

ARES CAPITAL CORP  
Form N-2  
February 07, 2008

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As filed with the Securities and Exchange Commission on February 7, 2008

Registration No. 333-

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**U.S. SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM N-2**

REGISTRATION STATEMENT

UNDER

*THE SECURITIES ACT OF 1933*

- o PRE-EFFECTIVE AMENDMENT NO.
- o POST-EFFECTIVE AMENDMENT NO.

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**ARES CAPITAL CORPORATION**

(Exact Name of Registrant as Specified in Charter)

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**280 Park Avenue, 22<sup>nd</sup> Floor  
Building East  
New York, New York 10017**

(Address of Principal Executive Offices)

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

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**Michael D. Weiner  
c/o Ares Management LLC  
1999 Avenue of the Stars, Suite 1900  
Los Angeles, CA 90067  
(310) 201-4200**

(Name and Address of Agent for Service)

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*Copies of information to:*

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

**Approximate Date of Proposed Public Offering:** As soon as practicable after the effective date of this Registration Statement.

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

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

Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price Per Share(1)	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, \$0.001 par value per share Rights to purchase Common Stock(2)	25,491,624	\$13.73	\$350,000,000	\$13,755

- (1) Estimated pursuant to Rule 457(c) solely for the purpose of calculating the registration fee based on the average of the high and low sale prices of the Common Stock as reported on The Nasdaq Global Select Market on February 6, 2008.
- (2) The rights to purchase shares of Common Stock will be issued pro rata to all stockholders of record on the record date without consideration. Pursuant to Rule 457(g) of the Securities Act of 1933, no separate registration fee is required for the rights because the rights are being registered in the same registration statement as the common stock of the Registrant underlying the rights.

**THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SECTION 8(a), MAY DETERMINE.**

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

**Subject to Completion, dated February 7, 2008**

**PROSPECTUS**

**Up to                      Shares of  
Common Stock  
Issuable Upon  
Exercise of Rights**

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We are issuing transferable rights to our stockholders of record, or record date stockholders, as of 5:00 p.m., New York City time, on \_\_\_\_\_, 2008, or the record date. The rights entitle any holders of rights, or rights holders, to subscribe for an aggregate of up to \_\_\_\_\_ shares of our common stock. Record date stockholders will receive \_\_\_\_\_ right for each \_\_\_\_\_ shares of common stock owned on the record date. The rights entitle the holders to purchase one new share of common stock for every right held, which we refer to as the basic subscription right, and record date stockholders who fully exercise their rights will be entitled to subscribe, subject to certain limitations and pro rata allocation, for additional shares that remain unsubscribed as a result of any unexercised rights.

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

We are managed by Ares Capital Management LLC, an affiliate of Ares Management LLC, an independent international investment management firm that currently manages investment funds that have approximately \$20.0 billion of committed capital. Ares Operations LLC, an affiliate of Ares Management LLC, provides the administrative services necessary for us to operate.

Our common stock is traded on The NASDAQ Global Select Market under the symbol "ARCC." The rights are transferable, and we intend to apply for listing of the rights on The NASDAQ Global Select Market under the symbol "\_\_\_\_\_." See "The Rights Offering" for a complete discussion of the terms of the offering.

**The subscription price per share will be \_\_\_\_\_ % of the volume-weighted average of the sales prices of our shares of common stock on The NASDAQ Global Select Market for the \_\_\_\_\_ consecutive trading days ending on the expiration date of the offering. Because the subscription price will be determined on the expiration date, stockholders who elect to exercise their rights will not know the subscription price per share at the time they exercise such rights. The rights will expire if they are not exercised by 5:00 p.m., New York City time, on \_\_\_\_\_, 2008, the expiration date of the offering, unless extended. We, in our sole discretion, may extend the period for exercising the rights. You will have no right to rescind your subscription after receipt of your payment of the estimated subscription price except as described in this prospectus.**

The offering will dilute the ownership interest and voting power of the common stock owned by stockholders who do not fully exercise their subscription rights. Stockholders who do not fully exercise their subscription rights should expect, upon completion of the offering, to own a smaller proportional interest in us than before the offering. Further, if the net proceeds per share from the offering are at a discount to our net asset value per share, the offering will reduce our net asset value per share.

The net asset value per share of our common stock at September 30, 2007 (the last date prior to the date of this prospectus on which we determined net asset value) was \$15.74. On \_\_\_\_\_, 2008, the last reported sale price of a share of our common stock on The NASDAQ Global Select Market was \$ \_\_\_\_\_.

**Investing in our securities involves risks that are described in the "Risk Factors" section beginning on page 19 of this prospectus, including the risk of leverage.**

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Per Share	Total
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Estimated Subscription Price(1)	\$	\$
Sales Load	\$	\$
Proceeds, before expenses, to Ares Capital Corporation(2)(3)	\$	\$

- (1) Estimated using % of the volume-weighted average of the sales prices of our shares of common stock on The NASDAQ Global Select Market for the consecutive trading days ending on the expiration date of the offering.
- (2) Before deducting expenses payable by us related to the offering estimated at \$ .
- (3) The proceeds that we will receive in the offering assumes that all shares are purchased at this estimated subscription price.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

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

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**Merrill Lynch & Co.**

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**Wachovia Securities**

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The date of this prospectus is , 2008.

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

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## PROSPECTUS SUMMARY

*This summary highlights some of the information in this prospectus. It is not complete and may not contain all of the information that you may want to consider. You should read carefully the more detailed information set forth under "Risk Factors" and the other information included in this prospectus. Except where the context suggests otherwise, the terms "we," "us," "our," "the Company" and "Ares Capital" refer to Ares Capital Corporation and its subsidiaries; "Ares Capital Management," "investment adviser" or Investment Adviser refers to Ares Capital Management LLC; "Ares Administration" refers to Ares Operations LLC; and "Ares" refers to Ares Partners Management Company LLC and its affiliated companies, including Ares Management LLC.*

## THE COMPANY

Ares Capital 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 in April 2004 and completed our initial public offering on October 8, 2004. 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.

We invest primarily in first and second lien senior loans and long-term mezzanine debt. 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. In some cases, we may also receive warrants or options in connection with our debt instruments. Our investments have generally ranged between \$10 million and \$50 million each, although the investment sizes may be more or less than the targeted range and are expected to grow with our capital availability. We also, to a lesser extent, make equity investments in private middle market companies. These investments have generally been less than \$10 million each but may grow with our capital availability and are usually made in conjunction with loans we make to companies. 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 syndicate a portion of such amount to third parties prior to closing such investment, such that we make a smaller investment than what was reflected in our original commitment. In this prospectus, we generally use the term "middle market" to refer to companies with annual EBITDA between \$5 million and \$50 million. EBITDA represents net income before net interest expense, income tax expense, depreciation and amortization.

The first and second lien senior loans generally have stated terms of three to 10 years and the mezzanine debt investments 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, there is no limit on the maturity or duration of any security in our portfolio. The debt that we invest in typically is 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 or lower than "BBB-" by Standard & Poor's Corporation). We may invest without limit in debt of any rating, as well as debt that has not been rated by any nationally recognized statistical rating organization.

We believe that our investment adviser, Ares Capital Management, is able to leverage Ares' current investment platform, resources and existing relationships with financial sponsors, financial institutions, hedge funds and other investment firms to provide us with attractive investments. In

In addition to deal flow, the Ares investment platform assists our investment adviser in analyzing, structuring and monitoring investments. Ares' senior principals have worked together for many years and have substantial experience investing in senior loans, high yield bonds, mezzanine debt and private equity. The Company has access to the Ares staff of approximately 93 investment professionals and to the 91 administrative professionals employed by Ares who provide assistance in accounting, legal, compliance 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 private companies, we also may invest up to 30% of the portfolio in opportunistic investments. Such investments may include, among others, investments in high-yield bonds, debt and equity securities and distressed debt or equity securities of public companies. We expect that these public companies generally will have debt that is non-investment grade. As part of this 30% of the portfolio, we may also invest in debt of middle market companies located outside of the United States.

## About Ares

Ares is an independent international investment management firm with approximately \$20.0 billion of total committed capital and over 220 employees as of the date of this prospectus. Ares was founded in 1997 by a group of highly experienced investment professionals.

Ares specializes in originating and managing assets in both the leveraged finance and private equity markets. Ares' leveraged finance activities include the acquisition and management of senior loans, high yield bonds, mezzanine 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 secured floating rate debt to common equity.

Ares is comprised of the following groups:

**Capital Markets Group.** The Ares Capital Markets Group currently manages a variety of funds and investment vehicles that have approximately \$13.5 billion of committed capital, focusing primarily on syndicated senior secured loans, high yield bonds, distressed debt, other liquid fixed income investments and other publicly traded debt securities.

**Private Debt Group.** The Ares Private Debt Group manages the assets of Ares Capital and Ares' private debt middle-market financing activities in Europe, Ares Capital Europe ("ACE"). The 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, and, to a lesser extent, in equity investments, in private middle market companies.

**Private Equity Group.** The Ares Private Equity Group manages Ares Corporate Opportunities Fund L.P. and Ares Corporate Opportunities Fund II, L.P. (collectively referred to as "ACOF"), which together have approximately \$2.8 billion of total committed capital. ACOF generally makes private equity investments in companies in amounts substantially larger than the private equity investments anticipated to be made by Ares Capital. The Private Equity Group generally focuses on control-oriented equity investments in under-capitalized companies or companies with capital structure issues.

Ares' senior principals have been working together as a group for many years and have an average of over 20 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 and endowments investing in Ares funds.

### **Ares Capital Management**

Ares Capital Management, our investment adviser, is served by a dedicated origination and transaction development team of 30 investment professionals, including our President, Michael J. Arougheti, which team is augmented by Ares' additional investment professionals, primarily its 36 member Capital Markets Group. Ares Capital Management's investment committee has eight members, including Mr. Arougheti, four founding members of Ares and three senior investment professionals. In addition, Ares Capital Management leverages off of Ares' entire investment platform and benefits from the Ares investment professionals' significant capital markets, trading and research expertise developed through Ares industry analysts. Ares funds currently hold over 600 investments and have made investments in over 1,600 companies since inception.

### **MARKET OPPORTUNITY**

We believe the environment for investing in middle market companies is attractive for the following reasons:

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.

We believe there is increased demand among private middle market companies for primary capital. Many middle-market firms have faced increased difficulty raising debt in the capital markets, due to a continuing preference for larger size high yield bond issuances.

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

We believe that current credit market dislocation has seen a reduction in competition, a widening of spreads and generally more conservative capital structures.

### **COMPETITIVE ADVANTAGES**

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

#### **Existing investment platform**

Ares currently manages approximately \$20.0 billion of committed capital in the related asset classes of 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.

#### **Seasoned management team**

Ares' senior professionals have an average of over 20 years experience in leveraged finance, including substantial experience in investing in leveraged loans, high yield bonds, mezzanine debt, distressed debt and private equity securities. As a result of Ares' extensive investment experience, Ares and its senior principals have developed a strong reputation in the capital markets and have significant experience investing across cycles, particularly in distressed markets. We believe that this experience





affords Ares Capital a competitive advantage in identifying and investing in middle market companies with the potential to generate positive returns.

#### **Experience and focus on middle market companies**

Ares has historically focused on investments in middle market companies and we benefit from this experience. Our investment adviser uses Ares' extensive network of relationships with intermediaries focused on middle market companies to attract well-positioned prospective portfolio company investments. Our investment adviser works closely with the Ares investment professionals, who oversee a portfolio of investments in over 600 companies, and provide access to an extensive network of relationships and special 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 investment approach that was developed over 15 years ago by its founders. Specifically, Ares Capital Management's investment philosophy and portfolio construction involve an assessment of the overall macroeconomic environment, financial markets and company-specific research and analysis. Its investment approach emphasizes capital preservation, low volatility and minimization of downside risk.

#### **Extensive industry focus**

We concentrate our investing activities in industries with a history of predictable and dependable cash flows and in which the Ares investment professionals historically have had extensive investment experience. Since its inception in 1997, Ares investment professionals have invested in over 1,600 companies in over 30 different industries, and over this time have developed long-term relationships with management teams and management consultants within these industries. The experience of Ares' investment professionals in investing across these industries, throughout various stages of the economic cycle, provides our investment adviser with access to ongoing market insights and favorable investment opportunities.

#### **Flexible transaction structuring**

We are flexible in structuring investments, the types of securities in which we invest and the terms associated with such investments. The principals of Ares have extensive experience in a wide variety of securities for leveraged companies with a diverse set of terms and conditions. This approach and experience should enable our investment adviser to identify attractive investment opportunities throughout the economic cycle and across a company's capital structure so that we can make investments consistent with our stated objective. In addition, we have the ability to hold larger investments than many of our middle market competitors. The ability to underwrite, syndicate and hold larger investments (i) increases flexibility, (ii) potentially increases net fee income and earnings through syndication, (iii) broadens market relationships and deal flow and (iv) allows us to optimize portfolio composition. We also focus on acting as agent for or leading many of our investments. In these situations we tend to have (i) greater control over deal terms, pricing and structure and (ii) a closer relationship with issuers leading to more active portfolio management.

#### **OPERATING AND REGULATORY STRUCTURE**

Our investment activities are managed by Ares Capital Management and supervised by our board of directors, a majority of whom are independent of Ares and its affiliates. Ares Capital Management is an investment adviser that is registered under the Investment Advisers Act of 1940, or the "Advisers Act." Under our amended and restated investment advisory and management agreement, referred to herein as our investment advisory and management agreement, we have agreed to pay Ares

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Capital Management an annual base management fee based on our total assets, as defined under the Investment Company Act (other than cash and cash equivalents but including assets purchased with borrowed funds), and an incentive fee based on our performance. See "Management Investment Advisory and Management Agreement."

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

### LIQUIDITY

We are party to a Senior Secured Revolving Credit Agreement that provides for up to \$510 million of borrowings, which expires on December 28, 2010. In addition, our wholly owned subsidiary, Ares Capital CP Funding LLC, is party to a separate credit facility (together with the Senior Secured Revolving Credit Agreement, the "Facilities") that provides for up to \$350 million of borrowings, which expires on October 8, 2008, unless extended prior to such date with the consent of the lenders. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Financial Condition, Liquidity and Capital Resources."

### RISK FACTORS

Investing in Ares Capital involves risks. The following is a summary of certain risks that you should carefully consider before investing in our securities. In addition, see "Risk Factors" beginning on page 19 for a more detailed discussion of the factors you should carefully consider before deciding to invest in our securities.

#### Risks Relating to Our Business

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

We are dependent upon Ares Capital Management's key personnel for our future success and upon their access to Ares investment professionals.

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

Our ability to grow will depend on our ability to raise capital.

We operate in a highly competitive market for investment opportunities.

We will be subject to corporate-level income tax if we are unable to qualify as a RIC.

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

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

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

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.

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We will be exposed to risks associated with changes in interest rates.

Many of our portfolio investments are not publicly traded and, as a result, there will be uncertainty as to the value of our portfolio investments.

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

We may experience fluctuations in our quarterly results.

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

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

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

Changes in laws or regulations governing our operations, or changes in the interpretation thereof, and any failure by us to comply with laws or regulations governing our operations may adversely affect our business.

The Company may not replicate Ares' historical success.

Our ability to enter into transactions with our affiliates is restricted.

### **Risks Relating To Our Investments**

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

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

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.

An investment strategy focused primarily on privately-held companies presents certain challenges, including the lack of available information about these companies and a greater vulnerability to economic downturns.

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

Investments in equity securities involve a substantial degree of risk.

Our incentive fee may induce Ares Capital Management to make certain investments, including speculative investments.

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Our portfolio companies may be highly leveraged.

Our portfolio is concentrated in a limited number of portfolio companies, which subjects us to a risk of significant loss if any of these companies defaults on its repayment obligations.

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

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

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

### **Risks Relating To The Offering**

Investors in our equity securities may not receive dividends and our dividends may not grow over time.

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

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

The market price of our common stock may fluctuate significantly.

The market price of our common stock may decline following the offering and our shares of common stock may trade at discounts from net asset value.

There is no established trading market for the rights, which could make it more difficult for you to sell rights and could adversely affect their price.

Your interest in us may be diluted if you do not fully exercise your subscription rights.

Stockholders will experience dilution in their ownership percentage if they do not participate in our dividend reinvestment plan.

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.

### **OUR CORPORATE INFORMATION**

Our administrative offices are located at 1999 Avenue of the Stars, Suite 1900, Los Angeles, California, 90067, telephone number (310) 201-4200, and our executive offices are located at 280 Park Avenue, 22<sup>nd</sup> Floor, Building East, New York, New York 10017, telephone number (212) 750-7300.

## THE RIGHTS OFFERING

### THE OFFERING

We are issuing to stockholders of record, or record date stockholders, on \_\_\_\_\_, 2008, the record date, \_\_\_\_\_ transferable right for each \_\_\_\_\_ shares of our common stock held on the record date. Each holder of the rights, or rights holder, is entitled to subscribe for one share of our common stock for every right held, which we refer to as the basic subscription right. We will not issue fractional rights; we will round up the rights issuable to you to the next whole right.

Rights may be exercised at any time during the subscription period, which commences on \_\_\_\_\_, 2008, the record date, and ends at 5:00 p.m., New York City time, on \_\_\_\_\_, 2008, the expiration date, unless extended by us. The rights will expire on the expiration date of the offering and may not be exercised thereafter.

The rights are transferable and we intend to apply for listing on The NASDAQ Global Select Market under the symbol "\_\_\_\_\_" See "The Rights Offering."

### SUBSCRIPTION PRICE

The subscription price per share will be \_\_\_\_\_ % of the volume-weighted average of the sales prices of our shares of common stock on The NASDAQ Global Select Market for the \_\_\_\_\_ consecutive trading days ending on the expiration date of the offering. Because the subscription price will be determined on the expiration date, rights holders who decide to acquire shares pursuant to their basic subscription rights or pursuant to the over-subscription privilege will not know the actual purchase price of those shares when they make that decision. See "The Rights Offering The Subscription Price."

### OVER-SUBSCRIPTION PRIVILEGE

Record date stockholders who fully exercise all rights issued to them are entitled to subscribe for additional shares of our common stock for which other stockholders do not subscribe, which we refer to as the remaining shares. If sufficient remaining shares of our common stock are available, all record date stockholders' over-subscription requests will be honored in full. In addition, any non-record date rights holder who exercises rights is entitled to subscribe for remaining shares that are not otherwise subscribed for by record date stockholders. Shares acquired pursuant to the over-subscription privilege are subject to certain limitations and pro rata allocations.

Ares Investments LLC ("Ares Investments"), a current stockholder and an affiliate of our investment adviser, Ares Capital Management, has indicated that it intends to over-subscribe for up to a total investment of \$ \_\_\_\_\_ million in shares of our common stock. Any over-subscription by Ares Investments will be effected in accordance with the pro-rata allocation of shares in connection with the over-subscription privilege. See "The Rights Offering Over-Subscription Privilege."

### PURPOSE OF THE OFFERING

Our board of directors has determined in good faith that the offering would result in a net benefit to the existing stockholders because it increases the equity capital available for making additional investments, to pay operating expenses, to enhance liquidity and to temporarily repay debt. In addition, the Company believes that current dislocation of the credit markets has created a unique opportunity to invest at very attractive risk-adjusted returns. At our currently anticipated pace of investment activity, and given our current capital commitments, we believe that we will have limited capital available for new investments in 2008 unless we increase our capital resources. The offering gives existing stockholders the right to purchase additional shares at a price that is expected to be below the then-current trading price, while providing us access to additional capital resources. In



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connection with the approval of the offering, our board of directors considered, among other things, the following factors:

the subscription price relative to the market price and to our net asset value per share;

the increased equity capital to be available upon completion of the offering for making additional investments consistent with our investment objective;

the net asset value and ownership dilution to be experienced by non-participating stockholders;

the terms and expenses in connection with the offering relative to other alternatives for raising capital;

the size of the offering in relation to the number of shares outstanding;

the market price of our common stock, both before and after the announcement of the offering; and

the general condition of the securities markets.

We can provide no assurance that the offering will be successful.

### **DILUTIVE EFFECTS**

The offering will dilute the ownership interest and voting power of stockholders who do not fully exercise their basic subscription rights. Further, because the net proceeds per share from the offering may be at a discount to our net asset value per share, the offering may reduce our net asset value per share. The amount of dilution that a stockholder will experience could be substantial.

Shares of closed-end investment companies have in the past frequently traded at discounts to their net asset values. This characteristic of closed-end investment companies is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether our shares will trade above, at or below our net asset value.

The transferable feature of the rights will afford non-participating stockholders the potential of receiving cash payment upon the sale of their rights, receipt of which may be viewed as partial compensation for the dilution of their interests.

### **SALE OF RIGHTS**

The rights are evidenced by a subscription certificate and are transferable until the trading day immediately preceding the expiration date of the offering (or if the offering is extended, until the trading day immediately prior to the extended expiration date). We intend to apply for listing of the rights on The NASDAQ Global Select Market under the symbol "\_\_\_\_\_". While the Company and the dealer managers will use their best efforts to ensure that an adequate trading market for the rights will exist, no assurance can be given that a market for the rights will develop. Trading in the rights on The NASDAQ Global Select Market may be conducted until the close of trading on The NASDAQ Global Select Market on the trading day immediately prior to the expiration date (or if the offering is extended, until the day immediately prior to the expiration date as so extended). See "The Rights Offering Sale of Rights."

### **USE OF PROCEEDS**

We intend to use the net proceeds from the offering for general corporate purposes, which includes investing in portfolio companies in accordance with our investment objective and strategies and repaying indebtedness. See "Use of Proceeds."

**HOW TO OBTAIN SUBSCRIPTION INFORMATION**

Contact your broker-dealer, trust company, bank or other nominee who holds your shares, or

Contact the information agent, \_\_\_\_\_, toll-free at \_\_\_\_\_.

**HOW TO SUBSCRIBE**

Deliver a completed subscription certificate and payment to the subscription agent by the expiration date of the offering, or

If your shares are held in an account with your broker-dealer, trust company, bank or other nominee, which qualifies as an Eligible Guarantor Institution under Rule 17Ad-15 of the Securities Exchange Act of 1934, as amended, instruct your Eligible Guarantor Institution to deliver a notice of guaranteed delivery to the subscription agent by the expiration date of the offering.

**DISTRIBUTION ARRANGEMENTS**

Merrill Lynch, Pierce, Fenner & Smith Incorporated, Wachovia Capital Markets, LLC and \_\_\_\_\_ will act as dealer managers for the offering. Under the terms and subject to the conditions contained in the dealer manager agreement, the dealer managers will provide financial advisory services and marketing assistance in connection with the offering and will solicit the exercise of rights and participation in the over-subscription privilege by our stockholders. The offering is not contingent upon any number of rights being exercised. We have agreed to pay the dealer managers a fee for their financial advisory, marketing and soliciting services equal to \_\_\_\_\_ % of the subscription price per share for shares issued pursuant to the exercise of rights, including pursuant to the over-subscription privilege. The dealer managers will reallocate a portion of their fees to other broker-dealers that have assisted in soliciting the exercise of rights. [In addition, we have agreed to reimburse the dealer managers up to \$ \_\_\_\_\_ for their expenses incurred in connection with the offering.]

**SUBSCRIPTION AGENT**

\_\_\_\_\_ will act as the subscription agent in connection with the offering.

**INFORMATION AGENT**

\_\_\_\_\_ will act as the information agent in connection with the offering. You may contact \_\_\_\_\_ with questions at \_\_\_\_\_.

**IMPORTANT DATES TO REMEMBER**

Record Date		, 2008
Subscription Period	from	, 2008 to _____, 2008(1)
Last Day Rights May Be Traded		, 2008
Expiration Date		, 2008(1)
Deadline for Delivery of Subscription Certificates and Payment for Shares		, 2008(1)
Deadline for Delivery of Notice of Guaranteed Delivery(2)		, 2008(1)
Confirmations Mailed to Participants		, 2008(1)
Final Payment for Oversubscription Shares		, 2008(1)

(1) Subject to extension of the expiration date.

(2) Participating rights holders must, by the expiration date of the offering (as the same may be extended), either (i) deliver a subscription certificate and payment for shares or (ii) cause to be delivered on their behalf a notice of guaranteed delivery.

**AMENDMENTS; TERMINATION**

We reserve the right to amend the terms and conditions of the offering or to terminate the offering prior to delivery of the common stock if the subscription price is less than % of the net asset value attributable to a share of common stock disclosed in the most recent periodic report we filed with the SEC.

## FEES AND EXPENSES

The following table is intended to assist you in understanding the costs and expenses that an investor in our common stock will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by "you," "us" or "Ares Capital," or that "we" will pay fees or expenses, stockholders will indirectly bear such fees or expenses as investors in Ares Capital.

<b>Stockholder transaction expenses (as a percentage of offering price):</b>	
Sales load paid by us	[ ] (1)
Offering expenses borne by us	[ ] (2)
Dividend reinvestment plan expenses	None (3)
	<hr/>
Total stockholder transaction expenses paid by us	[ ]
	<hr/>
<b>Estimated annual expenses (as a percentage of consolidated net assets attributable to common stock)(4):</b>	
Management fees	2.22%(5)
Incentive fees payable under investment advisory and management agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income, subject to certain limitations)	1.98%(6)
Interest payments on borrowed funds	2.98%(7)
Other expenses	0.91%(8)
Acquired fund fees and expenses	1.22%(9)
	<hr/>
Total annual expenses (estimated)	9.31%(10)
	<hr/>

- (1) We have agreed to pay the dealer managers a fee for their financial advisory, marketing and soliciting services equal to % of the aggregate subscription price for the shares issued pursuant to the offering. [We have also agreed to reimburse the dealer managers an aggregate of up to \$ for their expenses incurred in connection with the offering.] See "The Rights Offering Distribution Arrangements."
- (2) Amount reflects estimated offering expenses of approximately \$ .
- (3) The expenses of the dividend reinvestment plan are included in "other expenses."
- (4) "Consolidated net assets attributable to common stock" equals net assets at September 30, 2007.
- (5) Our management fee is currently 1.5% of our total assets other than cash and cash equivalents (which includes assets purchased with borrowed amounts). For the purposes of this table, we have assumed that we maintain no cash or cash equivalents and that the management fee will remain at 1.5% as set forth in our current investment advisory and management agreement. We may from time to time decide it is appropriate to change the terms of the agreement. Under the Investment Company Act, any material change to our investment advisory and management agreement must be submitted to stockholders for approval. The 2.22% reflected on the table is calculated on our net assets (rather than our total assets). See "Management Investment Advisory and Management Agreement."
- (6) This item represents our incentive fees based on annualizing actual amounts earned on our pre-incentive fee net income for the nine months ended September 30, 2007 and assumes that the incentive fees earned at the end of the 2007 calendar year will be based on the actual realized capital gains as of September 30, 2007, computed net of realized capital losses and unrealized capital depreciation. It also assumes that this fee will remain constant although it is based on our performance and will not be paid unless we achieve certain goals. We expect to invest or otherwise utilize all of the net proceeds from the offering within three months of the date of the offering and may have capital gains and interest income that could result in the payment of an incentive fee to



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our investment adviser in the first year after completion of the offering. Since our inception, the average quarterly incentive fee payable to our investment adviser has been approximately 0.57% of our weighted net assets (2.26% on an annualized basis). For more detailed information about incentive fees previously incurred by us, please see Note 3 to our consolidated financial statements for the period ended September 30, 2007.

The incentive fee consists of two parts:

The first, payable quarterly in arrears, equals 20% of our pre-incentive fee net investment income (including interest that is accrued but not yet received in cash), subject to a 2.00% quarterly (8% annualized) hurdle rate and a "catch-up" provision measured as of the end of each calendar quarter. Under this provision, in any calendar quarter, our investment adviser receives no incentive fee until our net investment income equals the hurdle rate of 2.00% but then receives, as a "catch-up," 100% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.50%. The effect of this provision is that, if pre-incentive fee net investment income exceeds 2.50% in any calendar quarter, our investment adviser will receive 20% of our pre-incentive fee net investment income as if a hurdle rate did not apply.

The second part, payable annually in arrears for each calendar year ending on or after December 31, 2004, equals 20% of our realized capital gains on a cumulative basis from inception through the end of the year, if any, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees.

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

See "Management Investment Advisory and Management Agreement."

(7)

"Interest payments on borrowed funds" represents our annualized interest expenses based on actual interest and credit facility expense incurred for the nine months ended September 30, 2007. During the nine months ended September 30, 2007, our average borrowings were \$520.4 million and cash paid for interest expense was \$22.6 million. We had outstanding borrowings of \$527.5 million at September 30, 2007. This item is based on our assumption that our borrowings and interest costs after an offering will remain similar to those prior to such offering. The amount of leverage that we employ at any particular time will depend on, among other things, our investment adviser's and our board of directors' assessment of market and other factors at the time of any proposed borrowing. See "Risk Factors We borrow money, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing with us."

(8)

Includes our overhead expenses, including payments under the administration agreement based on our allocable portion of overhead and other expenses incurred by Ares Administration in performing its obligations under the administration agreement. Such expenses are based on other expenses for the nine months ended September 30, 2007. See "Management Administration Agreement." The holders of shares of our common stock (and not the holders of our debt securities or preferred stock, if any) indirectly bear the cost associated with our annual expenses.

(9)

The Company's stockholders indirectly bear the expenses of underlying investment companies in which the Company invests. This amount includes the fees and expenses of investment companies in which the Company is invested in as of September 30, 2007. Certain of these investment companies are subject to management fees or incentive fees. When applicable, fees and expenses are based on historic fees and expenses for the investment companies and for those investment

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companies with little or no operating history, fees and expenses are based on expected fees and expenses stated in the operating history, fees and expenses are based on expected fees and expenses stated in the investment companies' offering memorandum, private placement memorandum or other similar communication without giving effect to any performance. Future fees and expenses for these investment companies may be substantially higher or lower because certain fees and expenses are based on the performance of the investment companies, which may fluctuate over time. The amount of the Company's average net assets used in calculating this percentage was based on average monthly net assets of \$1.0 billion for the nine months ended September 30, 2007.

(10)

"Total annual expenses" as a percentage of consolidated net assets attributable to common stock are higher than the total annual expenses percentage would be for a company that is not leveraged. We borrow money to leverage our net assets and increase our total assets. The SEC requires that the "Total annual expenses" percentage be calculated as a percentage of net assets (defined as total assets less indebtedness), rather than the total assets, including assets that have been funded with borrowed monies. If the "Total annual expenses" percentage were calculated instead as a percentage of consolidated total assets, our "Total annual expenses" would be 6.19% of consolidated total assets.

### Example

The following example demonstrates the projected dollar amount of total cumulative expenses over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed we would have no additional leverage, that none of our assets are cash or cash equivalents, and that our annual operating expenses would remain at the levels set forth in the table above. Estimated transaction expenses are included in the following example.

	1 year	3 years	5 years	10 years
You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return(1)	\$	\$	\$	\$

(1)

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

The foregoing table is to assist you in understanding the various costs and expenses that an investor in our common stock will bear directly or indirectly. While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. The incentive fee under the investment advisory and management agreement, which, assuming a 5% annual return, would either not be payable or have an insignificant impact on the expense amounts shown above, is not included in the example. If we achieve sufficient returns on our investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, our expenses, and returns to our investors, would be higher. In addition, while the example assumes reinvestment of all dividends and distributions at net asset value, participants in our dividend reinvestment plan who have not otherwise elected to receive cash will receive a number of shares of our common stock, determined by dividing the total dollar amount of the dividend payable to a participant by the market price per share of our common stock at the close of trading on the valuation date for the dividend. See "Dividend Reinvestment Plan" for additional information regarding our dividend reinvestment plan.

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



**RECENT DEVELOPMENTS**

As of \_\_\_\_\_, 2008, we have made \$ \_\_\_\_\_ million of investments (including agreements to fund revolving credit facilities or delayed draw loans) since December 31, 2007. In addition, as of \_\_\_\_\_, 2008, we have an investment backlog and pipeline of \$ \_\_\_\_\_ million and \$ \_\_\_\_\_ million, respectively. We expect to 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 our investments and commitments.

**SELECTED FINANCIAL AND OTHER DATA**

The following selected financial and other data for the period from June 23, 2004 (inception) through December 31, 2004 and the years ended December 31, 2005 and 2006, are derived from our consolidated financial statements that have been audited by KPMG LLP, an independent registered public accounting firm whose report thereon is included elsewhere in this prospectus. The selected financial and other data for the nine months ended September 30, 2007 and 2006 and other quarterly financial information is derived from our unaudited financial statements, but in the opinion of management, reflects all adjustments (consisting only of normal recurring adjustments) that are necessary to present fairly the results of such interim periods. Interim results as of and for the nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ended December 31, 2007. 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 prospectus.

**ARES CAPITAL CORPORATION AND SUBSIDIARIES**  
**SELECTED FINANCIAL DATA**

	As of and For the Nine Months Ended September 30, 2007	As of and For the Nine Months Ended September 30, 2006	As of and For the Year Ended December 31, 2006	As of and For the Year Ended December 31, 2005	As of and For the Period June 23, 2004 (inception) Through December 31, 2004
Total Investment Income	\$ 135,045,376	\$ 82,512,850	\$ 120,020,908	\$ 41,850,477	\$ 4,380,848
Net Realized and Unrealized Gain on Investments	12,235,996	10,364,410	13,063,717	14,727,276	475,393
Total Expenses	67,312,807	39,272,954	58,458,015	14,568,677	1,665,753
Income Tax Expense (Benefit), Including Excise Tax	(112,069)	4,927,471	4,931,288	158,000	
Net Increase in Stockholders' Equity Resulting from Operations	\$ 80,080,634	\$ 48,676,835	\$ 69,695,322	\$ 41,851,076	\$ 3,190,488
Per Share Data:					
Net Increase in Stockholder's Equity Resulting from Operations:					
Basic:	\$ 1.25	\$ 1.19	\$ 1.61	\$ 1.78	\$ 0.29
Diluted:	\$ 1.25	\$ 1.19	\$ 1.61	\$ 1.78	\$ 0.29
Cash Dividend Declared:	\$ 1.24	\$ 1.14	\$ 1.64	\$ 1.30	\$ 0.30
Total Assets	\$ 1,690,338,507	\$ 1,122,556,065	\$ 1,347,990,954	\$ 613,645,144	\$ 220,455,614
Total Debt	\$ 527,500,000	\$ 366,000,000	\$ 482,000,000	\$ 18,000,000	\$ 55,500,000
Total Stockholders' Equity	\$ 1,144,325,417	\$ 739,268,870	\$ 789,433,404	\$ 569,612,199	\$ 159,708,305
Other Data:					
Number of Portfolio Companies at Period End	69	56	60	38	20
Principal Amount of Investments Purchased(1)	\$ 822,165,000	\$ 738,828,000	\$ 1,087,507,000	\$ 504,299,000	\$ 234,102,000
Principal Amount of Investments Sold and Repayments(2)	\$ 462,123,000	\$ 280,838,000	\$ 430,021,000	\$ 108,415,000	\$ 52,272,000
Total Return Based on Market Value(3)	(8.39)%	15.49%	29.12%	(10.60)%	31.53%
Total Return Based on Net Asset Value(4)	8.18%	7.89%	10.73%	12.04%	(1.80)%
Weighted Average Yield of Debt and Income Producing Equity Securities(5):	11.63%	12.27%	11.95%	11.25%	12.36%

(1) The information presented for the period June 23, 2004 (inception) through December 31, 2004 includes \$140.8 million of assets purchased from the Royal Bank of Canada and excludes \$9.7 million of publicly traded fixed income securities.

(2)

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The information presented for the period June 23, 2004 (inception) through December 31, 2004 excludes \$9.7 million of publicly traded fixed income securities.

(3)

Total return based on market value for the nine months ended September 30, 2007 equals the decrease of the ending market value at September 30, 2007 of \$16.27 per share over the ending market value at December 31, 2006 of \$19.11, plus the declared dividends of \$1.24 per share for the nine months ended September 30, 2007, divided by the market value at December 31, 2006. For the nine months ended September 30, 2006, the total return based on market value equals the increase of the ending market value at September 30, 2006 of \$17.42 per share over the ending market value at December 31, 2005 of \$16.07, plus the declared dividends of \$1.14 per share for the nine months ended September 30, 2006, divided by the market value at December 31, 2005. 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 for the year ended December 31, 2005 equals the decrease of the ending market value at December 31, 2005 of \$16.07 per share over the ending market value at December 31, 2004 of \$19.43 per share plus the declared dividends of \$1.30 per share for the year ended

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December 31, 2005. Total return based on market value for the period June 23, 2004 (inception) through December 31, 2004 equals the increase of the ending market value at December 31, 2004 of \$19.43 per share over the offering price of \$15.00 per share plus the declared dividend of \$0.30 per share (includes return of capital of \$0.01 per share) for holders of record on December 27, 2004, divided by the offering price. Total return based on market value is not annualized. The Company's shares fluctuate in value. The Company's performance changes over time and currently may be different than that shown. Past performance is no guarantee of future results.

(4)

Total return based on net asset value for the nine months ended September 30, 2007 equals the change in net asset value during the period plus the declared dividends of \$1.24 per share for the nine months ended September 30, 2007, divided by the beginning net asset value during the period (adjusted for share issuances). For the nine months ended September 30, 2006, the total return based on net asset value equals the change in net asset value during the period plus the declared dividends of \$1.14 per share for the nine months ended September 30, 2006, divided by the beginning net asset value during the period (adjusted for share issuances). 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 for the year ended December 31, 2005 equals the change in net asset value during the period (adjusted for share issuances) plus the declared dividends of \$1.30 per share for the year ended December 31, 2005, divided by the beginning net asset value. Total return based on net asset value for the period June 23, 2004 (inception) through December 31, 2004 equals the change in net asset value during the period plus the declared dividend of \$0.30 per share (includes return of capital of \$0.01 per share) for holders of record on December 27, 2004, divided by the beginning net asset value. Total return based on net asset value is not annualized. The Company's performance changes over time and currently may be different than that shown. Past performance is no guarantee of future results.

