereby Wells Fargo agreed to extend credit to us in an aggregate principal amount not exceeding \$200 million at any one time outstanding. Prior to its combination with the Revolving Funding Facility, the Revolving Funding II Facility was scheduled to expire on July 21, 2012.

On January 22, 2010, we combined the Revolving Funding II Facility into the Revolving Funding Facility, creating a single \$400 million revolving securitized facility. In connection with the combination, we terminated the Revolving Funding II Facility and entered into an Amended and Restated Purchase and Sale Agreement with Ares Capital CP Funding Holdings LLC, our wholly owned subsidiary ("CP Holdings"), pursuant to which we may sell to CP Holdings certain loans that we have originated or acquired (the "Loans") from time to time, which CP Holdings will subsequently sell to Ares Capital CP, which is a wholly owned subsidiary of CP Holdings. The Revolving Funding Facility is secured by all of the assets held by, and the membership interest in, Ares Capital CP. The January 22, 2010 amendment to the Revolving Funding Facility, among other things, extended the maturity date of the facility to January 22, 2013 (with two one-year extension options, subject to mutual consent; see the Recent Developments section as well as Note 19 to our consolidated financial statements for the year ended December 31, 2010 for more information regarding the maturity of the Revolving Funding Facility). Prior to January 22, 2010, 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. 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 December 31, 2010, the effective LIBOR spread under the Revolving Funding Facility was 2.75%.

As of December 31, 2010, the principal amount outstanding under the Revolving Funding Facility was \$242.0 million and the Company continues to be in material compliance with all of the limitations and requirements of the Revolving Funding Facility. See the Recent Developments section as well as Note 5 to our consolidated financial statements for the year ended December 31, 2010 for more detail on the Revolving Funding Facility.

### ***Revolving Credit Facility***

In December 2005, we entered into the Revolving Credit Facility, under which, as amended, the lenders agreed to extend credit to the Company. On January 22, 2010, we entered into an agreement to amend and restate the Revolving Credit Facility. The amendment and restatement of the Revolving Credit Facility, among other things, increased the size of the facility from \$525 million to \$690 million (comprised of \$615 million in commitments on a stand-alone basis and an additional \$75 million in commitments that became effective upon the closing of the Allied Acquisition), extended the maturity date from December 28, 2010 to January 22, 2013 and modified pricing. The Revolving Credit Facility also includes an "accordion" feature that allows the Company under certain circumstances, to increase the size of the facility to a maximum of \$1.05 billion. During the year ended December 31, 2010, we exercised this "accordion" feature and increased the size of the facility by \$120 million to bring the total facility size to \$810 million. As of December 31, 2010, there was \$146.0 million outstanding under the Revolving Credit Facility and the Company continues to be in material compliance with all of the limitations and requirements of the Revolving Credit Facility.

Prior to January 22, 2010, subject to certain exceptions, pricing on the Revolving Credit Facility was based on LIBOR plus 1.00% or on an "alternate base rate" (which was the highest of a prime rate, the federal funds rate plus 0.50%, or one month LIBOR plus 1.00%). After January 22, 2010,

subject to certain exceptions, pricing under the Revolving Credit Facility is based on LIBOR plus an applicable spread of between 2.50% and 4.00% or on the "alternate base rate" plus an applicable spread of between 1.50% and 3.00%, in each case, based on a pricing grid depending upon our credit rating. As of December 31, 2010, the effective LIBOR spread under the Revolving Credit Facility was 3.00%. See Note 5 to our consolidated financial statements for the year ended December 31, 2010 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, we completed the \$400 million Debt Securitization and issued approximately \$314 million aggregate principal amount of the CLO Notes (including revolving notes in an aggregate amount of up to \$50 million, \$22.1 million of which were drawn down as of December 31, 2010) to third parties that were secured by a pool of middle-market loans purchased or originated by the Company. We initially retained approximately \$86 million of aggregate principal amount outstanding of certain "BBB" and non-rated securities in the Debt Securitization. During the first quarter of 2009, we repurchased \$34.8 million of the CLO Notes, bringing our total holdings of CLO Notes to \$120.8 million (the "Retained Notes"). During the year ended December 31, 2010, we repaid \$118.5 million of the CLO Notes. At December 31, 2010, \$155.3 million was outstanding under the CLO Notes (excluding the Retained Notes), which are included in the December 31, 2010 consolidated balance sheet.

The CLO Notes provide for a reinvestment period until June 21, 2011, have a stated maturity of December 20, 2019 and have a blended pricing of LIBOR plus 0.36% as of December 31, 2010. See Note 5 to our consolidated financial statements for the year ended December 31, 2010 for more detail on the Debt Securitization.

***Unsecured Notes***

*Allied Unsecured Notes*

As part of the Allied Acquisition, the Company assumed all outstanding debt obligations of Allied Capital, including the Allied Unsecured Notes, which consist of the 2011 Notes, the 2012 Notes and the 2047 Notes.

(in millions)	<b>Carrying Value as of December 31, 2010(1)</b>	
2011 Notes (principal amount of \$300.6)	\$	296.3
2012 Notes (principal amount of \$161.2)	\$	158.1
2047 Notes (principal amount of \$230.0)	\$	180.8
 Total	 \$	 635.2

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

The 2011 Notes bear interest at a rate of 6.625% and mature on July 15, 2011. The 2012 Notes bear interest at a rate of 6.00% and mature on April 1, 2012. The 2011 Notes and the 2012 Notes require payment of interest semi-annually, and all principal is due upon maturity. The Company has the option to redeem these notes in whole or in part, together with a redemption premium, as stipulated in the notes.

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 par and upon the occurrence of certain tax events as stipulated in the notes.

In addition, the Company may purchase the Allied Unsecured Notes in the market to the extent permitted by the Investment Company Act. During the year ended December 31, 2010, the Company purchased \$19.4 million of the 2011 Notes and \$34.4 million of the 2012 Notes. As a result of these transactions a realized loss of \$2.0 million was recognized during the period.

#### 2040 Notes

On October 21, 2010, we issued \$200 million of the 2040 Notes that may be redeemed in whole or in part at our option at any time on or after October 15, 2015 at par plus accrued and unpaid interest. The principal amount of the 2040 Notes will be payable at maturity. The 2040 Notes bear interest at a rate of 7.75% per year payable quarterly commencing on January 15, 2011. Total proceeds from the issuance of the 2040 Notes, net of underwriters' discount and offering costs, were approximately \$193 million.

See Note 5 to our consolidated financial statements for the year ended December 31, 2010 for more detail on the Allied Unsecured Notes and the 2040 Notes. Also, see the Recent Developments section as well as Note 19 to our consolidated financial statements for the year ended December 31, 2010 for information on the issuance of the 2016 Convertible Notes in January 2011.

### CONTRACTUAL OBLIGATIONS

A summary of our contractual payment obligations as of December 31, 2010 are as follows:

(in millions)	Total	Payments Due by Period			After 5 years
		Less than 1 year	1-3 years	3-5 years	
Revolving Funding Facility	\$ 242.0	\$	\$ 242.0	\$	
Revolving Credit Facility	146.0		146.0		
Debt Securitization	155.3				155.3
2011 Notes	300.6	300.6			
2012 Notes	161.2		161.2		
2040 Notes	200.0				200.0
2047 Notes	230.0				230.0
Operating lease obligations	84.7	4.9	13.9	11.8	54.1
<b>Total contractual obligations</b>	<b>\$ 1,519.8</b>	<b>\$ 305.5</b>	<b>\$ 563.1</b>	<b>\$ 11.8</b>	<b>\$ 639.4</b>

### PORTFOLIO VALUATION

Investment transactions are recorded on the trade date. Realized gains or losses are computed using the specific identification method. Unrealized gains or losses reflect the change in investment values, including the reversal of previously recorded unrealized gains or losses when gains or losses are realized. Investments for which market quotations are readily available are typically valued at such market quotations. In order to validate market quotations, we look at a number of factors to determine if the quotations are representative of fair value, including the source and nature of the quotations. Debt and equity securities that are not publicly traded or whose market prices are not readily available (i.e., substantially all of our investments) are valued at fair value as determined in good faith by our board of directors, based on the input of our investment adviser, audit committee and independent third-party valuation firms that have been engaged at the direction of our board of directors to assist in the valuation of each portfolio investment without a readily available market quotation at least once during a trailing 12-month period, and under a valuation policy and a consistently applied valuation

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

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

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

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

Our board of directors undertakes a multi-step valuation process each quarter, as described below:

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

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

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

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

Effective January 1, 2008, the Company adopted ASC 820-10 (previously SFAS 157), which expands the application of fair value accounting for investments (see Note 8 to our consolidated financial statements for the year ended December 31, 2010). 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

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cost basis and fair value for the acquired investments were the same at April 1, 2010 (see Note 17 to our consolidated financial statements for the year ended December 31, 2010).

### OFF BALANCE SHEET ARRANGEMENTS

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

As of December 31, 2010 and 2009, the Company had the following commitments to fund various revolving senior secured and subordinated loans:

(in millions)	As of December 31,	
	2010	2009
Total revolving commitments	\$ 260.7	\$ 136.8
Less: funded commitments	(60.0)	(37.2)
<b>Total unfunded commitments</b>	<b>200.7</b>	<b>99.6</b>
Less: commitments substantially at discretion of the Company	(19.9)	(4.0)
Less: unavailable commitments due to borrowing base or other covenant restrictions	(6.7)	(16.2)
<b>Total net adjusted unfunded commitments</b>	<b>\$ 174.1</b>	<b>\$ 79.4</b>

Of the total net adjusted unfunded commitments as of December 31, 2010, \$33.8 million are from commitments for investments acquired as part of the Allied Acquisition. Also, as of December 31, 2010, \$147.3 million of the total revolving commitments extend beyond the maturity date of our Revolving Credit Facility. Included within the total revolving commitments as of December 31, 2010 are commitments to issue up to \$10.9 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 December 31, 2010, the Company had \$8.6 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, \$0.1 million expire in February 2011, \$0.1 million expire in April 2011, \$2.3 million expire in September 2011, \$0.2 million expire in December 2011, \$0.9 million expire in January 2012 and \$5.0 million expire in December 2012.

As of December 31, 2010 and 2009, the Company had the following commitments to fund the SSLP:

(in millions)	As of December 31,	
	2010	2009
Total SSLP commitments	\$ 975.0	\$ 525.0
Less: funded SSLP commitments	(564.0)	(184.0)
<b>Total unfunded SSLP commitments</b>	<b>411.0</b>	<b>341.0</b>
Less: SSLP commitments substantially at discretion of the Company(1)	(411.0)	(341.0)
<b>Total net adjusted unfunded SSLP commitments</b>	<b>\$</b>	<b>\$</b>

(1)

Investments and portfolio decisions must be approved by both GE and the Company.