(5)

Weighted average yield on debt and income producing equity securities is computed as (a) the annual stated interest rate or yield earned plus the net annual amortization of original issue discount and market discount on accruing debt divided by (b) total debt and income producing equity securities at fair value.

## SELECTED QUARTERLY DATA (Unaudited)

	2007			2006			2005				
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total investment income	\$ 47,931,434	\$ 47,398,918	\$ 39,715,023	\$ 37,508,058	\$ 31,831,794	\$ 30,489,751	\$ 20,191,305	\$ 14,890,281	\$ 11,607,989	\$ 9,601,615	\$ 5,750,592
Net investment income before net realized and unrealized gain on investments and incentive compensation	\$ 29,874,849	\$ 31,219,979	\$ 23,698,990	\$ 23,508,149	\$ 21,792,136	\$ 16,233,294	\$ 14,614,419	\$ 11,071,081	\$ 8,887,631	\$ 7,567,053	\$ 3,800,113
Incentive compensation	\$ 5,966,011	\$ 6,228,506	\$ 4,754,664	\$ 5,188,969	\$ 4,464,141	\$ 6,940,399	\$ 2,922,884	\$ (510,478)	\$ 2,643,353	\$ 1,798,919	\$ 270,284
Net investment income before net realized and unrealized gain on investments	\$ 23,908,838	\$ 24,991,473	\$ 18,944,326	\$ 18,319,180	\$ 17,327,995	\$ 9,292,895	\$ 11,691,535	\$ 11,581,559	\$ 6,244,278	\$ 5,768,134	\$ 3,529,829
Net realized and unrealized gain on investments	\$ (984,364)	\$ 8,575,860	\$ 4,644,501	\$ 2,699,307	\$ 813,127	\$ 7,399,785	\$ 2,151,498	\$ 4,281,465	\$ 3,637,612	\$ 1,834,122	\$ 4,974,077
Net increase in stockholders' equity resulting from operations	\$ 22,924,474	\$ 33,567,333	\$ 23,588,827	\$ 21,018,487	\$ 18,141,122	\$ 16,692,680	\$ 13,843,033	\$ 15,863,024	\$ 9,881,890	\$ 7,602,256	\$ 8,503,906
Basic and diluted earnings per common share	\$ 0.32	\$ 0.49	\$ 0.44	\$ 0.42	\$ 0.39	\$ 0.44	\$ 0.36	\$ 0.45	\$ 0.42	\$ 0.33	\$ 0.69
Net asset value per share as of the end of the quarter	\$ 15.74	\$ 15.84	\$ 15.34	\$ 15.17	\$ 15.06	\$ 15.10	\$ 15.03	\$ 15.03	\$ 15.08	\$ 14.97	\$ 14.96

## RISK FACTORS

*Before you invest in our securities, you should be aware of various risks, including those described below. You should carefully consider these risk factors, together with all of the other information included in this prospectus, 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, our 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

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

If we do not continue to qualify as a BDC, we might be regulated as a closed-end investment company under the Investment Company Act, which would significantly decrease our operating flexibility.

#### **We are dependent upon Ares Capital Management's key personnel for our future success and upon their access to Ares investment professionals.**

We depend on the diligence, skill and network of business contacts of the members of Ares Capital Management's investment committee. We also depend, to a significant extent, on Ares Capital Management's access to the investment professionals of 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 will depend on the continued service of Ares Capital Management's investment committee. The departure of any of the members of Ares Capital Management's investment committee, or of a significant number of the investment professionals or partners of Ares, could have a material adverse effect on our ability to achieve our investment objective. 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 operation will 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 Ares Capital Management'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 Ares Capital Management's structuring of the investment process and its ability to provide competent, attentive and efficient services to us. Our executive officers and the members of Ares Capital Management 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 managerial assistance to our portfolio companies on behalf of our administrator. 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 Capital Management will need to hire, train, supervise and manage new employees. However, we cannot assure you that any such employees will be retained. Any failure to manage our future growth effectively could have a material adverse effect on our business, financial condition and results of operations.

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

### **Our ability to grow will depend on our ability to raise capital.**

We will need to periodically access the capital markets to raise cash to fund new investments. Unfavorable economic conditions 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. 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. 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 will depend on our investment adviser's and our board of directors' assessment of market and other factors at the time of any proposed borrowing. We cannot assure you that we will be able to maintain our current Facilities or obtain other lines of credit at all or on terms acceptable to us.

### **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 business development companies, 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 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. We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations. Also, as a result of this competition, we may not be able to take advantage of attractive investment opportunities from time to time, and we cannot assure you that we will be able to identify and make investments that meet our investment objective.

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 will be comparable to or lower than the rates we offer. We also compete with our competitors based on our existing investment platform, our seasoned management team, our experience and focus on middle market companies, our disciplined investment philosophy, our extensive industry focus and our 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 better terms to our portfolio companies than what we may have originally anticipated, which may impact our return on these investments.

### **We will be subject to corporate-level income tax if we are unable to qualify as a RIC.**

To qualify as a RIC under the Code, we must meet certain income source, asset diversification and annual distribution requirements.

The annual distribution requirement for a RIC is satisfied if we distribute to our stockholders on a timely basis an amount equal to at least 90% of our ordinary income and net short-term capital



gain in excess of net long-term capital loss, if any, reduced by deductible expenses 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 loan agreements 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.

To qualify as a RIC, we must also meet certain asset diversification requirements at the end of each calendar quarter. Failure to meet these tests may result in our having to (i) dispose of certain investments quickly or (ii) raise additional capital to prevent the loss of RIC status. If we fail to qualify as a RIC for any reason and become or remain subject to corporate income tax, the resulting corporate taxes could substantially reduce our net assets, the amount of income available for distribution and the amount of our distributions. Such a failure would have a material adverse effect on us and our stockholders.

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

For 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 contracted payment-in-kind 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 pay-in-kind securities and deferred payment securities.

Since in certain cases we may recognize income before or without receiving cash representing such income, we may have difficulty meeting the tax requirement to distribute an amount equal to at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, reduced by deductible expenses, 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 corporate-level income tax. See "Material U.S. Federal Income Tax Considerations Taxation as a RIC."

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. The 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 by an entity on the obligation that resulted in the accrual of such income.

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

We may issue debt securities or preferred stock, which we refer to collectively as "senior securities," and 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 will be 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 such

incurrence or issuance. If the value of our assets declines, we may be unable to satisfy this test, which would prohibit us from paying dividends and could prevent us from maintaining our status as a RIC. If we cannot satisfy this test, we may be required to sell a portion of our investments and, depending on the nature of our leverage, repay a portion of our indebtedness at a time when such sales may be disadvantageous. As of September 30, 2007, our asset coverage for senior securities was 316.93%.

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 of the common stock if our board of directors determines that such sale is in our best interests and the best interests of our stockholders, and, in certain instances, our stockholders approve such sale. In any such case, the price at which our securities are to be issued and sold may not be less than a price 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. In addition, we are permitted to issue rights to all of our stockholders even if our common stock is trading at a price below net asset value, without stockholder approval.

In addition, we have, and may in the future, seek to securitize our loans to generate cash for funding new investments. To securitize loans, we may create a wholly owned subsidiary and contribute a pool of loans to the subsidiary. This could include the sale of interests in the subsidiary on a non-recourse basis to purchasers who we would expect to be willing to accept a lower interest rate to invest in investment grade loan pools, and we would retain a portion of the equity in the securitized pool of loans. An inability to successfully securitize our loan portfolio could limit our ability to grow our business, fully execute our business strategy and decrease our earnings, if any. The securitization market is subject to changing market conditions 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 will tend to 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.**

As of September 30, 2007, we had \$213.5 million of outstanding borrowings under our Facilities and \$314.0 million of CLO Notes (as defined herein). In order for us to cover our annual interest payments on indebtedness, we must achieve annual returns on our September 30, 2007 total assets of at least 2.01%. The weighted average interest rate charged on our borrowings as of September 30, 2007 was 6.03%. We intend to continue borrowing under the Facilities in the future and we may increase the size of the Facilities or otherwise issue debt securities or other evidences of indebtedness. Our ability to service our debt depends largely on our financial performance and will be 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' assessment of market and other factors at the time of any proposed borrowing.

Our Facilities impose financial and operating covenants that restrict our business activities, including limitations that could hinder our ability to finance additional loans and investments or to make the distributions required to maintain our status as a RIC under Subchapter M of the Code. A failure to renew our Facilities, or to add new or replacement debt facilities could have a material adverse effect on our business, financial condition and results of operations.

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 in the future may borrow from or issue senior debt securities to banks, insurance

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companies and other lenders. Lenders of senior securities have fixed dollar claims on our consolidated assets that are superior to the claims of our common stockholders. If the value of our consolidated assets increases, then leveraging would cause the net asset value attributable to our common stock to increase more sharply than it would have had we not leveraged. 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 leveraged. 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 without the leverage, while any decrease in our consolidated income would cause net income to decline more sharply than it would have had we not borrowed. Such a decline could negatively affect our ability to make common stock dividend payments. There is no assurance that a leveraging strategy will be successful.

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 interest rate of 6.03% and assumes (i) our total value of net assets as of September 30, 2007; (ii) \$527.5 million debt outstanding as of September 30, 2007 and (iii) hypothetical annual returns on our portfolio of minus 15 to plus 15 percent.

Assumed Return on Portfolio (Net of Expenses)(1)	-15%	-10%	-5%	0%	5%	10%	15%
Corresponding Return to Common Stockholders(2)	-25%	-18%	-10%	-3%	5%	12%	19%

(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.

(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 September 30, 2007 to obtain an assumed return to us. From this amount, the interest expense calculated by multiplying the interest rate of 6.03% times the \$527.5 million 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 September 30, 2007 to determine the "Corresponding Return to Common Stockholders."

**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 will be 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 our rate of return on invested capital. Because we borrow money to make investments, our net investment income is dependent upon the difference between the rate at which we borrow funds 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. 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 will be 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.

**Many of our portfolio investments are not publicly traded and, as a result, there will be uncertainty as to the value of our portfolio investments.**

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. However, we may be required to value our investments more frequently as determined in good faith by our board of directors to the extent necessary to reflect significant events affecting their value. In addition, the board of directors currently receives input from independent valuation firms that have been engaged at the direction of the board to value each portfolio security at least once during a trailing 12 month period. The valuation process is concluded at the end of each fiscal quarter, with approximately a quarter of our portfolio companies without market quotation subject to valuation by the independent valuation firm each quarter. The types of factors that may be considered in valuing our investments include the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings, the markets in which the portfolio company does business, 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.

**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 will be subject to legal and other restrictions on resale or otherwise are less liquid than publicly traded securities. The illiquidity of our investments may make it difficult for us to sell such investments if the need arises. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we have previously recorded our investments. In addition, we may face other restrictions on our ability to liquidate an investment in a portfolio company to the extent that we 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 rate payable on the debt investments we make, the default rate on such investments, the level of our expenses, variations in and the timing of the recognition of realized and unrealized gains or losses and 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 the best interests of us or our stockholders 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. For example, Messrs. Ressler, Rosenthal, Kissick and Sachs each are and, will continue to be, founding members of Ares with significant responsibilities for other Ares funds. Messrs. Ressler and Rosenthal are required to devote a substantial majority of their business time, and Mr. Kissick is required to devote a majority of his business time, to the affairs of ACOF. However, Ares believes that the efforts of Messrs. Ressler, Rosenthal and Kissick relative to Ares Capital and ACOF are synergistic with and beneficial to the affairs of each of Ares Capital and ACOF.

Although other Ares funds generally have different primary investment objectives than Ares Capital, they may from time to time invest in asset classes similar to those targeted by Ares Capital. 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 Ares Capital Management.

We pay management and incentive fees to Ares Capital Management, and reimburse Ares Capital Management for certain expenses it incurs. As a result, investors in our common stock will invest on a gross basis and receive distributions on a net basis after expenses, resulting in, 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 the Company's total assets, such as decisions as to whether to incur debt.

The incentive fees payable to our investment adviser are subject to certain hurdles. To the extent we or Ares Capital Management are able to exert influence over our portfolio companies, these hurdles may provide Ares Capital Management (subject to its fiduciary duty to us) with an incentive to induce our portfolio companies to accelerate or defer interest or other obligations owed to us from one calendar quarter to another under circumstances where accrual would not otherwise occur, such as acceleration or deferral of the declaration of a dividend or the timing of a voluntary redemption.

Acceleration of obligations may result in stockholders recognizing taxable gains earlier than anticipated, while deferral of obligations creates incremental risk of an obligation becoming uncollectible in whole or in part if the issuer of the security suffers subsequent deterioration in its financial condition. Any such inducement by the investment adviser solely for the purpose of adjusting the incentive fees would be a breach of the investment adviser's fiduciary duty to us.

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 automatically 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. 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 a separate amended and restated administration agreement, referred to herein as our administration agreement, Ares Administration, an affiliate of Ares Capital Management, furnishes us with administrative services and we pay Ares Administration our allocable portion of overhead and other expenses incurred by Ares Administration in performing its obligations under the administration agreement, including our allocable portion of the cost of our officers and their respective staffs. We lease office facilities directly (the "ARCC Office Space") from a third party. We have entered into a sublease with Ares Management LLC whereby Ares Management subleases approximately 25% of the ARCC Office Space for a fixed rent equal to 25% of the basic annual rent payable by us under our lease, plus certain additional costs and expenses. As a result of these arrangements, there may be times when the management team of Ares Management has interests that differ from those of our stockholders, giving rise to a conflict.

Our stockholders may have conflicting investment, tax and other objectives with respect to their investments in us. The conflicting interests of individual stockholders may relate to or arise from, among other things, the nature of our investments, the structure or the acquisition of our investments, and the timing of disposition 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 Ares Capital and our stockholders as a whole, not the investment, tax or other objectives of any stockholder individually.

**Our investment adviser's liability is limited under the investment management agreement, and we will 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 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 management agreement, our investment adviser and its managing members, officers and employees will not be liable to us for their acts under the investment 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 managing members, officers and employees 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 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 Our 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 investment income for that quarter (before deducting incentive compensation, net operating losses 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 that we may incur in the fiscal quarter, even if such capital losses result in a net loss on our statement of operations for that quarter. Thus, we may be required to pay our manager 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.

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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 period ending on or prior to the date such payment is to be made, the sum of (a) our aggregate distributions to our stockholders and (b) our change in net assets (defined as total assets less indebtedness) 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.

### **Changes in laws or regulations governing our operations, or changes in the interpretation thereof, and any failure by us to comply with laws or regulations governing our operations may adversely affect our business.**

We and our portfolio companies are subject to regulation by laws at the local, state and federal levels. These laws and regulations, as well as their interpretation, may be changed from time to time. Accordingly, any change in these laws or regulations, or their interpretation, or any failure by us to comply with these laws or regulations may adversely affect our business.

### **The Company may not replicate Ares' historical success.**

Our primary focus in making investments differs from those of other private funds that are or have been managed by Ares' investment professionals. Further, investors in Ares Capital are not acquiring an interest in other Ares funds. While Ares Capital may consider potential co-investment participation in portfolio investments with other Ares funds (other than ACOF), no investment opportunities are currently under consideration and any such investment activity could be subject to, among other things, regulatory and independent board member approvals, the receipt of which, if sought, cannot be assured. Accordingly, 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 those private funds.

### **Our ability to enter into transactions with our affiliates is restricted.**

We are prohibited under the Investment Company Act from knowingly participating in certain transactions with our affiliates without the prior approval of our independent directors. Any person that owns, directly or indirectly, 5% or more of our outstanding voting securities is our affiliate for purposes of the Investment Company Act and we are generally prohibited from buying or selling any security from or to such affiliate, absent the prior approval of our independent directors. The Investment Company Act also prohibits "joint" transactions with an affiliate, which could include investments in the same portfolio company (whether at the same or different times), without prior approval of our independent directors. If a person acquires more than 25% of our voting securities, we are prohibited from buying or selling any security from or to such person, or entering into joint transactions with such person, absent the prior approval of the SEC.

## **RISKS RELATING TO OUR INVESTMENTS**

### **Our 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 or lower than "BBB-" by Standard & Poor's). 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. Our mezzanine investments may result in an above average amount of risk and volatility or loss of principal. We also invest in assets other than mezzanine investments including first and second lien loans, high-yield securities, U.S. government securities, credit derivatives and other structured securities and certain direct equity investments. These investments will 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.

In addition, investments in middle market companies involve a number of significant risks, including:

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;

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

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

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.

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

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

A portfolio company's failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially, acceleration of the time when the loans are due and foreclosure on its secured assets, which could trigger cross-defaults under other agreements and



jeopardize our portfolio company's ability to meet its obligations under the debt 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.

**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, including the extent to which we actually provided managerial assistance to that portfolio company, a bankruptcy court might recharacterize our debt holding and subordinate all or a portion of our claim to that of other creditors. 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. Consequently, we could become subject to a lender's liability claim, if, among other things, we actually render significant managerial assistance.

**An investment strategy focused primarily on privately-held companies presents certain challenges, including the lack of available information about these companies and a greater vulnerability to economic downturns.**

We invest primarily in privately-held companies. Generally, little public information exists about these companies, and we are required to rely on the ability of Ares Capital Management's investment professionals to obtain adequate information to evaluate the potential returns from investing in these companies. These companies and their financial information are not subject to the Sarbanes-Oxley Act of 2002 and other rules that govern public companies. If we are unable to uncover all material information about these companies, we may not make a fully informed investment decision, and we may lose money on our investments. Also, privately-held companies frequently have less diverse product lines and smaller market presence than larger competitors, subjecting them to greater vulnerability to economic downturns. These factors could affect our investment returns.

**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 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.

**Investments in equity securities involve a substantial degree of risk.**

We may purchase common and other equity securities. Although common stocks have historically generated higher average total returns than fixed-income securities over the long term, common stocks also have experienced significantly more volatility in those returns and in recent years have 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 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 in equity securities; 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 our portfolio companies. Even if the portfolio companies are 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 sell our equity investments. 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.

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 although it has not yet received such income.

Preferred securities are subordinated to debt in terms of priority to corporate 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 stocks or U.S. government securities.

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

**Our incentive fee may induce Ares Capital Management 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, the 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, the 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. The 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 by an entity on the obligation that resulted in the accrual of such income.

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 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.

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

**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 portfolio is concentrated in a limited number of portfolio companies, which subjects us to a risk of significant loss if any of these companies defaults on its repayment obligations.**

As of September 30, 2007, we were invested in 69 portfolio companies. This number may be higher or lower depending on the amount of our assets under management at any given time, market conditions and the extent to which we employ leverage, and will likely fluctuate over time. A consequence of this limited number of investments is that the aggregate returns we realize may be significantly adversely affected if a small number of investments perform poorly or if we need to write down the value of any one investment. Beyond our income tax diversification requirements, we do not have fixed guidelines for diversification, and our investments could be concentrated in relatively few portfolio companies.

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

Our investment strategy contemplates potential investments in debt of foreign companies. Investing in foreign companies may expose us to additional risks not typically associated with investing

in U.S. companies. These risks include changes in exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the 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.

If we engage in hedging transactions, we may expose ourselves to risks associated with such transactions. We may utilize instruments such as forward contracts, currency options and interest rate swaps, caps, collars and floors to seek to hedge against fluctuations in the relative values of our portfolio positions from changes in currency exchange rates and market interest rates. 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 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, currencies and interest rates. Therefore, while we may enter into such transactions to seek to reduce currency exchange rate and interest rate risks, unanticipated changes in currency exchange rates or interest rates may result in poorer overall investment performance than if we had not engaged in any such hedging transactions. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions being hedged may vary. Moreover, for a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss. In addition, it may not be possible to hedge fully or perfectly against currency fluctuations affecting the value of securities denominated in non-U.S. currencies because the value of those securities is likely to fluctuate as a result of factors not related to currency fluctuations.

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

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

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

We make both debt and minority equity investments; therefore, 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.

## **RISKS RELATING TO THE OFFERING**

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

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

**Investing in our shares 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 shares may not be suitable for someone with lower risk tolerance.

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

The price of the common stock that will prevail in the market after the offering may be higher or lower than the price you pay. The market price and liquidity of the market for shares of our common 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 business development companies 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 regulatory policies or tax guidelines, particularly with respect to RICs or business development companies;

loss of RIC status;

changes in earnings or variations in 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;

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.

**We may allocate the net proceeds from the offering in ways with which you may not agree.**

We will have significant flexibility in investing the net proceeds of the offering and may use the net proceeds in ways with which you may not agree or for purposes other than those currently contemplated.

**The market price of our common stock may decline following the offering and our shares of common stock may trade at discounts from net asset value.**

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 common stock or rights will trade at, above, or below net asset value. The risk of loss associated with this characteristic of closed-end investment companies may be greater for investors expecting to sell shares of common stock purchased in the offering soon after the offering.



**There is no established trading market for the rights, which could make it more difficult for you to sell rights and could adversely affect their price.**

There can be no assurances that an active public market for the rights will develop as a result of the offering of the rights by any selling holder or that, if such a market develops, it will be maintained. We have applied for the rights to be listed on The NASDAQ Global Select Market under the symbol "\_\_\_\_\_." Future trading prices of the rights will depend on many factors, including our operating results, the market for similar securities, the performance of our common stock (including the requirement that we suspend the offering under certain circumstances) and our ability to terminate the offering of the rights if the subscription price is less than \_\_\_\_\_% of the net asset value attributable to a share of common stock disclosed in the most recent periodic report we filed with the SEC.

**We may terminate the rights offering at any time prior to the expiration of the subscription period, and neither we nor the subscription agent will have any obligation to you except to return your exercise payments.**

We may, in our sole discretion, at any time prior to delivery of the shares of our common stock offered hereby, if the subscription price is less than \_\_\_\_\_% of the net asset value attributable to a share of common stock disclosed in the most recent periodic report we filed with the SEC, terminate the rights offering prior to the expiration of the subscription period. If the rights offering is terminated, the subscription agent will return as soon as practicable all exercise payments, without interest.

**Your interest in us may be diluted if you do not fully exercise your subscription rights.**

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

In addition, if the subscription price is less than our net asset value per share, then our stockholders would experience an immediate dilution of the aggregate net asset value of their shares as a result of the offering. The amount of any decrease in net asset value is not predictable because it is not known at this time what the subscription price and net asset value per share will be on the expiration date of the offering or what proportion of the shares will be purchased as a result of the offering. Such dilution could be substantial.

The fact that the rights are transferable may reduce the effects of any dilution as a result of the offering. Rights holders can transfer or sell their rights. The cash received from the sale of rights is partial compensation for any possible dilution. There can be no assurances, however, that a market for the rights will develop or the rights will have any value in that market.

**Stockholders will experience dilution in their ownership percentage if they do not participate in our dividend reinvestment plan.**

All dividends payable to stockholders that are participants in our dividend reinvestment plan are automatically reinvested in shares of our common stock. As a result, stockholders that do not participate in the dividend reinvestment plan will experience dilution over time.

**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, 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.



**FORWARD-LOOKING STATEMENTS**

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

our future operating results;

our business prospects and the prospects of our portfolio companies;

the return or impact of investments that we expect to make;

our contractual arrangements and relationships with third parties;

the dependence of our future success on the general economy and its impact on the industries in which we invest;

the ability of our portfolio companies to achieve their objectives;

our expected financings and investments;

the adequacy of our cash resources and working capital;

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

the ability of Ares Capital Management to locate suitable investments for us and to monitor and administer our investments.

We use words such as "anticipates," "believes," "expects," "intends" 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 prospectus.

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

You should understand that under Sections 27A(b)(2)(B) of the Securities Act of 1933 (the "Securities Act") and Section 21E(b)(2)(B) of the Exchange Act, the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 do not apply to statements made in connection with any offering of securities pursuant to this prospectus.

## THE RIGHTS OFFERING

### PURPOSE OF THE OFFERING

Our board of directors has determined in good faith that the offering would result in a net benefit to the existing stockholders because it increases the equity capital available for making additional investments, to pay operating expenses, to enhance liquidity and to temporarily repay debt. In addition, we believe the current credit markets are offering exceptionally attractive risk-adjusted returns. The offering gives existing stockholders the right to purchase additional shares at a price that is expected to be below the then-current trading price without paying any commission or sales charges (although, if you exercise your rights through a financial institution, you will be responsible for paying any fees which that institution may charge). The offering will increase the equity capital available for making additional investments. At our currently anticipated pace of investment activity, and given our current capital commitments, we believe that we will have limited capital available for new investments in 2008 unless we increase our capital resources. In connection with the approval of the offering, our board of directors considered, among other things, the following factors:

the subscription price relative to the market price and to our net asset value per share;

the increased equity capital to be available upon completion of the offering for making additional investments consistent with our investment objective;

the ownership dilution to be experienced by partially or non-participating stockholders and possible net asset value dilution to be experienced by all stockholders;

the terms and expenses in connection with the offering relative to other alternatives for raising capital;

the size of the offering in relation to the number of shares outstanding;

the market price of our common stock, both before and after the announcement of the offering; and

the general condition of the securities markets.

In determining that the offering is in our best interest and in the best interests of our stockholders, our board of directors considered, among other things, using a fixed pricing versus a variable pricing mechanism, the benefits and drawbacks of conducting a non-transferable versus a transferable offering and the effect on us if the offering is not fully subscribed. There can be no assurance that the offering will be successful.

Although we have no present intention to do so, we may, in the future and in our discretion, choose to make additional offerings from time to time for a number of shares and on terms which may or may not be similar to the offering. Any such future offering will be made in accordance with the Investment Company Act.

### TERMS OF THE OFFERING

We are issuing to record date stockholders transferable rights to subscribe for an aggregate of up to \_\_\_\_\_ shares of our common stock. Each record date stockholder is being issued \_\_\_\_\_ transferable right for each \_\_\_\_\_ shares of our common stock owned on the record date. The rights entitle each holder to acquire at the subscription price one share of our common stock for every right held, which we refer to as the basic subscription right. Rights may be exercised at any time during the subscription period, which commences on \_\_\_\_\_, 2008, the record date, and ends at 5:00 p.m., New York City time, on \_\_\_\_\_, 2008, the expiration date, which may be extended by us in our sole discretion.

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The rights will be evidenced by subscription certificates that will be mailed to stockholders, except as discussed below under " Foreign Stockholders." We will not issue fractional rights. We will round up the rights issued to you to the next whole right.

The rights are transferable, and we intend to apply for listing of the rights on The NASDAQ Global Select Market under the symbol " . " Rights holders who are not record date stockholders may purchase shares as described above, which we refer to as the basic subscription, and may be entitled to subscribe for shares pursuant to the over-subscription privilege (as described below). Non-record date rights holders who purchase shares in the basic subscription or pursuant to the over-subscription privilege, together with record date stockholders who purchase shares, are hereinafter referred to as participating rights holders.

Shares for which there is no subscription during the basic subscription will be offered, by means of the over-subscription privilege, first to record date stockholders who fully exercise the rights issued to them pursuant to the offering and who wish to acquire more than the number of shares they are entitled to purchase pursuant to the exercise of their rights. In addition, any non-record date rights holder who exercises rights is entitled to subscribe for remaining shares that are not otherwise subscribed for by record date stockholders. Shares acquired pursuant to the over-subscription privilege are subject to certain limitations and pro rata allocations. See " Over-Subscription Privilege" below.

For purposes of determining the number of shares a record date stockholder may acquire pursuant to the offering, broker-dealers, trust companies, banks or others whose shares are held of record by Cede & Co. ("Cede") or by any other depository or nominee will be deemed to be the holders of the rights that are issued to Cede or the other depository or nominee on their behalf.

There is no minimum number of rights that must be exercised in order for the offering to close.

### OVER-SUBSCRIPTION PRIVILEGE

Shares not subscribed for by rights holders, which we refer to as remaining shares, will be offered, by means of the over-subscription privilege, first to record date stockholders who have fully exercised the rights issued to them and who wish to acquire more than the number of shares they are entitled to purchase pursuant to the basic subscription. Rights holders should indicate on the subscription certificate that they submit with respect to the exercise of the rights issued to them how many additional shares they are willing to acquire pursuant to the over-subscription privilege. If there are sufficient remaining shares, all record date stockholders' over-subscription requests will be honored in full. If record date stockholder requests for shares pursuant to the over-subscription privilege exceed the remaining shares available, the available remaining shares will be allocated pro-rata among record date stockholders who over-subscribe based on the number of shares held on the record date. The percentage of remaining shares each over-subscribing stockholder may acquire will be rounded down to result in delivery of whole shares. The allocation process may involve a series of allocations to assure that the total number of remaining shares available for over-subscriptions is distributed on a pro-rata basis. The formula to be used in allocating the available excess shares is as follows:

$$\frac{\text{Stockholder's Record Date Position}}{\text{Total Record Date Position of All Over-Subscribers}} \times \text{Excess Shares Remaining}$$

Any rights holder other than record date stockholders who exercises rights is entitled to subscribe for remaining shares that are not otherwise over-subscribed for by record date stockholders. These non-record date rights holders should indicate, in the subscription certificate submitted with respect to the exercise of any rights, how many shares they are willing to acquire pursuant to the over-subscription privilege. There can be no assurance that non-record date rights holders will receive shares pursuant to the over-subscription privilege.

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If sufficient remaining shares are available after the over-subscription privileges for the record date stockholders have been allotted, then all over-subscriptions by non-record date rights holders will be honored in full. If the remaining shares are insufficient to permit such allocation, the remaining shares will be allocated pro-rata among the non-record date rights holders who wish to exercise their over-subscription privilege, based on the number of rights held by such rights holders on the expiration date; provided, however, that if this pro-rata allocation results in any holder being allocated a greater number of shares than the holder subscribed for pursuant to the exercise of the over-subscription privilege, then such holder will be allocated only such number of shares pursuant to the over-subscription privilege as such holder subscribed for. The formula to be used in allocating the shares available to non-record date rights holders exercising their over-subscription privilege is as follows:

$$\frac{\text{Non-Record Date Rights Holder's Rights Ownership as of the Expiration Date}}{\text{Total Rights Ownership as of the Expiration Date of Non-Record Date Rights Holders Exercising Their Over-Subscription Privilege}} \times \text{Shares Available for Non-Record Date Rights Holders Exercising Their Over-Subscription Privilege}$$

Banks, brokers, trustees and other nominee holders of rights will be required to certify to the subscription agent, before any over-subscription privilege may be exercised with respect to any particular beneficial owner, as to the aggregate number of rights exercised pursuant to the basic subscription and the number of shares subscribed for pursuant to the over-subscription privilege by such beneficial owner.

We will not offer or sell in connection with the offering any shares that are not subscribed for pursuant to the basic subscription or the over-subscription privilege.

Ares Investments, a current stockholder, has indicated that it intends to over-subscribe for up to a total investment of \$[ ] million in shares of our common stock. Any over-subscription by Ares Investments will be effected in accordance with the pro-rata allocation of shares in connection with the over-subscription privilege.

### THE SUBSCRIPTION PRICE

The subscription price for the shares to be issued pursuant to the offering will be % of the volume-weighted average of the sales prices of our shares of common stock on The NASDAQ Global Select Market for the consecutive trading days ending on the expiration date (as the same may be extended by us). Because the subscription price will be determined on the expiration date, rights holders will not know the subscription price at the time of exercise and will be required initially to pay for both the shares subscribed for pursuant to their basic subscription rights and, if eligible, any additional shares subscribed for pursuant to the over-subscription privilege at the estimated subscription price of \$ per share. Rights holders who exercise their rights will have no right to rescind a purchase after receipt of their completed subscription certificates together with payment for shares by the subscription agent.

### EXPIRATION OF THE OFFERING

The offering will expire at 5:00 p.m., New York City time, on , 2008, unless extended by us in our sole discretion. The rights will expire on the expiration date of the offering and may not be exercised thereafter.

Any extension of the offering will be followed as promptly as practicable by announcement thereof, and in no event later than 9:00 a.m., New York City time, on the next business day following the previously scheduled expiration date. Without limiting the manner in which we may choose to make such announcement, we will not, unless otherwise required by law, have any obligation to publish,

advertise or otherwise communicate any such announcement other than by issuing a press release or such other means of announcement as we deem appropriate.

#### **AMENDMENTS AND WAIVERS; TERMINATION**

We reserve the right to amend the terms and conditions of the offering, whether the amended terms are more or less favorable to you. We will comply with all applicable laws, including the federal securities laws, in connection with any such amendment.

We will decide all questions as to the validity, form and eligibility (including times of receipt, beneficial ownership and compliance with other procedural matters) in our sole discretion, and our determination shall be final and binding. The acceptance of subscription certificates and the subscription price also will be determined by us. Alternative, conditional or contingent subscriptions will not be accepted. We reserve the right to reject any exercise if such exercise is not in accordance with the terms of the offering or not in proper form or if the acceptance thereof or the issuance of shares of our common stock thereto could be deemed unlawful. We reserve the right to waive any deficiency or irregularity with respect to any subscription certificate. Subscriptions will not be deemed to have been received or accepted until all irregularities have been waived or cured within such time as we determine in our sole discretion. We will not be under any duty to give notification of any defect or irregularity in connection with the submission of subscription certificates or incur any liability for failure to give such notification.

We reserve the right, in our sole discretion, at any time prior to delivery of the shares of our common stock offered hereby, if the subscription price is less than % of the net asset value attributable to a share of common stock disclosed in the most recent periodic report we filed with the SEC, to terminate the rights offering by giving oral or written notice thereof to the subscription agent and making a public announcement thereof. If the offering is terminated, we will promptly arrange for the refund, without interest, of all funds received from holders of rights. All monies received by the subscription agent in connection with the offering will be held by the subscription agent, on our behalf, in a segregated interest-bearing account. All such interest shall be payable to us even if we determine to terminate the offering and return your subscription payment.

#### **DILUTIVE EFFECTS**

Any stockholder who chooses not to participate in the offering should expect to own a smaller interest in us upon completion of the offering. The offering will dilute the ownership interest and voting power of stockholders who do not fully exercise their basic subscription rights. The amount of dilution that a stockholder will experience could be substantial. Further, because the net proceeds per share from the offering may be lower than our net asset value per share, the offering may reduce our net asset value per share. The amount of dilution that a stockholder will experience could be substantial.

Shares of closed-end investment companies have in the past frequently traded at discounts to their net asset values. This characteristic of closed-end investment companies is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether our shares will trade above, at or below our net asset value.

The transferable feature of the rights will afford non-participating stockholders the potential of receiving cash payment upon the sale of rights, receipt of which may be viewed as partial compensation for the dilution of their interests.

**NOTICE OF NET ASSET VALUE DECLINE**

If, subsequent to the effective date of this prospectus, our net asset value declines more than 10% from our net asset value as of that date, as required by the SEC's registration form, we will suspend the offering until we amend this prospectus. In such event, the expiration date would be extended and we would notify record date stockholders of the decline and permit participating rights holders to cancel their exercise of rights.

**INFORMATION AGENT**

will act as the information agent in connection with the offering. can be contacted at the below address:

[ ]  
 [ ]  
 [ ]  
 [ ]

**SUBSCRIPTION AGENT**

will act as the subscription agent in connection with the offering. The subscription agent will receive for its administrative, processing, invoicing and other services a fee estimated to be approximately \$ , plus reimbursement for all out-of-pocket expenses related to the offering.

Completed subscription certificates must be sent together with full payment of the subscription price for all shares subscribed for in the basic subscription and pursuant to the over-subscription privilege to the subscription agent by one of the methods described below. Alternatively, an Eligible Guarantor Institution may send notices of guaranteed delivery by facsimile to which must be received by the subscription agent at or prior to 5:00 p.m., New York City time, on the expiration date of the offering. Facsimiles should be confirmed by telephone at . We will accept only properly completed and duly executed subscription certificates actually received at any of the addresses listed below, at or prior to 5:00 p.m., New York City time, on the expiration date of the offering or by the close of business on the third business day after the expiration date of the offering following timely receipt of a notice of guaranteed delivery. See " Payment for Shares" below. In this prospectus, close of business means 5:00 p.m., New York City time, on the relevant date.

Subscription Certificate Delivery Method	Address/Number
By Notice of Guaranteed Delivery:	Contact an Eligible Guarantor Institution, which may include a commercial bank or trust company, a member firm of a domestic stock exchange or a savings bank or credit union, to notify us of your intent to exercise the rights.

Subscription Certificate Delivery Method	Address/Number
By First Class Mail Only:	[ ]
(No Overnight/Express Mail)	Attn: [ ]
	[ ]
	[ ]
	[ ]
By Overnight Delivery:	[ ]
	Attn: [ ]
	[ ]
	[ ]
	[ ]

**Delivery to an address other than one of the addresses listed above will not constitute valid delivery.**

Any questions or requests for assistance concerning the method of subscribing for shares or for additional copies of this prospectus or subscription certificates or notices of guaranteed delivery may be directed to the information agent at its telephone number and address listed below:

[ ]  
 Attn: [ ]  
 [ ]  
 [ ]  
 [ ]

Stockholders may also contact their broker-dealers or nominees for information with respect to the offering.

**METHODS FOR EXERCISING RIGHTS**

Rights are evidenced by subscription certificates that, except as described below under " Foreign Stockholders," will be mailed to record date stockholders or, if a record date stockholder's shares are held by Cede or any other depository or nominee on their behalf, to Cede or such depository or nominee. Rights may be exercised by completing and signing the subscription certificate that accompanies this prospectus and mailing it in the envelope provided, or otherwise delivering the completed and duly executed subscription certificate to the subscription agent, together with payment in full for the shares at the estimated subscription price by the expiration date of the offering. Rights may also be exercised by contacting your broker, trustee or other nominee, who can arrange, on your behalf, to guarantee delivery of payment and delivery of a properly completed and duly executed subscription certificate pursuant to a notice of guaranteed delivery by the close of business on the third business day after the expiration date. A fee may be charged for this service. Completed subscription certificates and related payments must be received by the subscription agent prior to 5:00 p.m., New York City time, on or before the expiration date (unless payment is effected by means of a notice of guaranteed delivery as described below under " Payment for Shares") at the offices of the subscription agent at the address set forth above.

**Exercise of the Over-Subscription Privilege**

Record date stockholders who fully exercise all rights issued to them and rights holders other than record date stockholders, may both participate in the over-subscription privilege by indicating on their subscription certificate the number of shares they are willing to acquire. If sufficient remaining shares are available after the initial subscription, all over-subscriptions will be honored in full; otherwise remaining shares will be allocated first to record date stockholders and then (if any remaining shares are still available) to non-record date rights holders, and the number of remaining shares issued to

some or all exercising rights holders participating in the over-subscription privilege may be reduced as described under " Over-Subscription Privilege" above.

#### **Record Date Stockholders Whose Shares are Held by a Nominee**

Record date stockholders whose shares are held by a nominee, such as a bank, broker-dealer or trustee, must contact that nominee to exercise their rights. In that case, the nominee will complete the subscription certificate on behalf of the record date stockholder and arrange for proper payment by one of the methods set forth under " Payment for Shares" below.

#### **Nominees**

Nominees, such as brokers, trustees or depositories for securities, who hold shares for the account of others should notify the respective beneficial owners of the shares as soon as possible to ascertain the beneficial owners' intentions and to obtain instructions with respect to the rights. If the beneficial owner so instructs, the nominee should complete the subscription certificate and submit it to the subscription agent with the proper payment as described under " Payment for Shares" below.

All questions as to the validity, form, eligibility (including times of receipt and matters pertaining to beneficial ownership) and the acceptance of subscription forms and the subscription price will be determined by us, which determinations will be final and binding. No alternative, conditional or contingent subscriptions will be accepted. We reserve the right to reject any or all subscriptions not properly submitted or the acceptance of which would, in the opinion of our counsel, be unlawful.

#### **FOREIGN STOCKHOLDERS**

Subscription certificates will not be mailed to foreign stockholders. Foreign stockholders will receive written notice of the offering. The subscription agent will hold the rights to which those subscription certificates relate for these stockholders' accounts until instructions are received to exercise the rights, subject to applicable law. If no instructions have been received by 5:00 p.m., New York City time, on \_\_\_\_\_, 2008, three business days prior to the expiration date (or, if the offering is extended, on or before three business days prior to the extended expiration date), the subscription agent will transfer the rights of these stockholders to the dealer managers, who will either purchase the rights or use their best efforts to sell them. The net proceeds, if any, from sale of those rights will be remitted to these stockholders.

#### **PAYMENT FOR SHARES**

Participating rights holders may choose between the following methods of payment:

- (1) A participating rights holder may send the subscription certificate together with payment for the shares acquired in the basic subscription and any additional shares subscribed for pursuant to the over-subscription privilege to the subscription agent based on the estimated subscription price of \$ \_\_\_\_\_. To be accepted, the payment, together with a properly completed and executed subscription certificate, must be received by the subscription agent at one of the subscription agent's offices set forth above, at or prior to 5:00 p.m., New York City time, on the expiration date.
- (2) A participating rights holder may request an Eligible Guarantor Institution as that term is defined in Rule 17Ad-15 under the Securities Exchange Act of 1934, as amended, to send a notice of guaranteed delivery by facsimile or otherwise guaranteeing delivery of (i) payment of the full estimated subscription price of \$ \_\_\_\_\_ per share for the shares subscribed for in the basic subscription and any additional shares subscribed for pursuant to the over-subscription privilege and (ii) a properly completed and duly executed



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subscription certificate. The subscription agent will not honor a notice of guaranteed delivery unless a properly completed and duly executed subscription certificate and full payment for the shares is received by the subscription agent at or prior to 5:00 p.m., New York City time, on \_\_\_\_\_, 2008 (or, if the offering is extended, by the close of business two business days prior to the extended expiration date).

**Participating rights holders will have no right to rescind their subscription after receipt of their payment for shares by the subscription agent, except as provided above under " Notice of Net Asset Value Decline."**

All payments by a participating rights holder must be in U.S. dollars by money order or check or bank draft drawn on a bank or branch located in the United States and payable to Ares Capital Corporation. The subscription agent will hold all funds received by it prior to the final payment date pending pro-rata and distribution of the shares. If the offering is terminated, we will promptly arrange for the refund, without interest, of all funds received from holders of rights.

**The method of delivery of subscription certificates and payment of the subscription price to us will be at the election and risk of the participating rights holders, but if sent by mail it is recommended that such certificates and payments be sent by registered mail, properly insured, with return receipt requested, and that a sufficient number of days be allowed to ensure delivery to the subscription agent and clearance of payment prior to 5:00 p.m., New York City time, on the expiration date or the date guaranteed payments are due under a notice of guaranteed delivery (as applicable). Because uncertified personal checks may take at least five business days to clear, you are strongly urged to pay, or arrange for payment, by means of certified or cashier's check or money order.**

On a date within five business days following the expiration date, the subscription agent will send to each participating rights holder (or, if rights are held by Cede or any other depository or nominee, to Cede or such other depository or nominee) a confirmation showing (i) the number of shares purchased pursuant to the basic subscription; (ii) the number of shares, if any, acquired pursuant to the over-subscription privilege; (iii) the per share and total purchase price for the shares; and (iv) any additional amount payable to us by the participating rights holder or any excess to be refunded by us to the participating rights holder, in each case based on the subscription price as determined on the expiration date. If any participating rights holder, if eligible, exercises his or her right to acquire shares pursuant to the over-subscription privilege, any excess payment which would otherwise be refunded to him or her will be applied by us toward payment for shares acquired pursuant to the exercise of the over-subscription privilege. Any additional payment required from a participating rights holder must be received by the subscription agent within ten business days after the confirmation date. Any excess payment to be refunded by us to a participating rights holder will be mailed by the subscription agent to the rights holder as promptly as practicable.

**Whichever of the two methods described above is used, issuance of the shares purchased is subject to collection of checks and actual payment.** If a participating rights holder who subscribes for shares pursuant to the basic subscription or over-subscription privilege does not make payment of any amounts due by the expiration date, the date guaranteed payments are due under a notice of guaranteed delivery or within ten business days of the confirmation date, as applicable, the subscription agent reserves the right to take any or all of the following actions: (i) find other participating rights holders who wish to subscribe for such subscribed and unpaid for shares; (ii) apply any payment actually received by it from the participating rights holder toward the purchase of the greatest whole number of shares which could be acquired by such participating rights holder upon exercise of the basic subscription and/or the over-subscription privilege; and/or (iii) exercise any and all other rights or remedies to which it may be entitled, including, without limitation, the right to set off against payments actually received by it with respect to such subscribed for shares.

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All questions concerning the timeliness, validity, form and eligibility of any exercise of rights will be determined by us, whose determinations will be final and binding. We, in our sole discretion, may waive any defect or irregularity, or permit a defect or irregularity to be corrected within such time as we may determine, or reject the purported exercise of any right. Subscriptions will not be deemed to have been received or accepted until all irregularities have been waived or cured within such time as we determine in our sole discretion. The subscription agent will not be under any duty to give notification of any defect or irregularity in connection with the submission of subscription certificates or incur any liability for failure to give such notification.

### SALE OF RIGHTS

#### **The Rights are Transferable until the Trading Day Immediately Preceding the Expiration Date**

We intend to apply for listing on The NASDAQ Global Select Market under the symbol " \_\_\_\_\_ ." While the Company and the dealer managers will use their best efforts to ensure that an adequate trading market for the rights will exist, no assurance can be given that a market for the rights will develop. Trading in the rights on The NASDAQ Global Select Market is expected to be conducted beginning on or about \_\_\_\_\_, 2008, and continuing until and including \_\_\_\_\_, 2008 (or if the offering is extended, until the trading day immediately prior to the extended expiration date). Rights holders are encouraged to contact their broker-dealer, bank, trustee or other nominees for more information about trading of the rights.

#### **Sales through the Subscription Agent and the Dealer Managers**

Stockholders who do not wish to exercise any or all of their rights may instruct the subscription agent to sell any rights they do not intend to exercise themselves through or to a dealer manager. Subscription certificates representing the rights to be sold through or to a dealer manager must be received by the subscription agent on or before \_\_\_\_\_, 2008 (or if the offering is extended, until two business days prior to the extended expiration date). Upon the timely receipt by the subscription agent of appropriate instructions to sell rights, the subscription agent will ask the dealer managers either to purchase or to use their best efforts to complete the sale and the subscription agent will remit the proceeds of the sale to the selling stockholders. If the rights can be sold, sales of such rights will be deemed to have been effected at the weighted-average price received by the selling dealer manager on the day such rights are sold. The sale price of any rights sold to the dealer managers will be based upon the then current market price for the rights. The dealer managers will also attempt to sell all rights which remain unclaimed as a result of subscription certificates being returned by the postal authorities to the subscription agent as undeliverable as of the fourth business day prior to the expiration date of the offering. The subscription agent will hold the proceeds from those sales for the benefit of such non-claiming stockholders until such proceeds are either claimed or revert to the state pursuant to applicable state law. There can be no assurance that the dealer managers will purchase or be able to complete the sale of any such rights, and neither we nor the dealer managers have guaranteed any minimum sales price for the rights. If a stockholder does not utilize the services of the subscription agent and chooses to use another broker-dealer or other financial institution to sell rights, then the other broker-dealer or financial institution may charge a fee to sell the rights.

#### **Other Transfers**

The rights evidenced by a subscription certificate may be transferred in whole by endorsing the subscription certificate for transfer in accordance with the accompanying instructions. A portion of the rights evidenced by a single subscription certificate may be transferred by delivering to the subscription agent a subscription certificate properly endorsed for transfer, with instructions to register such portion of the rights evidenced thereby in the name of the transferee and to issue a new subscription certificate to the transferee evidencing such transferred rights. In such event, a new subscription certificate

evidencing the balance of the rights, if any, will be issued to the stockholder or, if the stockholder so instructs, to an additional transferee. The signature on the subscription certificate must correspond to the name as written upon the face of the subscription certificate, without alteration or enlargement, or any change. A signature guarantee must be provided by an Eligible Guarantor Institution as that term is defined in Rule 17Ad-15 under the Securities Exchange Act of 1934, as amended, subject to the standards and procedures adopted by us.

Stockholders wishing to transfer all or a portion of their rights should allow at least five business days prior to the expiration date of the offering for (i) the transfer instructions to be received and processed by the subscription agent; (ii) a new subscription certificate to be issued and transmitted to the transferee or transferees with respect to transferred rights, and to the transferor with respect to retained rights, if any; and (iii) the rights evidenced by such new subscription certificate to be exercised or sold by the recipients thereof. Neither we nor the subscription agent nor the dealer managers shall have any liability to a transferee or transferor of rights if subscription certificates are not received in time for exercise prior to the expiration date of the offering or sale prior to the day immediately preceding the expiration date of the offering (or, if the offering is extended, the extended expiration date).

Except for the fees charged by the subscription agent and dealer managers, which will be paid by us, all commissions, fees and other expenses (including brokerage commissions and transfer taxes) incurred or charged in connection with the purchase, sale or exercise of rights will be for the account of the transferor of the rights, and none of those commissions, fees or expenses will be paid by us, the subscription agent or the dealer managers.

We anticipate that the rights will be eligible for transfer through, and that the exercise of the basic subscription and the over-subscription privilege may be effected through, the facilities of the Depository Trust Company or DTC. Holders of DTC exercised rights may exercise the over-subscription privilege in respect of such DTC exercised rights by properly completing and duly executing and delivering to the subscription agent, at or prior to 5:00 p.m., New York City time, on the expiration date of the offering, a nominee holder over-subscription certificate or a substantially similar form satisfactory to the subscription agent, together with payment of the estimated subscription price for the number of shares for which the over-subscription privilege is to be exercised.

#### **DELIVERY OF STOCK CERTIFICATES**

Unless requested otherwise, stock certificates will not be issued for shares of our common stock offered in the offering. Stockholders who are record owners will have the shares they acquire credited to their account with our transfer agent. All future dividends paid on such shares will be paid either in cash or reinvested into additional shares, depending on the election you made in connection with our dividend reinvestment plan. Stockholders whose common stock are held by a nominee will have the shares they acquire credited to the account of such nominee holder.

#### **MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS OF THE OFFERING**

For U.S. federal income tax purposes, neither the receipt nor the exercise of the rights by record date stockholders will result in taxable income to such stockholders, and no loss will be recognized if the rights expire without exercise.

A record date stockholder's basis in a right will be zero unless either (i) the fair market value of the right on the date of distribution is 15% or more of the fair market value of the share with respect to which the right was distributed or (ii) the record date stockholder elects, in his or her federal income tax return for the taxable year in which the right is received, to allocate part of the basis of such shares to the right. If either of clauses (i) or (ii) is applicable, then if the right is exercised, the record date stockholder will allocate his or her basis in the share with respect to which the right was

distributed between the share and the right in proportion to the fair market values of each on the date of distribution.

The holding period of a right received by a record date stockholder includes the holding period of the share with regard to which the right was distributed. The holding period of the shares acquired upon exercise of the rights begins on the date of exercise.

If a right is sold, a gain or loss will be recognized by the rights holder in an amount equal to the difference between the basis of the right sold and the amount realized on its disposition. Such gain or loss will be a capital gain or loss (assuming the right was held as a capital asset) and long-term capital gain or loss if the right was held for more than one year.

A record date stockholder's basis for determining gain or loss upon the sale of a share acquired upon the exercise of rights will be equal to the sum of the record date stockholder's basis in the rights, if any, and the subscription price per share. A record date stockholder's gain or loss recognized upon a sale of a share acquired upon the exercise of rights will be a capital gain or loss (assuming the share was held as a capital asset at the time of sale) and will be a long-term capital gain or loss if the share is held for more than one year.

The foregoing is a general summary of the material U.S. federal income tax consequences of the offering under the provisions of the Code and Treasury regulations in effect as of the date of the prospectus that are generally applicable to record date stockholders who are U.S. persons within the meaning of the Code, and does not address any foreign, state or local tax consequences. The Code and Treasury regulations are subject to change, possibly retroactively, which could affect the validity of this discussion. Further, the Code and Treasury regulations may be interpreted differently by legislative or administrative action. Therefore, participating rights holders should consult their tax advisors regarding specific questions as to foreign, federal, state or local taxes.

## **ERISA CONSIDERATIONS**

Stockholders who are employee benefit plans subject to the Employee Retirement Income Security Act of 1974, which we refer to as ERISA (including corporate savings and 401(k) plans), Keogh or H.R. 10 plans of self-employed individuals and individual retirement accounts should be aware that additional contributions of cash to a retirement plan (other than rollover contributions or trustee-to-trustee transfers from other retirement plans) in order to exercise rights would be treated as contributions to the retirement plan and, when taken together with contributions previously made, may result in, among other things, excise taxes for excess or nondeductible contributions. In the case of retirement plans qualified under Section 401(a) of the Code and certain other retirement plans, additional cash contributions could cause the maximum contribution limitations of Section 415 of the Code or other qualification rules to be violated. It may also be a reportable distribution and there may be other adverse tax and ERISA consequences if rights are sold or transferred by a retirement plan.

Retirement plans and other tax exempt entities, including governmental plans, should also be aware that if they borrow in order to finance their exercise of rights, they may become subject to the tax on unrelated business taxable income under Section 511 of the Code. If any portion of an individual retirement account is used as security for a loan, the portion so used is also treated as distributed to the IRA depositor.

ERISA contains fiduciary responsibility requirements, and ERISA and the Code contain prohibited transaction rules that may impact the exercise of rights. Due to the complexity of these rules and the penalties for noncompliance, retirement plans should consult with their counsel and other advisers regarding the consequences of their exercise of rights under ERISA and the Code.

**DISTRIBUTION ARRANGEMENTS**

Merrill Lynch, Pierce, Fenner & Smith Incorporated, Wachovia Capital Markets, LLC and \_\_\_\_\_, each a broker-dealer and member of FINRA, will act as dealer managers for the offering. Under the terms and subject to the conditions contained in the dealer manager agreement, the dealer managers will provide financial advisory and marketing services in connection with the offering and will solicit the exercise of rights and participation in the over-subscription privilege. The offering is not contingent upon any number of rights being exercised. We have agreed to pay the dealer managers a fee for their financial advisory, marketing and soliciting services equal to \_\_\_\_\_ % of the aggregate subscription price for shares issued pursuant to the offering.

In addition, we have agreed to reimburse the dealer managers an aggregate amount up to \$ \_\_\_\_\_ for their expenses incurred in connection with the offering. We have agreed to indemnify the dealer managers for, or contribute to losses arising out of, certain liabilities, including liabilities under the Securities Act of 1933. The dealer manager agreement also provides that the dealer managers will not be subject to any liability to us in rendering the services contemplated by the dealer manager agreement except for any act of bad faith, willful misfeasance, or gross negligence of such dealer manager or reckless disregard by such dealer manager of its obligations and duties under the dealer manager agreement.

Prior to the expiration of the offering, the dealer managers may independently offer for sale shares, including shares acquired through purchasing and exercising the rights, at prices they set. The dealer managers may realize profits or losses independent of any fees described in this prospectus.

**USE OF PROCEEDS**

Assuming \_\_\_\_\_ shares of our common stock are sold at the estimated subscription price of \$ \_\_\_\_\_, the net proceeds from the offering will be approximately \$ \_\_\_\_\_ million, after deducting dealer manager fees and other expenses related to the offering payable by us. There can be no assurance that all the rights will be exercised in full, and the subscription price will not be determined until the close of business on the expiration date.

We intend to use the net proceeds from the offering for general corporate purposes, which includes investing in portfolio companies in accordance with our investment objective and strategies and market conditions and repaying indebtedness. We anticipate that substantially all of the net proceeds of the offering will be used for the above purposes within three months of the offering, depending on the availability of appropriate investment opportunities consistent with our investment objective and strategies and market conditions.

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

**PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS**

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 this date there was no public market for our common stock. Our common stock has historically traded at prices both above and below its net asset value. It is not possible to predict whether the common stock offered hereby will trade at, above, or below net asset value. See "Risk Factors Our shares of common stock may trade at discounts from net asset value."

The following table sets forth the net asset value of our common stock, the range of high and low closing prices of our common stock as reported on The NASDAQ Global Select Market and the dividends declared by us for each fiscal quarter since our initial public offering. The stock quotations are interdealer quotations and do not include markups, markdowns or commissions and may not necessarily represent actual transactions.

	NAV(1)	Price Range		Premium/ Discount of High Sales Price to NAV	Premium/ Discount of Low Sales Price to NAV	Cash Dividend Per Share(2)
		High	Low			
<b>Fiscal 2005</b>						
First quarter	\$ 14.96	\$ 18.74	\$ 15.57	125.3%	104.0%	\$ 0.30
Second quarter	\$ 14.97	\$ 18.14	\$ 15.96	121.2%	106.6%	\$ 0.32
Third quarter	\$ 15.08	\$ 19.25	\$ 16.18	127.7%	107.3%	\$ 0.34
Fourth quarter	\$ 15.03	\$ 16.73	\$ 15.08	111.3%	100.3%	\$ 0.34
<b>Fiscal 2006</b>						
First quarter	\$ 15.03	\$ 17.97	\$ 16.23	119.6%	108.0%	\$ 0.36
Second quarter	\$ 15.10	\$ 17.50	\$ 16.36	115.9%	108.3%	\$ 0.38
Third quarter	\$ 15.06	\$ 17.51	\$ 15.67	116.3%	104.1%	\$ 0.40
Fourth quarter	\$ 15.17	\$ 19.31	\$ 17.39	127.3%	114.6%	\$ 0.50(3)
<b>Fiscal 2007</b>						
First quarter	\$ 15.34	\$ 20.46	\$ 17.82	133.4%	116.2%	\$ 0.41
Second quarter	\$ 15.84	\$ 18.84	\$ 16.85	118.9%	106.4%	\$ 0.41
Third quarter	\$ 15.74	\$ 17.53	\$ 14.92	111.4%	94.8%	\$ 0.42
Fourth quarter	*	\$ 17.47	\$ 14.40	*	*	\$ 0.42
<b>Fiscal 2008</b>						
First quarter (through 2008)	*	\$	\$	*	*	(4)

- (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.
- (3) Includes an additional cash dividend of \$0.10 per share.
- (4) The dividend has not yet been declared for this quarter.
- \* Net asset value has not yet been calculated for this period.

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On \_\_\_\_\_, 2008, the last reported sales price of our common stock on The NASDAQ Global Select Market was \$ \_\_\_\_\_ per share[, which represented a [premium/discount] of approximately \_\_\_\_\_ % to the net asset value per share reported by us as of \_\_\_\_\_, 2007].



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

The following table summarizes our dividends declared to date:

<u>Date Declared</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Amount</u>
December 16, 2004	December 27, 2004	January 26, 2005	\$ 0.30
Total declared for 2004			\$ 0.30
February 23, 2005	March 7, 2005	April 15, 2005	\$ 0.30
June 20, 2005	June 30, 2005	July 15, 2005	\$ 0.32
September 6, 2005	September 16, 2005	September 30, 2005	\$ 0.34
December 12, 2005	December 22, 2005	January 17, 2006	\$ 0.34
Total declared for 2005			\$ 1.30
February 28, 2006	March 24, 2006	April 17, 2006	\$ 0.36
May 8, 2006	June 15, 2006	June 30, 2006	\$ 0.38
August 9, 2006	September 15, 2006	September 29, 2006	\$ 0.40
November 8, 2006	December 15, 2006	December 29, 2006	\$ 0.40
November 8, 2006	December 15, 2006	December 29, 2006	\$ 0.10
Total declared for 2006			\$ 1.64
March 8, 2007	March 19, 2007	March 30, 2007	\$ 0.41
May 10, 2007	June 15, 2007	June 29, 2007	\$ 0.41
August 9, 2007	September 14, 2007	September 28, 2007	\$ 0.42
November 8, 2007	December 14, 2007	December 31, 2007	\$ 0.42
Total declared for 2007			\$ 1.66

To maintain our RIC status, we must distribute an amount equal to at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, reduced by deductible expenses, out of the assets legally available for distribution. To avoid certain excise taxes imposed on RICs, we are generally required to distribute during each calendar year an amount at least equal to the sum of (1) 98% of our ordinary income for the calendar year, plus (2) 98% of our capital gains in excess of capital losses for the one-year period ending on October 31 of the calendar year plus (3) any ordinary income and net capital gains for preceding years that were not distributed during such years. If this requirement is not met, we will be required to pay a nondeductible excise tax equal to 4% of the amount by which 98% of the current year's taxable income exceeds the distribution for the year. The taxable income on which an excise tax is paid is generally carried forward and 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 in excess of current year distributions into the next tax year and pay a 4% excise tax on such income, as required. Our excise tax liability for the year ended December 31, 2006 was approximately \$570,000. 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 dividend, then stockholders' cash dividends will be automatically reinvested in additional shares of our common stock, unless they specifically "opt out" of the dividend reinvestment plan so as to receive cash dividends. See "Dividend Reinvestment Plan."

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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

**OVERVIEW**

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

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 long-term mezzanine debt, which in some cases may include an equity component, and, to a lesser extent, in equity investments in private U.S. middle market companies.

We are externally managed by Ares Capital Management, an affiliate of Ares Management LLC, an independent international investment management firm that manages investment funds. Ares Administration, an affiliate of Ares Management, provides the administrative services necessary for us to operate.

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

We have qualified and elected to be treated as a regulated investment company, or a RIC, under Subchapter M of the Code. 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 at least 90% of our investment company taxable income, as defined by the Code, for each year. Pursuant to these elections, we generally will not have to pay corporate-level taxes on any income that we distribute to our stockholders.

**CRITICAL ACCOUNTING POLICIES**

***Basis of Presentation***

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

***Investments***

Investment transactions are recorded on the trade date. Realized gains or losses are computed using the specific identification method. Investments for which market quotations are readily available are valued at such market quotations. Debt and equity securities that are not publicly traded or whose market price is not readily available are valued at fair value as determined in good faith by our board of directors based on the input of our management and audit committee. In addition, the board of directors currently receives input from independent valuation firms that have been engaged at the

direction of the board to assist in the valuation of each portfolio investment at least once during a trailing 12 month period. The valuation process is conducted at the end of each fiscal quarter, with approximately a quarter of our valuations of portfolio companies subject to review by an independent valuation firm each quarter. The types of factors that the board may take into account in fair value valuation of our investments include, as relevant, the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly traded securities and other relevant factors.

When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we use the pricing indicated by the external event to corroborate our valuation. Because there is not a readily available market value for most of the investments in our portfolio, we value substantially all of our portfolio investments at fair value as determined in good faith by our board under a valuation policy and a consistently applied valuation process. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may 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.

With respect to investments for which market quotations are not readily available, our board of directors undertakes a multi-step valuation process each quarter, as described below:

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

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

The audit committee of our board of directors reviews these preliminary valuations as well as the input of an independent valuation firm with respect to the valuations of approximately a quarter of our portfolio companies.

The board of directors discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of our management and audit committee and independent valuation firms.

### ***Interest Income Recognition***

Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis to the extent that such amounts are expected to be collected. The Company stops accruing interest on its investments when it is determined that interest is no longer collectible. If any cash is received after it is determined that interest is no longer collectible, we will treat the cash as payment on the principal balance until the entire principal balance has been repaid, before any interest income is recognized. Discounts and premiums on securities purchased are accreted/amortized 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 amortizations of premium on bonds.

### ***Payment in Kind Interest***

The Company has loans in its portfolio that contain a payment-in-kind ("PIK") provision. 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***

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 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 in the event that the Company 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.

***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 day.
- (2) Purchases and sales of investment securities, income and expenses at the rates of exchange prevailing on the respective dates of such transactions.

Although net assets and fair values are presented based on the applicable foreign exchange rates described above, the Company does not isolate the portion of its results of operations based on changes in foreign exchange rates from the portion of its results of operations based on changes in the fair value of its investments. Such exchange rate fluctuations are included with the net realized and unrealized gains or losses from investments. 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 fluctuations and revaluations and future adverse political, social and economic developments, which could cause investments in their markets to be less liquid and prices more volatile than those of comparable U.S. companies or U.S. government securities.

***Federal Income Taxes***

The Company has qualified and elected and intends to continue to qualify for the tax treatment applicable to RICs under Subchapter M of the Code and, among other things, has made and intends to continue to make the requisite distributions to its stockholders which will relieve the Company from Federal income taxes. In order to qualify as a RIC, among other factors, the Company is required to timely distribute to its stockholders at least 90% of investment company taxable income, as defined by the Code, for each year.

In accordance with GAAP, book and tax basis differences relating to stockholder distributions and other permanent book and tax differences are reclassified between, distributions less than (in excess of) net investment income, accumulated net realized gain on sale of investments and capital in excess of par. In addition, the character of income and gains to be distributed is determined in accordance with income tax regulations that may differ from GAAP, as highlighted in Note 6 to our consolidated financial statements for the fiscal year ended December 31, 2006.

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Certain of our wholly owned subsidiaries are subject to Federal and state income taxes.

### *Dividends*

Dividends and distributions to common stockholders are recorded on the record date. The amount to be paid out as a dividend is determined by the 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 re-investment.

We have adopted a dividend reinvestment plan that provides for reinvestment of our distributions 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 dividends.

### *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 estimated or assumed. Significant estimates include the valuation of investments.

### *Fair Value of Financial Instruments*

The carrying value of the Company's financial instruments approximate fair value. The carrying value of interest and open trade receivables, accounts payable and accrued expenses, as well as the credit facility payable approximate fair value due to their short maturity.

## **PORTFOLIO AND INVESTMENT ACTIVITY**

Consistent with lower loan volumes for the broader market in the third quarter of 2007, for the three months ended September 30, 2007, we issued 8 new commitments in an aggregate amount of \$113.9 million (\$34.0 million to new portfolio companies and \$79.9 million to existing portfolio companies) where the average commitment amount was approximately \$14.2 million and the weighted average commitment term was approximately 68 months, compared to 13 new commitments in an aggregate amount of \$285.5 million (\$204.0 million to new portfolio companies and \$81.5 million to existing portfolio companies) where the average commitment amount was approximately \$22.0 million and the weighted average commitment term was approximately 73 months for the three months ended September 30, 2006. During the three months ended September 30, 2007, we funded \$103.3 million of such commitments (\$26.5 million to new portfolio companies and \$76.8 million to existing portfolio companies) compared to funding \$260.1 million of commitments (\$196.6 million to new portfolio companies and \$63.5 million to existing portfolio companies) for the three months ended September 30, 2006. Also during the three months ended September 30, 2007, we had \$106.2 million in exits and repayments of commitments resulting in net commitments of \$7.7 million for the period. For the three months ended September 30, 2006, we had \$119.4 million in exits and repayments of commitments resulting in net commitments of \$166.1 million for the period. We have remaining contractual obligations for \$7.5 million with respect to commitments funded as of September 30, 2007. The weighted average yield of debt and income producing equity securities funded during the three months ended September 30, 2007 and September 30, 2006 was approximately 12.16% and 12.04%, respectively, and the weighted average yield of debt and income producing equity securities exited or repaid during the three months ended September 30, 2007 and September 30, 2006 was approximately 11.50% and 12.49%, respectively (computed as (a) annual stated interest rate or yield earned plus the

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net annual amortization of original issue discount and market discount earned on accruing debt divided by (b) total debt and income producing equity securities at fair value).

For the three months ended September 30, 2007, the Company funded (A) \$75.1 million aggregate principal amount of senior term debt, (B) \$34.0 million aggregate principal amount of senior subordinated debt and (C) \$11.3 million of investments in equity securities. For the three months ended September 30, 2006, the Company funded (1) \$192.0 million aggregate principal amount of senior term debt, (2) \$76.1 million aggregate principal amount of senior subordinated debt, and (3) \$20.2 million of investments in equity securities.

During the three months ended September 30, 2007, (A) \$76.3 million aggregate principal amount of senior term debt and (B) \$10.0 million aggregate principal amount of senior notes were redeemed. Additionally, \$12.5 million aggregate principal amount of senior term debt and \$10.0 million of senior subordinated debt was sold or syndicated. As of September 30, 2007, the Company held investments in 69 portfolio companies compared to 60 portfolio companies as of December 31, 2006. During the three months ended September 30, 2006, (1) \$83.0 million aggregate principal amount of senior term debt and (2) \$15.1 million aggregate principal amount of senior subordinated debt was redeemed. Additionally, (a) \$19.0 million aggregate principal amount of senior term debt, (b) \$17.0 million aggregate principal amount of senior subordinated debt and (c) \$590,000 of investments in equity securities were sold.

The Investment Adviser employs an investment rating system to categorize our investments. In addition to various risk management and monitoring tools, the Investment Adviser grades all loans on a scale of 1 to 4 no less frequently than quarterly. This system is intended to reflect the performance of the borrower's business, the collateral coverage of the loans and other factors considered relevant. Under this system, loans with a grade of 4 involve the least amount of risk in our portfolio. The borrower is performing above expectations and the trends and risk factors are generally favorable (including a potential exit). Loans graded 3 involve a level of risk that is similar to the risk at the time of origination. The borrower is performing as expected and the risk factors are neutral to favorable. All new loans are initially graded 3. Loans graded 2 involve a borrower performing below expectations and indicates that the loan's risk has increased materially since origination. The borrower may be out of compliance with debt covenants, however, loan payments are generally not more than 120 days past due. For loans graded 2, we increase procedures to monitor the borrower and we will write down the fair value of the investment if it is deemed to be impaired. A loan grade of 1 indicates that the borrower is performing materially below expectations and that the loan risk has substantially increased since origination. Most or all of the debt covenants are out of compliance and payments are substantially delinquent. Loans graded 1 are not anticipated to be repaid in full and we will reduce the fair market value of the investment to the amount we anticipate will be recovered. We employ half point increments to reflect underlying trends in portfolio company operating or financial performance, as well as general outlook. As of September 30, 2007, the weighted average investment grade of the debt in our portfolio was 3.0 and one loan was past due or on non-accrual. The weighted average investment grade of the debt in our portfolio as of December 31, 2006 was 3.0. The following is a distribution of the grades of our portfolio companies as of September 30, 2007 and December 31, 2006:

	September 30, 2007		December 31, 2006	
	Fair Value	Number of Companies	Fair Value	Number of Companies
Grade 1	\$ 8,586,770	1	\$ 504,206	1
Grade 2	70,679,490	5	14,206,419	1
Grade 3	1,483,852,945	60	1,189,399,643	56
Grade 4	52,453,574	3	31,711,568	2
	\$ 1,615,572,779	69	\$ 1,235,821,836	60

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As of September 30, 2007, the weighted average yield of the debt and income producing equity securities in our portfolio was approximately 11.63%. As of September 30, 2007, the weighted average yield on our entire portfolio was 10.25%. As of September 30, 2007, the weighted average yield on our senior term debt, senior subordinated debt and income producing equity securities was 11.32%, 12.58% and 9.57%, respectively. Of the senior term debt at September 30, 2007, the weighted average yield attributable to first lien senior term debt and second lien senior term debt was 10.81% and 12.21%, respectively.

As of December 31, 2006, the weighted average yield of the debt and income producing equity securities in our portfolio was approximately 11.95%. As of December 31, 2006, the weighted average yield on our entire portfolio was 10.79%. As of December 31, 2006, the weighted average yield on our senior term debt, senior subordinated debt and income producing equity securities was 11.52%, 13.16% and 10.00%, respectively. Of the senior term debt at December 31, 2006, the weighted average yield attributable to first lien senior term debt and second lien senior term debt was 11.22% and 11.94%, respectively.

The weighted average yield on our debt and income producing equity securities was lower as of September 30, 2007 compared to the weighted average yield on our debt and income producing equity securities as of December 31, 2006 because we added a higher percentage of lower yielding first lien investments during the nine months ended September 30, 2007, and the average yield on our exits and repayments was higher than the investments added during the period.

### RESULTS OF OPERATIONS

#### *For the three and nine months ended September 30, 2007 and September 30, 2006*

Operating results for the three and nine months ended September 30, 2007 and September 30, 2006 were as follows:

	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Total Investment Income	\$ 47,931,434	\$ 31,831,794	\$ 135,045,376	\$ 82,512,850
Total Expenses	24,101,377	14,756,843	67,312,807	39,272,954
Net Investment Income Before Income Taxes	23,830,057	17,074,951	67,732,569	43,239,896
Income Tax Expense (Benefit), Including Excise Tax	(78,788)	(253,044)	(112,069)	4,927,471
Net Investment Income	23,908,845	17,327,995	67,844,638	38,312,425
Net Realized Gain	10,886,348	1,611,935	3,362,560	26,102,809
Net Unrealized Gain (Loss)	(11,870,712)	(798,808)	8,873,436	(15,738,399)
Net Increase in Stockholders' Equity Resulting From Operations	\$ 22,924,481	\$ 18,141,122	\$ 80,080,634	\$ 48,676,835

### Investment Income

For the three months ended September 30, 2007, total investment income increased \$16.1 million, or 51%, over the three months ended September 30, 2006. For the three months ended September 30, 2007, total investment income consisted of \$42.9 million in interest income from investments, \$2.7 million in capital structuring service fees, \$1.1 million in dividend income, \$459,000 in other income and \$791,000 in interest income from cash and cash equivalents. Interest income from investments increased \$16.3 million, or 62%, to \$42.9 million for the three months ended September 30, 2007 from \$26.5 million for the comparable period in 2006. The increase in interest

income from investments was primarily due to the increase in the overall size of the portfolio. The average investments for the quarter increased from \$926.8 million for the three months ended September 30, 2006 to \$1.6 billion for the comparable period in 2007.

For the nine months ended September 30, 2007, total investment income increased \$52.5 million, or 64%, over the nine months ended September 30, 2006. For the nine months ended September 30, 2007, total investment income consisted of \$116.5 million in interest income from investments, \$12.4 million in capital structuring service fees, \$2.4 million in dividend income, \$1.5 million in other income and \$2.3 million in interest income from cash and cash equivalents. Interest income from investments increased \$48.9 million, or 72%, to \$116.5 million for the nine months ended September 30, 2007 from \$67.5 million for the comparable period in 2006. The increase in interest income from investments was primarily due to the increase in the overall size of the portfolio. The average investments, at fair value, for the period increased from \$794.2 million for the nine months ended September 30, 2006 to \$1.4 billion for the comparable period in 2007.

## Expenses

For the three months ended September 30, 2007, total expenses increased \$9.3 million, or 63%, over the three months ended September 30, 2006. Base management fees increased \$2.5 million, or 68%, to \$6.2 million for the three months ended September 30, 2007 from \$3.7 million for the comparable period in 2006, primarily due to the increase in the size of the portfolio. Incentive fees related to pre-incentive fee net investment income increased \$1.6 million, or 37%, to \$6.0 million for the three months ended September 30, 2007 from \$4.4 million for the comparable period in 2006, primarily due to the increase in the size of the portfolio and the related increase in net investment income. Interest expense and credit facility fees increased \$4.5 million, or 91%, to \$9.4 million for the three months ended September 30, 2007 from \$4.9 million for the comparable period in 2006, primarily due to the increase in the average outstanding borrowings. There were \$559.1 million in average outstanding borrowings during the three months ended September 30, 2007 compared to average outstanding borrowings of \$291.1 million in the comparable period in 2006.

For the nine months ended September 30, 2007, total expenses increased \$28.0 million, or 71%, over the nine months ended September 30, 2006. Base management fees increased \$7.7 million, or 83%, to \$17.1 million for the nine months ended September 30, 2007 from \$9.3 million for the comparable period in 2006, primarily due to the increase in the size of the portfolio. Incentive fees related to pre-incentive fee net investment income increased \$5.6 million, or 49%, to \$17.0 million for the nine months ended September 30, 2007 from \$11.4 million for the comparable period in 2006, primarily due to the increase in the size of the portfolio and the related increase in net investment income. Interest expense and credit facility fees increased \$14.1 million, or 123%, to \$25.5 million for the nine months ended September 30, 2007 from \$11.4 million for the comparable period in 2006, primarily due to the significant increase in the borrowings outstanding. The average outstanding borrowings during the nine months ended September 30, 2007 were \$520.5 million compared to average outstanding borrowings of \$211.9 million in the comparable period in 2006. The increases in expenses were offset by a decline in incentive fees related to realized gains. For the nine months ended September 30, 2006 there were \$3.0 million in incentive fees accrued related to realized gains compared to no incentive fees accrued related to realized gains for the nine months ended September 30, 2007, due to higher net realized gains recognized during the nine months ended September 30, 2006.