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

As of December 31, 2010 and 2009, the Company was subject to subscription agreements to fund equity investments in private equity investment partnerships:

(in millions)	As of December 31,	
	2010	2009
Total private equity commitments	\$ 537.6	\$ 428.3
Less: funded private equity commitments	(104.3)	(12.9)
<b>Total unfunded private equity commitments</b>	<b>433.3</b>	<b>415.4</b>
Less: private equity commitments substantially at discretion of the Company	(400.4)	(391.9)
<b>Total net adjusted unfunded private equity commitments</b>	<b>\$ 32.9</b>	<b>\$ 23.5</b>

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

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

As of December 31, 2010, one of the Company's portfolio companies, Ciena Capital LLC ("Ciena"), had one non-recourse securitization Small Business Administration ("SBA") loan warehouse facility, which has reached its maturity date but remains outstanding. Ciena is working with the providers of the SBA loan warehouse facility with regard to the repayment of that facility. Allied Capital had previously issued a performance guaranty (which Ares Capital succeeded to as a result of the Allied Acquisition) whereby Ares Capital must indemnify the warehouse providers for any damages, losses, liabilities and related costs and expenses that they may incur as a result of Ciena's failure to perform any of its obligations as loan originator, loan seller or loan servicer under the warehouse facility. As of December 31, 2010, there are no known issues or claims with respect to this performance guaranty.

### RECENT DEVELOPMENTS

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).

In January 2011, we issued \$575 million of the 2016 Convertible Notes. The 2016 Convertible Notes bear interest at rate of 5.75% per year, payable semiannually. In certain circumstances, the 2016 Convertible Notes will be convertible into cash, shares of Ares Capital's common stock or a combination of cash and shares of Ares Capital's common stock, at Ares Capital's election, at an initial conversion rate of 52.2766 shares of common stock per \$1,000 principal amount of the 2016 Convertible Notes, which is equivalent to an initial conversion price of approximately \$19.13 per share of Ares Capital's common stock, subject to customary anti-dilution adjustments. The initial conversion price is approximately 17.5% above the \$16.28 per share closing price of Ares Capital's common stock on January 19, 2011. Ares Capital does not have the right to redeem the 2016 Convertible Notes prior

to maturity. The 2016 Convertible Notes will mature on February 1, 2016, unless repurchased or converted in accordance with their terms prior to such date.

In accounting for the 2016 Convertible Notes, the Company estimated at the time of issuance that the values of the debt and equity components of the notes were 93% and 7%, respectively. The original issue discount equal to the estimated equity component of 7% of the 2016 Convertible Notes will initially be recorded in "capital in excess of par value" in the balance sheet. As a result, the Company will record interest expense comprised of both stated interest expense as well as accretion of the original issue discount resulting in an estimated effective interest rate of 7.45%.

On February 24, 2011 we notified the holders of our 2011 Notes that we are redeeming the \$300.6 million aggregate principal amount of our 2011 Notes remaining outstanding, together with a redemption premium, in accordance with the terms of the indenture governing the 2011 Notes. We expect the redemption to be completed on March 16, 2011.

Effective as of February 25, 2011, we amended our charter to increase the number of shares of common stock we are authorized to issue from 300 million to 400 million.

As of February 25, 2011 we had made new investment commitments of \$173 million, all of which were funded, since December 31, 2010. Of these new commitments, 10% were in investments in subordinated notes of the SSLP, 83% were in second lien senior secured debt and 7% were in equity securities. Of the \$173 million of new investment commitments, 22% were fixed rate with a weighted average yield at amortized cost of 12.4% and 71% were floating rate with a weighted average spread at amortized cost of 10.4%.

As of February 25, 2011, we had exited \$415 million of investments since December 31, 2010. Of these investments, 19% were in first lien senior secured debt, 47% were in senior subordinated debt, 2% were in second lien senior secured debt, 28% were in collateralized loan obligations and 4% were in equity investments. Of the \$415 million of investments, 76% were in fixed rate investments with a weighted average yield at amortized cost of 20.4%. Of the remaining investments, 19% were in floating rate investments with a weighted average spread at amortized cost of 6.5%, 1% were investments on non-accrual status and 4% were non-interest earning. Also, of the \$415 million of investments exited since December 31, 2010, \$269 million were investments acquired as part of the Allied Acquisition including \$6 million that were on non-accrual status and \$4 million that were non-interest earning. Additionally, we recognized net realized gains of approximately \$98 million on the investments exited that were acquired as part of the Allied Acquisition, including a realized gain of \$99 million from the sale of investments in collateralized loan obligations.

In addition, as of February 25, 2011, we had an investment backlog and pipeline of \$353 million and \$284 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.

### ***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 computed using the specific identification method. Unrealized gains or losses reflect the change in investment values, including the reversal of previously recorded unrealized gains or losses when gains or losses are realized. Investments for which market quotations are readily available are typically valued at such market quotations. In order to validate market quotations, we look at a number of factors to determine if the quotations are representative of fair value, including the source and nature of the quotations. Debt and equity securities that are not publicly traded or whose market prices are not readily available (i.e., substantially all of our investments) are valued at fair value as determined in good faith by our board of directors, based on the input of our investment adviser, audit committee and independent third-party valuation firms that have been engaged at the direction of our board of directors to assist in the valuation of each portfolio investment without a readily available market quotation at least once during a trailing 12 month period, and under a valuation policy and a consistently applied valuation process. The valuation process is conducted at the end of each fiscal quarter, and a minimum of 50% of our portfolio at fair value is subject to review by an independent valuation firm each quarter.

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

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

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

Our board of directors undertakes a multi-step valuation process each quarter, as described below:

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

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

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

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

Effective January 1, 2008, the Company adopted ASC 820-10 (previously SFAS No. 157, Fair Value Measurements ("SFAS 157")), which expands the application of fair value accounting for investments (see Note 8 to our consolidated financial statements for the year ended December 31, 2010). 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 17 to our consolidated financial statements for the year ended December 31, 2010).

### ***Interest and Dividend Income Recognition***

Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis. 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 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 consist of reviewing existing credit facilities, arranging bank financing, arranging equity financing, structuring financing from multiple lenders, structuring financing from multiple equity investors, restructuring existing loans, raising equity and debt capital, and providing general financial advice, which concludes upon closing of the investment. Any services of the above nature subsequent to the closing would generally generate a separate fee payable to the Company. In certain instances where the Company is invited to participate as a co-lender in a transaction and does not provide significant services in connection with the investment, a portion of loan fees paid to the Company in such situations will be deferred and amortized over the estimated life of the loan. The Company's investment adviser may also take a seat on the board of directors of a portfolio company, or observe the meetings of the board of directors without taking a formal seat.

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

***Foreign Currency Translation***

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

- (1) Market 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 operations.

***Equity Offering Expenses***

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

***Debt Issuance Costs***

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

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

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

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

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

***Dividends to Common Stockholders***

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

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

***Use of Estimates in the Preparation of Financial Statements***

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

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

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

**Interest Rate Risk**

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

As of December 31, 2010, approximately 39% of the investments at fair value in our portfolio were at fixed rates, approximately 43% were at variable rates, 17% were non-interest earning and 1% were on non-accrual status. Additionally, for the investments at variable rates, 47% of the investments contain interest rate floors (representing 20% 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 Unsecured Notes and the 2016 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 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)	Interest	Interest	Net
Basis Point Change	Income	Expense	Income
Up 300 basis points	\$ 13.1	\$ 16.3	\$ (3.2)
Up 200 basis points	\$ 7.4	\$ 10.9	\$ (3.5)
Up 100 basis points	\$ 2.7	\$ 5.4	\$ (2.7)
Down 100 basis points	\$ (0.8)	\$ (1.6)	\$ 0.8
Down 200 basis points	\$ (1.0)	\$ (1.6)	\$ 0.6
Down 300 basis points	\$ (1.2)	\$ (1.6)	\$ 0.4

Based on our December 31, 2009 balance sheet, the following table shows the impact on net income of base rate changes in interest rates assuming no changes in our investment and borrowing

structure and reflecting the effect of our interest rate swap agreement described above and in Note 6 of the consolidated financial statements for the year ended December 31, 2010:

(in millions)	Interest	Interest	Net
Basis Point Change	Income	Expense	Income
Up 300 basis points	\$ 17.6	\$ 26.8	\$ (9.2)
Up 200 basis points	\$ 11.2	\$ 17.9	\$ (6.7)
Up 100 basis points	\$ 5.6	\$ 8.9	\$ (3.3)
Down 100 basis points	\$ (2.1)	\$ (6.2)	\$ 4.1
Down 200 basis points	\$ (3.1)	\$ (12.4)	\$ 9.3
Down 300 basis points	\$ (4.1)	\$ (18.6)	\$ 14.5

#### Item 8. Financial Statements And Supplementary Data

See the Index to Consolidated Financial Statements.

#### Item 9. Changes In And Disagreements With Accountants On Accounting And Financial Disclosure

None.

#### Item 9A. Controls And Procedures

(a) **Evaluation of Disclosure Controls and Procedures.** The Company's management, with the participation of the Company's President and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this report. Based upon such evaluation, the Company's President and Chief Financial Officer concluded that our disclosure controls and procedures were effective, as of December 31, 2010, to provide assurance that information that is required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified by the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

(b) **Management's Report on Internal Control over Financial Reporting.** The Company's management is responsible for establishing and maintaining adequate internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act). Under the supervision and with the participation of management, including the President and Chief Financial Officer, the Company conducted an evaluation of the effectiveness of the Company's internal controls over financial reporting based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the Company's evaluation under the framework in *Internal Control Integrated Framework*, management concluded that the Company's internal controls over financial reporting was effective as of December 31, 2010. The Company's internal controls over financial reporting as of December 31, 2010, has been audited by our independent registered public accounting firm, KPMG LLP, as stated in its report titled "Report of Independent Registered Public Accounting Firm" on page F-2.

Because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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(c) **Audit Report of the Registered Public Accounting Firm.** The Company's independent registered public accounting firm, KPMG LLP, has issued an audit report on the effectiveness of the Company's internal control over financial reporting which is set forth under the heading "Report of Independent Registered Public Accounting Firm" on page F-2.

(d) **Changes in Internal Control over Financial Reporting.** There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during our most recently completed fiscal quarter, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **Item 9B. Other Information**

None.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

The information required by this item will be contained in the Company's definitive Proxy Statement for its 2011 Annual Stockholder Meeting, to be filed with the SEC within 120 days after December 31, 2010, and is incorporated herein by reference.

**Item 11. Executive Compensation**

The information required by this item will be contained in the Company's definitive Proxy Statement for its 2011 Annual Stockholder Meeting, to be filed with the SEC within 120 days after December 31, 2010, and is incorporated herein by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this item will be contained in the Company's definitive Proxy Statement for its 2011 Annual Stockholder Meeting, to be filed with the SEC within 120 days after December 31, 2010, and is incorporated herein by reference.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this item will be contained in the Company's definitive Proxy Statement for its 2011 Annual Stockholder Meeting, to be filed with the SEC within 120 days after December 31, 2010, and is incorporated herein by reference.

**Item 14. Principal Accountant Fees and Services**

The information required by this item will be contained in the Company's definitive Proxy Statement for its 2011 Annual Stockholder Meeting, to be filed with the SEC within 120 days after December 31, 2010, and is incorporated herein by reference.



**PART IV**

**Item 15. Exhibits And Financial Statement Schedules**

The following documents are filed as part of this Annual Report:

1. Financial Statements See the Index to Consolidated Financial Statements on Page F-1.
2. Financial Statement Schedules None. We have omitted financial statement schedules because they are not required or are not applicable, or the required information is shown in the financial statements or notes to the financial statements.
3. Exhibits.

<b>Number</b>	<b>Description</b>
2.1	Agreement and Plan of Merger, dated as of October 26, 2009, among Ares Capital Corporation, ARCC Odyssey Corp. and Allied Capital Corporation(1)
3.1	Articles of Amendment and Restatement, as amended*
3.2	Second Amended and Restated Bylaws, as amended(3)
4.1	Form of Stock Certificate(4)
4.2	Indenture, dated June 16, 2006, between Allied Capital Corporation and The Bank of New York(5)
4.3	Form of Note under the Indenture(5)
4.4	Form of First Supplemental Indenture, dated as of July 25, 2006, between Allied Capital Corporation and the Bank of New York(6)
4.5	Form of 6.625% Note due 2011(6)
4.6	Form of Second Supplemental Indenture, dated as of December 8, 2006, between Allied Capital Corporation and The Bank of New York(7)
4.7	Form of 6.000% Notes due 2012(7)
4.8	Third Supplemental Indenture, dated as of March 28, 2007, between Allied Capital Corporation and The Bank of New York(8)
4.9	Form of 6.875% Notes due 2047(9)
4.10	Fourth Supplemental Indenture, dated as of April 1, 2010, among Ares Capital Corporation, Allied Capital Corporation and The Bank of New York Mellon, as the Trustee(10)
4.11	Indenture, dated as of October 21, 2010, between Ares Capital Corporation and U.S. Bank National Association, as trustee(11)
4.12	First Supplemental Indenture, dated as of October 21, 2010, relating to the 7.75% Senior Notes due 2040, between Ares Capital Corporation and U.S. Bank National Association, as trustee(11)
4.13	Form of 7.75% Senior Notes due 2040(11)
4.14	Indenture dated as of January 25, 2011, between Ares Capital Corporation and U.S. Bank National Association, as trustee(12)

4.15 Form of 5.75% Convertible Senior Notes due 2016(12)

10.1 Amended and Restated Dividend Reinvestment Plan(13)

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Number	Description
10.2	Amended and Restated Investment Advisory and Management Agreement, dated as of June 1, 2006, between Ares Capital Corporation and Ares Capital Management LLC(14)
10.3	Amended and Restated Custodian Agreement between Ares Capital Corporation and U.S. Bank National Association(15)
10.4	Amended and Restated Administration Agreement, dated as of June 1, 2007, between Ares Capital Corporation and Ares Operations LLC(16)
10.5	Trademark License Agreement between Ares Capital Corporation and Ares Management LLC(17)
10.6	Form of Indemnification Agreement between Ares Capital Corporation and directors and certain officers(4)
10.7	Form of Indemnification Agreement between Ares Capital Corporation and the members of the Ares Capital Management LLC investment committee(4)
10.8	Amended and Restated Purchase and Sale Agreement, dated as of January 22, 2010, among Ares Capital Corporation, as seller, and Ares Capital CP Funding Holdings LLC, as purchaser(18)
10.9	Second Tier Purchase and Sale Agreement, dated as of January 22, 2010, among Ares Capital CP Funding Holdings LLC, as seller, and Ares Capital CP Funding LLC, as purchaser(18)
10.10	Amended and Restated Sale and Servicing Agreement, dated as of January 22, 2010, among Ares Capital CP Funding LLC, as borrower, Ares Capital Corporation, as servicer, Wachovia Bank, National Association, as note purchaser, U.S. Bank National Association, as trustee and collateral custodian, and Wells Fargo Securities, LLC, as agent(18)
10.11	Amendment No. 1 to the Amended and Restated Sale and Servicing Agreement, dated as of May 6, 2010, among Ares Capital CP Funding LLC, as borrower, Ares Capital Corporation, as servicer, Well Fargo Bank, National Association, as successor by merger to Wachovia Bank as note purchaser, U.S. Bank, National Association, as trustee and collateral custodian, and Wells Fargo Securities LLC, as agent(19)
10.12	Amendment No. 2 to the Amended and Restated Sale and Servicing Agreement, dated as of January 18, 2010, among Ares Capital CP Funding LLC, as borrower, Ares Capital Corporation, as servicer, Well Fargo Bank, National Association, as successor by merger to Wachovia Bank as note purchaser, U.S. Bank National Association, as trustee and collateral custodian, and Wells Fargo Securities, LLC, as agent(23)
10.13	Master Participation Agreement, dated as of July 7, 2006, between Ares Capital CP Funding LLC and Ares Capital Corporation(20)
10.14	Senior Secured Revolving Credit Agreement, dated as of December 28, 2005 and amended and restated as of January 22, 2010, among Ares Capital Corporation, the lenders party thereto, Bank of America, N.A. and Suntrust Bank, as syndication agents, and JPMorgan Chase Bank, N.A., as administrative agent(18)
10.15	Amendment No. 1 to the Senior Secured Revolving Credit Agreement, dated as of May 17, 2010, between Ares Capital Corporation, the lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent(21)
10.16	Amendment No. 2 to the Senior Secured Revolving Credit Agreement, dated as of September 28, 2010, between Ares Capital Corporation, the lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent(22)

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Number	Description
10.17	Amendment No. 3 to the Senior Secured Revolving Credit Agreement date as of January 25, 2011, between Ares Capital Corporation, the lenders party thereto and JP Morgan Chase Bank, N.A., as Administrative Agent*
10.18	First Amendment Agreement and Waiver, dated as of November 13, 2007, between Ares Capital Corporation, as borrower, Ares Capital FL Holdings LLC, ARCC CIC Flex Corp., ARCC Imperial Corporation and ARCC Imperial LLC, as subsidiary guarantors, and BMO Capital Markets Financing, Inc., Merrill Lynch Capital Corporation, SunTrust Bank, Commerzbank AG, New York and Grand Cayman Branches, UBS Loan Finance LLC, JPMorgan Chase Bank, N.A., Wachovia Bank, National Association and KBC Bank N.V., as lenders(24)
10.19	Sale and Servicing Agreement, dated as of July 7, 2006, among ARCC Commercial Loan Trust 2006, as issuer, ARCC CLO 2006 LLC, as trust depositor, Ares Capital Corporation, as originator and as servicer, U.S. Bank National Association, as trustee and as collateral administrator, Lyon Financial Services, Inc. (D/B/A U.S. Bank Portfolio Services), as backup servicer, and Wilmington Trust Company, as owner trustee(20)
10.20	Commercial Loan Sale Agreement, dated as of July 7, 2006, between Ares Capital Corporation and ARCC CLO 2006 LLC(20)
10.21	Amendment No. 1 to the Commercial Loan Sale Agreement, dated as of July 17, 2009, between Ares Capital Corporation and ARCC CLO 2006 LLC(25)
10.22	Indenture, dated as of July 7, 2006, between ARCC Commercial Loan Trust 2006 and U.S. Bank National Association(20)
10.23	Amended and Restated Trust Agreement, dated as of July 7, 2006, among ARCC CLO 2006 LLC, Wilmington Trust Company and U.S. Bank National Association(20)
10.24	Collateral Administration Agreement, dated as of July 7, 2006, among ARCC Commercial Loan Trust 2006, Ares Capital Corporation and U.S. Bank National Association(20)
10.25	Class A-1A VFN Purchase Agreement, dated as of July 7, 2006, among ARCC Commercial Loan Trust 2006, U.S. Bank National Association and other Class A-1A VFN noteholders party thereto(20)
10.26	Form of Underwriting Agreement for Equity Securities(26)
10.27	Form of Underwriting Agreement for Debt Securities(26)
11.1	Statement of Computation of Per Share Earnings(27)
14.1	Code of Conduct of Ares Capital Corporation, as amended(28)
21.1	Subsidiaries of Ares Capital Corporation*
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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- (1) Incorporated by reference to Exhibit 2.1 to the Company's Form 8-K (File No. 814-00663), filed on October 30, 2009.
- (2) Intentionally Omitted.
- (3) Incorporated by reference to Exhibits 3.2 to the Company's Form 10-Q (File No. 814-00663) for the quarter ended June 30, 2010, filed on August 5, 2010.
- (4) Incorporated by reference to Exhibits (d), (k)(4) and (k)(5), as applicable, to the Company's pre-effective Amendment No. 2 to the Registration Statement under the Securities Act of 1933, as amended, on Form N-2 (File No. 333-114656), filed on September 28, 2004.
- (5) Incorporated by reference to Exhibit d.2 to Allied Capital's Registration Statement under the Securities Act of 1933, as amended, on Form N-2/A (File No. 333-133755), filed on June 21, 2006.
- (6) Incorporated by reference to Exhibits d.4 and d.5, as applicable, to Allied Capital's post-effective Amendment No. 1 to the Registration Statement under the Securities Act of 1933, as amended, on Form N-2/A (File No. 333-133755), filed on July 25, 2006.
- (7) Incorporated by reference to Exhibits d.6 and d.7, as applicable, to Allied Capital's post-effective Amendment No. 2 to the Registration Statement under the Securities Act of 1933, as amended, on Form N-2/A (File No. 333-133755), filed on December 8, 2006.
- (8) Incorporated by reference to Exhibit d.8 to Allied Capital's post-effective Amendment No. 3 to the Registration Statement under the Securities Act of 1933, as amended, on Form N-2/A (File No. 333-133755), filed on March 28, 2007.
- (9) Incorporated by reference to Exhibit d.9(a) to Allied Capital's post-effective Amendment No. 4 to the Registration Statement under the Securities Act of 1933, as amended, on Form N-2/A (File No. 333-133755), filed on April 2, 2007.
- (10) Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 814-00663), filed April 7, 2010.
- (11) Incorporated by reference to Exhibits 4.1, 4.2 and 4.3 to the Company's Current Report on Form 8-K, filed on October 22, 2010.
- (12) Incorporated by reference to Exhibit 4.1 to the Company's Form 8-K (File No. 814-00663), filed on January 28, 2011.
- (13) Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 814-00663) filed on November 8, 2010.
- (14) Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 814-00663) filed on June 5, 2006.
- (15) Incorporated by reference to Exhibit (j) to the Company's pre-effective Amendment No. 1 to the Registration Statement under the Securities Act of 1933, as amended, on Form N-2 (File No. 333-158211), filed on May 28, 2009.
- (16) Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q (File No. 814-00663) for the quarter ended June 30, 2007, filed on August 9, 2007.
- (17) Incorporated by reference to Exhibit (k)(3) to the Company's pre-effective Amendment No. 1 to the Registration Statement under the Securities Act of 1933, as amended, on Form N-2 (File No. 333-114656), filed on September 17, 2004.

- (18) Incorporated by reference to Exhibits 10.1 through 10.4, as applicable, to the Company's Form 8-K (File No. 814-00663), filed on January 25, 2010.