## Income Tax Expense, Including Excise Tax

The Company has qualified and elected and intends to continue to qualify for the tax treatment applicable to RICs under the Code, and, among other things, has made and intends to



continue to make the requisite distributions to its stockholders which will relieve the Company from 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 an excise tax estimate, if any, on estimated excess taxable income. For the three months ended September 30, 2007, the Company recorded a benefit of approximately \$34,000 for this federal excise tax. For the nine months ended September 30, 2007 the Company recorded a benefit of approximately \$64,000 for federal excise tax. For the three and nine months ended September 30, 2006, the Company recorded a benefit of approximately \$253,000 and a provision of approximately \$571,000 respectively for federal excise tax.

Certain of our wholly owned subsidiaries are subject to federal and state income taxes. For the three and nine months ended September 30, 2007, we recognized tax benefits of approximately \$45,000 and \$48,000, respectively, for these subsidiaries. For the three and nine months ended September 30, 2006, we recorded a tax provision of approximately \$4,244,000 and \$4,354,000, respectively, for these subsidiaries.

### **Net Unrealized Gains/Losses**

For the three months ended September 30, 2007, the Company's investments had net unrealized losses of \$11.9 million, which primarily related to the reversal of prior period unrealized appreciation of \$5.6 million from the investment in The GSI Group, Inc. ("GSI") and the \$12.8 million unrealized depreciation of several investments offset by \$7.1 million of unrealized appreciation of certain other investments. The most significant changes in unrealized depreciation were \$5.6 million for the investment in Primis Marketing Group, Inc. and Primis Holdings, LLC (together, "Primis"), \$3.0 million for the investment in Wear Me Apparel, LLC ("Wear Me"), \$2.1 million for the investment in Universal Trailer Corporation ("UTC"), and \$949,000 for the investment in Abingdon Investments Limited, offset by unrealized appreciation of \$3.0 million for the investment in Varel Holdings, Inc. ("Varel"), \$2.1 million for the investment in Waste Pro, Inc. ("Waste Pro") and \$1.5 million for the investment in MR Processing Holding Corp ("MR"). For the three months ended September 30, 2006, the Company's investments had net unrealized loss of \$799,000, which primarily related to the unrealized depreciation of \$2.3 million for the investment in Berkline/Benchcraft Holdings LLC ("Berkline"), offset by the unrealized appreciation in UTC of \$1.5 million.

For the nine months ended September 30, 2007, the Company's investments had net unrealized gains of \$8.9 million, which consisted of \$27.8 million of unrealized appreciation offset by \$20.1 million of unrealized depreciation as well as \$1.2 million for the reversal of prior period unrealized depreciation. The most significant changes in unrealized appreciation were \$7.2 million for the investment in Reflexite Corporation, \$4.0 million for the investment in Waste Pro, \$3.6 million for the investment in Daily Candy, Inc., \$3.0 million for the investment in Varel, \$1.7 million for the investment in Industrial Container Services, Inc. and \$1.5 million for the investment in MR, offset by unrealized depreciation of \$5.7 million for the investment in UTC, \$5.6 million for the investment in Primis, \$3.0 million for the investment in Diversified Collection Services, Inc. and \$3.0 million for the investment in Wear Me. For the nine months ended September 30, 2006, the Company's investments had net unrealized loss of \$15.7 million, which primarily related to the reversal of the prior period unrealized appreciation of \$9.3 million for the investment in CICQ, LP, which was realized during the period, the unrealized depreciation of \$6.0 million for the investment in Berkline and \$2.4 million for the investment in Making Memories Wholesale, Inc., offset by \$1.5 million of unrealized appreciation for the investment in UTC and \$1.0 million of unrealized appreciation for the investment in Varel.

**Net Realized Gains/Losses**

During the three months ended September 30, 2007, the Company had \$124.5 million of sales and repayments resulting in \$10.9 million of net realized gains. The most significant realized gains during the three months ended September 30, 2007 were the \$6.2 million gain for the investment in GSI, \$3.5 million for the investment in Equinox SMU Partners LLC ("SMU") and \$833,000 for the investment in The Parker Group, Inc. ("Parker Group"). During the three months ended September 30, 2006, the Company had \$136.5 million of sales and repayments resulting in \$1.6 million of net realized gains. The most significant realized gains during the three months ended September 30, 2006 were as a result of the repayments of the investments in OnCURE Medical Corp., Singer Sewing Company, WCA Waste Systems, Inc. and Extensity of \$452,000, \$443,000, \$250,000 and \$200,000 respectively.

During the nine months ended September 30, 2007, the Company had \$465.5 million of sales and repayments resulting in \$3.4 million of net realized gains. The most significant realized gains during the period were \$6.2 million for the investment in GSI, \$3.5 million for the investment in SMU and \$833,000 for the investment in Parker Group, offset by the \$8.3 million realized loss in Berkline. During the nine months ended September 30, 2006, the Company had \$306.9 million of sales and repayments resulting in \$26.1 million of net realized gains.

**Net Increase in Stockholders' Equity Resulting From Operations**

Net increase in stockholders' equity resulting from operations for the three and nine months ended September 30, 2007 was approximately \$22.9 million and \$80.1 million, respectively. Based on the weighted average shares outstanding during the three and nine months ended September 30, 2007, our net increase in stockholders' equity resulting from operations per common share was \$0.32 and \$1.25, respectively.

Net increase in stockholders' equity resulting from operations for the three and nine months ended September 30, 2006 was approximately \$18.1 million and \$48.7 million, respectively. Based on the weighted average shares outstanding during the three and nine months ended September 30, 2006, our net increase in stockholders' equity resulting from operations per common share was \$0.39 and \$1.19, respectively.

***For the years ended December 31, 2006 and December 31, 2005***

Operating results for the years ended December 31, 2006 and December 31, 2005 are as follows:

	<b>For the Year Ended December 31,</b>	
	<b>2006</b>	<b>2005</b>
Total Investment Income	\$ 120,020,908	\$ 41,850,477
Total Expenses	58,458,015	14,568,677
<b>Net Investment Income Before Income Taxes</b>	<b>61,562,893</b>	<b>27,281,800</b>
Income Tax Expense, Including Excise Tax	4,931,288	158,000
<b>Net Investment Income</b>	<b>56,631,605</b>	<b>27,123,800</b>
Net Realized Gains	27,616,431	10,341,713
Net Unrealized Gains (Losses)	(14,552,714)	4,385,563
<b>Net Increase in Stockholders' Equity Resulting From Operations</b>	<b>\$ 69,695,322</b>	<b>\$ 41,851,076</b>

### **Investment Income**

For the year ended December 31, 2006, total investment income increased \$78.2 million, or 187%, over the year ended December 31, 2005. Interest income from investments increased \$64.4 million, or 190%, to \$98.3 million for the year ended December 31, 2006 from \$34.0 million for the comparable period in 2005. The increase in interest income from investments was primarily due to the increase in the size of the portfolio. The average investments, at fair value, for the year increased from \$323.2 million for the year ended December 31, 2005 to \$871.0 million in the comparable period in 2006. Of the approximately \$64.4 million in interest income from investments, non-cash PIK interest income was \$6.3 million. Capital structuring service fees increased \$10.8 million, or 206%, to \$16.0 million for the year ended December 31, 2006 from \$5.2 million for the comparable period in 2005. The increase in capital structuring service fees was primarily due to the increased number of originations. The number of commitments increased from 31 during the year ended December 31, 2005 to 54 during the comparable period in 2006.

### **Operating Expenses**

For the year ended December 31, 2006, total expenses increased \$43.9 million, or 301%, over the year ended December 31, 2005. Base management fees increased \$8.5 million, or 165%, to \$13.6 million for the year ended December 31, 2006 from \$5.1 million for the comparable period in 2005, primarily due to the increase in the size of the portfolio. Incentive fees related to pre-incentive fee net investment income increased \$12.8 million, or 399%, to \$16.1 million for the year ended December 31, 2006 from \$3.2 million for the comparable period in 2005, primarily due to the increase in the size of the portfolio and the related increase in net investment income. Incentive fees related to realized gains increased \$2.5 million, or 252%, to \$3.4 million for the year ended December 31, 2006 from \$979,000 for the comparable period in 2005, primarily due to lower net realized gains and higher gross unrealized depreciation recognized during the year ended December 31, 2006 as compared to the year ended December 31, 2005. Net realized gains increased from \$10.3 million during the year ended December 31, 2005 to \$27.6 million during the year ended December 31, 2006. Gross unrealized depreciation increased from \$6.8 million during the year ended December 31, 2005 to \$8.9 million during the year ended December 31, 2006. Interest expense and credit facility fees increased \$17.1 million, or 1,175%, to \$18.6 million for the year ended December 31, 2006 from \$1.5 million for the comparable period in 2005, primarily due to the significant increase in the borrowings outstanding. The average outstanding borrowings during the year ended December 31, 2005 was \$17.9 million compared to average outstanding borrowings of \$262.4 million for the comparable period in 2006. The increase in interest expense and credit facility fees was also due to an increase in the amortization of debt issuance costs, which was \$1.8 million for the year ended December 31, 2006 compared to \$465,000 for the comparable period in 2005. The increase in the amortization of debt issuance costs was primarily due to additional debt issuance costs capitalized during the end of 2005 as a result of entering into the Revolving Credit Facility and increasing the borrowing capacity of the CP Funding Facility, and also due to additional debt issuance costs capitalized during the year ended December 31, 2006 related to the Debt Securitization.

### **Income Tax Expense, Including Excise Tax**

The Company has qualified and elected and intends to continue to qualify and elect for the tax treatment applicable to RICs under Subchapter M of the Code, and, among other things, has made and intends to continue to make the requisite distributions to its stockholders which will relieve the Company from 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. For the years ended December 31, 2006 and December 31, 2005 provisions of approximately \$570,000 and \$158,000, respectively, were recorded for Federal excise tax.

Certain of our wholly owned subsidiaries are subject to Federal and state income taxes. For the year ended December 31, 2006, we recorded a tax provision of approximately \$4.4 million for these subsidiaries. There was no provision recorded for the year ended December 31, 2005.

#### **Net Realized Gains/Losses**

During the year ended December 31, 2006, the Company had \$457.7 million of sales and repayments resulting in \$27.6 million of net realized gains. Net realized gains were comprised of \$27.7 million of gross realized gains and \$101,000 of gross realized losses. The most significant realized gains during the year ended December 31, 2006 were as a result of the sales and repayments of the investments in CICQ, LP ("CICQ"), United Site Services, Inc. and GCA Services Group, Inc. of \$18.6 million, \$4.5 million and \$1.0 million, respectively. During the year ended December 31, 2005, the Company had \$118.8 million of sales and repayments resulting in \$10.3 million of net realized gains. Net realized gains were comprised of \$10.5 million of gross realized gains and \$145,000 of gross realized losses. The most significant realized gains during the period were as a result of the sales of the investments in Reef Holdings, Inc. ("Reef"), Esselte, Inc. ("Esselte") and Billing Concepts, Inc. ("BCI") of \$4.8 million, \$2.4 million and \$1.8 million, respectively.

#### **Net Unrealized Gains/Losses on Investments**

For the year ended December 31, 2006, the Company's investments had a decrease in net unrealized gains/losses of \$14.6 million, which was comprised of \$9.2 million in unrealized appreciation, \$8.9 million in unrealized depreciation and \$14.9 million relating to the reversal of prior period net unrealized appreciation. The most significant changes in net unrealized appreciation were the unrealized appreciation for the investment in CICQ of \$4.0 million, the unrealized appreciation for the investment in Universal Trailer Corporation ("Universal") of \$3.4 million and the unrealized appreciation for the investment in Varel Holdings, Inc. of \$1.0 million, offset by the unrealized depreciation of \$6.5 million for the investment in Berkline/Benchcraft Holdings LLC ("Berkline") and unrealized depreciation of \$2.4 million for the investment in Making Memories Wholesale, Inc. The reversal of the prior period net unrealized appreciation was primarily due to the reversal of the appreciation of \$13.3 million for the investment in CICQ.

For the year ended December 31, 2005, the Company's investments had an increase in net unrealized gains/losses of \$4.4 million, which was comprised of \$15.5 million in unrealized appreciation, \$6.8 million in unrealized depreciation and \$4.3 million relating to the reversal of prior period unrealized net appreciation. The most significant changes in net unrealized appreciation were unrealized appreciation of \$9.3 million for the investment in CICQ and \$4.8 million for the investment in Reef, offset by the unrealized depreciation in Berkline of \$1.8 million and Universal of \$3.4 million. The reversal of the prior period net unrealized appreciation was primarily due to the reversal of the appreciation of \$4.8 million for the investment in Reef which was realized during 2005.

#### **Net Increase in Stockholders' Equity Resulting From Operations**

Net increase in stockholders' equity resulting from operations for the year ended December 31, 2006 was \$69.7 million. Based on the weighted average shares outstanding during the year ended December 31, 2006, our net increase in stockholders' equity resulting from operations per common share was \$1.61.

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Net increase in stockholders' equity resulting from operations for the year ended December 31, 2005 was \$41.9 million. Based on the weighted average shares outstanding during the year ended December 31, 2005, our net increase in stockholders' equity resulting from operations per common share was \$1.78.

### *For the year ended December 31, 2005 and the period from June 23, 2004 (inception) through December 31, 2004*

Set forth below is a comparison of our results of operations for the year ended December 31, 2005 and the period from June 23, 2004 (inception) through December 31, 2004. We were incorporated on April 16, 2004, initially funded on June 23, 2004 and commenced operations in October 2004. Therefore, there is no prior period with which to compare the results of operations for the period from June 23, 2004 (inception) through December 31, 2004.

Operating results for the year ended December 31, 2005 and the period from June 23, 2004 (inception) through December 31, 2004 are as follows:

	<b>For the Year Ended December 31, 2005</b>	<b>For the Period from June 23, 2004 (inception) Through December 31, 2004</b>
Total Investment Income	\$ 41,850,477	\$ 4,380,848
Total Expenses	14,568,677	1,665,753
<b>Net Investment Income Before Income Taxes</b>	<b>27,281,800</b>	<b>2,715,095</b>
Income Tax Expense, Including Excise Tax	158,000	
<b>Net Investment Income</b>	<b>27,123,800</b>	<b>2,715,095</b>
Net Realized Gains	10,341,713	244,446
Net Unrealized Gains	4,385,563	230,947
<b>Net Increase in Stockholders' Equity Resulting From Operations</b>	<b>\$ 41,851,076</b>	<b>\$ 3,190,488</b>

### **Investment Income**

Investment income for the year ended December 31, 2005 was approximately \$41.9 million compared to approximately \$4.4 million for the period from June 23, 2004 (inception) through December 31, 2004. The increase was primarily from the use of the proceeds from the additional common stock offerings completed in 2005 to fund additional investments, and as a result of a full year of operations for the year ended December 31, 2005 as compared to our limited operations during the prior period. For the year ended December 31, 2005 investment income consisted of approximately \$34.0 million in interest income from investments, \$1.5 million in interest income from cash and cash equivalents, \$745,000 in dividend income, \$5.2 million in capital structuring service fees from the closing of newly originated loans, and \$447,000 in facility fees and other income. Of the approximately \$34.0 million in interest income from investments, non-cash PIK interest income was \$3.1 million. For the period from June 23, 2004 (inception) through December 31, 2004 investment income consisted of approximately \$3.6 million in interest income from investments, \$39,000 in interest income from cash and cash equivalents, \$191,000 in dividend income, \$542,000 in capital structuring service fees from the closing of newly originated loans, and \$34,000 in facility fees and other income. Of the approximately \$3.6 million in interest income from investments, non-cash PIK interest income was \$509,000.

### **Operating Expenses**

Total operating expenses for the year ended December 31, 2005 were approximately \$14.7 million compared to approximately \$1.7 million for the period from June 23, 2004 (inception) through December 31, 2004.

For the year ended December 31, 2005, operating expenses consisted of approximately \$5.1 million in base management fees, \$3.2 million in incentive management fees related to pre-incentive fee net investment income and \$979,000 in incentive management fees related to realized capital gains compared to approximately \$472,000 in base management fees, \$60,000 in incentive management fees related to pre-incentive fee net investment income and \$36,000 in incentive management fees related to realized capital gains for the period from June 23, 2004 (inception) through December 31, 2004. The increase in base management fees and incentive management fees related to pre-incentive fee net investment income reflects the significantly increased size of our portfolio during the year ended December 31, 2005 as a result of the add-on offerings completed in 2005, and also reflects a full year of operations for the year ended December 31, 2005 as compared to our limited operations during the prior period. The increase in incentive management fees related to realized capital gains was a result of the sales and paydowns of several investments during the year ended December 31, 2005. Additionally, base management fees and incentive management fees were only payable beginning on October 8, 2004 (the date of the IPO and the commencement of substantial investment operations).

For the year ended December 31, 2005, total operating expenses also consisted of \$888,000 in general and administrative expenses, \$1.4 million in professional fees, \$310,000 for director fees, \$631,000 in insurance expenses, \$1.1 million in interest expense and facility fees, \$154,000 in interest payable to the investment adviser, \$465,000 in amortization of debt issuance cost, \$311,000 in other expense and \$158,000 in excise tax related to excess taxable income carried forward into 2006. For the period from June 23, 2004 (inception) through December 31, 2004 total expenses consisted of \$136,000 in general and administrative expenses, \$336,000 in professional fees, \$120,000 for director fees, \$162,000 in insurance expenses, \$96,000 in interest expense and facility fees, \$41,000 in amortization of debt issuance cost, \$8,000 in other expense, and a one-time charge of \$199,000 in organizational expenses. The increases are primarily a result of the larger size of our portfolio and also reflect a full year of operations for the year ended December 31, 2005 as compared to the prior period.

### **Net Realized Gains/Losses**

During the year ended December 31, 2005, the Company had \$118.8 million of sales and repayments resulting in \$10.3 million of net realized gains compared to the period from June 23, 2004 (inception) through December 31, 2004 which had \$53.5 million of sales and repayments resulting in \$244,000 of net realized gains. The increase in net realized gains was primarily a result of the sales and paydowns of several investments during the year ended December 31, 2005.

### **Net Unrealized Gains/Losses on Investments**

During the year ended December 31, 2005, the Company's investments had an increase in net unrealized gains/losses on investments of \$4.4 million as compared to \$231,000 for the period from June 23, 2004 (inception) through December 31, 2004. The increase in net unrealized gains/losses on investments was primarily a result of the appreciation of one investment offset by the depreciation of several other investments during the year ended December 31, 2005.

### **Net Increase in Stockholders' Equity Resulting From Operations**

Net increase in stockholders' equity resulting from operations for the year ended December 31, 2005 was approximately \$41.9 million compared to \$3.2 million for the period from June 23, 2004

(inception) through December 31, 2004. Our net increase in stockholders' equity resulting from operations per common share for the year ended December 31, 2005 was \$1.78 compared to \$0.29 for the period from June 23, 2004 (inception) through December 31, 2004.

## 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 its initial public offering and subsequent public add-on offerings of common stock, the Debt Securitization, advances from the CP Funding Facility and the Revolving Credit Facility (each as defined below), as well as cash flows from operations. During 2007, we received approximately \$344.2 million in proceeds net of underwriting and offering costs from various public add-on offerings of our common stock. As of September 30, 2007, total market capitalization for the Company was \$1.2 billion compared to \$994.4 million as of December 31, 2006.

On November 3, 2004, through our wholly owned subsidiary, Ares Capital CP Funding LLC ("Ares Capital CP"), we entered into a revolving credit facility (the "CP Funding Facility") that, as amended, allows Ares Capital CP to issue up to \$350.0 million of variable funding certificates ("VFC").

Under the CP Funding Facility, funds are loaned to Ares Capital CP by or through Wachovia Capital Markets, LLC at prevailing commercial paper rates, or if the commercial paper market is at any time unavailable at prevailing LIBOR rates, plus, in each case, an applicable spread. The funds are used for the simultaneous purchase by Ares Capital CP from the Company of loan investments originated or otherwise acquired by the Company. Through this simultaneous purchase from the Company by Ares Capital CP with funds obtained by Ares Capital CP from the CP Funding Facility, the Company is able to obtain the benefits of the CP Funding Facility.

As part of the CP Funding Facility, we are subject to limitations as to how borrowed funds may be used including restrictions on geographic concentrations, sector concentrations, loan size, payment frequency and status, average life, collateral interests and investment ratings as well as regulatory restrictions on leverage which may affect the amount of funds that Ares Capital CP may obtain. There are also certain requirements relating to portfolio performance, including required minimum portfolio yield and limitations on delinquencies and charge-offs, violation of which could result in the early amortization of the CP Funding Facility and limit further advances under the CP Funding Facility and in some cases could be an event of default. Such limitations, requirements, and associated defined terms are as provided for in the documents governing the CP Funding Facility. The CP Funding Facility expires on October 8, 2008 unless extended prior to such date with the consent of the lender. If the CP Funding Facility is not extended, any principal amounts then outstanding will be amortized over a 24 month period through a termination date of October 6, 2010. Additionally, we are also required to pay a commitment fee (as described below) for any unused portion of the CP Funding Facility.

The interest rate charged on the CP Funding Facility is based on the commercial paper rate plus 1.0% and payable quarterly. As of September 30, 2007, the commercial paper rate was 5.6829%. The commitment fee for unused portions of the credit facility ranges from 0.10% to 0.125%, depending on funding levels. The available amount for borrowing under the CP Funding Facility is \$350.0 million (see Note 7 to the consolidated financial statements as of September 30, 2007 for more detail on the CP Funding Facility arrangement). As of September 30, 2007 and February 5, 2008, there was \$85.0 million outstanding under the CP Funding Facility.

On December 28, 2005, we entered into the Revolving Credit Facility with the lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent, together with various supporting documentation, including a guarantee and security agreement. As of September 30, 2007, the aggregate principal amount of commitments under the Revolving Credit Facility was \$350.0 million. On November 13, 2007, the lenders entered into an amendment that extends credit to Ares Capital in an aggregate principal amount not exceeding \$510.0 million at any one time outstanding and up to a

maximum of \$765.0 if we fully exercise the "accordion" feature of the Revolving Credit Facility. The Revolving Credit Facility provides also for issuing letters of credit. The Revolving Credit Facility is a five-year revolving facility (with a stated maturity date of December 28, 2010) and with certain exceptions is secured by substantially all of the assets in our portfolio (other than investments held by Ares Capital CP under the CP Funding Facility and investments held by ARCC CLO under the Debt Securitization (each as defined below)).

Subject to certain exceptions, the interest rate payable under the Revolving Credit Facility is 100 basis points over LIBOR and the commitment fee for unused portions of the credit facility is 0.20%.

Under the Revolving Credit Facility, we have made certain representations and warranties and are required to comply with various covenants, reporting requirements and other customary requirements for similar revolving credit facilities, including, without limitation, covenants related to: (a) limitations on the incurrence of additional indebtedness and liens, (b) limitations on certain investments, (c) limitations on certain restricted payments, (d) maintaining a certain minimum stockholders' equity, (e) maintaining a ratio of total assets (less total liabilities) to total indebtedness, of Ares Capital and its subsidiaries, of not less than 2.0:1.0, (f) maintaining minimum liquidity, and (g) limitations on the creation or existence of agreements that prohibit liens on certain properties of Ares Capital and its subsidiaries.

In addition to the asset coverage ratio described above, borrowings under the Revolving Credit Facility (and the incurrence of certain other permitted debt) will be subject to compliance with a borrowing base that will apply different advance rates to different types of assets in our portfolio. The Revolving Credit Facility also includes an "accordion" feature that allows us to increase the size of the Revolving Credit Facility to a maximum of \$500 million under certain circumstances. The Revolving Credit Facility also includes usual and customary events of default for senior secured revolving credit facilities of this nature.

The available outstanding committed amount for borrowing under the Revolving Credit Facility is \$510.0 million (see "Recent Developments" for more detail on the Revolving Credit Facility). As of September 30, 2007 and February 5, 2008, there was \$128.5 million and \$267.5 million outstanding, respectively, under the Revolving Credit Facility. The Revolving Credit Facility expires on December 28, 2010.

On July 7, 2006, through our newly formed, wholly owned Delaware subsidiary, ARCC CLO 2006 LLC ("ARCC CLO"), we completed a \$400.0 million debt securitization (the "Debt Securitization") where approximately \$314.0 million principal amount of asset-backed notes (including \$50.0 million revolving notes, all of which have been drawn down as of September 30, 2007) (the "CLO Notes") were issued to third parties and secured by a pool of middle market loans that have been purchased or originated by the Company. We retained approximately \$86.0 million of certain BBB and non-rated securities in the debt securitization (the "Retained Notes"). The blended pricing of the CLO Notes, excluding fees, is approximately 3-month LIBOR plus 34 basis points. The Debt Securitization is an on-balance-sheet financing for the Company. As of September 30, 2007 and February 5, 2008, \$314.0 million was outstanding under the Debt Securitization (not including the Retained Notes). The CLO Notes mature on December 20, 2019.

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

A portion of the proceeds from our public offerings in 2007 was used to repay outstanding indebtedness. The remaining unused portion of the proceeds from our public offerings was used to fund investments in portfolio companies in accordance with our investment objective and strategies.



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The weighted average stated interest rate of all our outstanding borrowings for the nine months ended September 30, 2007 and September 30, 2006 was 6.03% and 6.04%, respectively. As of September 30, 2007 and December 31, 2006, the weighted average maturity of all our outstanding borrowings was 8.1 years and 9.0 years, respectively. As of September 30, 2007 and December 31, 2006, the fair value of investments and cash and cash equivalents, and the outstanding borrowings under the Debt Securitization, CP Funding Facility and the Revolving Credit Facility were as follows:

	September 30, 2007	December 31, 2006
Cash and cash equivalents	\$ 48,707,617	\$ 91,538,878
Senior term debt	1,005,544,463	791,677,723
Senior notes		10,000,000
Senior subordinated debt	387,842,496	299,877,755
Equity securities	221,185,820	134,266,358
	\$ 1,664,280,396	\$ 1,327,360,714
<b>Outstanding borrowings</b>	<b>\$ 527,500,000</b>	<b>\$ 482,000,000</b>

During the quarter ended September 30, 2007, Ares Capital received a long-term issuer rating of Baa3 from Moody's Investor Service and a long-term counterparty credit rating from Standard & Poor's Ratings Service of BBB, which it believes will provide access to broader financing sources and further diversify its capital raising alternatives.

For the three months ending September 30, 2007, average total assets were \$1.7 billion. The ratio of total debt outstanding to stockholders' equity as of September 30, 2007 was 0.46:1.00 compared to 0.61:1.00 as of December 31, 2006.

A summary of our contractual payment obligations as of September 30, 2007 are as follows:

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
CP Funding Facility payable	\$ 85,000,000	\$ 85,000,000		\$	\$
Revolving Credit Facility payable	128,500,000			128,500,000	
CLO Notes	314,000,000				314,000,000
	\$ 527,500,000	\$ 85,000,000		\$ 128,500,000	\$ 314,000,000
<b>Total Debt</b>	<b>\$ 527,500,000</b>	<b>\$ 85,000,000</b>		<b>\$ 128,500,000</b>	<b>\$ 314,000,000</b>

### OFF BALANCE SHEET ARRANGEMENTS

As of September 30, 2007, the Company had committed to make a total of approximately \$243.7 million of investments in various revolving senior secured and subordinated loans. As of September 30, 2007, \$177.0 million of this committed amount was unfunded. Additionally, \$197.1 million of the \$243.7 million in commitments extend beyond the maturity date of our Revolving Credit Facility (as defined in Note 7 to the consolidated financial statements for the period ended September 30, 2007). Included within the \$243.7 million in commitments in revolving secured and subordinated loans 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, the Company would be required to make payments to third-party beneficiaries if the portfolio companies were to default on their related payment obligations. As of September 30, 2007, the Company had \$8.8 million in standby letters of credit issued and outstanding on behalf of the portfolio companies, of which no amounts were recorded as a liability. Of these letters of credit, \$1.3 million expire on June 10, 2013, \$500,000 expire on August 31, 2010, \$4.6 million expire on February 28, 2009 and

\$2.4 million expire on September 30, 2008. These letters of credit may be extended under substantially similar terms for additional one-year terms at the Company's option until the Revolving Credit Facility, under which the letters of credit were issued, matures on December 28, 2010.

As of September 30, 2007, the Company was subject to subscription agreements to fund up to \$111.8 million of equity commitments, substantially all at the discretion of the Company in private equity investment partnerships. As of September 30, 2007, \$1.3 million was funded to these partnerships.

As of December 31, 2006, the Company had committed to make a total of approximately \$174.0 million of investments in various revolving senior secured and subordinated loans. As of December 31, 2006, \$117.0 million was unfunded. Additionally, \$129.8 million of the \$174.0 million in commitments extended beyond the maturity date of our Revolving Credit Facility. Included within the \$174.0 million in commitments in revolving secured and subordinated loans were commitments to issue up to \$3.8 million in standby letters of credit through a financial intermediary on behalf of certain portfolio companies. Under these arrangements, the Company would be required to make payments to third-party beneficiaries if the portfolio companies were to default on their related payment obligations. As of December 31, 2006, the Company had \$2.8 million in standby letters of credit issued and outstanding on behalf of the portfolio companies, of which no amounts were recorded as a liability.

As of December 31, 2006, the Company was subject to a subscription agreement to fund up to \$10.0 million of equity commitments in a private equity investment partnership. As of December 31, 2006, \$225,000 was funded to this partnership.

As of December 31, 2005, the Company had committed to make a total of approximately \$43.0 million of investments in various revolving senior secured loans. As of December 31, 2005, \$28.8 million was unfunded. Included within the \$43.0 million commitment in revolving secured loans is a commitment to issue up to \$3.2 million in standby letters of credit through a financial intermediary on behalf of a portfolio company. Under these arrangements, the Company would be required to make payments to third-party beneficiaries if the portfolio company was to default on its related payment obligations. As of December 31, 2005, the Company had \$2.2 million in standby letters of credit issued and outstanding on behalf of the portfolio company, of which no amounts were recorded as a liability.

## RECENT DEVELOPMENTS

On October 18, 2007, we entered into an amendment to extend the maturity of the CP Funding Facility to October 8, 2008. Additionally, the interest rate charged on the CP Funding Facility was increased to the commercial paper rate plus 1.00%.

On November 8, 2007, we declared a quarterly dividend of \$0.42 per share to stockholders of record as of the close of business on December 14, 2007, that will be paid on December 31, 2007. The shares sold in this offering will not be entitled to receive the \$0.42 dividend, which is payable on December 31, 2007.

On November 13, 2007, the aggregate principal amount of the Revolving Credit Facility was increased by \$160.0 million to a total of \$510.0 million. In addition, the "accordion" feature of the Revolving Credit Facility was amended and now allows us to increase the size of the Revolving Credit Facility to a maximum of \$765.0 under certain circumstances.

On November 19, 2007, we established a new middle market credit fund, Ivy Hill Middle Market Credit Fund, Ltd. ("Ivy Hill"), which will be managed by Ivy Hill Asset Management, L.P., a wholly owned subsidiary of the Company. On its formation, Ivy Hill closed with \$400.0 million of capital, including a \$56.0 million investment by us for \$40.0 million of rated notes and \$16.0 million of junior capital. In addition, as of December 10, 2007, we had sold approximately \$30 million of senior

loans to Ivy Hill at par. We expect to sell up to an additional \$120 million of senior loans to Ivy Hill in the near future.

## 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 spread between the rate at which we invest and the rate at which we borrow. As a result, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income.

As of September 30, 2007, approximately 39% of the investments at fair value in our portfolio were at fixed rates while approximately 50% were at variable rates and 11% were non-interest earning. In addition, the Debt Securitization, the CP Funding Facility and the Revolving Credit Facility all feature variable 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.

On January 7, 2005, we entered into a costless collar agreement in order to manage the exposure to changing interest rates related to the Company's fixed rate investments. The costless collar agreement was for a notional amount of \$20 million, has a cap of 6.5%, a floor of 2.72% and matures in 2008. The costless collar agreement allows us to receive an interest payment when the 3-month LIBOR exceeds 6.5% and obligates us to pay an interest payment when the 3-month LIBOR is less than 2.72%. The costless collar resets quarterly based on the 3-month LIBOR. As of September 30, 2007, the 3-month LIBOR was 5.23%. As of September 30, 2007, this agreement had no fair value.

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

Based on our September 30, 2007 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.

<b>Basis Point Change</b>	<b>Interest Income</b>	<b>Interest Expense</b>	<b>Net Income</b>
Up 300 basis points	\$ 22,527,194	\$ 15,825,000	\$ 6,702,194
Up 200 basis points	\$ 15,018,129	\$ 10,550,000	\$ 4,468,129
Up 100 basis points	\$ 7,509,064	\$ 5,275,000	\$ 2,234,064
Down 100 basis points	\$ (7,509,064)	\$ (5,275,000)	\$ (2,234,064)
Down 200 basis points	\$ (15,018,129)	\$ (10,550,000)	\$ (4,468,129)
Down 300 basis points	\$ (22,527,194)	\$ (15,825,000)	\$ (6,702,194)

### *Portfolio Valuation*

Investments for which market quotations are readily available are valued at such market quotations. Debt and equity securities that are not publicly traded or whose market price is not readily

available are valued at fair value as determined in good faith by our board of directors based on the input of our management and audit committee. In addition, the board of directors currently receives input from independent valuation firms that have been engaged at the direction of the board to assist in the valuation of each portfolio investment at least once during a trailing 12 month period. The valuation process is conducted at the end of each fiscal quarter, with approximately a quarter of our valuations of portfolio companies subject to review by an independent valuation firm each quarter. The types of factors that the board may take into account in fair value valuation of our investments include, as relevant, the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly traded securities and other relevant factors.

When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we use the pricing indicated by the external event to corroborate our valuation. Because there is not a readily available market value for most of the investments in our portfolio, we value substantially all of our portfolio investments at fair value as determined in good faith by our board under a valuation policy and a consistently applied valuation process. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may 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.

In addition, changes in the market environment, such as inflation, 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 valuations currently assigned.

With respect to investments for which market quotations are not readily available, our board of directors undertakes a multi-step valuation process each quarter, as described below:

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

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

The audit committee of our board of directors reviews these preliminary valuations as well as the input of an independent valuation firm with respect to the valuations of approximately a quarter of our portfolio companies.

The board of directors discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of our management and audit committee and independent valuation firms.

## SENIOR SECURITIES

Information about our senior securities is shown in the following tables as of each fiscal year ended December 31 since the Fund commenced operations, unless otherwise noted. The report of our independent registered public accounting firm on the senior securities table of December 31, 2004, 2005 and 2006 is attached as an exhibit to the registration statement of which this prospectus is a part. The " " indicates information that the SEC expressly does not require to be disclosed for certain types of senior securities.

Class and Year	Total Amount Outstanding Exclusive of Treasury Securities(1)	Asset Coverage Per Unit(2)	Involuntary Liquidating Preference Per Unit(3)	Average Market Value Per Unit(4)
<b>Debt Securitization</b>				
Fiscal 2007 (as of September 30, 2007, unaudited)	\$ 314,000,000	\$ 1,886.58		N/A
Fiscal 2006	\$ 274,000,000	\$ 1,499.51	\$	N/A
<b>CP Funding Facility</b>				
Fiscal 2007 (as of September 30, 2007, unaudited)	\$ 85,000,000	\$ 510.70		N/A
Fiscal 2006	\$ 15,000,000	\$ 82.09	\$	N/A
Fiscal 2005	\$ 18,000,000	\$ 32,645.12	\$	N/A
Fiscal 2004	\$ 55,500,000	\$ 3,877.62	\$	N/A
<b>Revolving Credit Facility</b>				
Fiscal 2007 (as of September 30, 2007, unaudited)	\$ 128,500,000	\$ 772.06		N/A
Fiscal 2006	\$ 193,000,000	\$ 1,056.23	\$	N/A
Fiscal 2005	\$	\$	\$	N/A

- (1) Total amount of each class of senior securities outstanding at the end of the period presented.
- (2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by senior securities representing indebtedness. This asset coverage ratio is multiplied by \$1,000 to determine the Asset Coverage Per Unit. In order to determine the specific Asset Coverage Per Unit for each of the Debt Securitization, CP Funding Facility and the Revolving Credit Facility, the total Asset Coverage Per Unit was divided based on the amount outstanding at the end of the period for each.
- (3) The amount to which such class of senior security would be entitled upon the involuntary liquidation of the issuer in preference to any security junior to it.
- (4) Not applicable, as senior securities are not registered for public trading.

## BUSINESS

### GENERAL

Ares Capital is a specialty finance company that is a closed-end, non-diversified management investment company incorporated in Maryland. We have elected to be regulated as a BDC under the Investment Company Act. We were founded in April 2004 and completed our initial public offering on October 8, 2004. Ares Capital's investment objective is to generate both current income and capital appreciation through debt and equity investments. We primarily invest in U.S. middle market companies, where we believe the supply of primary capital is limited and the investment opportunities are most attractive.

We invest primarily in first and second lien senior loans and long-term mezzanine debt. In some cases, we may also receive warrants or options in connection with our debt investments. Our investments have generally ranged between \$10 million and \$50 million each, although the investment sizes may be more or less than the targeted range and are expected to grow with our capital availability. We also, to a lesser extent, make equity investments in private middle market companies. These investments are generally less than \$10 million each (but may grow with our capital availability) and are usually made in conjunction with loans we make to companies. 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 syndicate a portion of such amount to third parties prior to closing such investment, such that we make a smaller investment than what was reflected in our original commitment.

The first and second lien senior loans generally have stated terms of three to 10 years and the mezzanine debt investments 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, there is no limit on the maturity or duration of any security in our portfolio. The debt that we invest in typically is 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 Services or lower than "BBB-" by Standard & Poor's Corporation). We may invest without limit in debt of any rating, as well as debt that has not been rated by any nationally recognized statistical rating organization.

We believe that our investment adviser, Ares Capital Management, is able to leverage Ares' current investment platform, resources and existing relationships with financial sponsors, financial institutions, hedge funds and other investment firms to provide us with attractive investments. In addition to deal flow, the Ares investment platform assists our investment adviser in analyzing, structuring and monitoring investments. Ares' senior principals have worked together for many years and have substantial experience investing in senior loans, high yield bonds, mezzanine debt and private equity. The Company has access to the Ares staff of approximately 93 investment professionals and to the 91 administrative professionals employed by Ares who provide assistance in accounting, legal, compliance 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 private companies, we also may invest up to 30% of the portfolio in opportunistic investments. Such investments may include investments in high-yield bonds, debt and equity securities in collateralized debt obligation vehicles and distressed debt or equity securities of public companies. We expect that these public companies generally will have debt that are non-investment grade. As part of this 30% of the portfolio, we may also invest in debt of middle market companies located outside of the United States.

## About Ares

Ares is an independent international firm with approximately \$20.0 billion of committed capital and over 220 employees as of the date of this prospectus. Ares was founded in 1997 by a group of highly experienced investment professionals.

Ares specializes in originating and managing assets in both the leveraged finance and private equity markets. Ares' leveraged finance activities include the acquisition and management of senior loans, high yield bonds, mezzanine 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 secured floating rate debt to common equity.

Ares is comprised of the following groups:

**Capital Markets Group.** The Ares Capital Markets Group currently manages a variety of funds and investment vehicles that have approximately \$13.5 billion of committed capital, focusing primarily on syndicated senior secured loans, high yield bonds, distressed debt, other liquid fixed income investments and other publicly traded debt securities.

**Private Debt Group.** The Ares Private Debt Group manages the assets of Ares Capital and ACE. The Private Debt Group focuses primarily on non-syndicated first and second lien senior loans and mezzanine debt.

**Private Equity Group.** The Ares Private Equity Group manages ACOF, which currently has approximately \$2.8 billion of total committed capital. ACOF generally makes private equity investments in companies in amounts substantially larger than the private equity investments anticipated to be made by Ares Capital. The Private Equity Group generally focuses on control-oriented equity investments in under-capitalized companies or companies with capital structure issues.

Ares' senior principals have been working together as a group for many years and have an average of over 20 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 high net worth individuals investing in Ares funds.

## Ares Capital Management

Ares Capital Management, our investment adviser, is served by a dedicated origination and transaction development team of 30 investment professionals, including our President, Michael J. Arougheti, which team is augmented by Ares' additional investment professionals, primarily its 36 member Capital Markets Group. Ares Capital Management's investment committee has eight members, including Mr. Arougheti, four founding members of Ares and three investment senior professionals. In addition, Ares Capital Management leverages off of Ares' entire investment platform and benefits from Ares' investment professionals' significant capital markets, trading and research expertise developed through Ares industry analysts. Ares funds currently hold over 600 investments and have made investments in over 1,600 companies since inception.

## **MARKET OPPORTUNITY**

We believe the environment for investing in middle market companies is attractive for the following reasons:

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.

We believe there is increased demand among private middle market companies for primary capital. Many middle market firms have faced increased difficulty raising debt in the capital markets, due to a continuing preference for larger size high yield bond issuances.

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

We believe that current credit market dislocation has seen a reduction in competition, a widening of spreads and generally more conservative capital structures.

## **COMPETITIVE ADVANTAGES**

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

### **Existing investment platform**

Ares currently manages approximately \$20.0 billion of committed capital in the related asset classes of 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.

### **Seasoned management team**

John Kissick, Antony Ressler, Bennett Rosenthal and David Sachs are all founding members of Ares who serve on Ares Capital Management's investment committee. These professionals have an average of over 20 years experience in leveraged finance, including substantial experience in investing in leveraged loans, high yield bonds, mezzanine debt, distressed debt and private equity securities. In addition, our President, Michael J. Arougheti also serves on the investment committee, along with R. Kipp deVeer, Mitchell Goldstein and Michael Smith, and leads a dedicated origination and transaction development team of 30 investment professionals, which team is augmented by Ares' additional investment professionals, primarily its 36 member Capital Markets Group. As a result of Ares' extensive investment experience, Ares and its senior principals have developed a strong reputation in the capital markets and have significant experience investing across cycles, particularly in distressed markets. We believe that this experience affords Ares Capital a competitive advantage in identifying and investing in middle market companies with the potential to generate positive returns.

### **Experience and focus on middle market companies**

Ares has historically focused on investments in middle market companies and we benefit from this experience. Our investment adviser uses Ares' extensive network of relationships with intermediaries 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 attract well-positioned prospective portfolio company investments. Our investment adviser works closely with the Ares investment





professionals who oversee a portfolio of investments in over 600 companies and provide access to an extensive network of relationships and special 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 investment approach that was developed over 15 years ago by several of its founders. Ares Capital Management's investment philosophy and portfolio construction involve an assessment of the overall macroeconomic environment, financial markets and company-specific research and analysis. Our 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, Ares Capital Management'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;

Cash flows that are dependable and predictable;

Management teams with demonstrated track records and economic incentives;

Rates of return commensurate with the perceived risks; and

Securities or investments that are structured with appropriate terms and covenants.

### **Extensive industry focus**

We concentrate our investing activities in industries with a history of predictable and dependable cash flows and in which the Ares investment professionals historically have had extensive investment experience. Since its inception in 1997, Ares investment professionals have invested in over 1,600 companies in over 30 different industries. Ares' Capital Markets Group provides a large team of in-house analysts with significant expertise and relationships in industries in which we are likely to invest. Ares investment professionals have developed long-term relationships with management teams and management consultants in these industries, as well as substantial information concerning these industries and potential trends within these industries. The experience of Ares' investment professionals in investing across these industries throughout various stages of the economic cycle provides our investment adviser with access to ongoing market insights and favorable investment opportunities.

### **Flexible transaction structuring**

We are flexible in structuring investments, the types of securities in which we invest and the terms associated with such investments. The principals of Ares have extensive experience in a wide variety of securities for leveraged companies with a diverse set of terms and conditions. This approach and experience should enable our investment adviser to identify attractive investment opportunities throughout the economic cycle and across a company's capital structure so that we can make investments consistent with our stated objective. In addition, we have the ability to hold larger investments than many of our middle market competitors. The ability to underwrite, syndicate and hold larger investments (i) increases flexibility, (ii) potentially increases net fee income and earnings through syndication, (iii) broadens market relationships and deal flow and (iv) allows us to optimize portfolio composition. We also focus on acting as agent for or leading many of our investments. In these situations we tend to have (i) greater control over deal terms, pricing and structure and (ii) a closer relationship with issuers leading to more active portfolio management.

## OPERATING AND REGULATORY STRUCTURE

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

As a BDC, we are required to comply with certain regulatory requirements. For example, we would not generally be permitted to invest in any portfolio company in which Ares or any of its affiliates currently has an investment (although we may co-invest on a concurrent basis with funds managed by Ares, 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 and we have currently determined not to pursue obtaining such an order.

Also, while we are permitted to finance investments using debt, our ability to use debt is limited in certain significant respects. We borrow funds to make additional investments. See "Regulation." We have elected to be treated for federal income tax purposes as a regulated investment company, or a RIC, under Subchapter M of the Code. See "Material U.S. Federal Income Tax Considerations."

## INVESTMENTS

We have created a diversified portfolio that includes first and second lien senior loans and mezzanine debt by investing a range of \$10 million to \$50 million of capital, on average, although the investment sizes may be more or less and are expected to grow with our capital availability. We also, to a lesser extent, make equity investments in private middle market companies. These investments are generally less than \$10 million each (but may grow with our capital availability) and are usually made in conjunction with loans we make to these companies. 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 syndicate a portion of such amount to third parties prior to closing such investment, such that we make a smaller investment than what was reflected in our original commitment. In addition to originating investments, we may acquire investments in the secondary market.

Structurally, mezzanine debt usually ranks subordinate in priority of payment to senior loans and is often unsecured. However, mezzanine debt ranks senior to common and preferred equity in a borrowers' capital structure. Typically, mezzanine debt has elements of both debt and equity instruments, offering the fixed returns in the form of interest payments associated with senior loans, while providing lenders an opportunity to participate in the capital appreciation of a borrower, if any, through an equity interest. This equity interest typically takes the form of warrants. Due to its higher risk profile and often less restrictive covenants as compared to senior loans, mezzanine debt generally earns a higher return than senior secured debt. The warrants associated with mezzanine debt are typically detachable, which allows lenders to receive repayment of their principal on an agreed amortization schedule while retaining their equity interest in the borrower. Mezzanine 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.

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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 middle market companies in a variety of industries. We generally target companies that generate positive cash flows. Ares has a staff of 30 investment professionals who specialize in specific industries. We generally seek to invest in companies from the industries in which Ares' investment professionals have direct expertise. The following is a representative list of the industries in which Ares has invested.

Aerospace and Defense

Airlines

Broadcasting/Cable

Cargo Transport

Chemicals

Consumer Products

Containers/Packaging

Education

Energy

Environmental Services

Farming and Agriculture

Financial

Food and Beverage

Gaming

Health Care

Homebuilding

Lodging and Leisure

Manufacturing

Metals/Mining

Paper and Forest Products

Printing/Publishing/Media

Retail

Restaurants

Supermarket and Drug

Technology

Utilities

Wireless and Wireline Telecom

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

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The industry and geographic compositions of our portfolio at fair value at September 30, 2007 and December 31, 2006 were as follows:

<b>Industry</b>	<b>September 30, 2007</b>	<b>December 31, 2006</b>
Health Care	20.6%	14.4%
Other Services	10.5	12.2
Education	9.4	5.1
Printing/Publishing	9.1	9.5
Financial	7.9	5.6
Retail	7.8	6.0
Consumer Products	6.0	8.0
Manufacturing	4.6	7.7
Restaurants	4.6	6.4
Environmental Services	4.4	5.4
Containers/Packaging	4.3	6.7
Beverage/Food/Tobacco	3.1	4.3
Computers/Electronics	1.8	1.8
Grocery	1.6	
Aerospace and Defense	1.6	2.1
Broadcasting/Cable	1.3	2.1
Cargo Transport	0.8	1.0
Homebuilding	0.6	0.8
Farming and Agriculture		0.9
Total	100.0%	100.0%
<b>Geographic Region</b>	<b>September 30, 2007</b>	<b>December 31, 2006</b>
Mid-Atlantic	24.6%	29.4%
Midwest	22.7	19.2
West	21.0	21.6
Southeast	17.6	21.3
International	10.3	2.8
Northeast	3.8	5.7
Total	100.0%	100.0%

As a result of regulatory restrictions, we are not permitted to invest in any portfolio company in which Ares or any affiliate currently has an investment (although we may co-invest on a concurrent basis with funds managed by Ares, 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 and we have currently determined not to pursue obtaining such an order.

In addition to such investments, we may invest up to 30% of the portfolio in opportunistic investments in high-yield bonds, debt and equity securities in collateralized debt obligation vehicles, distressed debt or equity securities of public companies. We expect that these public companies generally will have debt that is non-investment grade. We also may invest in debt of middle market companies located outside of the United States.

### INVESTMENT SELECTION

Ares' investment philosophy was developed over the past 15 years and has remained consistent throughout a number of economic cycles. In managing the Company, Ares Capital Management

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employs the same investment philosophy and portfolio management methodologies used by the investment professionals of Ares in Ares' private investment funds.

Ares Capital Management's investment philosophy and portfolio management construction involve:

an assessment of the overall macroeconomic environment and financial markets;

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 strict sales discipline based on both market technicals and fundamental value-oriented research, and diversification strategy. Ares Capital Management follows a rigorous process based on:

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

an evaluation of management;

an analysis of business strategy and industry trends; and

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

Ares Capital Management seeks to identify those issuers exhibiting superior fundamental risk-reward profiles and strong defensible business franchises while focusing on relative value of the security across the industry as well as for the specific issuer.

### **Intensive due diligence**

The process through which Ares Capital Management makes an investment decision 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, Ares Capital Management will engage in an intensive due diligence process. Though each transaction will involve a somewhat different approach, the regular due diligence steps generally to be undertaken include:

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

checking management backgrounds and references;

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

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

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

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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 (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**

Ares Capital Management employs Ares' credit recommendation process, which is focused on selectively narrowing investment opportunities through a process designed to identify the most attractive opportunities. Ares reviews and analyzes numerous investment opportunities on behalf of its funds to determine which investments should be consummated.

After an investment has been identified and diligence has been completed, a credit research and analysis report is prepared. This report will be 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 Mr. Arougheti and the partners of Ares Capital Management. If the underwriting committee approves the potential investment it is then presented to the investment committee. Members of the investment committee have an average of over 19 years of experience in the leveraged finance markets. The investment generally requires the substantial consensus of the investment committee. Additional due diligence with respect to any investment may be conducted on our behalf by attorneys and independent accountants prior to the closing of the investment, as well as other outside advisers, as appropriate.

### **Investment structure**

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

### ***Debt investments***

We invest in portfolio companies primarily in the form of first and second lien senior loans and long-term mezzanine debt. The first and second lien senior loans generally have terms of three to 10 years. We generally 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 may take the form of first or second priority liens on the assets of a portfolio company.

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

In some cases our debt investments may provide for a portion of the interest payable to be payment-in-kind interest. To the extent interest is payment-in-kind, 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:

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

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

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

In general, we require financial covenants and terms that require an issuer to reduce leverage, thereby enhancing credit quality. These methods include: (i) maintenance leverage covenants requiring a decreasing ratio of debt to cash flow; (ii) maintenance cash flow covenants requiring an increasing ratio of cash flow to the sum of interest expense and capital expenditures; and (iii) debt incurrence prohibitions, limiting a company's ability to re-lever. In addition, limitations on asset sales and capital expenditures should prevent a company from changing the nature of its business or capitalization without 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 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***

Our equity investments may consist of preferred equity that is expected to pay dividends on a current basis or preferred equity that does not pay current dividends. Preferred equity generally has a preference over common equity as to dividends and distributions on liquidation. In some cases, we may acquire common equity. In general, our equity investments are not control-oriented investments and in many cases we acquire equity securities as part of a group of private equity investors in which we are not the lead investor. With respect to preferred or common equity investments, these investments that have generally been less than \$10 million each (but may grow with our capital availability) and are usually made in conjunction with loans we make these companies. In many cases, we will also obtain registration rights in connection with these equity interests, which may include demand and "piggyback" registration rights.

#### **ONGOING RELATIONSHIPS WITH AND MONITORING OF PORTFOLIO COMPANIES**

Ares Capital Management closely monitors each investment we make, maintains a regular dialogue with both the management team and other stakeholders and seeks specifically tailored financial reporting. In addition, senior investment professionals of Ares sometimes take board seats or obtain board observation rights. As of September 30, 2007, Ares Capital Management had board seats or board observation rights on more than 34% of the operating companies in our portfolio.

Post-investment, in addition to covenants and other contractual rights, Ares seeks to exert significant influence through board participation, when appropriate, and by actively working with management on strategic initiatives. Ares often introduces managers of companies in which they have

invested to other portfolio companies to capitalize on complementary business activities and best practices.

In addition to various risk management and monitoring tools, we grade all loans on a scale of 1 to 4. This system is intended to reflect the performance of the borrower's business, the collateral coverage of the loans and other factors considered relevant.

Under this system, loans with a grade of 4 involve the least amount of risk in our portfolio. The borrower is performing above expectations and the trends and risk factors are generally favorable. Loans graded 3 involve a level of risk that is similar to the risk at the time of origination. The borrower is performing as expected and the risk factors are neutral to favorable. All new loans are initially graded 3. Loans graded 2 involve a borrower performing below expectations and indicates that the loan's risk has increased materially since origination. The borrower is generally out of compliance with debt covenants, however, loan payments are generally not more than 120 days past due. For loans graded 2, we expect to increase procedures to monitor the borrower and the fair value generally will be lowered. A loan grade of 1 indicates that the borrower is performing materially below expectations and that the loan risk has substantially increased since origination. Most or all of the debt covenants are out of compliance and payments are substantially delinquent. Loans graded 1 are not anticipated to be repaid in full. As of September 30, 2007, the weighted average investment grade of the debt in our portfolio was 3.0.

#### **MANAGERIAL ASSISTANCE**

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

#### **COMPETITION**

Our primary competitors to provide financing to middle market companies include public and private funds, commercial and investment banks, commercial financing companies and private equity funds. 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 us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the Investment Company Act imposes on us as a BDC. 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. In addition, we believe that the relationships of the members of Ares Capital Management'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. 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."

#### **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 Ares Capital Management and Ares Administration, pursuant to the terms of the management agreement and the administration

agreement. Each of our executive officers described under "Management" is an employee of Ares Administration and/or Ares Capital Management. Our day-to-day investment operations 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. Including Michael J. Arougheti, our President who also serves on Ares Capital Management's investment committee, Ares Capital Management has 30 investment professionals who focus on origination and transaction development and monitoring of our investments. See "Management Investment Advisory and Management Agreement." In addition, we reimburse Ares Administration for our allocable portion of expenses incurred by it in performing its obligations under the administration agreement, including rent and our allocable portion of the cost of our officers and their respective staffs. See "Management Administration Agreement."

## **PROPERTIES**

We do not own any real estate or other physical properties materially important to our operation. Our headquarters are currently located at 280 Park Avenue, 22<sup>nd</sup> Floor, Building East, New York, New York 10017. We rent office space directly from a third party pursuant to a lease that expires on February 27, 2011. In addition, we have entered into a sublease with Ares Management LLC whereby Ares Management LLC subleases approximately 25% of the office space for a fixed rent equal to 25% of the basic annual rent payable by us under the lease, plus certain additional costs and expenses.

## **LEGAL PROCEEDINGS**

Neither we nor Ares Capital Management are currently subject to any material legal proceedings.

**PORTFOLIO COMPANIES**

Our investment adviser employs an investment rating system to categorize our investments. See "Business Ongoing Relationships With and Monitoring of Portfolio Companies." As of September 30, 2007, the weighted average investment grade of the debt in our portfolio was 3.0. As of September 30, 2007, the weighted average yield of debt and income producing equity securities in our portfolio was approximately 11.63% (computed as (a) the annual stated interest rate or yield earned plus the net annual amortization of original issue discount and market discount on accruing debt divided by (b) total debt and income producing equity securities at fair value).

The following table describes each of the businesses included in our portfolio and reflects data as of September 30, 2007. Percentages shown for class of investment securities held by us represent percentage of the class owned and do not necessarily represent voting ownership. Percentages shown for equity securities, other than warrants or options, represent the actual percentage of the class of security held before dilution. Percentages shown for warrants and options held represent the percentage of class of security we may own assuming we exercise our warrants or options before dilution.

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

**ARES CAPITAL CORPORATION AND SUBSIDIARIES**  
**PORTFOLIO COMPANIES**  
**As of September 30, 2007**

Company	Industry	Investment	Interest(1)	Maturity	% of Class Held	Fair Value
Abingdon Investments Limited P. O. Box 44 Dorey Court, Admiral Park St. Peter Port Guernsey GY1 3BG	Investment company	Ordinary shares			7.90%	\$ 8,195,040
ADF Capital, Inc. & ADF Restaurant Group, LLC 165 Passaic Avenue Suite 301 Fairfield, NJ 07004	Restaurant owner and operator	Senior secured revolving loan	8.38% (Libor + 3.00%/D)	11/27/2013		\$ 2,000,000(3)
		Senior secured revolving loan	9.75% (Base Rate + 3.00%/D)	11/27/2013		\$ 1,236,726(3)
		Senior secured loan	14.25% (Base Rate + 6.50%/D)	11/27/2012		\$ 49,511
		Senior secured loan	14.25% (Base Rate + 6.50%/D)	11/27/2012		\$ 2,500
		Senior secured loan	14.25% (Base Rate + 6.50%/D)	11/27/2012		\$ 35,489
		Senior secured loan	12.88% (Libor + 7.50%/S)	11/27/2012		\$ 19,606,317
		Senior secured loan	12.88% (Libor + 7.50%/S)	11/27/2012		\$ 990,000
		Senior secured loan	12.88% (Libor + 7.50%/S)	11/27/2012		\$ 14,053,683
		Promissory note	10.00% PIK	11/27/2016		\$ 10,463,601(2)
		Common stock warrants			45.70%	\$

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American Renal Associates, Inc. 5 Cherry Hill Drive, Suite 120 Danvers, MA 01923	Dialysis provider	Senior secured loan	8.36%	12/31/2010	\$ 2,131,147
			(Libor + 3.25%/S)		
		Senior secured loan	9.50% (Base Rate + 1.75%/D)	12/31/2011	\$ 42,623
		Senior secured loan	8.36%	12/31/2011	\$ 5,770,492
			(Libor + 3.25%/S)		
		Senior secured loan	8.36%	12/31/2011	\$ 393,741
			(Libor + 3.25%/Q)		
		Senior secured loan	8.36%	12/31/2011	\$ 261,997
			(Libor + 3.25%/Q)		
		Senior secured loan	8.45%	12/31/2010	\$ 196,721
	(Libor + 3.25%/Q)				
Senior secured loan	9.20%	12/31/2010	\$ 196,721		
	(Libor + 4.00%/Q)				
Senior secured loan	8.61%	12/31/2011	\$ 3,937,406		
	(Libor + 3.25% /Q)				
Senior secured loan	8.61%	12/31/2011	\$ 2,619,971		
	(Libor + 3.25% /Q)				
		Senior secured revolving loan		12/31/2010	\$ (4)
American Residential Services, LLC 860 Ridge Lake Blvd A3-1860 Memphis, TN 38120	Plumbing, heating and air-conditioning services	Junior secured loan	10.00% Cash, 2.00% PIK	4/1/2015	\$ 10,050,555
Arrow Group Industries, Inc. 1680 Route 23 North Wayne, NJ 07470	Residential and outdoor shed manufacturer	Senior secured loan	10.35%	4/1/2010	\$ 5,616,000
			(Libor + 5.00%/M)		
Apogee Retail, LLC 1387 Cope Ave E Maplewood, MN 55109	For-profit thrift retailer	Senior secured loan	10.39%	3/27/2012	\$ 19,397,033
		Senior secured loan	(Libor + 5.25%/S)	3/27/2012	\$ 19,900,000
		Senior secured loan	10.39%	3/27/2012	\$ 11,940,000
			(Libor + 5.25%/S)		
		Senior secured revolving loan		3/27/2012	\$ (5)
AWTP, LLC 2080 Lunt Avenue Elk Grove Village, IL 60007	Water treatment services	Junior secured loan	13.43%	12/23/2013	\$ 1,604,044
			(Libor + 8.50%/A)	12/23/2013	\$ 12,030,333
		Junior secured loan	13.43%		
			(Libor + 8.50%/A)		
Badanco Enterprises, Inc. 994 Riverview Drive Totowa, NJ 07512	Luggage manufacturer	Senior secured loan	9.86%	1/24/2012	\$ 5,937,500
		Senior secured loan	(Libor + 4.50%/Q)	1/24/2012	\$ 5,000,000
		Senior secured revolving loan	9.86%	1/24/2012	\$ (6)
			(Libor + 4.50%/Q)		
Berkline/Benchcraft Holdings LLC One Berkline Drive Morristown, TN 37813	Furniture manufacturer and distributor	Promissory note		11/30/2012	\$ 505,090
Best Brands Corporation 1765 Yankee Doodle Road Eagan, MN 55121	Baked goods manufacturer	Junior secured loan	17.57%	6/30/2013	\$ 26,170,749
		Junior secured loan	(Libor + 12.00%/M)	6/30/2013	\$ 11,744,368
		Junior secured loan	17.57%		
			(Libor + 12.00%/M)		
Canon Communications LLC 11444 W. Olympic Blvd. Los Angeles, CA 90064	Print publications services	Junior secured loan	11.88%	11/30/2011	\$ 7,525,000
		Junior secured loan	(Libor + 6.75%/M)	11/30/2011	\$ 4,250,000
		Junior secured loan	11.88%	11/30/2011	\$ 12,000,000
			(Libor + 6.75%/M)		
		Junior secured loan	11.88%	11/30/2011	\$ 12,000,000
			(Libor + 6.75%/M)		
Capella Healthcare, Inc. Two Corporate Center, Suite 200 501 Corporate Center Drive Franklin, TN 37067	Acute care hospital operator	Junior secured loan	10.70%	11/30/2013	\$ 19,000,000
		Junior secured loan	(Libor + 5.50%/Q)	11/30/2013	\$ 30,000,000
		Junior secured loan	10.70%		
			(Libor + 5.50%/Q)		

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CT Technologies Intermediate Holdings, Inc. and CT Technologies Holdings, LLC 8901 Farrow Rd Columbia, SC 29203	Healthcare information management services	Senior secured revolving loan	10.38% (Libor + 5.00%/S)	6/17/2013	\$	810,000(7)	
		Senior secured revolving loan	10.82% (Libor + 5.00%/M)	6/17/2013	\$	810,000(7)	
		Senior secured revolving loan	10.36% (Libor + 5.00%/Q)	6/17/2013	\$	810,000(7)	
		Senior secured loan	10.38% (Libor + 5.00%/S)	6/17/2013	\$	20,333,333	
		Senior secured loan	10.82% (Libor + 5.00%/M)	6/17/2013	\$	20,333,333	
		Senior secured loan	10.36% (Libor + 5.00%/Q)	6/17/2013	\$	20,333,333	
		Preferred stock			20.00%	\$	6,000,000
		Common stock			5.90%	\$	4,000,000
		Common stock			20.00%	\$	
Captive Plastics, Inc. 251 Circle Drive North Piscataway, NJ 08854	Plastics container manufacturer	Senior secured revolving loan		6/17/2013	\$	(8)	
		Junior secured loan	12.61% (Libor + 7.25%/Q)	2/28/2012	\$	15,500,000	
Charter Baking Company, Inc. 3300 Walnut Street Unit C Boulder, CO 80301	Baked goods manufacturer	Junior secured loan	12.61% (Libor + 7.25%/Q)	2/28/2012	\$	12,000,000	
		Preferred stock			3.00%	\$	2,500,000
Courtside Acquisition Corp. 1700 Broadway New York, NY 10019	Community newspaper publisher	Senior subordinated loan	15.00% PIK	6/29/2014	\$	31,150,000	
Daily Candy, Inc. c/o Pilot Group LP 745 Fifth Avenue, 24th Floor New York, NY 10151	Internet publication provider	Senior secured loan	10.38% (Libor + 5.00%/S)	5/29/2009	\$	10,355,330	
		Senior secured loan	10.38% (Libor + 5.00%/S)	5/29/2009	\$	11,695,431	
		Senior secured loan	10.38% (Libor + 5.00%/S)	5/29/2009	\$	152,267	
		Senior secured loan	10.38% (Libor + 5.00%/S)	5/29/2009	\$	171,972	
		Common stock			5.00%	\$	4,085,000
Diversified Collection Services, Inc. 333 North Canyons Pkwy. Livermore, CA 94551	Collections services	Common stock warrants			5.00%	\$	4,514,997(2)
		Senior secured loan	10.88% (Libor + 5.00%/M)	2/4/2011	\$	4,360,299	
		Senior secured loan	14.07% (Libor + 8.50%/M)	8/4/2011	\$	1,358,781	
		Senior secured loan	14.07% (Libor + 8.50%/M)	8/4/2011	\$	5,271,219	
DSI Renal, Inc. 511 Union Street Suite 1800 Nashville, TN 37219	Dialysis provider	Preferred stock			0.56%		
		Common stock			0.68%		
		Senior subordinated note	12.00% Cash, 2.00% PIK	4/7/2014	\$	70,971,360	
		Senior subordinated note	12.00% Cash, 2.00% PIK	4/7/2014	\$	11,459,476	
		Senior secured revolving loan	8.38% (Libor + 3.00%/Q)	3/31/2013	\$	3,158,400(9)	
		Senior secured revolving loan	8.63% (Libor + 3.00%/Q)	3/31/2013	\$	1,579,200(9)	
		Senior secured revolving loan	8.56% (Libor + 3.00%/Q)	3/31/2013	\$	789,600(9)	
ELC Acquisition Corporation 2 Lower Ragsdale Drive Monterey, CA 93940	Developer, manufacturer and retailer of educational products	Senior secured revolving loan	8.56% (Libor + 3.00%/M)	3/31/2013	\$	789,600(9)	
		Senior secured revolving loan	10.25% (Base Rate + 2.50%/D)	3/31/2013	\$	263,726(9)	
		Junior secured loan	12.50 (Libor + 7.00%/M)	11/29/2013	\$	8,333,333	
		Senior secured revolving loan	9.18% (Libor + 3.75%/S)	11/29/2012	\$	2,707,304(10)	
		Senior secured loan	9.18% (Libor + 3.75%/S)	11/30/2012	\$	355,268	

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Emerald Performance Materials, LLC 2020 Front Street, Suite 100 Cuyahoga Falls, OH 44221	Polymers and performance materials manufacturer	Senior secured loan	10.07% (Libor + 4.25%/M)	5/22/2011	\$	10,164,115	
		Senior secured loan	11.82% (Libor + 6.00%/M)	5/22/2011	\$	3,728,092	
		Senior secured loan	11.82% (Libor + 6.00%/M)	5/23/2011	\$	1,522,742	
		Senior secured loan	10.00% Cash, 3.00% PIK	5/22/2011	\$	4,354,874	
Encanto Restaurants, Inc. c/o Harvest Partners, Inc. 280 Park Avenue, 33rd Floor New York, NY 10017	Restaurant owner and operator	Junior secured loan	7.50% Cash, 3.50% PIK	8/2/2013	\$	24,142,333	
		Junior secured loan	7.50% Cash, 3.50% PIK	8/2/2013	\$	1,005,931	
Equinox EIC Partners, LLC and MUA Management Company, Ltd. 1750 W. Broadway St. #222 Oviedo, FL 32765	Medical school operator	Senior secured revolving loan	13.25% (Base Rate + 5.00%/D)	12/31/2012	\$	988,503(11)	
		Senior secured revolving loan	11.36% (Libor + 6.00%/Q)	12/31/2012	\$	5,000,000(11)	
		Senior secured revolving loan	11.33% (Libor + 6.00%/Q)	12/31/2012	\$	2,000,000(12)	
		Senior secured loan	11.20% (Libor + 6.00%/Q)	12/31/2012	\$	7,700,000	
		Senior secured loan	11.11% (Libor + 6.00%/S)	12/31/2012	\$	30,500,000	
		Senior secured loan	11.36% (Libor + 6.00%/Q)	12/31/2012	\$	7,375,000	
		Senior secured loan	12.75% (Base Rate + 5.00%/Q)	12/31/2012	\$	100,000	
		Common stock			25.14%	\$	15,500,000
Farley's & Sathers Candy Company, Inc. P.O. Box 28 Round Lake, MN 56167	Branded candy manufacturer	Junior secured loan	11.38% (Libor + 6.00%/S)	3/24/2011	\$	10,000,000	
Firstlight Financial Corporation 1700 E. Putnum Ave. Old Greenwich, CT 06870	Investment company	Senior subordinated loan	10.00% PIK	12/31/2016	\$	63,313,824	
		Common stock			20.00%	\$	10,000,000
		Common stock			100.00%	\$	30,000,000
GCA Services Group, Inc. 300 Four Falls Corporate Center, Suite 650 West Conshohocken, PA 19428	Custodial services	Senior secured loan	12.00%	12/31/2011	\$	50,000,000	
Growing Family, Inc. and GFH Holdings, LLC 3613 Mueller Road Saint Charles, MO 63301	Photography services	Senior secured revolving loan	9.25% (Base Rate + 1.50%/D)	8/23/2011	\$	762,500(13)	
		Senior secured revolving loan	8.36% (Libor + 3.00%/B)	8/23/2011	\$	500,000(13)	
		Senior secured loan	9.01% (Libor + 3.50%/Q)	8/23/2011	\$	366,950	
		Senior secured loan	9.01% (Libor + 3.50%/Q)	8/23/2011	\$	9,645,550	
		Senior secured loan	9.15% (Libor + 3.50%/Q)	8/23/2011	\$	70,550	
		Senior secured loan	9.15% (Libor + 3.50%/Q)	8/23/2011	\$	1,854,450	
		Senior secured loan	11.65% (Libor + 6.00%/Q)	8/23/2011	\$	3,575,000	
		Senior secured loan	11.65% (Libor + 6.00%/Q)	8/23/2011	\$	35,814	
		Common stock			1.77%	\$	599,994
HB&G Building Products P.O. Box 589 Troy, AL 36081	Synthetic and wood product manufacturer	Senior subordinated loan	13.00% Cash, 3.00% PIK	3/7/2011	\$	8,817,576	
		Common stock			2.40%	\$	752,888
		Common stock warrants			3.90%	\$	652,503(2)
ILC Industries, Inc. 105 Wilbur Place Bohemia, NY 11716	Industrial products provider	Junior secured loan	11.50%	8/24/2012	\$	12,000,000	
		Junior secured loan	11.50%	8/24/2012	\$	3,000,000	





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Imperial Capital Group, LLC 2000 Avenue of the Stars, 9th Floor S Los Angeles, CA 90067	Investment banking services	Common units			5.00% \$	14,997,159
		Common units			5.00% \$	2,526
		Common units			4.99% \$	315
Industrial Container Services, LLC 1540 Greenwood Avenue Montebello, CA 90640	Industrial container manufacturer, reconditioner and servicer	Senior secured loan	9.15%	9/30/2011	\$	9,875,000
			(Libor + 4.00%/M)			
		Senior secured loan	9.15%	9/30/2011	\$	12,036,488
			(Libor + 4.00%/M)			
		Senior secured loan	9.15%	9/30/2011	\$	992,405
		(Libor + 4.00%/M)				
		Senior secured loan	9.15%	9/30/2011	\$	15,199,368
			(Libor + 4.00%/M)			
		Common stock			11.41% \$	3,499,992
		Senior secured revolving loan		9/30/2011	\$	(14)
Innovative Brands, LLC 4729 East Union Hills Drive, Suite #103 Phoenix, AZ 85050	Consumer products and personal care manufacturer	Senior Secured Loan	11.13%	9/22/2011	\$	12,902,500
		Senior Secured Loan	11.13%	9/22/2011	\$	11,910,000
Instituto de Banca y Comercio, Inc. Calle Santa Ana 1660 Santurce, PR 00909-2309	Private school operator	Senior secured revolving loan	8.13%	3/15/2014	\$	1,500,000(15)
			(Libor + 3.00%/M)			
		Senior secured loan	10.36%	3/15/2014	\$	24,438,750
			(Libor + 5.00%/Q)			
		Senior secured loan	10.36%	3/15/2014	\$	11,970,000
			(Libor + 5.00%/Q)			
		Senior secured revolving loan		3/15/2014	\$	(16)
Investor Group Services, LLC 2020 Front Street, Suite 100 Boston, MA 02116	Financial services	Senior secured loan	12.00%	6/23/2011	\$	1,000,000
		Limited liability company membership interest		6/26/2011	10.00% \$	
		Senior secured revolving loan			\$	(17)
The Kenan Advantage Group, Inc. 4895 Dressler Road, N.W. #100 Canton, OH 44718	Fuel transportation provider	Senior subordinated notes	9.50% Cash, 3.50% PIK	12/16/2013	\$	9,437,783
		Senior secured loan	8.20%	12/16/2011	\$	2,456,271
			(Libor + 3.00%/Q)			
		Senior secured revolving loan		12/16/2011	\$	(18)
		Preferred stock			1.15% \$	1,098,400
		Common stock			1.04% \$	30,575
Lakeland Finance, LLC 590 Peter Jefferson Parkway, Suite 30 Charlottesville, VA 22911	Private school operator	Senior secured note	11.50%	12/15/2012	\$	18,000,000
		Senior secured note	11.50%	12/15/2012	\$	15,000,000
Mactec, Inc. 1105 Sanctuary Parkway, Suite 300 Alpharetta, GA 30004	Engineering and environmental services	Common stock			0.01% \$	115,778
Making Memories Wholesale, Inc. 1168 West 500 North Centerville, UT 84014	Scrapbooking branded products manufacturer	Senior secured loan	10.25% (Base Rate + 2.50%/D)	3/31/2011	\$	7,283,333
		Senior subordinated loan	12.00% Cash, 4.00% PIK	5/6/2012	\$	10,465,650
		Senior secured revolving loan		3/31/2011	\$	(19)
		Preferred stock			9.64% \$	1,320,000
Miller Heiman, Inc. 10509 Professional Circle, Suite 100 Reno, NV 89521	Sales consulting services	Senior secured loan	8.38%	6/6/2010	\$	2,062,523
			(Libor + 3.25%/M)			
		Senior secured loan	8.95%	6/6/2012	\$	3,987,000
			(Libor + 3.75%/Q)			
		Senior secured revolving loan		6/6/2012	\$	(20)
MPBP Holdings, Inc., Cohr Holdings, Inc. and MPBP Acquisition Co., Inc. 21540 Plummer Street Chatsworth, CA 91311	Healthcare equipment services	Junior secured loan	11.53%	1/31/2014	\$	20,000,000
			(Libor + 6.25%/S)			
		Junior secured loan	11.53%	1/31/2014	\$	12,000,000
			(Libor + 6.25%/S)			
		Common stock			2.90% \$	5,000,000