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- (19) Incorporated by reference to Exhibit 10.5 to the Company's Form 10-Q (File No. 814-00663) for the quarter ended March 30, 2010, filed on May 10, 2010.
- (20) Incorporated by reference to Exhibits 10.2 through 10.8, as applicable, to the Company's Form 10-Q (File No. 814-00663) for the quarter ended June 30, 2006, filed on August 9, 2006.
- (21) Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 814-00663), filed on May 19, 2010.
- (22) Incorporated by reference to Exhibit (k)(12) to the Company's pre-effective Amendment No. 2 to the Registration Statement under the Securities Act of 1933, as amended, on Form N-2/A (File No. 333-165585), filed on October 5, 2010.
- (23) Incorporated by reference to Exhibit 10.1 to the Company's 8-K (File No. 814-00663), filed on January 19, 2011.
- (24) Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 814-00663) filed on November 14, 2007.
- (25) Incorporated by reference to Exhibit 10.4 to the Company's Form 10-Q (File No. 814-00663) for the quarter ended June 30, 2009, filed on August 6, 2009.
- (26) Incorporated by reference to Exhibits (h)(1) and (h)(2), as applicable, to the Company's Registration Statement under the Securities Act of 1933, on Form N-2 (File No. 333-165585), filed on March 19, 2010.
- (27) Included in Note 10 to the Company's Notes to Consolidated Financial Statements filed herewith.
- (28) Incorporated by reference to Exhibit 14.1 to the Company's Form 10-K (File No. 814-00663) for the year ended December 31, 2008, filed on March 2, 2009.

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

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<u>Consolidated Balance Sheets as of December 31, 2010 and 2009</u>	<u>F-4</u>
<u>Consolidated Statement of Operations for the years ended December 31, 2010, 2009 and 2008</u>	<u>F-5</u>
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## Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders  
Ares Capital Corporation

We have audited the accompanying consolidated balance sheets of Ares Capital Corporation (and subsidiaries) (the Company) as of December 31, 2010 and 2009, including the consolidated schedule of investments as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders' equity, and cash flows, and the financial highlights (included in Note 15), for each of the years in the three-year period ended December 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ares Capital Corporation (and subsidiaries) as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Ares Capital Corporation's internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of Treadway Commission (COSO), and our report dated February 28, 2011 expressed an unqualified opinion on the effectiveness of Ares Capital Corporation's internal control over financial reporting.

As explained in Note 8 to the consolidated financial statements, the accompanying consolidated financial statements include investments valued at \$4.3 billion (142% of net assets), whose fair values have been estimated by the Board of Directors and management in the absence of readily determinable fair values. Such estimates are based on financial and other information provided by management of its portfolio companies, pertinent market and industry data, as well as input from independent valuation firms. These investments are valued in accordance with Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, (SFAS 157) (included in FASB ASC 820, *Fair Value Measurements and Disclosures*), which requires the Company to assume that the portfolio investments are sold in a principal market to market participants. The Company has considered its principal market as the market in which the Company exits its portfolio investments with the greatest volume and level of activity. SFAS 157 specifies a hierarchy of valuation techniques based on whether the inputs to these valuation techniques are observable or unobservable. \$4.3 billion of investments at December 31, 2010 are valued based on unobservable inputs. Because such valuations, and particularly valuations of private investments and private companies, are inherently uncertain, they may fluctuate significantly over short periods of time. These determinations of fair value could differ materially from the values that would have been utilized had a ready market for these investments existed.

Los Angeles, California  
February 28, 2011

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## Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders  
Ares Capital Corporation:

We have audited Ares Capital Corporation's (the Company) internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Ares Capital Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Ares Capital Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Ares Capital Corporation (and subsidiaries) as of December 31, 2010 and 2009, including the consolidated schedule of investments as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders' equity, and cash flows, and the financial highlights (included in Note 15), for each of the years in the three-year period ended December 31, 2010, and our report dated February 28, 2011 expressed an unqualified opinion on those consolidated financial statements.

Los Angeles, California  
February 28, 2011

## ARES CAPITAL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

	As of December 31,	
	2010	2009
<b>ASSETS</b>		
Investments at fair value		
Non-controlled/non-affiliate investments	\$ 2,482,642	\$ 1,568,423
Non-controlled affiliate company investments	380,396	276,351
Controlled affiliate company investments	1,454,952	327,040
Total investments at fair value (amortized cost of \$4,291,955 and \$2,376,384, respectively)	4,317,990	2,171,814
Cash and cash equivalents	100,752	99,227
Receivable for open trades	8,876	
Interest receivable	72,548	28,019
Other assets	62,380	14,455
<b>Total assets</b>	<b>\$ 4,562,546</b>	<b>\$ 2,313,515</b>
<b>LIABILITIES</b>		
Debt	\$ 1,378,509	\$ 969,465
Management and incentive fees payable	52,397	66,495
Accounts payable and other liabilities	34,742	16,533
Interest and facility fees payable	21,763	2,645
Payable for open trades	24,602	489
<b>Total liabilities</b>	<b>1,512,013</b>	<b>1,055,627</b>
Commitments and contingencies (Note 7)		
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, par value \$.001 per share, 300,000 common shares authorized, 204,419 and 109,945 common shares issued and outstanding, respectively	204	110
Capital in excess of par value	3,205,326	1,490,458
Accumulated (overdistributed) undistributed net investment income	(11,336)	3,143
Accumulated net realized loss on investments, foreign currency transactions, extinguishment of debt, other assets and acquisitions	(169,696)	(31,115)
Net unrealized gain (loss) on investments and foreign currency transactions	26,035	(204,708)
<b>Total stockholders' equity</b>	<b>3,050,533</b>	<b>1,257,888</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 4,562,546</b>	<b>\$ 2,313,515</b>
<b>NET ASSETS PER SHARE</b>	<b>\$ 14.92</b>	<b>\$ 11.44</b>

See accompanying notes to consolidated financial statements.

## ARES CAPITAL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF OPERATIONS

(in thousands, except per share data)

	For the Year Ended December 31,		
	2010	2009	2008
<b>INVESTMENT INCOME:</b>			
From non-controlled/non-affiliate company investments:			
Interest from investments	\$ 238,278	\$ 188,126	\$ 169,519
Capital structuring service fees	23,921	5,429	16,421
Management fees	4,797	113	
Dividend income	4,340	1,162	1,621
Interest from cash & cash equivalents	112	265	1,625
Other income	5,310	6,484	3,244
<b>Total investment income from non-controlled/non-affiliate company investments</b>	<b>276,758</b>	<b>201,579</b>	<b>192,430</b>
From non-controlled affiliate company investments:			
Interest from investments	51,386	21,866	28,532
Capital structuring service fees	813		1,821
Management fees	813	1,443	750
Dividend income	2,125	285	825
Other income	569	377	847
<b>Total investment income from non-controlled affiliate company investments</b>	<b>55,706</b>	<b>23,971</b>	<b>32,775</b>
From controlled affiliate company investments:			
Interest from investments	103,853	15,074	10,420
Capital structuring service fees	29,946	194	3,000
Management fees	8,762	1,942	1,628
Dividend income	7,903	2,391	133
Other income	468	121	75
<b>Total investment income from controlled affiliate company investments</b>	<b>150,932</b>	<b>19,722</b>	<b>15,256</b>
<b>Total investment income</b>	<b>483,396</b>	<b>245,272</b>	<b>240,461</b>
<b>EXPENSES:</b>			
Interest and credit facility fees	79,347	24,262	36,515
Incentive management fees	76,895	33,332	31,748
Base management fees	51,998	30,409	30,463
Professional fees and other costs related to the acquisition of Allied Capital Corporation	19,833	4,939	
Professional fees	12,320	7,820	5,990
Administrative fees	8,721	4,009	2,701
Other general and administrative	13,074	6,519	5,804
<b>Total expenses</b>	<b>262,188</b>	<b>111,290</b>	<b>113,221</b>
<b>NET INVESTMENT INCOME BEFORE INCOME TAXES</b>	<b>221,208</b>	<b>133,982</b>	<b>127,240</b>
Income tax expense, including excise tax	5,392	576	248
<b>NET INVESTMENT INCOME</b>	<b>215,816</b>	<b>133,406</b>	<b>126,992</b>
<b>REALIZED AND UNREALIZED NET GAINS (LOSSES) ON INVESTMENTS AND FOREIGN CURRENCIES:</b>			
Net realized gains (losses):			
Non-controlled/non-affiliate company investments	26,865	(17,010)	5,200
Non-controlled affiliate company investments	11,965	(15,478)	1,357
Controlled affiliate company investments	6,563	(13,680)	

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Foreign currency transactions	85	205	(186)
Net realized gains (losses)	45,478	(45,963)	6,371
Net unrealized gains (losses):			
Non-controlled/non-affiliate company investments	138,619	60,339	(168,570)
Non-controlled affiliate company investments	40,595	21,361	(82,457)
Controlled affiliate company investments	51,681	7,194	(21,797)
Foreign currency transactions	(152)	(187)	6
Net unrealized gains (losses)	230,743	88,707	(272,818)
Net realized and unrealized gains (losses) from investments and foreign currencies	276,221	42,744	(266,447)
GAIN ON THE ACQUISITION OF ALLIED CAPITAL CORPORATION	195,876		
REALIZED GAIN (LOSS) ON EXTINGUISHMENT OF DEBT	(1,961)	26,543	
REALIZED GAIN ON SALE OF OTHER ASSETS	5,882		
NET INCREASE (DECREASE) IN STOCKHOLDERS' EQUITY RESULTING FROM OPERATIONS	\$ 691,834	\$ 202,693	\$ (139,455)
BASIC AND DILUTED EARNINGS PER COMMON SHARE (see Note 10)	\$ 3.91	\$ 1.99	\$ (1.56)
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING BASIC AND DILUTED (see Note 10)	176,732	101,720	89,666

See accompanying notes to consolidated financial statements.