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MWD Acquisition Sub, Inc. 680 Hehli Way PO Box 69 Mondovi, WI 54755	Dental services	Senior secured loan	8.57% (Libor + 3.25%/S)	5/3/2013	\$ 4,962,083
		Senior secured loan	8.61% (Libor + 3.25%/Q)	5/3/2013	\$ 12,709
		Junior secured loan	11.57% (Libor + 6.25%/S)	5/3/2013	\$ 5,000,000
MR Processing Holding Corp. 1544 Old Alabama Road Roswell, GA 30076	Bankruptcy and foreclosure processing services	Senior subordinated note	11.50% Cash, 2.00% PIK	2/23/2014	\$ 29,374,140
		Preferred stock			3.30% \$ 4,500,000
National Print Group, Inc. 2464 Amicola Highway Chattanooga, TN 37406	Printing management services	Senior secured revolving loan	10.75% (Base Rate + 2.50%/D)	3/2/2012	\$ 827,524(21)
		Senior secured revolving loan	9.22% (Libor + 3.50%/M)	3/2/2012	\$ 913,043(21)
		Senior secured loan	10.25% (Base Rate + 2.50%/D)	3/2/2012	\$ 239,674
		Senior secured loan	8.70% (Libor + 3.50%/Q)	3/2/2012	\$ 4,911,854
		Senior secured loan	9.04% (Libor + 3.50%/Q)	3/2/2012	\$ 5,110,685
		Senior secured loan	12.34% (Libor + 7.00%/B)	8/2/2012	\$ 2,244,052
		Senior secured loan	12.34% (Libor + 7.00%/B)	8/2/2012	\$ 406,132
		Senior secured loan	12.36% (Libor + 7.00%/Q)	8/2/2012	\$ 1,932,806
		Senior secured loan	12.36% (Libor + 7.00%/Q)	8/3/2012	\$ 349,802
			Preferred stock		
NPA Acquisition, LLC c/o Transportation Resources Partners, L.P. 2555 Telegraph Rd. Bloomfield Hills, MI 48302	Powersport vehicle auction operator	Senior secured loan	8.61% (Libor + 3.25%/Q)	8/24/2012	\$ 4,066,667
		Senior secured loan	9.07% (Libor + 3.25%/M)	8/24/2012	\$ 133,333
		Senior secured loan	9.75% (Base Rate + 2.00%/D)	8/24/2012	\$ 145,057
		Junior secured loan	11.95% (Libor + 6.75%/Q)	2/24/2013	\$ 2,000,000
		Junior secured loan	11.95% (Libor + 6.75%/Q)	2/24/2013	\$ 12,000,000
			Common units		
OnCURE Medical Corp. 610 Newport Center Drive, Suite 650 Newport Beach, CA 92660	Radiation oncology care provider	Senior subordinated note	11.00% Cash, 1.50% PIK	8/18/2013	\$ 25,956,654
		Senior secured revolving loan	9.25% (Libor + 3.50%/Q)	8/23/2008	\$ 1,416,690(22)
		Senior secured loan	9.25% (Libor + 3.50%/Q)	8/23/2011	\$ 3,248,438
			Common stock		
Pappas Telecasting Incorporated 500 South Chinowth Road Visalia, CA 93277	Television broadcasting	Senior secured loan	15.04% (Libor + 4.66% Cash, 5.00% PIK/Q)	2/28/2010	\$ 7,698,550
		Senior secured loan	15.04% (Libor + 4.66% Cash, 5.00% PIK/Q)	2/28/2010	\$ 11,075,798
		Senior secured loan	14.38% (Libor + 4.00% Cash, 5.00% PIK/Q)	2/28/2010	\$ 729,404
		Senior secured loan	14.38% (Libor + 4.00% Cash, 5.00% PIK/Q)	2/28/2010	\$ 1,049,398
Partnership Capital Growth Fund I, L.P. One Embarcadero, Suite 3810 San Francisco, CA 94111	Investment partnership	Limited partnership interest			25.00% \$ 1,317,082

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Planet Organic Health Corp. 7917 - 104 Street Edmonton Alberta Canada TGE 4E1	Organic grocery store operator	Senior secured loan	10.86% (Libor + 5.50%/Q)	7/3/2014	\$	7,000,000	
		Senior secured loan	10.86% (Libor + 5.50%/Q)	7/3/2014	\$	10,500,000	
		Senior subordinated loan	11.00% Cash, 2.00% PIK	7/3/2012	\$	9,044,000	
		Senior secured revolving loan		7/3/2014	\$	(23)	
Primis Marketing Group, Inc. and Primis Holdings, LLC c/o Pcap Managers, LLC 75 State Street, 26 <sup>th</sup> Floor Boston, MA 02109	Database marketing services	Senior subordinated note	11.00% Cash, 2.50% PIK	2/27/2013	\$	8,586,770	
		Preferred units			8.02%		
		Common units			7.38%		
Professional Paint, Inc. #300 - 8600 Park Meadows Drive Lone Tree, CO 80124	Paint manufacturer	Junior secured loan	11.88% (Libor + 6.25%/B)	5/31/2013	\$	1,000,000	
Qualitor, Inc. 24800 Denso Drive, Suite 255 Southfield, MI 48034	Automotive aftermarket components supplier	Senior secured loan	9.45% (Libor + 4.25%/Q)	12/31/2011	\$	1,778,980	
		Junior secured loan	12.45% (Libor + 7.25%/Q)	6/30/2012	\$	5,000,000	
R2 Acquisition Corp. Modern Media Building 207 NW Park Ave Portland, OR 97209	Advertising agency	Senior secured loan	10.01% (Libor + 4.50%/Q)	5/29/2013	\$	1,995,000	
		Senior secured loan	11.50% (Base Rate + 3.25%/D)	5/29/2013	\$	5,000	
		Common stock			0.33%	\$	250,000
RedPrairie Corporation c/o Francisco Partners 2882 Sand Hill Road, Suite 280 Menlo Park, CA 94045	Software manufacturer	Senior secured revolving loan		5/29/2013	\$	(24)	
		Junior secured loan	11.86% (Libor + 6.50%/Q)	1/20/2013	\$	12,000,000	
Reflexite Corporation 120 Darling Drive Avon, CT 06001	Developer and manufacturer of high visibility reflective products	Junior secured loan	11.86% (Libor + 6.50%/Q)	1/20/2013	\$	6,500,000	
		Common stock			36.01%	\$	34,615,340
Savers, Inc and SAI Acquisition Corporation 11400 SE 6th St. Suite 220 Bellevue, WA 98004	For-profit thrift retailer	Senior subordinated note	10.00% Cash, 2.00% PIK	8/11/2014	\$	28,416,285	
		Common stock			1.87%	\$	4,500,000
Saw Mill PCG Partners LLC 31005 Solon Road Solon, OH 44139	Precision components manufacturer	Common units			2.57%	\$	1,000,000
Shoes for Crews, LLC 1400 Centerpark Blvd., Suite 310 West Palm Beach, FL 33401	Safety footwear and slip-related mats	Senior secured loan	8.63% (Libor + 3.25%/S)	7/6/2010	\$	1,120,241	
		Senior secured revolving loan	9.75% (Base Rate + 2.00%/D)	7/6/2010	\$	3,333,333(25)	
Summit Business Media, LLC 375 Park Avenue New York, NY 10152-0002	Business media consulting services	Junior secured loan	12.13% (Libor + 7.00%/M)	11/3/2013	\$	10,000,000	
The Teaching Company, LLC and The Teaching Company Holdings, Inc. 4151 Lafayette Center Drive, No. 100 Chantilly, VA 20151	Education publications provider	Senior secured loan	10.50%	9/29/2012	\$	28,000,000	
		Senior secured loan	10.50%	9/29/2012	\$	12,000,000	
		Preferred stock			3.64%	\$	2,996,921
		Common stock			3.64%	\$	3,079
Thermal Solutions LLC and TSI Group, Inc. 94 Tide Mill Road Hampton, NH 03842	Thermal management and electronics packaging manufacturer	Senior secured loan	9.45% (Libor + 4.25%/Q)	3/27/2012	\$	2,760,485	
		Senior secured loan	8.95% (Libor + 3.75%/Q)	3/27/2011	\$	1,232,319	
		Senior subordinated notes	11.50% Cash, 2.75% PIK	3/27/2012	\$	3,161,485	
		Senior subordinated notes	11.50% Cash, 2.50% PIK	3/27/2013	\$	2,500,937	

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Preferred stock	1.32%	\$	522,399
Common stock	1.06%	\$	10,670

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Things Remembered, Inc. and TRM Holdings Corporation 5500 Avion Park Drive Highland Heights, OH 44143	Personalized gifts retailer	Senior secured loan	10.25% (Libor + 4.75%/Q)	9/29/2012	\$	4,752,000
		Senior secured loan	11.50% (Libor + 6.00%/M)	9/29/2012	\$	28,000,000
		Senior secured loan	11.50% (Libor + 6.00%/M)	9/29/2012	\$	7,200,000
		Senior secured revolving loan		9/29/2012	\$	(26)
		Preferred stock			4.10%	\$
The Thymes, LLC 629 9th Street SE Minneapolis, MN 55414	Cosmetic products manufacturer	Preferred stock	8.00% PIK		70.34%	\$ 7,047,585
		Common stock			70.34%	
Triad Laboratory Alliance, LLC 4380 Federal Drive, Suite 100 Greensboro, NC 27410	Laboratory services	Senior subordinated note	12.00% Cash, 1.75% PIK	12/23/2012	\$	15,026,980
		Senior secured loan	8.45% (Libor + 3.25%/Q)	12/23/2011	\$	6,877,500
		Senior secured loan	8.45% (Libor + 3.25%/Q)	12/23/2011	\$	2,947,500
Universal Trailer Corporation 11590 Century Blvd., Suite 103 Cincinnati, OH 45246	Livestock and specialty trailer manufacturer	Common stock			9.51%	\$ 1,523,375
		Common stock warrants		5/15/2012	50.00%	\$ 676,622(2)
Varel Holdings, Inc. 1434 Patton Place, Suite 106 Carrollton, TX 75007	Drill bit manufacturer	Common stock			2.53%	\$ 4,000,001
Waste Pro USA, Inc. 2101 West State Road 434, Suite 315 Longwood, FL 32779	Waste management services	Senior subordinated loan	11.50%	11/9/2013	\$	25,000,000
		Preferred stock	10.00% PIK		22.59%	\$ 15,000,000
		Common stock warrants		11/9/2013	3.75%	\$ 3,999,999(2)
Wastequip, Inc. 25800 Science Park Drive, Suite 140 Beachwood, OH 44122	Waste management equipment manufacturer	Senior subordinated loan	12.00%	2/5/2015	\$	12,602,084
		Common stock			5.34%	\$ 1,388,889
Wear Me Apparel, LLC 31 W 34th Street New York, NY 10001-3009	Clothing manufacturer	Senior subordinated notes	12.60% cash, 1.00% PIK	4/2/2013	\$	22,557,500
		Common stock			12.30%	\$ 7,000,000
X-rite, Incorporated 3100 44 <sup>th</sup> Street SW Grandville, MI 49418	Artwork software manufacturer	Junior secured loan	10.72% (Libor + 5.00%/M)	7/31/2013	\$	10,100,000
Total					\$	1,615,572,780

- (1) All interest is payable in cash unless otherwise indicated. A majority of the variable rate loans to our portfolio companies bear interest at a rate that may be determined by reference to either LIBOR or an alternate Base Rate (commonly based on the Federal Funds Rate or the Prime Rate), at the borrower's option, which reset daily (D), monthly (M), bi-monthly (B), quarterly (Q) or semi-annually (S). For each such loan, we have provided the current interest rate in effect as of September 30, 2007.
- (2) Percentages shown for warrants or convertible preferred stock held represent the percentages of common stock we may own on a fully diluted basis, assuming we exercise our warrants or convert our preferred stock to common stock.
- (3) \$1,763,274 of total commitment of \$5,000,000 for the revolver remains unfunded as of September 30, 2007.
- (4) Total commitment of \$3,278,689 remains unfunded as of September 30, 2007.
- (5) Total commitment of \$19,505,495 remains unfunded as of September 30, 2007.
- (6)

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Total commitment of \$7,500,000 remains unfunded as of September 30, 2007.

- (7) \$5,284,268 of total commitment of \$9,000,000 for the revolver remains unfunded as of September 30, 2007.
- (8) Total commitment of \$35,000,000 remains unfunded as of September 30, 2007.
- (9) \$5,419,474 of total commitment of \$12,000,000 for the revolver remains unfunded as of September 30, 2007.
- (10) \$1,292,696 of total commitment of \$4,000,000 for the revolver remains unfunded as of September 30, 2007.
- (11) \$14,011,497 of total commitment of \$20,000,000 for the revolver remains unfunded as of September 30, 2007.
- (12) \$10,500,000 of total commitment of \$12,500,000 for the revolver remains unfunded as of Septemebr 30, 2007.
- (13) \$1,237,500 of total commitment of \$2,500,000 for the revolver remains unfunded as of September 30, 2007.

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- (14) \$13,257,689 of total commitment of \$15,695,652 for the revolver remains unfunded as of September 30, 2007.
- (15) \$8,926,075 of total commitment of \$15,000,000 for the revolver remains unfunded as of September 30, 2007.
- (16) Total commitment of \$7,500,000 for the revolver remains unfunded as of September 30, 2007.
- (17) \$2,000,000 of total commitment of \$2,500,000 for the revolver remains unfunded as of September 30, 2007.
- (18) Total commitment of \$1,612,903 remains unfunded as of September 30, 2007.
- (19) Total commitment of \$333,333 remains unfunded as of September 30, 2007.
- (20) Total commitment of \$1,057,705 remains unfunded as of September 30, 2007.
- (21) \$2,413,780 of total commitment of \$4,154,347 remains unfunded as of September 30, 2007.
- (22) \$3,083,310 of total commitment of \$4,500,000 remains unfunded as of September 30, 2007.
- (23) Total commitment of \$2,500,000 remains unfunded as of September 30, 2007.
- (24) Total commitment of \$8,000,000 remains unfunded as of September 30, 2007.
- (25) \$5,000,001 of total commitment of \$8,333,334 remains unfunded as of September 30, 2007.
- (26) Total commitment of \$5,000,000 remains unfunded as of September 30, 2007.

Set forth below is a brief description of each portfolio company in which we have made an investment that represents greater than 5% of our total assets as of September 30, 2007.

### **DSI Renal, Inc.**

DSI Renal, Inc. ("DSI") is a for-profit operator of free standing, outpatient kidney dialysis centers in the U.S. DSI's centers provide renal care services and supplies to government payors, which includes Medicare and Medicaid patients, and to commercial payors, primarily consisting of patients covered under private health care plans.

### **FirstLight Financial Corporation**

FirstLight Financial Corporation ("FirstLight") is a specialty finance company providing financing solutions to middle market clients. FirstLight has a focus on single tranche one stop financings and first and second lien financings for acquisitions, buyouts, recapitalizations and restructurings, with segment expertise in healthcare, media, telecommunications and energy.



**MANAGEMENT**

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

**EXECUTIVE OFFICERS AND BOARD OF DIRECTORS**

Under our charter, our directors are divided into three classes. Each class of directors will hold office for a three year term. However, the initial members of the three classes have initial terms of one, two and three years, respectively. At each annual meeting of our stockholders, the successors to the class of directors whose terms expire at such meeting will be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election. Each director will hold office for the term to which he or she is elected and until his or her successor is duly elected and qualifies.

**Directors**

Information regarding the board of directors is as follows:

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Director Since</b>	<b>Expiration of Term</b>
<b>Independent Directors</b>				
Douglas E. Coltharp	46	Director	2004	2008
Frank E. O'Bryan	74	Director	2005	2010
Eric B. Siegel	49	Director	2004	2010
<b>Interested Directors</b>				
Robert L. Rosen	61	Director	2004	2009
Bennett Rosenthal	44	Chairman and Director	2004	2009

The address for each director is c/o Ares Capital Corporation, 1999 Avenue of the Stars, Suite 1900, Los Angeles, California, 90067.

**Executive officers who are not directors**

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

<b>Name</b>	<b>Age</b>	<b>Position</b>
Michael J. Arougheti	35	President
Richard S. Davis	49	Chief Financial Officer
Merritt S. Hooper	46	Secretary and Assistant Treasurer
Daniel F. Nguyen	36	Treasurer
Karen A. Tallman	50	Chief Compliance Officer
Michael D. Weiner	55	Vice President and General Counsel

The address for each executive officer is c/o Ares Capital Corporation, 1999 Avenue of the Stars, Suite 1900, Los Angeles, California, 90067.



## Biographical information

### *Directors*

Our directors have been divided into two groups interested directors and independent directors. Interested directors are interested persons as defined in the Investment Company Act.

### **Independent directors**

**Douglas E. Coltharp**, 46, has served as a director of the Company since 2004. Mr. Coltharp is a partner at Arlington Capital Advisors, a Birmingham-based investment banking and private equity firm. Prior to that, since November 1996, he was the Executive Vice President and Chief Financial Officer of Saks Incorporated. Prior to joining Saks Incorporated Mr. Coltharp spent ten years in the Corporate Finance Department of NationsBank (now known as Bank of America), most recently as Senior Vice President and head of the Southeast Corporate Finance Group headquartered in Atlanta. Mr. Coltharp holds a B.S. in Finance and Economics from Lehigh University in Bethlehem, Pennsylvania and an M.B.A. from the Wharton School, University of Pennsylvania, in Philadelphia, Pennsylvania. Mr. Coltharp also serves on the boards of directors of Stratus Technologies, Inc. and Under Armour, Inc.

**Frank E. O'Bryan**, 74, has served as a director of the Company since 2005. Mr. O'Bryan served as Chairman of the Board of WMC Mortgage Company from 1997 to 2003 and as a Vice Chairman until 2004 when the company was sold to General Electric Corporation. Mr. O'Bryan served as Vice Chairman of Shearson/American Express Mortgage Corp. and as a Director of Shearson American Express from 1981 to 1985 and prior to that served as a Director and senior executive of Shearson Hayden Stone from 1979 to 1981. Mr. O'Bryan has been a Director of The First American Corporation since 1994. Since 2003 he has been a Director of Standard Pacific Corporation and a Director of Farmers & Merchants Bank since 2004. Mr. O'Bryan is a past member of the board of directors of both Damon Corporation and Grubb & Ellis.

**Eric B. Siegel**, 49, has served as a director of the Company since 2004. Since 1995, Mr. Siegel has been an independent business consultant providing advice through a limited liability company owned by Mr. Siegel, principally with respect to acquisition strategy and structuring, and the subsequent management of acquired entities. Mr. Siegel is currently a member of the Advisory Board of and consultant to the Milwaukee Brewers Baseball Club and a Director and Chairman of the Executive Committee of El Paso Electric Company, an NYSE publicly traded utility company. Mr. Siegel is also a past member of the boards of directors of a number of public companies, including Kerzner International Ltd. until it went private in 2006. Mr. Siegel is a retired limited partner of Apollo Advisors, L.P. and Lion Advisors, L.P. Mr. Siegel is also a member of the Board of Trustees of the Marlborough School, where he also serves as Finance Chair, a member of the Board of Directors of the Friends of the Los Angeles Free Clinic and a board member of Reprise! Broadway's Best, a non-profit theatre organization. Mr. Siegel holds his Bachelor of Arts degree Summa Cum Laude and Phi Beta Kappa and law degree Order of the Coif from the University of California at Los Angeles.

### **Interested directors**

**Robert L. Rosen**, 61, has served as a director of the Company since 2004. Mr. Rosen is managing partner of RLR Capital Partners and RLR Focus Fund which invests principally in the securities of publicly traded North American companies. Mr. Rosen served from 2003 until 2005 as co-Managing Partner of Dolphin Domestic Fund II. In 1998, Mr. Rosen founded National Financial Partners ("NFP"), an independent distributor of financial services to high net worth individuals and small to medium-sized corporations. He served as NFP's CEO from 1998 to 2000 and as its Chairman until January 2002. From 1987 to the present, Mr. Rosen has been CEO of RLR Partners, LLC, a private investment firm with interests in financial services, healthcare, media and multi-industry

companies. From 1989 to 1993 Mr. Rosen was Chairman and CEO of Damon Corporation, a leading healthcare and laboratory testing company that was ultimately sold to Quest Diagnostics. From 1983 to 1987, Mr. Rosen was Vice Chairman of Maxxam Group. Prior to that, Mr. Rosen spent twelve years at Shearson American Express in positions in research, investment banking and senior management, and for two years was Assistant to Sanford Weill, the then Chairman and CEO of Shearson. Mr. Rosen holds an MBA in finance from NYU's Stern School. Mr. Rosen also serves on the board of directors of Marietta Corporation. From time to time Ares Management is in discussions with Mr. Rosen regarding expanding his relationship with Ares Management. If those discussions were to bear fruit, Mr. Rosen may no longer be considered an "independent" director of Ares Capital. As a result, in an abundance of caution, we treat Mr. Rosen as an "interested person" of the Company as defined in section 2(a)(19) of the Investment Company Act. However, the Board may recharacterize Mr. Rosen as an "independent" director in the future if such discussions do not result in any relationships that would cause Mr. Rosen to be an "interested person."

**Bennett Rosenthal**, 44, has served as a Chairman and director of the Company since 2004. Mr. Rosenthal is a founding member of Ares and functions as a Senior Partner in the Private Equity Group. Since 1998, Mr. Rosenthal has also overseen all of Ares' mezzanine debt investments. Prior to joining Ares, Mr. Rosenthal was a Managing Director in the Global Leveraged Finance Group of Merrill Lynch and was responsible for originating, structuring and negotiating many leveraged loan and high yield financings. Mr. Rosenthal was also a senior member of Merrill Lynch's Leveraged Transaction Commitment Committee. Mr. Rosenthal is a member of the following boards of directors: AmeriQual Management, Inc., Aspen Dental Management, Inc., Douglas Dynamics, LLC and Hanger Orthopedic Group, Inc. He is also the Co-Chairman of the Board of Directors of National Bedding Company LLC (Serta). Mr. Rosenthal graduated summa cum laude with a BS in Economics from the University of Pennsylvania's Wharton School of Business where he also received his MBA with distinction. Mr. Rosenthal is an "interested person" of the Company as defined in section 2(a)(19) of the Investment Company Act because he is on the investment committee of Ares Capital Management, the Company's investment adviser, and is a member of Ares Partners Management Company LLC, the parent of Ares Management, the managing member of the investment adviser.

#### **Executive officers who are not directors**

**Michael J. Arougheti**, 35, is President of the Company and joined Ares in May 2004 and currently serves as a member of Ares. Mr. Arougheti is also a Partner in the Private Debt Group of Ares and serves on the Investment Committee of Ares Capital Management and all Ares European Credit Funds. From 2001 to 2004, Mr. Arougheti was employed by Royal Bank of Canada, where he was a Managing Partner of the Principal Finance Group of RBC Capital Partners and a member of the firm's Mezzanine Investment Committee. At RBC Capital Partners, Mr. Arougheti oversaw an investment team that originated, managed and monitored a diverse portfolio of middle market leveraged loans, senior and junior subordinated debt, preferred equity, and common stock and warrants on behalf of RBC and other third-party institutional investors. Mr. Arougheti joined Royal Bank of Canada in October 2001 from Indosuez Capital, where he was a Principal, responsible for originating, structuring and executing leveraged transactions across a broad range of products and asset classes. Mr. Arougheti sat on the firm's Investment Committee and was also active in the firm's private equity fund investment and fund of funds program. Prior to joining Indosuez in 1994, Mr. Arougheti worked at Kidder Peabody & Co., where he was a member of the firm's Mergers and Acquisitions Group advising clients in various industries, including natural resources, pharmaceuticals and consumer products. Mr. Arougheti has extensive experience in leveraged finance, including senior bank loans, mezzanine debt and private equity. He has worked on a range of transactions for companies in the consumer products, manufacturing, healthcare, retail and technology industries. Mr. Arougheti received a BA in Ethics, Politics and Economics, cum laude, from Yale University.

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**Richard S. Davis**, 49, is Chief Financial Officer of the Company and joined Ares in June 2006. From December 1997 to May 2006, Mr. Davis was with Arden Realty, Inc., a real estate investment trust and formerly the largest publicly traded office owner in Southern California, serving as its Executive Vice President, Chief Financial Officer from July 2000. From 1996 to 1997, Mr. Davis was with Catellus Development Corporation where he was responsible for accounting and finance for the asset management and development divisions. From 1985 to 1996, Mr. Davis served as a member of the audit staff of both KPMG LLP and Price Waterhouse LLP. Mr. Davis is a Certified Public Accountant in the states of California and Missouri and a member of the American Institute of CPAs. Mr. Davis received his Bachelor of Science Degree in Accounting from the University of Missouri at Kansas City.

**Merritt S. Hooper**, 46, is Secretary and Assistant Treasurer of the Company. Ms. Hooper is a founding member of Ares and functions as the Director of Investor Relations for all Ares funds as well as a senior investment analyst in the Capital Markets Group. Prior to Ares, Ms. Hooper was associated with Lion Advisors (an affiliate of Apollo Advisors) from 1991 to 1997 and worked as a senior credit analyst participating in both portfolio management and strategy. From 1987 until 1991, Ms. Hooper was with Columbia Savings and Loan, most recently as Vice President in the Investment Management Division. Ms. Hooper serves on the executive and investment boards of Cedars-Sinai Medical Center in Los Angeles. Ms. Hooper graduated from the University of California at Los Angeles (UCLA) with a BA in Mathematics and received her MBA in Finance from UCLA's Anderson School of Management.

**Daniel F. Nguyen**, 36, is Treasurer of the Company and joined Ares in August 2000 and currently serves as its Chief Financial Officer. From 1996 to 2000, Mr. Nguyen was with Arthur Andersen LLP, where he was in charge of conducting business audits on numerous financial clients, performing due diligence investigation of potential mergers and acquisitions, and analyzing changes in accounting guidelines for derivatives. At Arthur Andersen LLP, Mr. Nguyen also focused on treasury risk management and on mortgage-backed securities and other types of structured financing. Mr. Nguyen graduated with a BS in Accounting from the University of Southern California's Leventhal School of Accounting and received an MBA in Global Business from Pepperdine University's Graziadio School of Business and Management. Mr. Nguyen also studied European business environment at Oxford University in England as part of the MBA curriculum. Mr. Nguyen is a CFA charterholder and a Certified Public Accountant.

**Karen A. Tallman**, 50, is Chief Compliance Officer of the Company and joined Ares in June 2007. From April 2006 to June 2007, Ms. Tallman acted as counsel to Ares Management. Prior to joining Ares, Ms. Tallman was General Counsel of Continuum Commerce LLC, a direct response marketing firm. From 1997 to 2002, Ms. Tallman was General Counsel and Secretary of Merisel, Inc., a NASDAQ-listed computer products distributor, and served as Senior Vice President beginning in 2001. From 1992 to 1997, Ms. Tallman was employed by CB Commercial Real Estate Group, Inc., most recently in the positions of Vice President, Secretary and Senior Counsel. Previously, Ms. Tallman was a corporate attorney for nine years at the law firm of Skadden, Arps, Slate, Meagher & Flom LLP.

**Michael D. Weiner**, 55, is General Counsel of the Company. Mr. Weiner joined Ares in September 2006 as its Chief Legal Officer and General Counsel and currently serves as a member of Ares. Previously, Mr. Weiner served as general counsel to Apollo Management L.P. and had been an officer of the corporate general partners of Apollo since 1992. Prior to joining Apollo, Mr. Weiner was a partner in the law firm of Morgan, Lewis & Bockius specializing in corporate and alternative financing transactions, securities law and general partnership and corporate and regulatory matters. Mr. Weiner has served and continues to serve on the boards of directors of several corporations. Mr. Weiner graduated with a BS in Business and Finance from the University of California at Berkeley and a JD from the University of Santa Clara.

**INVESTMENT COMMITTEE**

Information regarding the members of Ares Capital Management's investment committee is as follows:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Michael J. Arougheti	35	President of the Company, Member of Investment Committee
R. Kipp deVeer	35	Member of Investment Committee, Portfolio Manager
Mitchell Goldstein	40	Member of Investment Committee, Portfolio Manager
John Kissick	66	Member of Investment Committee
Antony P. Ressler	47	Member of Investment Committee
Bennett Rosenthal	44	Chairman and Director of the Company, Member of Investment Committee
David Sachs	48	Member of Investment Committee
Michael L. Smith	36	Member of Investment Committee, Portfolio Manager

The address for each member of Ares Capital Management's investment committee is c/o Ares Capital Corporation, 1999 Avenue of the Stars, Suite 1900, Los Angeles, California, 90067.

**Members of Ares Capital Management's investment committee who are not directors or officers of the Company**

**R. Kipp deVeer** Mr. deVeer joined Ares in May 2004 and serves as a Partner in the Private Debt Group and on the Investment Committee of Ares Capital Management. Prior to joining Ares, Mr. deVeer was a partner at RBC Capital Partners, a division of Royal Bank of Canada, which led the firm's middle market financing and principal investment business. Mr. deVeer joined RBC in October 2001 from Indosuez Capital, where he was Vice President in the Merchant Banking Group. Mr. deVeer has also worked at J.P. Morgan and Co., both in the Special Investment Group of J.P. Morgan Investment Management, Inc. and the Investment Banking Division of J.P. Morgan Securities Inc. Mr. deVeer received a BA from Yale University and an MBA from Stanford University's Graduate School of Business.

**Mitchell Goldstein** Mr. Goldstein joined Ares in May 2005 and serves as a Partner in the Private Debt Group and on the Investment Committee of Ares Capital Management. Prior to joining Ares, Mr. Goldstein worked at Credit Suisse First Boston, where he was a Managing Director in the Financial Sponsors Group. At CSFB, Mr. Goldstein was responsible for providing investment banking services to private equity funds and hedge funds with a focus on M&A and restructurings and capital raisings, including high yield, bank debt, mezzanine debt, and IPOs. Mr. Goldstein joined CSFB in 2000 at the completion of the merger with Donaldson Lufkin and Jenrette. From 1998 to 2000, Mr. Goldstein was at Indosuez Capital, where he was a member of the Investment Committee and a Principal, responsible for originating, structuring and executing leveraged transactions across a broad range of products and asset classes. From 1993 to 1998, Mr. Goldstein worked at Bankers Trust, where he was responsible for financing and advising clients in various industries including media and telecommunications, consumer products, automotive and healthcare. Mr. Goldstein began his career as

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a CPA at Ernst & Young. Mr. Goldstein graduated summa cum laude from SUNY Binghamton with a BS in Accounting and received an MBA from Columbia Business School.

**John Kissick** Mr. Kissick is a founding member of Ares and functions as a Senior Partner in the Private Equity Group. Mr. Kissick is a Senior Advisor to all funds in the Capital Markets Group and serves on the Investment Committee of Ares Capital Management and all Ares funds. Prior to Ares, Mr. Kissick was a co-founder of Apollo Management, L.P. in 1990 and was a member of Apollo's original six-member management team. Together with Antony Ressler, Mr. Kissick oversaw and led the capital markets activities of Apollo Management, L.P. and Lion Advisors, L.P., an affiliate of Apollo Management L.P., from 1990 until 1997, particularly focusing on high yield bonds, leveraged loans and other fixed income assets. Prior to 1990, Mr. Kissick served as a Senior Executive Vice President of Drexel Burnham Lambert, where he began in 1975, eventually heading its Corporate Finance Department. Mr. Kissick serves on the boards of the Cedars-Sinai Medical Center in Los Angeles, the Stanford University Graduate School of Business and the Fulfillment Fund, which helps economically disadvantaged kids graduate from high school and college through mentoring and other programs. Mr. Kissick graduated from Yale University with a BA in Economics and with highest honors from the Stanford Business School with an MBA in Finance.

**Antony P. Ressler** Mr. Ressler is a founding member of Ares and functions as a Senior Partner in the Private Equity Group. Mr. Ressler is a Senior Advisor to the Capital Markets Group and serves on the Investment Committee of Ares Capital Management and all Ares funds. Prior to Ares, Mr. Ressler was a co-founder of Apollo Management, L.P. in 1990 and was a member of Apollo's original six-member management team. Together with Mr. Kissick, Mr. Ressler oversaw and led the capital markets activities of Apollo Management, L.P. and Lion Advisers, L.P. from 1990 until 1997, particularly focusing on high yield bonds, leveraged loans and other fixed income assets. Prior to 1990, Mr. Ressler served as a Senior Vice President in the High Yield Bond Department of Drexel Burnham Lambert Incorporated, with responsibility for the New Issue/Syndicate Desk. Mr. Ressler serves on several boards of directors including Kinetics Holdings LLC, National Bedding Company LLC and WCA Waste Corporation. Mr. Ressler also serves on the Boards of Trustees of the Center for Early Education, the Los Angeles County Museum of Art ("LACMA"), the Alliance for College-Ready Public Schools, the Small School Alliance, the Asia Society of Southern California and is involved in the U.S. Chapter of Right to Play (formerly known as Olympic Aid). Mr. Ressler received his BSFS from Georgetown University's School of Foreign Service and received his MBA from Columbia University's Graduate School of Business.

**David Sachs** Mr. Sachs is a founding member of Ares and functions as Co-Portfolio Manager of the Capital Markets Group and serves on the Investment Committee of Ares Capital Management and all Ares funds. From 1994 until 1997, Mr. Sachs was a principal of Onyx Partners, Inc. specializing in merchant banking and related capital raising activities in the mezzanine debt and private equity markets for middle market companies. From 1990 to 1994, Mr. Sachs was employed by Taylor & Co., an investment manager providing investment advisory and consulting services to members of the Bass Family of Fort Worth, Texas. From 1984 to 1990, Mr. Sachs was with Columbia Savings and Loan Association, most recently as Executive Vice President, responsible for all asset-liability management as well as running the Investment Management Department. Mr. Sachs serves on the Board of Directors of Terex Corporation. Mr. Sachs graduated from Northwestern University with a BS in Industrial Engineering and Management Science.

**Michael L. Smith** Mr. Smith joined Ares in May 2004 and serves as a Partner in the Private Debt Group and on the Investment Committee of Ares Capital Management. Prior to joining Ares, Mr. Smith was a partner at RBC Capital Partners, a division of Royal Bank of Canada, which led the firm's middle market financing and principal investment business. Mr. Smith joined RBC in October 2001 from Indosuez Capital, where he was a Vice President in the Merchant Banking Group. Previously, Mr. Smith worked at Kenter, Glasstris & Company, a private equity investment firm

specializing in leveraged management buyouts and at Salomon Brothers Inc., in their Debt Capital Markets Group and Financial Institutions Group. Mr. Smith received a Masters in Management from the J.L. Kellogg Graduate School of Management and a BS in Business Administration, cum laude, from the University of Notre Dame.

## **COMMITTEES OF THE BOARD OF DIRECTORS**

Our board of directors has established an audit committee and a nominating committee. We do not have a compensation committee because our executive officers do not receive any direct compensation from us. During 2007, the board of directors held fourteen formal meetings, the audit committee held five formal meetings and the nominating committee held one formal meeting. The Company encourages, but does not require, the directors to attend the Company's annual meeting of its stockholders.

### **Audit committee**

The members of the audit committee are Messrs. Coltharp, O'Bryan and Siegel, each of whom is independent for purposes of the Investment Company Act and The NASDAQ Global Select Market corporate governance regulations. Mr. Coltharp serves as chairman of the audit committee. The audit committee is responsible for approving our independent accountants, reviewing with our independent accountants the plans and results of the audit engagement, approving professional services provided by our independent accountants, reviewing the independence of our independent accountants and reviewing the adequacy of our internal accounting controls. The audit committee is also responsible for aiding our board of directors in fair value pricing debt and equity securities that are not publicly traded or for which current market values are not readily available. The audit committee also currently receives input from independent valuation firms that have been engaged at the direction of the board to value each portfolio investment at least once during a trailing 12 month period.

### **Nominating committee**

The members of the nominating committee are Messrs. Coltharp, O'Bryan and Siegel, each of whom is independent for purposes of the Investment Company Act and The NASDAQ Global Select Market corporate governance regulations. Mr. Siegel serves as chairman of the nominating committee. The nominating committee is responsible for selecting, researching and nominating directors for election by our stockholders, selecting nominees to fill vacancies on the board or a committee of the board, developing and recommending to the board a set of corporate governance principles and overseeing the evaluation of the board and our management.

The nominating committee may consider recommendations for nomination of directors from our stockholders. Nominations made by stockholders must be delivered to or mailed (setting forth the information required by our bylaws) and received at our principal executive offices not earlier than 150 days nor fewer than 120 days in advance of the first anniversary of the date on which we first mailed our proxy materials for the previous year's annual meeting of stockholders; provided, however, that if the date of the annual meeting has changed by more than 30 days from the prior year, the nomination must be received not earlier than the 150th day prior to the date of such annual meeting nor later than the later of (i) the 120th day prior to the date of such annual meeting or (ii) the 10th day following the day on which public announcement of such meeting date is first made.

### **Compensation committee**

We do not have a compensation committee because our executive officers do not receive any direct compensation from us.



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The following table sets forth the dollar range of our equity securities based on the closing price of the Company's common stock on \_\_\_\_\_, 2008 and the number of shares beneficially owned by each of our directors as of December 31, 2007. We are not part of a "family of investment companies," as that term is defined in the Investment Company Act.

Name of Director	Aggregate Dollar Range of Equity Securities in Ares Capital(1)(2)
<b>Independent Directors(3)</b>	
Douglas E. Coltharp	none
Frank E. O'Bryan	none
Eric B. Siegel	\$10,001 - \$50,000
<b>Interested Directors</b>	
Robert L. Rosen	none
Bennett Rosenthal	none

(1) Dollar ranges are as follows: none, \$1-\$10,000, \$10,001-\$50,000, \$50,001-\$100,000, \$100,001-\$500,000, \$500,001-\$1,000,000 or over \$1,000,000.

(2) Beneficial ownership determined in accordance with Rule 16a-1(a)(2) under the Exchange Act.

(3) As of \_\_\_\_\_, 2008, to the best of the Company's knowledge, other than as specified in the table, none of the independent directors or nominees, nor any of their immediate family members, had any interest in the Company, the Company's investment adviser, or any person or entity directly or indirectly controlling, controlled by, or under common control with the Company.

### COMPENSATION TABLE

The following table shows information regarding the compensation received by the directors, none of which is an employee of the Company, for the fiscal year ending December 31, 2007. No compensation is paid by the Company to directors who are or are being treated as "interested persons." No information has been provided with respect to executive officers of the Company, since our executive officers do not receive any direct compensation from us.

Name	Fees Earned or Paid in Cash	All Other Compensation	Total
<b>Independent directors</b>			
Douglas E. Coltharp	\$ 87,000	None	\$ 87,000
Frank E. O'Bryan	\$ 82,000	None	\$ 82,000
Eric B. Siegel	\$ 84,000	None	\$ 84,000
<b>Interested directors</b>			
Robert L. Rosen(3)	None	None	None
Bennett Rosenthal	None	None	None

(1) For a discussion of the independent directors' compensation, see below.

(2) We do not have a stock or option plan, non-equity incentive plan or pension plan for our directors.

(3)

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While Mr. Rosen did not receive any compensation from the Company for the fiscal year ended December 31, 2007, he did receive \$75,000 from Ares Management LLC for such period in connection with his service as a director of the Company.