**ARES CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS**  
**As of December 31, 2010**  
**(dollar amounts in thousands)**

Company(1)	Industry	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
<b>Investment Funds</b>							
AGILE Fund I, LLC(7)(9)	Investment partnership	Member interest (0.50% interest)		4/1/2010	\$ 264	\$ 217(16)	
BB&T Capital Partners/Windsor Mezzanine Fund, LLC(6)(9)	Investment company	Member interest (32.59% interest)		4/1/2010	11,900	15,704	
Callidus Debt Partners CDO Fund I, Ltd.(8)(9)	Investment company	Class C notes (\$18,800 par due 12/2013)		4/1/2010	2,669	1,239	
		Class D notes (\$9,400 par due 12/2013)		4/1/2010		(13)	
					2,669	1,239	
Callidus Debt Partners CLO Fund III, Ltd.(8)(9)	Investment company	Preferred shares (23,600,000 shares)	7.18%	4/1/2010	4,343	7,324(16)	
Callidus Debt Partners CLO Fund IV, Ltd.(8)(9)	Investment company	Class D notes (\$3,000 par due 4/2020)	4.84% (Libor + 4.55%/Q)	4/1/2010	1,824	1,817(16)	
		Subordinated notes (\$17,500 par due 4/2020)	14.92%	4/1/2010	6,935	11,720(16)	
					8,759	13,537	
Callidus Debt Partners CLO Fund V, Ltd.(8)(9)	Investment company	Subordinated notes (\$14,150 par due 11/2020)	23.49%	4/1/2010	8,586	11,995(16)	
Callidus Debt Partners CLO Fund VI, Ltd.(8)(9)	Investment company	Class D notes (\$9,000 par due 10/2021)	6.29% (Libor + 6.00%/Q)	4/1/2010	4,039	5,538(16)	
		Subordinated notes (\$25,500 par due 10/2021)	20.14%	4/1/2010	11,572	22,711(16)	
					15,611	28,249	
Callidus Debt Partners CLO Fund VII, Ltd.(8)(9)	Investment company	Subordinated notes (\$28,000 par due 1/2021)	11.94%	4/1/2010	10,216	17,197(16)	
Callidus MAPS CLO Fund I LLC	Investment company	Class E notes (\$17,000 par due 12/2017)	5.79% (Libor + 5.5%/Q)	4/1/2010	11,863	11,535(16)	
		Subordinated notes (\$47,900 par due 12/2017)	8.62%	4/1/2010	12,652	19,156(16)	
					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(16)	
		Subordinated notes (\$17,900 par due 7/2022)	18.41%	4/1/2010	8,857	13,624(16)	

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					12,285	17,988
Carador PLC(6)(8)(9)(17)	Investment company	Ordinary shares (7,110,525 shares)		12/15/2006	9,033	5,333(16)
CIC Flex, LP(9)	Investment partnership	Limited partnership units (0.94 unit)		9/7/2007	2,553	2,500(16)
Covestia Capital Partners, LP(9)	Investment partnership	Limited partnership interest (47.00% interest)		6/17/2008	1,059	1,041(16)
Dryden XVIII Leveraged Loan 2007 Limited(8)(9)	Investment company	Class B notes (\$9,000 par due 10/2019)	4.79% (Libor + 4.50%/Q)	4/1/2010	3,816	4,823(16)
		Subordinated notes (\$21,164 par due 10/2019)	23.01%	4/1/2010	12,266	19,436(16)

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Company(1)	Industry	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Dynamic India Fund IV, LLC(9)	Investment company	Member interest (5.44% interest)		4/1/2010	4,822	4,822(16)	
Fidus Mezzanine Capital, L.P.(9)	Investment partnership	Limited partnership interest (29.12% interest)		4/1/2010	9,206	7,499	
Firstlight Financial Corporation(6)(9)	Investment company	Senior subordinated loan (\$73,811 par due 12/2016)	1.00% PIK	12/31/2006	73,569	54,050(4)(16)	
		Common stock (10,000 shares)		12/31/2006	10,000	(16)	
		Common stock (30,000 shares)		12/31/2006	30,000	(16)	
					113,569	54,050	
HCI Equity, LLC(7)(8)(9)	Investment company	Member interest (100% interest)		4/1/2010	808	993(16)	
Imperial Capital Private Opportunities, LP(6)(9)	Investment partnership	Limited partnership interest (80% interest)		5/10/2007	6,643	5,300(16)	
Ivy Hill Middle Market Credit Fund, Ltd.(7)(8)(9)	Investment company	Class B deferrable interest notes (\$40,000 par due 11/2018)	6.25% (Libor + 6.00%/Q)	11/20/2007	40,000	37,200(16)	
		Subordinated notes (\$15,351 par due 11/2018)	15.50%	11/20/2007	15,351	14,737(16)	
					55,351	51,937	
Knightsbridge CLO 2007-1 Ltd.(7)(8)(9)	Investment company	Class E notes (\$20,350 par due 1/2022)	9.29% (Libor + 9.00%/Q)	3/24/2010	14,852	14,545(16)	
Knightsbridge CLO 2008-1 Ltd.(7)(8)(9)	Investment company	Class C notes (\$14,400 par due 6/2018)	7.80% (Libor + 7.50%/Q)	3/24/2010	14,400	14,400(16)	
		Class D notes (\$9,000 par due 6/2018)	8.79% (Libor + 8.50%/Q)	3/24/2010	9,000	9,000(16)	
		Class E notes (\$14,850 par due 6/2018)	5.29% (Libor + 5.00%/Q)	3/24/2010	13,596	10,488(16)	
					36,996	33,888	
Kodiak Funding, LP(9)	Investment partnership	Limited partnership interest (1.52% interest)		4/1/2010	918	788	
Novak Biddle Venture Partners III, L.P.(9)	Investment partnership	Limited partnership interest (2.47% interest)		4/1/2010	221	254(16)	
Pangaea CLO 2007-1 Ltd.(8)(9)	Investment company	Class D notes (\$15,000 par due 1/2021)	5.04% (Libor + 4.75%/Q)	4/1/2010	9,061	8,307(16)	
Partnership Capital Growth Fund I, LP(9)	Investment partnership	Limited partnership interest (25% interest)		6/16/2006	2,370	2,393(16)	
Senior Secured Loan Fund LLC(7)(15)	Investment company	Subordinated certificates (\$548,161 par due 12/2015)	(Libor + 8.00%/Q)	10/30/2009	537,439	561,674(16)	
Trivergance Capital Partners, LP(9)	Investment partnership	Limited partnership interest (100% interest)		6/5/2008	3,162	(16)	
VSC Investors LLC(9)	Investment company	Membership interest (4.63% interest)		1/24/2008	994	699(16)	



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924,287 924,423 30.30%

**Healthcare-Services**

Axium Healthcare Pharmacy, Inc.	Specialty pharmacy provider	Senior subordinated loan (\$3,160 par due 3/2015)	8.00%	4/1/2010	2,915	3,002(4)
CCS Group Holdings, LLC	Correctional facility healthcare operator	Class A units (1,000,000 units)		8/19/2010	1,000	1,000(16)

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Company(1)	Industry	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
CT Technologies Intermediate Holdings, Inc. and CT Technologies Holdings, LLC(6)	Healthcare analysis services	Preferred stock (7,427 shares)		6/15/2007	8,763	8,325(16)	
		Common stock (9,679 shares)		6/15/2007	4,000	9,656(16)	
		Common stock (1,546 shares)		6/15/2007		1,542(16)	
					12,763	19,523	
DSI Renal Inc.(6)	Dialysis provider	Senior secured loan (\$9,359 par due 3/2013)	8.50% (Libor + 6.50%/M)	4/4/2006	9,284	9,359(14)(16)	
		Senior subordinated loan (\$69,009 par due 4/2014)	6.00% Cash, 10.00% PIK	4/4/2006	68,523	69,006(4)(16)	
		Common units (19,726 units)		4/4/2006	19,684	40,687(16)	
					97,491	119,052	
GG Merger Sub I, Inc.	Drug testing services	Senior secured loan (\$11,330 par due 12/2014)	4.31% (Libor + 4.0%/Q)	12/14/2007	10,944	10,764(2)	
		Senior secured loan (\$12,000 par due 12/2014)	4.31% (Libor + 4.0%/Q)	12/14/2007	11,586	11,400(3)	
					22,530	22,164	
HCP Acquisition Holdings, LLC(7)	Healthcare compliance advisory services	Class A units (10,044,176 units)		6/26/2008	10,044	5,070(16)	
Heartland Dental Care, Inc.	Dental services	Senior subordinated loan (\$27,717 par due 7/2014)	14.25%	7/31/2008	27,717	28,548(16)	
INC Research, Inc.	Pharmaceutical and biotechnology	Senior subordinated loan (\$10,039 par due 9/2017)	13.50%	9/27/2010	10,039	10,039(16)	
	consulting services	Common stock (1,000,000 shares)		9/27/2010	1,000	1,000(16)	
					11,039	11,039	
Magnacare Holdings, Inc., Magnacare Administrative Services, LLC, and Magnacare, LLC	Healthcare professional provider	Senior secured loan (\$66,169 par due 9/2016)	9.75% (Libor + 8.75%/Q)	9/13/2010	66,169	66,169(14)(16)	
		Senior secured loan (\$48,511 par due 9/2016)	9.75% (Libor + 8.75%/Q)	9/13/2010	48,511	48,511(2)(14)	
		Senior secured loan (\$9,023 par due 9/2016)	9.75% (Libor + 8.75%/Q)	9/13/2010	9,023	9,023(3)(14)	
					123,703	123,703	
MPBP Holdings, Inc., Cohr Holdings, Inc. and MPBP Acquisition Co., Inc.	Healthcare equipment services	Junior secured loan (\$18,851 par due 1/2014)		1/31/2007	18,851	943(13)(16)	
		Junior secured loan (\$11,310 par due 1/2014)		1/31/2007	11,310	566(3)(13)	
		Common stock (50,000 shares)		1/31/2007	5,000	(16)	

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					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(16)
		Senior subordinated loan (\$50,000 par due 6/2017)	13.50%	6/21/2010	50,000	50,000(2)
		Common stock (2,500,000 shares)		6/21/2010	2,500	2,500(16)
					53,079	53,079
OnCURE Medical Corp.	Radiation oncology care provider	Common stock (857,143 shares)		8/18/2006	3,000	2,910(16)
Passport Health Communications, Inc.,	Healthcare technology provider	Senior secured loan (\$11,287 par due 5/2014)	8.25% (Libor + 7.0%/Q)	5/9/2008	11,287	11,287(2)(14)

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Company(1)	Industry	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Passport Holding Corp. and Prism Holding Corp.		Senior secured loan (\$10,419 par due 5/2014)	8.25% (Libor + 7.0%/Q)	5/9/2008	10,419	10,419(3)(14)	
		Series A preferred stock (1,594,457 shares)		7/30/2008	11,156	10,978(4)(16)	
		Common stock (16,106 shares)		7/30/2008	100	(16)	
					32,962	32,684	
PG Mergersub, Inc.	Provider of patient surveys, management reports and national databases for integrated healthcare delivery system	Senior secured loan (\$1,100 par due 11/3/2015)	6.75% (Libor + 5.0%/Q)	11/3/2010	1,098	1,100(16)(14)	
		Senior secured loan (\$9,200 par due 11/3/2015)	6.75% (Libor + 5.0%/Q)	11/3/2010	9,171	9,200(3)(14)	
		Senior subordinated loan (\$4,000 par due 3/2016)	12.50%	3/12/2008	3,948	4,000(16)	
		Preferred stock (333 shares)		3/12/2008	125	9(16)	
		Common stock (16,667 shares)		3/12/2008	167	471(16)	
					14,509	14,780	
Reed Group, Ltd.	Medical disability management services provider	Senior secured loan (\$10,755 par due 12/2013)		4/1/2010	9,129	9,142(13)(16)	
		Senior secured revolving loan (\$1,250 par due 12/2013)		4/1/2010	1,097	1,063(13)(16)	
		Senior subordinated loan (\$19,625 par due 12/2013)		4/1/2010	15,918	10,714(13)(16)	
		Equity interests		4/1/2010	203	(16)	
					26,347	20,919	
Regency Healthcare Group, LLC(6)	Hospice provider	Preferred member interest (1,293,960 shares)		4/1/2010	2,007	1,672(16)	
Soteria Imaging Services, LLC(6)	Outpatient medical imaging provider	Junior secured loan (\$1,687 par due 11/2010)		4/1/2010	1,644	1,383(13)(16)	
		Junior secured loan (\$2,422 par due 11/2010)		4/1/2010	2,361	1,986(13)(16)	
		Preferred member interest (1,881,234 units)		4/1/2010			
					4,005	3,369	
Sunquest Information Systems, Inc.	Laboratory software solutions provider	Junior secured loan (\$95,000 par due 6/2017)	9.75% (Libor + 8.50%/M)	12/16/2010	95,000	95,000(14)(16)	
		Junior secured loan (\$50,000 par due 6/2017)	9.75% (Libor + 8.50%/M)	12/16/2010	50,000	50,000(2)(14)	
					145,000	145,000	
U.S. Renal Care, Inc.	Dialysis provider			5/24/2010	20,235	20,235(4)(16)	

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		Senior subordinated loan (\$20,235 par due 5/2017)	11.25% Cash, 2.00% PIK				
Univita Health Inc.	Outsourced services provider	Senior subordinated loan (\$21,094 par due 12/2014)	12.00% Cash, 3.00% PIK	12/22/2009	21,094	21,094(4)(16)	
VOTC Acquisition Corp.	Radiation oncology care provider	Senior secured loan (\$7,580 par due 7/2012)	11.00% Cash, 2.00% PIK	6/30/2008	7,580	7,580(4)(16)	
		Preferred stock (3,888,222 shares)		7/14/2008	8,748	11,624(16)	
					16,328	19,204	
					687,929	674,356	22.11%
<b>Business Services</b>							
Aviation Properties Corporation(7)	Aviation services	Common stock (100 shares)		4/1/2010		(16)	

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Company(1)	Industry	Investment	Interest(5)(10)	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	
		company	Common stock (39,274,290 shares)	4/1/2010	53,510	50,450	
		Warrants		4/1/2010			
					93,836	90,776	
Booz Allen Hamilton, Inc.	Strategy and technology consulting services	Senior secured loan (\$733 par due 7/2015)	7.50% (Libor + 4.50%/M)	7/31/2008	721	733(3)(14)	
		Senior subordinated loan (\$101 par due 7/2016)	13.00%	7/31/2008	90	104(16)	
		Senior subordinated loan (\$5,007 par due 7/2016)	13.00%	7/31/2008	4,983	5,157(2)	
					5,794	5,994	
CitiPostal Inc.(7)	Document storage and management services	Senior secured revolving loan (\$691 par due 12/2013)	6.50% (Libor + 4.50%/M)	4/1/2010	691	691(14)(16)	
		Senior secured revolving loan (\$700 par due 12/2013)	6.50% (Libor + 4.50%/Q)	4/1/2010	700	700(14)(16)	
		Senior secured revolving loan (\$1,250 par due 12/2013)	6.75% (Base Rate + 3.25%/Q)	4/1/2010	1,250	1,250(14)(16)	
		Senior secured loan (\$49,333 par due 12/2013)	11.00% Cash, 2.00% PIK	4/1/2010	49,333	49,333(2)(4)	
		Senior secured loan (\$482 par due 12/2013)	11.00% Cash, 2.00% PIK	4/1/2010	482	482(4)(16)	
		Senior subordinated loan (\$12,526 par due 12/2015)	16.00% PIK	4/1/2010	12,526	12,022(4)(16)	
		Common stock (37,024 shares)		4/1/2010			
					64,982	64,478	
Cook Inlet Alternative Risk, LLC	Risk management services	Senior secured loan (\$40,000 par due 4/2013)	8.50%	4/1/2010	25,124	26,083(16)	
		Senior secured loan (\$44,346 par due 4/2013)	8.50%	4/1/2010	26,622	28,917(16)	
		Member interest (3.17%)		4/1/2010			
					51,746	55,000	
Coverall North America, Inc.(7)	Commercial janitorial service provider	Senior secured loan (\$15,763 par due 7/2011)	12.00%	4/1/2010	15,763	15,763(2)	
		Senior secured loan (\$15,864 par due 7/2011)	12.00%	4/1/2010	15,864	15,864(2)	
		Senior subordinated loan (\$5,557 par due 7/2011)		4/1/2010	5,554	928(13)(16)	
		Common stock (763,333 shares)		4/1/2010	2,999		

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					40,180	32,555
Digital Videostream, LLC	Media content supply chain services company	Senior secured loan (\$256 par due 2/2012)	10.00% Cash, 1.00% PIK	4/1/2010	256	256(4)(16)
		Senior secured loan (\$9 par due 2/2012)	10.00% Cash, 1.00% PIK	4/1/2010	9	9(2)(4)
		Senior secured loan (\$10,403 par due 2/2012)	10.00% Cash, 1.00% PIK	4/1/2010	10,345	10,403(2)(4)
		Convertible subordinated loan (\$5,538 par due 2/2016)	10.00% PIK	4/1/2010	5,978	6,025(4)(16)
					16,588	16,693

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Company(1)	Industry	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Diversified Collections Services, Inc.	Collections services	Senior secured loan (\$6,921 par due 3/2012)	7.50% (Libor + 5.50%/Q)	4/1/2010	6,921	6,921(3)(14)	
		Senior secured loan (\$79 par due 3/2012)	7.50% (Libor + 5.50%/Q)	4/1/2010	79	79(3)(14)	
		Senior secured loan (\$34,000 par due 9/2012)	13.75% (Libor + 11.75%/Q)	4/1/2010	34,000	34,000(2)(14)	
		Senior secured loan (\$2,000 par due 9/2012)	13.75% (Libor + 11.75%/Q)	4/1/2010	2,000	2,000(2)(14)	
		Preferred stock (14,927 shares)		5/18/2006	169	289(16)	
		Common stock (114,004 shares)		2/5/2005	295	445(16)	
		Common stock (478,816 shares)		4/1/2010	1,478	1,586	
					44,942	45,320	
Diversified Mercury Communications, LLC	Business media consulting services	Senior secured loan (\$1,774 par due 3/2013)	8.00% (Base Rate + 4.50%/M)	4/1/2010	1,613	1,596(14)(16)	
Impact Innovations Group, LLC(7)	IT consulting and outsourcing services	Member interest (50% interest)		4/1/2010			
Investor Group Services, LLC(6)	Business consulting for private equity and corporate clients	Limited liability company membership interest (10.00% interest)		6/22/2006		564	
Multi-Ad Services, Inc.(6)	Marketing services and software provider	Preferred units (1,725,280 units)		4/1/2010	788	1,366(16)	
		Common units (1,725,280 units)		4/1/2010		(16)	
					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(16)	
		Senior subordinated loan (\$34,937 par due 7/2012)	12.00% Cash, 2.50% PIK	4/1/2010	33,884	34,937(4)(16)	
		Junior subordinated loan (\$144 par due 7/2012)	10.00%	4/1/2010		33(16)	
		Common stock (554,091 shares)		4/1/2010		(16)	
		Common stock (560,716 shares)		4/1/2010		(16)	
					56,656	57,742	
PC Helps Support, LLC	Technology support provider	Senior secured loan (\$7,153 par due 12/2013)	3.54% (Libor + 3.25%/Q)	4/1/2010	7,153	7,153(3)	
		Senior subordinated loan (\$23,377 par due 12/2013)	12.76%	4/1/2010	23,377	23,377(16)	
					30,530	30,530	
Pillar Holdings LLC and PHL Holding Co.(6)	Mortgage services	Senior secured loan (\$1,875 par due 5/2014)	14.50%	7/31/2008	1,875	1,875(16)	
			14.50%	7/31/2008	5,500	5,500(2)	



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		Senior secured loan (\$5,500 par due 5/2014)				
		Senior secured loan (\$14,730 par due 11/2013)	5.80% (Libor + 5.50%/Q)	11/20/2007	14,730	14,730(2)
		Senior secured loan (\$9,194 par due 11/2013)	5.80% (Libor + 5.50%/Q)	11/20/2007	9,194	9,194(3)
		Common stock (85 shares)		11/20/2007	3,768	5,701(16)
					35,067	37,000
Primis Marketing Group, Inc. and Primis Holdings, LLC(6)	Database marketing services	Senior subordinated loan (\$10,222 par due 2/2013)		8/24/2006	10,222	102(13)(16)
		Preferred units (4,000 units)		8/24/2006	3,600	(16)
		Common units (4,000,000 units)		8/24/2006	400	(16)
					14,222	102

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Company(1)	Industry	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Prommis Solutions, LLC, E-Default Services, LLC,	Bankruptcy and foreclosure processing services	Senior subordinated loan (\$16,788 par due 2/2014)	11.50% Cash, 2.00% PIK	2/8/2007	16,788	16,788(4)(16)	
Statewide Tax and Title Services, LLC &		Senior subordinated loan (\$27,032 par due 2/2014)	11.50% Cash, 2.00% PIK	2/8/2007	27,032	27,032(2)(4)	
Statewide Publishing Services, LLC (formerly known as MR Processing Holding Corp.)		Preferred units (30,000 units)		4/11/2006	3,000	4,661(16)	
					46,820	48,481	
Promo Works, LLC	Marketing services	Senior secured loan (\$8,655 par due 12/2013)	11.00%	4/1/2010	5,105	5,438(16)	
R2 Acquisition Corp.	Marketing services	Common stock (250,000 shares)		5/29/2007	250	257(16)	
Summit Business Media, LLC	Business media consulting services	Junior secured loan (\$11,930 par due 7/2014)		8/3/2007	10,276	239(3)(13)	
Summit Energy Services, Inc.	Energy management consulting services	Common stock (38,778 shares)		4/1/2010	222	287	
		Common stock (385,608 shares)		4/1/2010	2,336	2,850	
					2,558	3,137	
Tradesmen International, Inc.	Construction labor support	Senior subordinated loan (\$20,000 par due 5/2014)	10.00%	4/1/2010	14,364	20,000(16)	
		Warrants to purchase up to 771,036 shares		4/1/2010		2,086	
					14,364	22,086	
VSS-Tranzact Holdings, LLC(6)	Management consulting services	Common membership interest (8.51% interest)		10/26/2007	10,204	6,475	
Venturehouse-Cibernet Investors, LLC	Financial settlement services for intercarrier wireless roaming	Equity interest		4/1/2010		(16)	
		Equity interest		4/1/2010		(16)	
					546,521	525,829	17.24%
<b>Restaurants and Food Services</b>							
ADF Capital, Inc. & ADF Restaurant Group, LLC	Restaurant owner and operator	Senior secured revolving loan (\$2,010 par due 11/2012)	6.50% (Libor + 3.50%/Q)	11/27/2006	2,010	2,010(14)(16)	
		Senior secured revolving loan (\$108 par due 11/2012)	6.50% (Base Rate + 2.50%/Q)	11/27/2006	108	108(14)(16)	
		Senior secured loan (\$22,839 par due 11/2013)	12.50% (Libor + 9.50%/Q)	11/27/2006	22,845	22,839(2)(14)	