The independent directors receive an annual fee of \$50,000. They also receive \$2,500 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each board meeting and will receive \$1,000 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each committee meeting. In addition, the chairman of the audit committee receives an annual fee of \$5,000 and each chairman of any other committee receives an annual fee of

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\$2,000 for their additional services in these capacities. In addition, we purchase directors' and officers' liability insurance on behalf of our directors and officers. Independent directors have the option to receive their directors' fees paid in shares of our common stock issued at a price per share equal to the greater of net asset value or the market price at the time of payment.

### PORTFOLIO MANAGERS

The following individuals function as portfolio managers primarily responsible for the day-to-day management of the Company's portfolio. The portfolio managers comprise the underwriting committee, whose primary responsibility is to recommend investments for approval to the Investment Committee.

Name	Position	Length of Service with Ares (years)	Principal Occupation(s) During Past 5 Years
Michael J. Arougheti	President of the Company, Member of Investment Committee	3.5	Mr. Arougheti is President of the Company and joined Ares in May 2004 and currently serves as a member of Ares. From 2001 to 2004, Mr. Arougheti was employed by Royal Bank of Canada, where he was a Managing Partner of the Principal Finance Group of RBC Capital Partners and a member of the firm's Mezzanine Investment Committee. Mr. Arougheti joined Royal Bank of Canada in October 2001 from Indosuez Capital, where he was a Principal, responsible for originating, structuring and executing leveraged transactions across a broad range of products and asset classes. Prior to joining Indosuez in 1994, Mr. Arougheti worked at Kidder Peabody & Co., where he was a member of the firm's Mergers and Acquisitions Group. Mr. Arougheti is also a Partner in the Private Debt Group of Ares and serves on the Investment Committee of Ares Capital Management and all Ares European Credit Funds.
Eric B. Beckman	Partner in Private Debt Group	9	Mr. Beckman joined Ares in 1998 and serves as a Partner in the Private Debt Group of Ares. Before joining the Private Debt Group, Mr. Beckman served as a Senior Partner of the Private Equity Group of Ares Management and a member of its Investment Committee, and as a member of the team responsible for Ares' mezzanine debt investments. Prior to joining Ares, Mr. Beckman was a member of the Leveraged Finance Group of Goldman, Sachs & Co. While at Goldman Sachs, he was involved in executing leveraged loan and high yield bond offerings, in raising and managing a dedicated fund providing subordinated bridge loans, and in certain restructuring advisory and distressed lending activities. Mr. Beckman is the Co-Chair of the Los Angeles Advisory Board of the Posse Foundation and a member of the Steering Committee for the Cedars-Sinai Medical Center Sports Spectacular. Mr. Beckman graduated summa cum laude with a BA in Political Theory and Economics from Cornell University and received his JD from the Yale Law School.



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R. Kipp deVeer	Partner in Private Debt Group	3.5 Mr. deVeer joined Ares in May 2004 and serves as a Partner in the Private Debt Group of Ares and on the Investment Committee of Ares Capital Management. Prior to joining Ares, Mr. deVeer was a Partner at RBC Capital Partners, a division of Royal Bank of Canada, in the Principal Finance Group, which led the firm's middle market financing and principal investment business. Mr. deVeer joined RBC in October 2001 from Indosuez Capital where he was Vice President in the Merchant Banking Group.
Mitchell Goldstein	Partner in Private Debt Group	2.5 Mr. Goldstein joined Ares in May 2005 and serves as a Partner in the Private Debt Group of Ares and on the Investment Committee of Ares Capital Management. Prior to joining Ares, Mr. Goldstein worked at Credit Suisse First Boston, where he was a Managing Director in the Financial Sponsors Group. Mr. Goldstein joined CSFB in 2000 at the completion of the merger with Donaldson Lufkin and Jenrette. From 1998 to 2000, Mr. Goldstein was at Indosuez Capital, where he was a member of the Investment Committee and a Principal.
Michael L. Smith	Partner in Private Debt Group	3.5 Mr. Smith joined Ares in May 2004 and serves as a Partner in the Private Debt Group of Ares and on the Investment Committee of Ares Capital Management. Prior to joining Ares, Mr. Smith was a Partner at RBC Capital Partners, a division of Royal Bank of Canada, in the Principal Finance Group, which led the firm's middle market financing and principal investment business. Mr. Smith joined RBC in October 2001 from Indosuez Capital, where he was a Vice President in the merchant banking group.

None of the individuals listed above is primarily responsible for the day-to-day management of the portfolio of any other account.

Each of the individuals listed above is equally responsible for deal origination, execution and portfolio management. Mr. Arougheti, as our President, spends a greater amount of his time on corporate and administrative activities in his role as an officer.

As of December 31, 2007, each portfolio manager identified above is a full-time employee of Ares Capital Management LLC and receives a fixed salary for the services he provides to the Company. Each will also receive an annual amount that is equal to a fixed percentage of any incentive fee received by Ares Capital Management LLC from the Company for a fiscal year. None of the portfolio managers receives any direct compensation from the Company.

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The following table sets forth the dollar range of equity securities of the Company based on the closing price of the Company's common stock on , 2008 and the number of shares beneficially owned by each of the portfolio managers described above as of December 31, 2007.

Name	Aggregate Dollar Range of Equity Securities in Ares Capital(1)
Michael J. Arougheti	None
Eric B. Beckman	\$100,001 \$500,000
R. Kipp deVeer	None
Mitchell Goldstein	None
Michael L. Smith	None

(1) Dollar ranges are as follows: none, \$1-\$10,000, \$10,001-\$50,000, \$50,001-\$100,000, \$100,001-\$500,000, \$500,001-\$1,000,000 or over \$1,000,000.

### INVESTMENT ADVISORY AND MANAGEMENT AGREEMENT

#### Management services

Ares Capital Management serves as our investment adviser. Ares Capital Management is an investment adviser that is registered as an investment adviser under the Advisers Act. Subject to the overall supervision of our board of directors, the 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 securities and other assets that we purchase, retain or sell.

Ares Capital Management was initially formed to provide investment advisory services to us and it has not previously provided investment advisory services to anyone else. However, its services to us under the investment advisory and management agreement are not exclusive, and it is free to furnish similar services to other entities.

The sole member of Ares Capital Management is Ares Management LLC, an independent international investment management firm that currently manages investment funds that have approximately \$20.0 billion of committed capital.

#### Management fee

Pursuant to the investment advisory and management agreement, we pay Ares Capital Management a fee for investment advisory and management services consisting of two components a base management fee and an incentive fee.

The base management fee is calculated at an annual rate of 1.5% of our total assets (other than cash or cash equivalents but including assets purchased with borrowed funds). The base management fee is payable quarterly in arrears. The base management fee is calculated 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, and

appropriately adjusted for any share issuances or repurchases during the current calendar quarter. Base management fees for any partial month or quarter will be appropriately pro rated.

The incentive fee has the following 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 (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees or other fees that we receive from portfolio companies) accrued during the calendar quarter, minus our operating expenses for the quarter (including the base management fee, 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 payment-in-kind interest, preferred stock with payment-in-kind dividends and zero coupon securities), accrued income that we have not yet received in cash. The 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 by an entity on the obligation that resulted in the accrual of such income.

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 for a quarter, we will pay the applicable incentive fee even if we have incurred a loss in that quarter due to realized and 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) at the end of the immediately preceding calendar quarter, will be compared to a fixed "hurdle rate" of 2.00% 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 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 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 will pay Ares Capital Management an incentive fee with respect to our pre-incentive fee net investment income in each calendar quarter as follows:

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

100% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.50% 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 2.50%) as the "catch-up." The "catch-up" is meant to provide our investment adviser with 20% of our pre-incentive fee net investment income as if a hurdle rate did not apply if this net investment income exceeds 2.50% 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.



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The following is a graphical representation of the calculation of the income-related portion of the incentive fee:

### **Quarterly Incentive Fee Based on Net Investment Income**

**Pre-incentive fee net investment income  
(expressed as a percentage of the value of net assets)**

**Percentage of pre-incentive fee net investment income  
allocated to income-related portion of incentive fee**

These calculations will be appropriately pro rated for any period of less than three months and adjusted for any share issuances or repurchases during the current quarter.

The 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 the 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. If such amount is positive at the end of such year, then the Capital Gains Fee for such year is equal to 20.0% 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 the Company's 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 the Company's portfolio as of the applicable Capital Gains Fee calculation date and (b) the accreted or amortized cost basis of such investment.

### **Examples of Quarterly Incentive Fee Calculation**

#### **Example 1: Income Related Portion of Incentive Fee(1):**

##### *Assumptions*

Hurdle rate(2) = 2.00%

Management fee(3) = 0.375%

Other expenses (legal, accounting, custodian, transfer agent, etc.)(4) = 0.20%

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**Alternative 1**

*Additional Assumptions*

Investment income (including interest, dividends, fees, etc.) = 1.25%  
 Pre-incentive fee net investment income  
 (investment income - (management fee + other expenses)) = 0.675%  
 Pre-incentive fee net investment income does not exceed hurdle rate, therefore there is no incentive fee.

**Alternative 2**

*Additional Assumptions*

Investment income (including interest, dividends, fees, etc.) = 2.70%  
 Pre-incentive fee net investment income  
 (investment income - (management fee + other expenses)) = 2.125%

Pre-incentive fee net investment income exceeds hurdle rate, therefore there is an incentive fee.

$$\begin{aligned}
 \text{Incentive Fee} &= 100\% \times \text{"Catch-Up"} + \text{the greater of } 0\% \text{ AND } (20\% \times (\text{pre-incentive fee net investment income} - 2.50\%)) \\
 &= (100\% \times (2.125\% - 2.00\%)) + 0\% \\
 &= 100\% \times 0.125\% \\
 &= 0.125\%
 \end{aligned}$$

- (1) The hypothetical amount of pre-incentive fee net investment income shown is based on a percentage of total net assets. In addition, the example assumes that during the most recent four full calendar quarter period ending on or prior to the date the payment set forth in the example is to be made, the sum of (a) our aggregate distributions to our stockholders and (b) our change in net assets (defined as total assets less indebtedness) is at least 8.0% of our net assets at the beginning of such period (as adjusted for any share issuances or repurchases).
- (2) Represents 8.0% annualized hurdle rate.
- (3) Represents 1.5% annualized management fee.
- (4) Excludes offering expenses.

**Alternative 3**

*Additional Assumptions*

Investment income (including interest, dividends, fees, etc.) = 3.50%  
 Pre-incentive fee net investment income  
 (investment income - (management fee + other expenses)) = 2.925%

Pre-incentive fee net investment income exceeds hurdle rate, therefore there is an incentive

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fee.

$$\begin{aligned} \text{Incentive Fee} &= 100\% \times \text{"Catch-Up"} + \text{the greater of } 0\% \text{ AND } (20\% \times (\text{pre-incentive} \\ &\text{fee net investment income} - 2.50\%)) \\ &= (100\% \times (2.50\% - 2.00\%)) + (20\% \times (2.925\% - 2.50\%)) \\ &= 0.50\% + (20\% \times 0.425\%) \\ &= 0.50\% + 0.085\% \\ &= 0.585\% \end{aligned}$$

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**Example 2: Capital Gains Portion of Incentive Fee:**

**Alternative 1:**

*Assumptions*

Year 1: \$20 million investment made in Company A ("Investment A"), and \$30 million investment made in Company B ("Investment B")

Year 2: Investment A is sold for \$50 million and fair market value ("FMV") of Investment B determined to be \$32 million

Year 3: FMV of Investment B determined to be \$25 million

Year 4: Investment B sold for \$31 million

The capital gains portion of the incentive fee, if any, would be:

Year 1: None

Year 2: \$6 million (20% multiplied by \$30 million realized capital gains on sale of Investment A)

Year 3: None; \$5 million (20% multiplied by (\$30 million realized cumulative capital gains less \$5 million cumulative capital depreciation)) less \$6 million (previous capital gains fee paid in Year 2)

Year 4: \$200,000; \$6.2 million (20% multiplied by \$31 million cumulative realized capital gains) less \$6 million (capital gains fee paid in Year 2)

**Alternative 2**

*Assumptions*

Year 1: \$20 million investment made in Company A ("Investment A"), \$30 million investment made in Company B ("Investment B") and \$25 million investment made in Company C ("Investment C")

Year 2: Investment A sold for \$50 million, FMV of Investment B determined to be \$25 million and FMV of Investment C determined to be \$25 million

Year 3: FMV of Investment B determined to be \$27 million and Investment C sold for \$30 million

Year 4: FMV of Investment B determined to be \$35 million

Year 5: Investment B sold for \$20 million

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The capital gains portion of the incentive fee, if any, would be:

Year 1: None

Year 2: \$5 million (20% multiplied by \$25 million (\$30 million realized capital gains on Investment A less \$5 million unrealized capital depreciation on Investment B))

Year 3: \$1.4 million (\$6.4 million (20% multiplied by \$32 million (\$35 million cumulative realized capital gains less \$3 million unrealized capital depreciation)) less \$5 million (capital gains fee paid in Year 2))

Year 4: None

Year 5: None (\$5 million (20% multiplied by \$25 million (cumulative realized capital gains of \$35 million less realized capital losses of \$10 million)) less \$6.4 million (cumulative capital gains fee paid in Year 2 and Year 3))

For the year ended December 31, 2006, we incurred \$13,645,724 in base management fees, \$16,067,931 in incentive management fees related to pre-incentive fee net investment income and \$3,448,462 in incentive management fees related to realized capital gains.

For the year ended December 31, 2005, we incurred \$5,147,492 in base management fees, \$3,222,690 in incentive management fees related to pre-incentive fee net investment income and \$979,388 in incentive management fees related to realized capital gains.

### **Payment of our expenses**

All investment professionals of the investment adviser and its staff when and to the extent engaged in providing investment advisory and management services, 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: 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 debt, 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 of 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 Administration in connection with administering our business, such as our allocable portion of overhead under the administration agreement, including our allocable portion of the salary and cost of our officers (including our chief compliance officer, our chief financial officer and our vice president of investor relations and treasurer) and their respective staffs (including travel).

### **Duration and termination**

The amended and restated investment advisory and management agreement was approved by our stockholders on May 30, 2006 and entered into on June 1, 2006. Unless terminated earlier, it will continue in effect until June 1, 2008, and will automatically renew for successive annual periods thereafter 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. 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. 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. 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, members and any other person or entity affiliated with it are entitled to indemnification from Ares Capital 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 an investment adviser of Ares Capital.

### Organization of the investment adviser

Ares Capital Management LLC 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 1999 Avenue of the Stars, Suite 1900, Los Angeles, California 90067.

### Board Consideration of the Investment Advisory and Management Agreement

At a meeting of the board of directors of the Company held on February 24, 2006, the board of directors, including all of the directors who are not "interested persons" of the Company as defined in the Investment Company Act, unanimously voted to approve the investment advisory and management agreement. 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 investment advisory and management agreement, the board of directors reviewed a significant amount of information and considered, among other things:

- (i) the nature, extent and quality of the advisory and other services to be provided to the Company by the investment adviser;
- (ii) the investment performance of the Company and the investment adviser;
- (iii) the costs of the services to be provided by the investment adviser (including management fees, advisory fees and expense ratios) and the profits realized by the investment adviser;
- (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.

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

**Nature, Extent and Quality of Services.** The 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. The 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, the board of directors considered the other terms and conditions of the investment advisory and management agreement. The board of directors concluded that the substantive terms of the investment advisory management agreement, including the services to be provided, are generally the same as those of comparable business development companies described in the available market data and that it would be

difficult to obtain similar services from other third party services providers or through an internally managed structure. In addition, the 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 the investment adviser. The board of directors further concluded that our investment adviser is served by a dedicated origination team of investment professionals, and that these investment professionals have historically focused on investments in middle market companies and have developed an investment process and an extensive network of relationships with 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 business development companies described in the available market data.

**Investment Performance.** The board of directors reviewed the long-term and short-term investment performance of the Company and the investment adviser, as well as comparative data with respect to the long-term and short-term investment performance of other business development companies and their externally managed investment advisers. The board of directors concluded that the 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 business development companies.

**Costs of the Services Provided to the Company and the Profits Realized by the Investment Adviser.** The 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 business development companies with similar investment objectives, our projected operating expenses and expense ratio compared to other business development companies with similar investment objectives, as well as the administrative services that our administrator, Ares Operations, LLC, will provide to us at cost. Based upon its review, the board of directors concluded that the fees to be paid under the investment advisory and management agreement are generally less than those payable under agreements of comparable business development companies described in the available market data. In addition, the 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 business development companies described in the available market data.

**Economies of Scale.** The board of directors considered information about the potential of stockholders to experience economies of scale as the Company grows in size. The board of directors considered that because there are no break points in the 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.

**Profitability of Investment Adviser.** The board of directors concluded that the investment adviser's pro forma profitability with respect to managing us was generally less than the profitability of investment advisers managing comparable business development companies described in the available market data.

**Additional Benefits Derived by Investment Adviser.** The 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.



**Other Matters Considered.** In addition, our board of directors considered the interests of senior management described in "Certain Relationships and Related Transactions" and concluded that the judgment and performance of our senior management will not be impaired by those interests. Our investment adviser does not manage any other accounts.

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. The 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 the 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 its review of the abovementioned factors and discussion of the investment advisory and management agreement, the board of directors (including a majority of the directors who are not "interested persons") concluded that the investment advisory and management fee rates are fair and reasonable in relation to the services to be provided and approved the investment advisory and management agreement as being in the best interests of the Company and the Company's stockholders. The board of directors then directed that the investment advisory and management agreement be submitted to stockholders for approval with the board of directors' recommendation that stockholders of the Company vote to approve the investment advisory and management agreement.

Our stockholders approved the investment advisory and management agreement on May 30, 2006. A similar discussion regarding the basis for our board of directors' approval of our investment advisory and management agreement is also included in our proxy statement for the 2006 annual stockholders meeting.

#### ADMINISTRATION AGREEMENT

We are also party to a separate administration agreement with our administrator, Ares Administration. Our board of directors approved an amended and restated administration agreement on May 30, 2007, which extended the term of the agreement until June 1, 2008. Pursuant to the administration agreement, Ares Administration furnishes us with office equipment and clerical, bookkeeping and record keeping services at our office facilities. Under the administration agreement, Ares Administration also performs, or oversees the performance of, our required administrative services, which include, among other things, being responsible for the financial records which we are required to maintain and preparing reports to our stockholders and reports filed with the SEC. In addition, Ares Administration 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 will be equal to an amount based upon our allocable portion of Ares Administration's overhead in performing its obligations under the administration agreement, including our allocable portion of the cost of our officers and their respective staffs. Under the administration agreement, Ares Administration also provides on our behalf managerial assistance to those portfolio companies to which we are required to provide such assistance. The administration agreement may be terminated by either party without penalty upon 60-days' written notice to the other party.

For the year ended December 31, 2006, we incurred \$953,400 in administrative fees. For the year ended December 31, 2005, we incurred \$888,081 in administrative fees.

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

### CERTAIN RELATIONSHIPS

We are party to an investment advisory and management agreement with Ares Capital Management, whose sole member is Ares Management LLC, an entity in which our senior management and our chairman of the board have indirect ownership and financial interests. Certain members of our senior management also serve as principals of other investment managers affiliated with Ares Management LLC that may in the future manage investment funds with investment objectives similar to ours. In addition, certain of our executive officers and directors and the members of the investment committee of our investment adviser, Ares Capital Management, serve or may serve as officers, directors or principals of entities that operate in the same or related line of business as we do or of investment funds managed by our affiliates. Accordingly, we may not be given the opportunity to participate in certain investments made by investment funds managed by advisers affiliated with Ares Management LLC. However, our investment adviser and other members of Ares intend to allocate investment opportunities in a fair and equitable manner that meet our investment objective and strategies so that we are not disadvantaged in relation to any other client. See "Risk Factors Risks Relating to our Business There are significant potential conflicts of interest that could impact our investment returns."

Pursuant to the terms of the administration agreement, Ares Administration currently provides us with the administrative services necessary to conduct our day-to-day operations. Ares Management LLC is the sole member of and controls Ares Administration. We lease office space directly from a third party. In addition, we have a sublease agreement with Ares Management LLC whereby Ares Management LLC subleases approximately 25% of our office space for a fixed rent equal to 25% of the basic annual rent payable by us under our lease, plus certain additional costs and expenses.

We have also entered into a license agreement with Ares pursuant to which Ares has agreed to grant us a non-exclusive, royalty-free license to use the name "Ares." Under this agreement, we will have a right to use the Ares name, for so long as Ares Capital Management or one of its affiliates remains our investment adviser. Other than with respect to this limited license, we will have no legal right to the "Ares" name. This license agreement will remain in effect for so long as the investment advisory and management agreement with our investment adviser is in effect.

In connection with our initial public offering, our investment adviser paid to underwriters, on our behalf, an additional sales load of \$2,475,000. This amount accrued interest at a variable rate that adjusted quarterly equal to the three-month LIBOR plus 2.00% per annum. We repaid this amount in full, plus accrued and unpaid interest, in February 2006.

In connection with the offering, Ares Investments, a current stockholder and an affiliate of our investment adviser, Ares Capital Management, has indicated that it intends to over-subscribe for up to a total investment of \$[ ] million in shares of our common stock. Any over-subscription by Ares Investments will be effected in accordance with the pro-rata allocation of shares in connection with the over-subscription privilege.

**CONTROL PERSONS AND PRINCIPAL STOCKHOLDERS**

As of February 5, 2008, there were no persons that owned 25% or more of our outstanding voting securities, and no person would be deemed to control us, as such term is defined in the Investment Company Act.

The following table sets forth, as of February 5, 2008, the number of shares of the Company's common stock beneficially owned by each of its current directors and executive officers, all directors and executive officers as a group, and certain beneficial owners, according to information furnished to the Company by such persons.

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the securities. Ownership information for those persons who beneficially own 5% or more of our shares of common stock is based upon Schedule 13D, Schedule 13G or other filings by such persons with the SEC and other information obtained from such persons.

The address for each of the directors and executive officers is c/o Ares Capital Corporation, 1999 Avenue of the Stars, Suite 1900, Los Angeles, California 90067.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class(1)
<i>Beneficial Owners of more than 5%:</i>		
Non-Management Beneficial Owners		
FMR Corp.(2)	7,418,282	10.21%
<i>Directors and Executive Officers:</i>		
<b>Interested Directors</b>		
Robert L. Rosen	None	
Bennett Rosenthal	None(3)	
<b>Independent Directors</b>		
Douglas E. Coltharp	None	
Frank E. O'Bryan	None	
Eric B. Siegel	2,627	*
<b>Executive Officers</b>		
Michael J. Arougheti	None(3)	
Richard S. Davis	23,100	
Merritt S. Hooper	None	
Daniel F. Nguyen	None	
Karen A. Tallman	None	
Michael D. Weiner	2,000(3)	*
All Directors and Executive Officers as a Group (11 persons)	27,727(3)	*

\* Represents less than 1%.

(1) Based on 72,684,090 shares of common stock outstanding as of February 5, 2008.

(2) Fidelity Management & Research Company ("Fidelity"), a wholly owned subsidiary of FMR Corp., is the beneficial owner of 7,418,282 shares of our common stock as a result of acting as an investment adviser to various investment companies registered under Section 8 of the Investment Company Act. Edward C. Johnson III is Chairman of FMR Corp. and members of his family are the predominant owners, directly or through trusts, of Series B shares of common stock of FMR Corp., representing 49% of the voting power of FMR Corp. As a result, members of the Johnson family may be deemed to form a controlling group with respect to FMR Corp. Neither FMR Corp. nor Edward C. Johnson III has the sole power to vote or direct the voting of the shares owned directly by the funds managed by Fidelity, which power resides with the funds' Boards of Trustees. Fidelity carries out the voting of the shares under written guidelines established by the funds' Boards of Trustees. The address for each of FMR Corp., Fidelity and Edward C. Johnson III is 82 Devonshire Street, Boston, Massachusetts 02109.

(3)

Ares Investments LLC, a subsidiary of Ares Partners Management Company LLC, owns 1,216,667 shares of our common stock. Bennett Rosenthal, Michael Arougheti and Michael Weiner are members of Ares Partners Management Company LLC. Under applicable law, Messrs. Rosenthal, Arougheti and Weiner and their respective spouses may be deemed to be beneficial owners of 1,216,667 shares of our common stock owned of record by Ares Investments LLC by virtue of such status. Each of such persons disclaims beneficial ownership of all shares of Ares Capital common stock owned by Ares Investments LLC, except to the extent of their indirect pecuniary interest therein. Ares Investments has indicated that it intends to over-subscribe for up to a total investment of \$[ ] million in shares of our common stock. Any over-subscription by Ares Investments will be effected in accordance with the pro-rata allocation of shares in connection with the over-subscription privilege.

### DETERMINATION OF NET ASSET VALUE

The net asset value per share of our outstanding shares of common stock is determined quarterly by dividing the value of total assets minus liabilities by the total number of shares outstanding.

In calculating the value of our total assets, we value investments for which market quotations are readily available at such market quotations. Debt and equity securities that are not publicly traded or whose market price is not readily available are valued at fair value as determined in good faith by our board of directors based on the input of our management and audit committee. As a general rule, loans or debt in our portfolio generally correspond to cost but are subject to fair value write-downs when the asset is considered impaired. With respect to private equity securities, each investment is valued using comparisons of financial ratios of the portfolio companies that issued such private equity securities to peer companies that are public. The value is then discounted to reflect the illiquid nature of the investment, as well as our minority, non-control position.

When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we use the pricing indicated by the external event to corroborate our valuation. Because there is not a readily available market value for most of the investments in our portfolio, we value substantially all of our portfolio investments at fair value as determined in good faith by our board under a valuation policy and a consistently applied valuation process. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may 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.

With respect to investments for which market quotations are not readily available, our board of directors undertakes a multi-step valuation process each quarter, as described below:

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

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

The audit committee of our board of directors reviews these preliminary valuations as well as the input of an independent valuation firm with respect to the valuations of approximately a quarter of our portfolio companies.

The board of directors discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of our management and audit committee and independent valuation firms.

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

Determination of fair values involves subjective judgments and estimates not susceptible to substantiation by auditing procedures. Accordingly, under current auditing standards, the notes to our financial statements will refer to the uncertainty with respect to the possible effect of such valuations, and any change in such valuations, on our financial statements.

**DIVIDEND REINVESTMENT PLAN**

We have adopted a dividend reinvestment plan that provides for reinvestment of our distributions on behalf of our stockholders, unless a stockholder elects to receive cash as provided below. As a result, if our board of directors authorizes, and we declare, a cash dividend, then our stockholders who have not "opted out" of our dividend reinvestment plan will have their cash dividends automatically reinvested in additional shares of our common stock, rather than receiving the cash dividends.

No action is required on the part of a registered stockholder to have their cash dividend reinvested in shares of our common stock. A registered stockholder may elect to receive an entire dividend in cash by notifying Computershare Trust Company, Inc., the plan administrator and an affiliate of our transfer agent and registrar, in writing so that such notice is received by the plan administrator no later than the record date for dividends to stockholders. The plan administrator will set up an account for shares acquired through the plan for each stockholder who has not elected to receive dividends in cash and hold such shares in non-certificated form. Upon request by a stockholder participating in the plan, received in writing no later than 10 days prior to the record date, the plan administrator will, instead of crediting shares to the participant's account, issue a certificate registered in the participant's name for the number of whole shares of our common stock and a check for any fractional share.

Those stockholders whose shares are held by a broker or other financial intermediary may receive dividends in cash by notifying their broker or other financial intermediary of their election.

We intend to use primarily newly issued shares to implement the plan, whether our shares are trading at a premium or at a discount to net asset value. However, we reserve the right to purchase shares in the open market in connection with our obligations under the plan. The number of shares to be issued to a stockholder is determined by dividing the total dollar amount of the dividend payable to such stockholder by the market price per share of our common stock at the close of regular trading on The NASDAQ Global Select Market on the valuation date for such dividend. Market price per share on that date will be the closing price for such shares on The NASDAQ Global Select Market or, if no sale is reported for such day, at the average of their reported bid and asked prices. The number of shares of our common stock to be outstanding after giving effect to payment of the dividend cannot be established until the value per share at which additional shares will be issued has been determined and elections of our stockholders have been tabulated.

There are no brokerage charges or other charges to stockholders who participate in the plan. The plan administrator's fees under the plan are paid by us. If a participant elects by written notice to the plan administrator to have the plan administrator sell part or all of the shares held by the plan administrator in the participant's account and remit the proceeds to the participant, the plan administrator is authorized to deduct a \$15 transaction fee plus a \$0.12 per share brokerage commission from the proceeds.

Stockholders who receive dividends in the form of stock are subject to the same federal, state and local tax consequences as are stockholders who elect to receive their dividends in cash. A stockholder's basis for determining gain or loss upon the sale of stock received in a dividend from us will be equal to the total dollar amount of the dividend payable to the stockholder. Any stock received in a dividend will have a new holding period for tax purposes commencing on the day following the day on which the shares are credited to the U.S. stockholder's account.

Participants may terminate their accounts under the plan by notifying the plan administrator via its website at [www.computershare.com](http://www.computershare.com), by filling out the transaction request form located at bottom of their statement and sending it to the plan administrator at 2 N. LaSalle Street, Chicago, IL 60602 or by calling the plan administrator's hotline at 1-877-292-9685.

The plan may be terminated by us upon notice in writing mailed to each participant at least 30 days prior to any record date for the payment of any dividend by us. All correspondence concerning the plan should be directed to the plan administrator by mail at 2 N. LaSalle Street, Chicago, IL 60602 or by telephone at (312) 588-4993.

**MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS**

The following discussion is a general summary of the material U.S. federal income tax considerations applicable to us and to an investment in our preferred stock or common stock. This summary does not purport to be a complete description of the income tax considerations applicable to such an investment. For example, we have not described tax consequences that we assume to be generally known by investors or certain considerations that may be relevant to certain types of holders subject to special treatment under U.S. federal income tax laws, including stockholders subject to the alternative minimum tax, tax-exempt organizations, insurance companies, dealers in securities, pension plans and trusts, and financial institutions. This summary assumes that investors hold our preferred stock or common stock as capital assets (within the meaning of the Code). The discussion is based upon the Code, Treasury regulations, and administrative and judicial interpretations, each as of the date of this prospectus and all of which are subject to change, possibly retroactively, which could affect the continuing validity of this discussion. We have not sought and will not seek any ruling from the Internal Revenue Service regarding the offering pursuant to this prospectus. This summary does not discuss any aspects of U.S. estate or gift tax or foreign, state or local tax. It does not discuss the special treatment under U.S. federal income tax laws that could result if we invested in tax-exempt securities or certain other investment assets.

A "U.S. stockholder" is a beneficial owner of shares of our preferred stock or common stock that is for U.S. federal income tax purposes:

a citizen or individual resident of the United States;

a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or any state thereof or the District of Columbia;

a trust, if a court within the United States has primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions, or the trust has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person; or

an estate, the income of which is subject to U.S. federal income taxation regardless of its source.

A "Non-U.S. stockholder" is a beneficial owner of shares of our preferred stock or common stock that is not a U.S. stockholder.

If a partnership (including an entity treated as a partnership for U.S. federal income tax purposes) holds shares of our preferred stock or common stock, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. A prospective stockholder that is a partnership holding shares of our preferred stock or common stock or a partner of such a partnership should consult his, her or its tax advisers with respect to the purchase, ownership and disposition of shares of our preferred stock or common stock.

Tax matters are very complicated and the tax consequences to an investor of an investment in our shares will depend on the facts of his, her or its particular situation. We encourage investors to consult their own tax advisers regarding the specific consequences of such an investment, including tax reporting requirements, the applicability of federal, state, local and foreign tax laws, eligibility for the benefits of any applicable tax treaty and the effect of any possible changes in the tax laws.

**ELECTION TO BE TAXED AS A RIC**

As a BDC, we have elected to be treated as a RIC under Subchapter M of the Code. As a RIC, we generally will not pay corporate-level federal income taxes on any ordinary income or capital



gains that we distribute to our stockholders as dividends. To qualify as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements (as described below). In addition, we must distribute to our stockholders, for each taxable year, an amount equal to at least 90% of our "investment company taxable income," which is generally our ordinary income plus the excess of net short-term capital gain over net long-term capital loss, reduced by deductible expenses (the "Annual Distribution Requirement"). See "Risk Factors We will be subject to corporate-level income tax if we are unable to qualify as a RIC."

## TAXATION AS A RIC

If we:

qualify as a RIC; and

satisfy the Annual Distribution Requirement;

then we will not be subject to federal income tax on the portion of our investment company taxable income and net capital gain (generally, net long-term capital gain in excess of net short-term capital loss) we distribute to stockholders. We will be subject to U.S. federal income tax at the regular corporate rates on any income or capital gain not distributed (or deemed distributed) to our stockholders.

We will be subject to a 4% nondeductible federal excise tax on certain undistributed income of RICs unless we distribute in a timely manner an amount at least equal to the sum of (1) 98% of our ordinary income for each calendar year, (2) 98% of our capital gain net income for the one-year period ending October 31 in that calendar year and (3) any income realized, but not distributed, in preceding years (the "Excise Tax Avoidance Requirement"). We have in the past and can be expected to pay such excise tax on a portion of our income.

To qualify as a RIC for federal income tax purposes, we generally must, among other things:

qualify to be treated as a BDC under the Investment Company Act at all times during each taxable year;

derive in each taxable year at least 90% of our gross income from dividends, interest, payments with respect to certain securities loans, gains from the sale of stock or other securities, or other income derived with respect to our business of investing in such stock or securities (the "90% Income Test"); and

diversify our holdings so that at the end of each quarter of the taxable year:

at least 50% of the value of our assets consists of cash, cash equivalents, U.S. Government securities, securities of other RICs, and other securities if such other securities of any one issuer do not represent more than 5% of the value of our assets or more than 10% of the outstanding voting securities of the issuer; and

no more than 25% of the value of our assets is invested in the securities, other than U.S. Government securities or securities of other RICs, of one issuer or of two or more issuers that are controlled, as determined under applicable tax rules, by us and that are engaged in the same or similar or related trades or businesses (the "Diversification Tests").

We may be required to recognize taxable income in circumstances in which we do not receive cash. For example, if we hold debt obligations that are treated under applicable tax rules as having original issue discount (such as debt instruments with payment-in-kind interest or, in certain cases, increasing interest rates or issued with warrants), we must include in income each year a portion of the original issue discount that accrues over the life of the obligation, regardless of whether cash



representing such income is received by us in the same taxable year. Because any original issue discount accrued will be included in our investment company taxable income for the year of accrual, we may be required to make a distribution to our stockholders in order to satisfy the Annual Distribution Requirement and the Excise Tax Avoidance Requirement, even though we will not have received any corresponding cash amount.

In addition, certain of our investment practices may be subject to special and complex U.S. federal income tax provisions that may, among other things, (i) disallow, suspend or otherwise limit the allowance of certain losses or deductions, (ii) convert lower taxed long-term capital gain into higher taxed short-term capital gain or ordinary income, (iii) convert an ordinary loss or a deduction into a capital loss (the deductibility of which is more limited), (iv) adversely affect the time as to when a purchase or sale of stock or securities is deemed to occur and (v) adversely alter the characterization of certain complex financial transactions. We will monitor our transactions and may make certain tax elections in order to mitigate the effect of these provisions.

Gain or loss realized by us from warrants acquired by us as well as any loss attributable to the lapse of such warrants generally will be treated as capital gain or loss. Such gain or loss generally will be long-term or short-term, depending on how long we held a particular warrant.

Our investment in non-U.S. securities may be subject to non-U.S. income, withholding or other taxes. In that case, our yield on those securities would be decreased. Stockholders will generally not be entitled to claim a credit or deduction with respect to non-U.S. taxes paid by us.

If we purchase shares in a "passive foreign investment company" (a "PFIC"), we may be subject to U.S. federal income tax on a portion of any "excess distribution" or gain from the disposition of such shares even if such income is distributed as a taxable dividend by us to our stockholders. Additional charges in the nature of interest may be imposed on us in respect of deferred taxes arising from such distributions or gains. If we invest in a PFIC and elect to treat the PFIC as a "qualified electing fund" under the Code (a "QEF"), in lieu of the foregoing requirements, we will be required to include in income each year a portion of the ordinary earnings and net capital gain of the QEF, even if such income is not distributed to us. Alternatively, we can elect to mark-to-market at the end of each taxable year our shares in a PFIC; in this case, we will recognize as ordinary income any increase in the value of such shares, and as ordinary loss any decrease in such value to the extent it does not exceed prior increases included in income. Under either election, we may be required to recognize in a year income in excess of our distributions from PFICs and our proceeds from dispositions of PFIC stock during that year, and such income will nevertheless be subject to the Annual Distribution Requirement and will be taken into account for purposes of the 4% excise tax. See "Taxation as a RIC" above.

Under Section 988 of the Code, gains or losses attributable to fluctuations in exchange rates between the time we accrue income, expenses or other liabilities denominated in a foreign currency and the time we actually collect such income or pay such expenses or liabilities are generally treated as ordinary income or loss. Similarly, gains or losses on foreign currency forward contracts and the disposition of debt denominated in a foreign currency, to the extent attributable to fluctuations in exchange rates between the acquisition and disposition dates, are also treated as ordinary income or loss.

If we borrow money, we may be prevented by loan covenants from declaring and paying dividends in certain circumstances. Limits on our payment of dividends may prevent us from meeting the Annual Distribution Requirement, and may, therefore, jeopardize our qualification for taxation as a RIC, or subject us to the 4% excise tax.

We are authorized to borrow funds and to sell assets in order to satisfy distribution requirements. However, under the Investment Company Act, we are not permitted to make distributions to our stockholders while our debt obligations and senior securities are outstanding unless

certain "asset coverage" tests are met. See "Regulation Indebtedness and Senior Securities." Moreover, our ability to dispose of assets to meet our distribution requirements may be limited by (1) the illiquid nature of our portfolio and (2) other requirements relating to our status as a RIC, including the Diversification Tests. If we dispose of assets to meet the Annual Distribution Requirement, the Diversification Test, or the Excise Tax Avoidance Requirement, we may make such dispositions at times that, from an investment standpoint, are not advantageous.