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		Senior secured loan (\$10,705 par due 11/2013)	12.50% (Libor + 9.50%/Q)	11/27/2006	10,705	10,705(3)(14)
		Promissory note (\$14,897 par due 11/2016)		6/1/2006	14,886	10,957(4)(16)
		Warrants to purchase up to 0.61 shares		6/1/2006		(16)
					50,554	46,619
Encanto Restaurants, Inc.(8)	Restaurant owner and operator	Junior secured loan (\$20,997 par due 8/2013)	11.00%	8/16/2006	20,997	19,947(2)
		Junior secured loan (\$3,999 par due 8/2013)	11.00%	8/16/2006	3,999	3,799(3)
					24,996	23,746

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Company(1)	Industry	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Fulton Holdings Corp	Airport restaurant operator	Senior secured loan (\$40,000 par due 5/2016)	12.50%	5/28/2010	40,000	40,000(2)(11)	
		Common stock (19,672 shares)		5/28/2010	1,967	2,430(16)	
					41,967	42,430	
Orion Foods, LLC (fka Hot Stuff Foods, LLC)(7)	Convenience food service retailer	Senior secured loan (\$34,357 par due 9/2014)	10.00% (Libor + 8.50%/Q)	4/1/2010	34,357	34,357(14)(16)	
		Junior secured loan (\$37,552 par due 9/2014)	14.00%	4/1/2010	24,881	36,085(16)	
		Preferred stock (\$10,000 par due)		4/1/2010		(16)	
		Class A common units (25,001 units)		4/1/2010		(16)	
		Class B common units (1,122,452 units)		4/1/2010		(16)	
					59,238	70,442	
Huddle House, Inc.(7)	Restaurant owner and operator	Senior subordinated loan (\$20,300 par due 12/2015)	12.00% Cash, 3.00% PIK	4/1/2010	20,032	16,202(4)(16)	
		Common stock (358,428 shares)		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)(14)(16)	
		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)(14)(16)	
		Warrants to purchase up to 100,857 shares of common stock		6/19/2008	100	4,939(16)	
		Warrants to purchase up to 9 shares of common stock		6/19/2008		(16)	
					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(14)(16)	
		Senior secured loan (\$9,918 par due 5/2015)	10.00% (Libor + 8.00%/M)	5/5/2010	9,918	9,918(2)(14)	
		Senior secured loan (\$9,918 par due 5/2015)	10.00% (Libor + 8.00%/M)	5/5/2010	9,918	9,918(3)(14)	
		Senior secured loan (\$7 par due 5/2015)	10.25% (Base Rate + 7.00%/M)	5/5/2010	7	7(2)	
		Senior secured loan (\$7 par due 5/2015)	10.25% (Base Rate + 7.00%/M)	5/5/2010	7	7(3)	
							20,425
S.B. Restaurant Company	Restaurant owner and operator	Senior secured loan (\$35,406 par due 7/2012)	13.00% (Libor + 11.00%/Q)	4/1/2010	26,872	33,635(14)(16)	

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Preferred stock (46,690 shares)	4/1/2010	(16)
Warrants to purchase up to 257,429 shares of common stock	4/1/2010	(16)

					26,872	33,635	
Vistar Corporation and Wellspring Distribution Corp.	Food service distributor	Senior subordinated loan (\$31,625 par due 5/2015)	13.50%	5/23/2008	31,625	31,625(16)	
		Senior subordinated loan (\$30,000 par due 5/2015)	13.50%	5/23/2008	30,000	30,000(2)	
		Class A non-voting common stock (1,366,120 shares)		5/3/2008	7,500	5,287(16)	
					69,125	66,912	
					367,942	379,983	12.46%

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Company(1)	Industry	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
<b>Financial Services</b>							
AllBridg Financial, LLC(7)	Asset management services	Equity interests		4/1/2010	11,395	13,112(16)	
Callidus Capital Corporation(7)	Asset management services	Common stock (100 shares)		4/1/2010		246	
Ciena Capital LLC(7)	Real estate and small business loan servicer	Senior secured loan (\$14,000 par due 12/2013)	6.00%	11/23/2010	14,000	14,000(16)	
		Senior secured loan (\$2,000 par due 12/2015)	12.00%	11/29/2010	2,000	2,000(16)	
		Senior secured loan (\$20,000 par due 12/2015)	12.00%	11/29/2010	20,000	20,000(16)	
		Senior secured loan (\$10,000 par due 12/2015)	12.00%	11/29/2010	10,000	10,000(16)	
		Equity interests		11/29/2010	53,374	47,063(16)	
					99,374	93,063	
Commercial Credit Group, Inc.	Commercial equipment finance and leasing company	Senior subordinated loan (\$6,000 par due 6/2015)	15.00%	4/1/2010	6,000	6,000	
		Senior subordinated loan (\$4,000 par due 6/2015)	15.00%	4/1/2010	4,000	4,000	
		Senior subordinated loan (\$9,500 par due 6/2015)	15.00%	4/1/2010	9,500	9,500	
					19,500	19,500	
Compass Group Diversified Holdings, LLC(17)	Middle market business manager	Senior secured revolving loan (\$735 par due 12/2012)	2.76% (Libor + 2.50%/M)	4/1/2010	735	735(16)	
		Senior secured revolving loan (\$882 par due 12/2012)	2.76% (Libor + 2.50%/M)	4/1/2010	882	882(16)	
					1,617	1,617	
Financial Pacific Company(7)	Commercial finance leasing	Preferred stock (6,500 shares)	8.00% PIK	10/13/2010	6,500	6,543(16)	
		Common stock (650,000 shares)		10/13/2010		(16)	
					6,500	6,543	
Imperial Capital Group, LLC(6)(9)	Investment services	Common units (2,526 units)		5/10/2007	3	4,735(16)	
		Common units (315 units)		5/10/2007		590(16)	
		Common units (7,710 units)		5/10/2007	14,997	14,453(16)	
					15,000	19,778	
Ivy Hill Asset Management, L.P.(7)	Asset management services	Member interest (100% interest)		6/15/2009	103,458	136,235(16)	
					256,844	290,094	9.51%

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**Consumer**

**Products Non-durable**

Augusta Sportswear, Inc.	Manufacturer of athletic apparel	Senior secured loan (\$6,556 par due 7/2015)	8.50% (Libor + 7.50%/Q)	9/3/2010	6,556	6,556(2)(14)
		Senior secured loan (\$9,353 par due 7/2015)	8.50% (Libor + 7.50%/Q)	9/3/2010	9,353	9,353(3)(14)
					15,909	15,909
Gilchrist & Soames, Inc.	Personal care manufacturer	Senior subordinated loan (\$22,902 par due 10/2013)	13.44%	4/1/2010	22,128	22,902(16)
Insight Pharmaceuticals Corporation(6)	OTC drug products manufacturer	Senior subordinated loan (\$50,255 par due 9/2012)	13.00% Cash, 2.00% PIK	4/1/2010	50,255	50,255(2)(4)(14)
		Senior subordinated loan (\$5,298 par due 9/2012)	13.00% Cash, 2.00% PIK	4/1/2010	5,298	5,298(4)(14)(16)
		Common stock (155,000 shares)		4/1/2010	12,070	13,432(16)
					67,623	68,985

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Company(1)	Industry	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Making Memories Wholesale, Inc.(7)	Scrapbooking branded products manufacturer	Senior secured revolving loan (\$250 par due 8/2014)	10.00% (Libor + 6.50%/Q)	8/21/2009	250	250(14)(16)	
		Senior secured revolving loan (\$250 par due 8/2014)	10.00% (Libor + 6.50%/Q)	8/21/2009	250	250(14)(16)	
		Senior secured loan (\$9,388 par due 8/2014)		8/21/2009	7,433	6,048(13)(14)(16)	
		Senior secured loan (\$5,129 par due 8/2014)		8/21/2009	3,979	(13)(16)	
		Common stock (100 shares)		8/21/2009		(16)	
					11,912	6,548	
The Step2 Company, LLC	Toy manufacturer	Senior secured loan (\$27,000 par due 4/2015)	10.00%	4/1/2010	25,557	27,000(4)(16)	
		Senior subordinated loan (\$30,000 par due 4/2015)	15.00%	4/1/2010	28,396	30,000(4)(16)	
		Common units (1,114,343 units)		4/1/2010	24	1,010(16)	
		Warrants to purchase up to 3,157,895 shares		4/1/2010		(16)	
					53,977	58,010	
The Thymes, LLC(7)	Cosmetic products manufacturer	Preferred units (6,283 units)	8.00% PIK	6/21/2007	6,784	6,902(4)	
		Common units (5,400 units)		6/21/2007		(16)	
					6,784	6,902	
Woodstream Corporation	Pet products manufacturer	Senior subordinated loan (\$4,743 par due 2/2015)	12.00%	1/22/2010	4,772	4,505(16)	
		Senior subordinated loan (\$50,257 par due 2/2015)	12.00%	1/22/2010	43,287	47,745(16)	
		Common stock (4,254 shares)		1/22/2010	1,222	2,194(16)	
					49,281	54,444	
					227,614	233,700	7.66%

**Education**

Campus Management Corp. and Campus Management Acquisition Corp.(6)	Education software developer	Preferred stock (465,509 shares)		2/8/2008	9,949	13,834(16)	
Community Education Centers, Inc.	Offender re-entry and in-prison treatment services provider	Senior secured loan (\$20,000 par due 12/2014)	6.25% (Libor + 5.25%/M)	12/10/2010	20,000	20,000(14)(16)	
		Junior secured loan (\$9,231 par due)	15.28% (Libor + 15.00%/M)	12/10/2010	9,231	9,231(16)	



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		12/2015)				
		Junior secured loan (\$30,769 par due 12/2015)	15.30% (Libor + 15.00%/M)	12/10/2010	30,769	30,769(16)
		Warrants to purchase up to 578,407 shares		12/13/2010		1,009(16)
					60,000	61,009
eInstruction Corporation	Developer, manufacturer and retailer of educational products	Senior subordinated loan (\$23,270 par due 1/2015)	16.00% PIK	4/1/2010	21,290	22,106(4)(16)
		Junior secured loan (\$17,000 par due 7/2014)	7.80% (Libor + 7.50%/Q)	4/1/2010	14,881	14,960(16)
		Common stock (2,406 shares)		4/1/2010	926	1,326(16)
					37,097	38,392
ELC Acquisition Corporation	Developer, manufacturer and retailer of educational products	Senior secured loan (\$160 par due 11/2012)	3.51% (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

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Company(1)	Industry	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets	
Instituto de Banca y Comercio, Inc. & Leeds IV Advisors, Inc.	Private school operator	Series B preferred stock (1,401,385 shares)		8/5/2010	4,004	4,244(16)		
		Series B preferred stock (348,615 shares)		8/5/2010	996	1,056(16)		
		Series C preferred stock (1,994,644 shares)		6/7/2010	547	2,586(16)		
		Series C preferred stock (517,942 shares)		6/7/2010	142	672(16)		
		Common stock (16 shares)		6/7/2010			(16)	
		Common stock (4 shares)		6/7/2010				(16)
					5,689	8,558		
JTC Education Holdings, Inc.	Postsecondary school operator	Senior secured loan (\$19,997 par due 12/2014)	12.50% (Libor + 9.50%/M)	12/31/2009	19,997	19,997(14)(16)		
		Senior secured loan (\$10,863 par due 12/2014)	12.50% (Libor + 9.50%/M)	12/31/2009	10,863	10,863(3)(14)		
					30,860	30,860		
R3 Education, Inc. (formerly known as Equinox EIC Partners, LLC and MUA Management Company) and EIC Acquisitions Corp.(8)	Medical school operator	Senior secured loan (\$6,275 par due 4/2013)	9.00% (Libor + 6.00%/Q)	4/3/2007	6,275	9,652(3)(14)		
		Senior secured loan (\$10,113 par due 4/2013)	9.00% (Libor + 6.00%/Q)	9/21/2007	10,113	15,555(14)(16)		
		Senior secured loan (\$4,000 par due 4/2013)	9.00% (Libor + 6.00%/Q)	9/21/2007	4,000	6,153(3)(14)		
		Senior secured loan (\$5,727 par due 4/2013)	13.00% PIK	12/8/2009	2,335	8,809(4)(16)		
		Preferred stock (800 shares)		7/30/2008	200	100(16)		
		Preferred stock (8,000 shares)		7/30/2008	2,000	1,000(16)		
		Common membership interest (26.27% interest)		9/21/2007	15,800	20,734(16)		
		Warrants to purchase up to 27,890 shares		12/8/2009			(16)	
					40,723	62,003		
					192,811	223,149	7.32%	
<b>Manufacturing</b>								
Component Hardware Group, Inc.	Commercial equipment manufacturer	Senior secured loan (\$3,014 par due 12/2014)	7.00% Cash, 3.00% PIK	8/4/2010	3,014	3,014(4)(16)		
		Senior subordinated loan (\$10,078 par due 12/2014)	7.50% Cash, 5.00% PIK	4/1/2010	5,775	10,078(4)		
		Warrants to purchase up to 1,462,500 shares of common stock		8/4/2010			1,240(16)	
					8,789	14,332		
					5/16/2006	375	375(14)(16)	

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Emerald Performance Materials, LLC	Polymers and performance materials manufacturer	Senior secured loan (\$375 par due 5/2011)	8.25% (Libor + 4.25%/M)			
		Senior secured loan (\$5,801 par due 5/2011)	8.25% (Libor + 4.25%/M)	5/16/2006	5,801	5,801(14)(16)
		Senior secured loan (\$536 par due 5/2011)	8.25% (Libor + 4.25%/M)	5/16/2006	536	536(3)(14)
		Senior secured loan (\$8,296 par due 5/2011)	8.25% (Libor + 4.25%/M)	5/16/2006	8,296	8,296(3)(14)
		Senior secured loan (\$3,806 par due 5/2011)	10.00% (Libor + 6.00%/M)	5/16/2006	3,806	3,806(14)(16)
		Senior secured loan (\$1,579 par due 5/2011)	10.00% (Libor + 6.00%/M)	5/16/2006	1,579	1,579(3)(14)
		Senior secured loan (\$3,558 par due 5/2011)	13.00% Cash, 3.00% PIK	5/16/2006	3,558	3,558(4)(16)
		Senior secured loan (\$5,089 par due 5/2011)	13.00% Cash, 3.00% PIK	5/16/2006	5,089	5,089(2)(4)
					29,040	29,040

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Company(1)	Industry	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Industrial Air Tool, LP and Affiliates d/b/a Industrial Air Tool(7)	Industrial products	Class B common units (37,125 units)		4/1/2010	6,000	14,787	
		Member interest (375 units)		4/1/2010	7,419	149(16)	
					13,419	14,936	
NetShape Technologies, Inc.	Metal precision engineered components manufacturer	Senior secured revolving loan (\$972 par due 2/2013)	4.06% (Libor + 3.75%/M)	4/1/2010	521	602(16)	
		Common units (1,000 units)		1/30/2007	1,000	(16)	
					1,521	602	
Reflexite Corporation(7)	Developer and manufacturer of high-visibility reflective products	Senior subordinated loan (\$3,282 par due 11/2014)	20.00% (Base Rate + 12.25% Cash, 7.50% PIK/Q)	2/26/2008	3,282	3,282(4)(14)(16)	
		Senior subordinated loan (\$5,999 par due 11/2014)	20.00% (Base Rate + 12.25% Cash, 7.50% PIK/Q)	2/26/2008	5,999	5,999(3)(4)(14)	
		Common stock (1,821,860 shares)		3/28/2006	27,435	30,523(16)	
					36,716	39,804	
STS Operating, Inc.	Hydraulic systems equipment and supplies provider	Senior subordinated loan (\$30,386 par due 1/2013)	11.00%	4/1/2010	29,461	30,386(2)	
Bundy Refrigeration International Holding B.V. (aka Tyde Group Worldwide)	Refrigeration and cooling systems parts manufacturer	Senior secured loan (\$9,010 par due 4/2012)	13.13% (Base Rate + 9.88%/Q)	12/15/2010	9,010	9,010(16)	
		Senior secured loan (\$15,592 par due 4/2012)	15.38% (Base Rate + 12.13%/Q)	12/15/2010	15,592	15,592(16)	
					24,602	24,602	
UL Holding Co., LLC	Petroleum product manufacturer	Senior secured loan (\$5,000 par due 12/2012)	15.00%	8/13/2010	5,000	5,000(16)	
		Junior secured loan (\$2,108 par due 12/2012)	9.66% (Libor + 9.38%/Q)	2/13/2009	2,108	2,108(16)	
		Junior secured loan (\$839 par due 12/2012)	9.66% (Libor + 9.38%/Q)	2/13/2009	839	839(3)	
		Junior secured loan (\$2,119 par due 12/2012)	14.50%	2/13/2009	2,119	2,119(16)	
		Junior secured loan (\$844 par due 12/2012)	14.50%	2/13/2009	844	844(3)	
		Junior secured loan (\$10,809 par due 12/2012)	9.66% (Libor + 9.38%/Q)	2/13/2009	10,809	10,809(3)	
		Junior secured loan (\$2,963 par due 12/2012)	14.50%	2/13/2009	2,963	2,963(2)	
		Junior secured loan (\$988 par due 12/2012)	14.50%	2/13/2009	988	988(3)	

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		Common units (50,000 units)		4/25/2008	500	97(16)	
		Common units (207,843 units)		4/25/2008		403(16)	
					26,170	26,170	
Universal Trailer Corporation(6)	Livestock and specialty trailer manufacturer	Common stock (74,920 shares)		10/8/2004	7,930	(16)	
					177,648	179,872	5.90%
<b>Services-Other</b>							
The Dwyer Group	Operator of multiple franchise concepts primarily related to home maintenance or repairs	Senior subordinated loan (\$27,100 par due 12/2016)	14.50%	12/22/2010	27,100	27,100(16)	
		Series A preferred units (15,000,000 units)	8.00% PIK	12/22/2010	15,000	15,000(16)	
					42,100	42,100	

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Company(1)	Industry	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets	
Growing Family, Inc. and GFH Holdings, LLC(6)	Photography services	Senior secured revolving loan (\$182 par due 8/2011)	9.00% (Base Rate + 1.75% Cash, 4.00% PIK/M)	3/16/2007	178	80(4)(14)(16)		
		Senior secured revolving loan (\$2,252 par due 8/2011)	9.00% (Base Rate + 1.75% Cash, 4.00% PIK/M)	3/16/2007	2,207	991(4)(14)(16)		
		Senior secured loan (\$524 par due 3/2013)	9.00% (Base Rate + 1.75% Cash, 4.00% PIK/M)	3/16/2007	514	230(4)(14)(16)		
		Senior secured loan (\$6,498 par due 3/2013)	9.00% (Base Rate + 1.75% Cash, 4.00% PIK/M)	3/16/2007	6,378	2,859(4)(14)(16)		
		Preferred stock (8,750 shares)		3/16/2007		(16)		
		Common stock (552,430 shares)		3/16/2007		872	(16)	
		Warrants to purchase up to 11,313,678 Class B units		3/16/2007			(16)	
					10,149	4,160		
PODS Funding Corp.	Storage and warehousing	Senior subordinated loan (\$25,125 par due 6/2015)	15.00%	12/23/2009	25,125	25,125(16)		
		Senior subordinated loan (\$7,582 par due 12/2015)	16.64% PIK	12/23/2009	6,290	7,430(4)(16)		
					31,415	32,555		
United Road Towing, Inc.	Towing company	Junior secured loan (\$18,840 par due 1/2014)	14.75% (Libor + 11.25% Cash, 1.00% PIK/Q)	4/1/2010	18,606	18,840(4)(14)(16)		
		Warrants to purchase up to 607 shares		4/1/2010		4		
					18,606	18,844		
Web Services Company, LLC	Laundry service and equipment provider	Senior secured loan (\$4,888 par due 8/2014)	7.00% (Base Rate + 3.75%/Q)	6/15/2009	4,718	4,888(3)		
		Senior subordinated loan (\$13,563 par due 8/2016)	11.50% Cash, 2.50% PIK	8/29/2008	13,563	13,563(4)(16)		
		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(16)		

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Carlisle Wide Plank Floors, Inc.	Hardwood floor manufacturer	Senior secured loan (\$1,545 par due 6/2011)		4/1/2010	1,449	773(4)(13)(16)
		Common stock (345,056 shares)		4/1/2010		
					1,449	773
Direct Buy Holdings, Inc. and Direct Buy Investors, LP(6)	Membership based buying club franchisor and operator	Senior secured loan (\$1,897 par due 11/2012)	8.25% (Base Rate + 5.00%/Q)	12/14/2007	1,858	1,897(2)(14)
		Senior subordinated loan (\$81,634 par due 5/2013)	12.00% Cash, 4.00% PIK	4/1/2010	77,892	81,634(4)(16)
		Limited partnership interest (80,000 shares)		4/1/2010	3,112	3,414(16)
		Partnership interests (100,000 shares)		11/30/2007	10,000	4,347(16)
					92,862	91,292
					125,019	123,059
						4.03%

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Company(1)	Industry	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
<b>Telecommunications</b>							
American Broadband Communications, LLC and American Broadband	Broadband communication services	Senior secured loan (\$5,530 par due 9/2013)	7.50% (Libor + 5.50%/Q)	9/1/2010	5,861	5,530(14)(16)	
		Senior secured loan (\$17,775 par due 9/2013)	7.50% (Libor + 5.50%/Q)	9/1/2010	16,924	17,775(2)(14)	
		Senior secured loan (\$9,283 par due 9/2013)	7.50% (Libor + 5.50%/Q)	9/1/2010	9,283	9,283(3)(14)	
		Senior subordinated loan (\$30,594 par due 11/2014)	12.00% Cash, 4.00% PIK	9/1/2010	30,594	30,594(4)(16)	
		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)(16)	
		Warrants to purchase up to 200 shares		11/7/2007		3,915(16)	
		Warrants to purchase up to 208 shares		9/1/2010		(16)	
					105,751	110,186	
Startec Equity, LLC(7)	Communication services	Member interest		4/1/2010		(16)	
					105,751	110,186	3.59%

**Food and Beverage**