If we fail to satisfy the Annual Distribution Requirement or otherwise fail to qualify as a RIC in any taxable year, we will be subject to tax in that year on all of our taxable income, regardless of whether we make any distributions to our stockholders. In that case, all of our income will be subject to corporate-level federal income tax, reducing the amount available to be distributed to our stockholders. In contrast, assuming we qualify as a RIC, our corporate-level federal income tax should be substantially reduced or eliminated. See "Election to be Taxed as a RIC" and "Risk Factors We will be subject to corporate-level income tax if we are unable to qualify as a RIC."

The remainder of this discussion assumes that we qualify as a RIC and have satisfied the Annual Distribution Requirement.

## TAXATION OF U.S. STOCKHOLDERS

Distributions by us generally are taxable to U.S. stockholders as ordinary income or long-term capital gain. Distributions of our "investment company taxable income" (which is, generally, our ordinary income plus net short-term capital gain in excess of net long-term capital loss, reduced by deductible expenses) will be taxable as ordinary income to U.S. stockholders to the extent of our current and accumulated earnings and profits, whether paid in cash or reinvested in additional common stock. To the extent such distributions paid by us to non-corporate stockholders (including individuals) are attributable to dividends from certain U.S. and foreign corporations, such distributions generally will be eligible for a maximum tax rate of 15% provided that certain holding period requirements are met. Distributions of our net capital gain (which is generally our net long-term capital gain in excess of net short-term capital loss) properly designated by us as "capital gain dividends" will be taxable to a U.S. stockholder as long-term capital gains, at a maximum rate of 15% in the case of non-corporate U.S. stockholders, regardless of the U.S. stockholder's holding period for his, her or its preferred stock or common stock and regardless of whether paid in cash or reinvested in additional common stock. Distributions in excess of our earnings and profits first will reduce a U.S. stockholder's adjusted tax basis in such stockholder's preferred stock or common stock and, after the adjusted basis is reduced to zero, will constitute capital gain to such U.S. stockholder.

Although we currently intend to distribute any long-term capital gain at least annually, we may in the future decide to retain some or all of our long-term capital gain, but designate the retained amount as a "deemed distribution." In that case, among other consequences, we will pay tax on the retained amount, each U.S. stockholder will be required to include his, her or its share of the deemed distribution in income as if it had been actually distributed to the U.S. stockholder, and the U.S. stockholder will be entitled to claim a credit equal to his, her or its allocable share of the tax paid thereon by us. The amount of the deemed distribution net of such tax will be added to the U.S. stockholder's tax basis for his, her or its preferred stock or common stock. Since we expect to pay tax on any retained capital gain at our regular corporate tax rate, and since that rate is in excess of the maximum rate currently payable by individuals on long-term capital gain, the amount of tax that individual stockholders will be treated as having paid and for which they will receive a credit will exceed the tax they owe on the retained net capital gain. Such excess generally may be claimed as a credit against the U.S. stockholder's other federal income tax obligations or may be refunded to the extent it exceeds a stockholder's liability for federal income tax. A U.S. stockholder that is not subject to federal income tax or otherwise required to file a federal income tax return would be required to file a federal income tax return on the appropriate form in order to claim a refund for the taxes we

paid. In order to utilize the deemed distribution approach, we must provide written notice to our stockholders prior to the expiration of 60 days after the close of the relevant taxable year. We cannot treat any of our investment company taxable income as a "deemed distribution."

We will be subject to alternative minimum tax, also referred to as "AMT," but any items that are treated differently for AMT purposes must be apportioned between us and our stockholders and this may affect U.S. stockholders' AMT liabilities. Although regulations explaining the precise method of apportionment have not yet been issued, such items will generally be apportioned in the same proportion that dividends paid to each stockholder bear to our taxable income (determined without regard to the dividends paid deduction), unless a different method for particular item is warranted under the circumstances.

For purposes of determining (1) whether the Annual Distribution Requirement is satisfied for any year and (2) the amount of capital gain dividends paid for that year, we may, under certain circumstances, elect to treat a dividend that is paid during the following taxable year as if it had been paid during the taxable year in question. If we make such an election, the U.S. stockholder will still be treated as receiving the dividend in the taxable year in which the distribution is made. However, any dividend declared by us in October, November or December of any calendar year, payable to stockholders of record on a specified date in such a month and actually paid during January of the following year, will be treated as if it had been received by our U.S. stockholders on December 31 of the year in which the dividend was declared.

If an investor purchases shares of our preferred stock or common stock shortly before the record date of a distribution, the price of the shares will include the value of the distribution and the investor will be subject to tax on the distribution even though it represents a return of his, her or its investment.

A U.S. stockholder generally will recognize taxable gain or loss if the U.S. stockholder sells or otherwise disposes of his, her or its shares of our preferred stock or common stock. Any gain arising from such sale or disposition generally will be treated as long-term capital gain or loss if the stockholder has held his, her or its shares for more than one year. Otherwise, it would be classified as short-term capital gain or loss. However, any capital loss arising from the sale or disposition of shares of our preferred stock or common stock held for six months or less will be treated as long-term capital loss to the extent of the amount of capital gain dividends received, or undistributed capital gain deemed received, with respect to such shares. In addition, all or a portion of any loss recognized upon a disposition of shares of our preferred stock or common stock may be disallowed if other shares of our preferred stock or common stock are purchased (whether through reinvestment of distributions or otherwise) within 30 days before or after the disposition.

In general, non-corporate U.S. stockholders currently are subject to a maximum federal income tax rate of 15% on their net capital gain (generally, the excess of net long-term capital gain over net short-term capital loss for a taxable year, including a long-term capital gain derived from an investment in our shares). Such rate is lower than the maximum rate on ordinary income currently payable by individuals. Corporate U.S. stockholders currently are subject to federal income tax on net capital gain at the maximum 35% rate that also applies to ordinary income. Non-corporate U.S. stockholders with net capital losses for a year (i.e., capital loss in excess of capital gain) generally may deduct up to \$3,000 of such losses against their ordinary income each year; any net capital losses of a non-corporate U.S. stockholder in excess of \$3,000 generally may be carried forward and used in subsequent years as provided in the Code. Corporate stockholders generally may not deduct any net capital losses for a year, but may carry back such losses for three years or carry forward such losses for five years.

We will send to each of our U.S. stockholders, as promptly as possible after the end of each calendar year, a notice detailing, on a per share and per distribution basis, the amounts includible in such U.S. stockholder's taxable income for such year as ordinary income and as long-term capital gain.

In addition, the federal tax status of each year's distributions generally will be reported to the Internal Revenue Service (including the amount of dividends, if any, eligible for the 15% maximum rate). Distributions may also be subject to additional state, local and foreign taxes depending on a U.S. stockholder's particular situation. The Company's ordinary income dividends, but not capital gain dividends, to corporate U.S. stockholders, may, if certain conditions are met, qualify for the 70% dividends received deduction to the extent that the Company has received qualifying dividends during the taxable year.

We may be required to withhold U.S. federal income tax ("backup withholding"), currently at a rate of 28%, from all taxable distributions to any non-corporate U.S. stockholder (1) who fails to furnish us with a correct taxpayer identification number or a certificate that such stockholder is exempt from backup withholding, or (2) with respect to whom the IRS notifies us that such stockholder has failed to properly report certain interest and dividend income to the IRS and to respond to notices to that effect. An individual's taxpayer identification number is his or her social security number. Any amount withheld under backup withholding is allowed as a credit against the U.S. stockholder's federal income tax liability and may entitle such stockholder to a refund, provided that proper information is timely provided to the IRS.

Under Treasury regulations, if a stockholder recognizes a loss with respect to shares of \$2 million or more for a non-corporate stockholder or \$10 million or more for a corporate stockholder in any single taxable year (or a greater loss over a combination of years), the stockholder must file with the IRS a disclosure statement on Form 8886. Direct stockholders of portfolio securities are in many cases excepted from this reporting requirement, but under current guidance, stockholders of a RIC are not excepted. Future guidance may extend the current exception from this reporting requirement to stockholders of most or all RICs. The fact that a loss is reportable under these regulations does not affect the legal determination of whether the taxpayer's treatment of the loss is proper. Significant monetary penalties apply to a failure to comply with this reporting requirement. States may also have a similar reporting requirement. Stockholders should consult their tax advisors to determine the applicability of these regulations in light of their individual circumstances.

#### **TAXATION OF NON-U.S. STOCKHOLDERS**

Whether an investment in the shares of our preferred stock or common stock is appropriate for a Non-U.S. stockholder will depend upon that person's particular circumstances. An investment in the shares of our preferred stock or common stock by a Non-U.S. stockholder may have adverse tax consequences. Non-U.S. stockholders should consult their tax advisers before investing in our preferred stock or common stock.

Distributions of our "investment company taxable income" to Non-U.S. stockholders will be subject to withholding of U.S. federal income tax at a 30% rate (or lower rate provided by an applicable income tax treaty) to the extent of our current and accumulated earnings and profits unless the distributions are effectively connected with a U.S. trade or business of the Non-U.S. stockholder, and, if an income tax treaty applies, are attributable to a permanent establishment in the United States of the Non-U.S. stockholder, in which case the distributions will be subject to federal income tax at the rates applicable to U.S. persons. In that case, we will not be required to withhold federal tax if the Non-U.S. stockholder complies with applicable certification and disclosure requirements. Special certification requirements apply to a Non-U.S. stockholder that is a foreign partnership or a foreign trust, and such entities are urged to consult their own tax advisers.

However, "interest-related dividends" and "short-term capital gain dividends" paid to our Non-U.S. stockholders with respect to taxable years beginning on or after January 1, 2005 and ending on or before December 31, 2007 will not be subject to withholding of U.S. federal income tax if the requirements below are satisfied. The amount of "interest-related dividends" that we may pay each

year is limited to the amount of "qualified interest income" that we receive during that year, less the amount of our expenses properly allocable to such interest income. "Qualified interest income" includes, among other items, interest paid on debt obligations of a U.S. issuer, interest paid on deposits with U.S. banks and any "interest-related dividends" from another RIC. The exemption from withholding tax on "interest-related dividends," however, does not apply to distributions to a Non-U.S. stockholder (i) that has not complied with applicable certification requirements, (ii) of interest on an obligation issued by the Non-U.S. stockholder or by an issuer of which the Non-U.S. stockholder is a 10% shareholder, (iii) that is within certain foreign countries that have inadequate information exchange with the United States, or (iv) of interest paid by a person that is a related person of the Non-U.S. stockholder and the Non-U.S. stockholder is a controlled foreign corporation. The amount of "short-term capital gain dividends" that we may pay each year generally is limited to the excess of our net short-term capital gains over our net long-term capital losses, without any reduction for our expenses allocable to such gains. The exemption from U.S. tax on "short-term capital gain dividends", however, does not apply with respect to an individual Non-U.S. stockholder who is present in the United States for 183 days or more during the taxable year of the distribution. If our income for a taxable year includes "qualified interest income" or net short-term capital gains, we may designate dividends as "interest-related dividends" or "short-term capital gain dividends" by written notice mailed to Non-U.S. stockholders not later than 60 days after the close of our taxable year. As indicated above, these provisions apply only to dividends paid with respect to taxable years beginning on or after January 1, 2005 and will not apply to dividends paid with respect to taxable years beginning after December 31, 2007. These provisions may be extended retroactively, but we cannot provide any assurances to that effect. You should consult with your own tax advisor regarding any such potential extensions. If a Non-U.S. stockholder holds our shares of preferred stock or common stock through a brokerage account, no assurance can be given that the exemptions to taxation described in this paragraph will apply to you. Furthermore, no assurance can be given that we will designate any of our distributions as interest-related dividends or short-term capital gain dividends, even if we are permitted to do so.

Actual or deemed distributions of our net capital gain to a Non-U.S. stockholder, and gains realized by a Non-U.S. stockholder upon the sale of our preferred stock or common stock, will not be subject to withholding of U.S. federal income tax and generally will not be subject to U.S. federal income tax (a) unless the distributions or gains, as the case may be, are effectively connected with a U.S. trade or business of the Non-U.S. stockholder and, if an income tax treaty applies, are attributable to a permanent establishment maintained by the Non-U.S. stockholder in the United States or (b) the Non-U.S. stockholder is an individual, has been present in the United States for 183 days or more during the taxable year, and certain other conditions are satisfied.

If we distribute our net capital gain in the form of deemed rather than actual distributions (which we may do in the future), a Non-U.S. stockholder will be entitled to a federal income tax credit or tax refund equal to the Non-U.S. stockholder's allocable share of the tax we pay on the capital gain deemed to have been distributed. In order to obtain the refund, the Non-U.S. stockholder must obtain a U.S. taxpayer identification number and file a federal income tax return even if the Non-U.S. stockholder would not otherwise be required to obtain a U.S. taxpayer identification number or file a federal income tax return. For a corporate Non-U.S. stockholder, distributions (both actual and deemed), and gains realized upon the sale of our preferred stock or common stock that are effectively connected with a U.S. trade or business may, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate (or at a lower rate if provided for by an applicable income tax treaty).

Accordingly, investment in our shares of our preferred stock or common stock may not be appropriate for a Non-U.S. stockholder.

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A Non-U.S. stockholder who is a non-resident alien individual, and who is otherwise subject to withholding of federal income tax, may be subject to information reporting and backup withholding of federal income tax on dividends unless the Non-U.S. stockholder provides us or the dividend paying agent with an IRS Form W-8BEN (or an acceptable substitute form) or otherwise meets documentary evidence requirements for establishing that it is a Non-U.S. stockholder or otherwise establishes an exemption from backup withholding.

Non-U.S. persons should consult their own tax advisers with respect to the U.S. federal income tax and withholding tax, and state, local and foreign tax consequences of an investment in the shares of our preferred stock or common stock.

### **FAILURE TO QUALIFY AS A RIC**

If we were unable to qualify for treatment as a RIC, we would be subject to tax on all of our taxable income at regular corporate rates. We would not be able to deduct distributions to stockholders, nor would they be required to be made. Distributions would generally be taxable to our stockholders as ordinary dividend income eligible for the 15% maximum rate to the extent of our current and accumulated earnings and profits. Subject to certain limitations under the Code, corporate U.S. stockholders would be eligible for the dividends-received deduction. Distributions in excess of our current and accumulated earnings and profits would be treated first as a return of capital to the extent of the stockholder's tax basis, and any remaining distributions would be treated as a capital gain. If we were to fail to meet the RIC requirements for more than two consecutive years and then to seek to requalify as a RIC, we would be required to recognize gain to the extent of any unrealized appreciation in our assets unless we made a special election to pay corporate-level tax on any such unrealized appreciation recognized during the succeeding 10-year period.



**DESCRIPTION OF OUR CAPITAL STOCK**

*The following description is based on relevant portions of the Maryland General Corporation Law and on our charter and bylaws. This summary is not necessarily complete, and we refer you to the Maryland General Corporation Law and our charter and bylaws for a more detailed description of the provisions summarized below.*

**STOCK**

Our authorized stock consists of 100,000,000 shares of stock, par value \$0.001 per share, all of which are currently designated as common stock. Our common stock is traded on The NASDAQ Global Select Market under the symbol "ARCC." On \_\_\_\_\_, 2008, the last reported sales price of our common stock on The NASDAQ Global Select Market was \$ \_\_\_\_\_ per share. There are no outstanding options or warrants to purchase our stock. No stock has been authorized for issuance under any equity compensation plans. Under Maryland law, our stockholders generally are not personally liable for our debts or obligations.

Under our charter, our board of directors is authorized to classify and reclassify any unissued shares of stock into other classes or series of stock and authorize the issuance of shares of stock without obtaining stockholder approval. As permitted by the Maryland General Corporation Law, our charter provides that the board of directors, without any action by our stockholders, may amend the charter from time to time to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that we have authority to issue.

**Common Stock**

All shares of our common stock have equal rights as to earnings, assets, dividends and voting and, when they are issued, will be duly authorized, validly issued, fully paid and nonassessable. Distributions may be paid to the holders of our common stock if, as and when authorized by our board of directors and declared by us out of funds legally available therefor. Shares of our common stock have no preemptive, exchange, conversion or redemption rights and are freely transferable, except where their transfer is restricted by federal and state securities laws or by contract. In the event of a liquidation, dissolution or winding up of Ares Capital, each share of our common stock would be entitled to share ratably in all of our assets that are legally available for distribution after we pay all debts and other liabilities and subject to any preferential rights of holders of our preferred stock, if any preferred stock is outstanding at such time. Each share of our common stock is entitled to one vote on all matters submitted to a vote of stockholders, including the election of directors. Except as provided with respect to any other class or series of stock, the holders of our common stock will possess exclusive voting power. There is no cumulative voting in the election of directors, which means that holders of a majority of the outstanding shares of common stock can elect all of our directors, and holders of less than a majority of such shares will be unable to elect any director.

The following are our outstanding classes of capital stock as of February 5, 2008:

(1) Title of Class	(2) Amount Authorized	(3) Amount Held by Registrant or for its Account	(4) Amount Outstanding Exclusive of Amount Shown Under(3)
Common Stock	100,000,000		72,684,090

**Preferred Stock**

Our charter authorizes our board of directors to classify and reclassify any unissued shares of stock into other classes or series of stock, including preferred stock. Prior to issuance of shares of each

class or series, the board of directors is required by Maryland law and by our charter to set the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each class or series. Thus, the board of directors could authorize the issuance of shares of preferred stock with terms and conditions that could have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for holders of our common stock or otherwise be in their best interest. You should note, however, that any issuance of preferred stock must comply with the requirements of the Investment Company Act. The Investment Company Act requires, among other things, that (1) immediately after issuance and before any dividend or other distribution is made with respect to our common stock and before any purchase of common stock is made, such preferred stock together with all other indebtedness and senior securities must not exceed an amount equal to 50% of our total assets after deducting the amount of such dividend, distribution or purchase price, as the case may be, and (2) the holders of shares of preferred stock, if any are issued, must be entitled as a class to elect two directors at all times and to elect a majority of the directors if dividends on such preferred stock are in arrears by two years or more. Certain matters under the Investment Company Act require the separate vote of the holders of any issued and outstanding preferred stock. For example, holders of preferred stock would vote separately from the holders of common stock on a proposal to cease operations as a BDC. We believe that the availability for issuance of preferred stock will provide us with increased flexibility in structuring future financings and acquisitions.

#### **LIMITATION ON LIABILITY OF DIRECTORS AND OFFICERS; INDEMNIFICATION AND ADVANCE OF EXPENSES**

Maryland law permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages except for liability resulting from (a) actual receipt of an improper benefit or profit in money, property or services or (b) active and deliberate dishonesty established by a final judgment as being material to the cause of action. Our charter contains such a provision which eliminates directors' and officers' liability to the maximum extent permitted by Maryland law, subject to the requirements of the Investment Company Act.

Our charter authorizes us and our bylaws obligate us, to the maximum extent permitted by Maryland law and subject to the requirements of the Investment Company Act, to indemnify any present or former director or officer or any individual who, while a director or officer and at our request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee, from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her status as a present or former director or officer and to pay or reimburse their reasonable expenses in advance of final disposition of a proceeding. The charter and bylaws also permit us to indemnify and advance expenses to any person who served a predecessor of us in any of the capacities described above and any of our employees or agents or any employees or agents of our predecessor. In accordance with the Investment Company Act, we will not indemnify any person for any liability to which such person would be subject by reason of such person's willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office. In addition to the indemnification provided for in our bylaws, we have entered into indemnification agreements with each of our current directors and officers and with members of our investment adviser's investment committee and we intend to enter into indemnification agreements with each of our future directors and officers. The indemnification agreements attempt to provide these directors and senior officers the maximum indemnification permitted under Maryland law and the Investment Company Act. The agreements provide, among other things, for the advancement of expenses and indemnification for liabilities incurred which such person may incur by reason of his status as a present or former director or officer or member of our investment adviser's investment committee in any action

or proceeding arising out of the performance of such person's services as a present or former director or officer or member of our investment adviser's investment committee.

Maryland law requires a corporation (unless its charter provides otherwise, which our charter does not) to indemnify a director or officer who has been successful, on the merits or otherwise, in the defense of any proceeding to which he or she is made or threatened to be made a party by reason of his or her service in that capacity. Maryland law permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made or are threatened to be made a party by reason of their service in those or other capacities unless it is established that (a) the act or omission of the director or officer was material to the matter giving rise to the proceeding and (1) was committed in bad faith or (2) was the result of active and deliberate dishonesty, (b) the director or officer actually received an improper personal benefit in money, property or services or (c) in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. However, under Maryland law, a Maryland corporation may not indemnify for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis that a personal benefit was improperly received, unless in either case a court orders indemnification, and then only for expenses. In addition, Maryland law permits a corporation to advance reasonable expenses to a director or officer upon the corporation's receipt of (a) a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation and (b) a written undertaking by him or her or on his or her behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the standard of conduct was not met.

#### **PROVISIONS OF THE MARYLAND GENERAL CORPORATION LAW AND OUR CHARTER AND BYLAWS**

The Maryland General Corporation Law and our charter and bylaws contain provisions that could make it more difficult for a potential acquiror to acquire us by means of a tender offer, proxy contest or otherwise. These provisions are expected to discourage certain coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of us to negotiate first with our board of directors. We believe that the benefits of these provisions outweigh the potential disadvantages of discouraging any such acquisition proposals because, among other things, the negotiation of such proposals may improve their terms.

#### **Classified board of directors**

Our board of directors is divided into three classes of directors serving staggered three-year terms, with the term of office of only one of the three classes expiring each year. A classified board may render a change in control of us or removal of our incumbent management more difficult. We believe, however, that the longer time required to elect a majority of a classified board of directors will help to ensure the continuity and stability of our management and policies.

#### **Election of directors**

Our charter and bylaws provide that the affirmative vote of the holders of a majority of the outstanding shares of stock entitled to vote in the election of directors will be required to elect a director. Pursuant to the charter, our board of directors may amend the bylaws to alter the vote required to elect directors.

### **Number of directors; vacancies; removal**

Our charter provides that the number of directors will be set only by the board of directors in accordance with our bylaws. Our bylaws provide that a majority of our entire board of directors may at any time increase or decrease the number of directors. However, unless our bylaws are amended, the number of directors may never be less than four nor more than eight. Our charter sets forth our election, subject to certain requirements, to be subject to the provision of Subtitle 8 of Title 3 of the Maryland General Corporation Law regarding the filling of vacancies on the board of directors. Accordingly, at such time, except as may be provided by the board of directors in setting the terms of any class or series of preferred stock, any and all vacancies on the board of directors may be filled only by the affirmative vote of a majority of the remaining directors in office, even if the remaining directors do not constitute a quorum, and any director elected to fill a vacancy will serve for the remainder of the full term of the directorship in which the vacancy occurred and until a successor is elected and qualifies, subject to any applicable requirements of the Investment Company Act.

Our charter provides that a director may be removed only for cause, as defined in our charter, and then only by the affirmative vote of at least two-thirds of the votes entitled to be cast in the election of directors.

### **Action by stockholders**

Under the Maryland General Corporation Law, stockholder action can be taken only at an annual or special meeting of stockholders or by unanimous written or electronically transmitted consent in lieu of a meeting. These provisions, combined with the requirements of our bylaws regarding the calling of a stockholder-requested special meeting of stockholders discussed below, may have the effect of delaying consideration of a stockholder proposal until the next annual meeting.

### **Advance notice provisions for stockholder nominations and stockholder proposals**

Our bylaws provide that with respect to an annual meeting of stockholders, nominations of individuals for election to the board of directors and the proposal of business to be considered by stockholders may be made only (1) pursuant to our notice of the meeting, (2) by the board of directors or (3) by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice procedures of the bylaws. With respect to special meetings of stockholders, only the business specified in our notice of the meeting may be brought before the meeting. Nominations of individuals for election to the board of directors at a special meeting may be made only (1) pursuant to our notice of the meeting, (2) by the board of directors or (3) provided that the board of directors has determined that directors will be elected at the meeting, by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice provisions of the bylaws.

The purpose of requiring stockholders to give us advance notice of nominations and other business is to afford our board of directors a meaningful opportunity to consider the qualifications of the proposed nominees and the advisability of any other proposed business and, to the extent deemed necessary or desirable by our board of directors, to inform stockholders and make recommendations about such qualifications or business, as well as to provide a more orderly procedure for conducting meetings of stockholders. Although our bylaws do not give our board of directors any power to disapprove stockholder nominations for the election of directors or proposals recommending certain action, they may have the effect of precluding a contest for the election of directors or the consideration of stockholder proposals if proper procedures are not followed and of discouraging or deterring a third party from conducting a solicitation of proxies to elect its own slate of directors or to approve its own proposal without regard to whether consideration of such nominees or proposals might be harmful or beneficial to us and our stockholders.

### **Calling of special meetings of stockholders**

Our bylaws provide that special meetings of stockholders may be called by our board of directors and certain of our officers. Additionally, our bylaws provide that, subject to the satisfaction of certain procedural and informational requirements by the stockholders requesting the meeting, a special meeting of stockholders will be called by the secretary of the corporation upon the written request of stockholders entitled to cast not less than a majority of all the votes entitled to be cast at such meeting.

### **Approval of extraordinary corporate action; amendment of charter and bylaws**

Under Maryland law, a Maryland corporation generally cannot dissolve, amend its charter, merge, sell all or substantially all of its assets, engage in a share exchange or engage in similar transactions outside the ordinary course of business, unless approved by the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter. See "Risk Factors Provisions of the Maryland General Corporation Law and of our charter and bylaws could deter takeover attempts and have an adverse impact on the price of our common stock." However, a Maryland corporation may provide in its charter for approval of these matters by a lesser percentage, but not less than a majority of all of the votes entitled to be cast on the matter. Our charter generally provides for approval of charter amendments and extraordinary transactions by the stockholders entitled to cast at least a majority of the votes entitled to be cast on the matter. Our charter also provides that certain charter amendments and any proposal for our conversion, whether by merger or otherwise, from a closed-end company to an open-end company or any proposal for our liquidation or dissolution requires the approval of the stockholders entitled to cast at least 80 percent of the votes entitled to be cast on such matter. However, if such amendment or proposal is approved by at least two-thirds of our continuing directors (in addition to approval by our board of directors), such amendment or proposal may be approved by a majority of the votes entitled to be cast on such a matter. The "continuing directors" are defined in our charter as our current directors as well as those directors whose nomination for election by the stockholders or whose election by the directors to fill vacancies is approved by a majority of the continuing directors then on the board of directors.

Our charter and bylaws provide that the board of directors will have the exclusive power to adopt, alter or repeal any provision of our bylaws and to make new bylaws.

### **No appraisal rights**

Except with respect to appraisal rights arising in connection with the Maryland Control Share Acquisition Act discussed below, as permitted by the Maryland General Corporation Law, our charter provides that stockholders will not be entitled to exercise appraisal rights unless a majority of our board of directors determines that such rights will apply.

### **Control share acquisitions**

The Control Share Acquisition Act provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter. Shares owned by the acquiror, by officers or by employees who are directors of the corporation are excluded from shares entitled to vote on the matter. Control shares are voting shares of stock which, if aggregated with all other shares of stock owned by the acquiror or in respect of which the acquiror is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquiror to exercise voting power in electing directors within one of the following ranges of voting power:

one-tenth or more but less than one-third;

one-third or more but less than a majority; or

a majority or more of all voting power.

The requisite stockholder approval must be obtained each time an acquiror crosses one of the thresholds of voting power set forth above. Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A control share acquisition means the acquisition of control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition may compel the board of directors of the corporation to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the shares. The right to compel the calling of a special meeting is subject to the satisfaction of certain conditions, including an undertaking to pay the expenses of the meeting. If no request for a meeting is made, the corporation may itself present the question at any stockholders meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the statute, then the corporation may repurchase for fair value any or all of the control shares, except those for which voting rights have previously been approved. The right of the corporation to repurchase control shares is subject to certain conditions and limitations, including, as provided in our bylaws, compliance with the Investment Company Act, which will prohibit any such repurchase other than in limited circumstances. Fair value is determined, without regard to the absence of voting rights for the control shares, as of the date of the last control share acquisition by the acquiror or of any meeting of stockholders at which the voting rights of the shares are considered and not approved. If voting rights for control shares are approved at a stockholders meeting and the acquiror becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of appraisal rights may not be less than the highest price per share paid by the acquiror in the control share acquisition.

The Control Share Acquisition Act does not apply (a) to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction or (b) to acquisitions approved or exempted by the charter or bylaws of the corporation.

Our bylaws contain a provision exempting from the Control Share Acquisition Act any and all acquisitions by any person of our shares of stock. Such provision could also be amended or eliminated at any time in the future. However, we will amend our bylaws to be subject to the Control Share Acquisition Act only if the board of directors determines that it would be in our best interests based on our determination that our being subject to the Control Share Acquisition Act does not conflict with the Investment Company Act.

#### **Business combinations**

Under Maryland law, "business combinations" between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested stockholder is defined as:

any person who beneficially owns 10% or more of the voting power of the corporation's shares; or

an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding voting stock of the corporation.

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A person is not an interested stockholder under this statute if the board of directors approved in advance the transaction by which he otherwise would have become an interested stockholder. However, in approving a transaction, the board of directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board.

After the five-year prohibition, any business combination between the corporation and an interested stockholder generally must be recommended by the board of directors of the corporation and approved by the affirmative vote of at least:

80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation; and

two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder.

These super-majority vote requirements do not apply if the corporation's common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares.

The statute permits various exemptions from its provisions, including business combinations that are exempted by the board of directors before the time that the interested stockholder becomes an interested stockholder. Our board of directors has adopted a resolution that any business combination between us and any other person is exempted from the provisions of the Business Combination Act, provided that the business combination is first approved by the board of directors, including a majority of the directors who are not interested persons as defined in the Investment Company Act. This resolution, however, may be altered or repealed in whole or in part at any time. If this resolution is repealed, or the board of directors does not otherwise approve a business combination, the statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer.

### **Conflict with the Investment Company Act**

Our bylaws provide that, if and to the extent that any provision of the Maryland General Corporation Law, including the Control Share Acquisition Act (if we amend our bylaws to be subject to such Act) and the Business Combination Act, or any provision of our charter or bylaws conflicts with any provision of the Investment Company Act, the applicable provision of the Investment Company Act will control.

## REGULATION

We have elected to be regulated as a BDC under the Investment Company Act and have elected to be treated as a RIC under Subchapter M of the Code. As with other companies regulated by the Investment Company Act, a BDC must adhere to certain substantive regulatory requirements. The Investment Company Act contains prohibitions and restrictions relating to transactions between BDCs and their affiliates (including any investment advisers or sub-advisers), principal underwriters and certain affiliates of those affiliates or underwriters. Among other things, we cannot invest in any portfolio company in which any of the funds managed by Ares currently has an investment (although we may co-invest on a concurrent basis with other funds managed by Ares, 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 and we have currently determined not to pursue obtaining such an order. The Investment Company Act also requires that a majority of the 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 a majority of our outstanding voting securities. A majority of the outstanding voting securities of a company is defined under the Investment Company Act as the lesser of: (i) 67% or more of such company's shares present at a meeting if more than 50% of the outstanding shares of such company are present and represented by proxy or (ii) more than 50% of the outstanding shares of such company.

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. 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. We may change each of the foregoing policies without stockholder approval.

## QUALIFYING ASSETS

A BDC must have been organized and have its principal place of business in the United States and must be operated for the purpose of making investments in the types of securities described in (1), (2) or (3) below. Thus, under the Investment Company Act, a BDC may not acquire any asset other than assets of the type listed in Section 55(a) of the Investment Company Act, which are referred to as qualifying assets, unless, at the time the acquisition is made, qualifying assets represent at least 70% of the company's total assets. The principal categories of qualifying assets relevant to our proposed business are the following:

- (1) Securities purchased in transactions not involving any public offering from the issuer of such securities, which issuer (subject to certain limited exceptions):
  - (A) is an eligible portfolio company, or from any person who is, or has been during the preceding 13 months, an affiliated person of an eligible portfolio company, or from any other person, subject to such rules as may be prescribed by the SEC. An eligible portfolio company is defined in the Investment Company Act as any issuer which:
    - (i) is organized under the laws of, and has its principal place of business in, the United States;



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- (ii) is not an investment company (other than a small business investment company wholly owned by the BDC) or a company that would be an investment company but for certain exclusions under the Investment Company Act; and
  - (iii) does not have any class of securities listed on a national securities exchange.
- (B) is a company that meets the requirements of (A)(i) and (ii) above, but is not an eligible portfolio company because it has issued a class of securities on a national securities exchange, if:
- (i) at the time of the purchase, we own at least 50% of the (a) greatest number of equity securities of such issuer and securities convertible into or exchangeable for such securities; and (b) the greatest amount of debt securities of such issuer, held by us at any point in time during the period when such issuer was an eligible portfolio company; and
  - (ii) we are one of the 20 largest holders of record of such issuer's outstanding voting securities.
- (2) Securities of any eligible portfolio company which we control.
  - (3) Securities purchased in a private transaction from a U.S. issuer that is not an investment company or from an affiliated person of the issuer, or in transactions incident thereto, if the issuer is in bankruptcy and subject to reorganization or if the issuer, immediately prior to the purchase of its securities was unable to meet its obligations as they came due without material assistance other than conventional lending or financing arrangements.
  - (4) Securities of an eligible portfolio company purchased from any person in a private transaction if there is no ready market for such securities and we already own 60% of the outstanding equity of the eligible portfolio company.
  - (5) Securities received in exchange for or distributed on or with respect to securities described in (1) through (4) above, or pursuant to the exercise of warrants or rights relating to such securities.
  - (6) Cash, cash equivalents, U.S. Government securities or high-quality debt securities maturing in one year or less from the time of investment.

### MANAGERIAL ASSISTANCE TO PORTFOLIO COMPANIES

In order to count portfolio securities as qualifying assets for the purpose of the 70% test discussed above under "Qualifying Assets," the BDC must either control the issuer of the securities or must offer to make available to the issuer of the securities (other than small and solvent companies described above) significant managerial assistance; except that, where the BDC purchases such securities in conjunction with one or more other persons acting together, one of the other persons in the group may make available such managerial assistance. Making available managerial assistance means, among other things, any arrangement whereby the BDC, through its directors, officers or employees, offers to provide, and, if the offer is accepted, does so provide, significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company.

### TEMPORARY INVESTMENTS

Pending investment in other types of "qualifying assets," as described above, our investments may consist of cash, cash equivalents, U.S. Government securities or high-quality debt securities maturing in one year or less from the time of investment, which we refer to, collectively, as temporary



investments, so that 70% of our assets are qualifying assets. Typically, we will invest in U.S. Treasury bills or in repurchase agreements, provided that such agreements are fully collateralized by cash or securities issued by the U.S. Government or its agencies. A repurchase agreement involves the purchase by an investor, such as us, of a specified security and the simultaneous agreement by the seller to repurchase it at an agreed-upon future date and at a price which is greater than the purchase price by an amount that reflects an agreed-upon interest rate. There is no percentage restriction on the proportion of our assets that may be invested in such repurchase agreements. However, if more than 25% of our total assets constitute repurchase agreements from a single counterparty, we would not meet the Diversification Tests in order to qualify as a RIC for federal income tax purposes. Thus, we do not intend to enter into repurchase agreements with a single counterparty in excess of this limit. Our investment adviser will monitor the creditworthiness of the counterparties with which we enter into repurchase agreement transactions.

#### **INDEBTEDNESS AND SENIOR SECURITIES**

We are permitted, under specified conditions, to issue multiple classes of indebtedness and one class of stock senior to our common stock if our asset coverage, as defined in the Investment Company Act, is at least equal to 200% immediately after each such issuance. In addition, while any indebtedness and senior securities remain outstanding, we must make provisions to prohibit any distribution to our stockholders or the repurchase of such securities or shares unless we meet the applicable asset coverage ratios at the time of the distribution or repurchase. We may also borrow amounts up to 5% of the value of our total assets for temporary or emergency purposes without regard to asset coverage. For a discussion of the risks associated with leverage, see "Risk Factors Risks Relating to our Business Regulations governing our operation as a BDC affect our ability to, and the way in which we, raise additional capital."

#### **CODE OF ETHICS**

We and Ares Capital Management have each adopted a code of ethics pursuant to Rule 17j-1 under the Investment Company Act that establishes procedures for personal investments and restricts certain personal securities transactions. Personnel subject to each code may invest in securities for their personal investment accounts, including securities that may be purchased or held by us, so long as such investments are made in accordance with the code's requirements. Our code of ethics is filed as an exhibit to our registration statement of which this prospectus is a part. For information on how to obtain a copy of the code of ethics, see "Available Information."

#### **PROXY VOTING POLICIES AND PROCEDURES**

SEC-registered advisers that have the authority to vote (client) proxies (which authority may be implied from a general grant of investment discretion) are required to adopt policies and procedures reasonably designed to ensure that the adviser votes proxies in the best interests of its clients. Registered advisers also must maintain certain records on proxy voting. In most cases, Ares Capital invests in securities that do not generally entitle it to voting rights in its portfolio companies. When Ares Capital does have voting rights, it delegates the exercise of such rights to Ares Capital Management. Ares Capital Management's proxy voting policies and procedures are summarized below:

In determining how to vote, officers of our investment adviser consults with each other and other investment professionals of Ares, taking into account the interests of Ares Capital and its investors as well as any potential conflicts of interest. Our investment adviser consults with legal counsel to identify potential conflicts of interest. Where a potential conflict of interest exists, our investment adviser may, if it so elects, resolve it by following the recommendation of a disinterested third party, by seeking the direction of the independent directors of Ares Capital or, in extreme cases, by abstaining from voting. While our investment adviser may retain an outside service to provide voting

recommendations and to assist in analyzing votes, our investment adviser will not delegate its voting authority to any third party.

An officer of Ares Capital Management keeps a written record of how all such proxies are voted. Our investment adviser retains records of (1) proxy voting policies and procedures, (2) all proxy statements received (or it may rely on proxy statements filed on the SEC's EDGAR system in lieu thereof), (3) all votes cast, (4) investor requests for voting information, and (5) any specific documents prepared or received in connection with a decision on a proxy vote. If it uses an outside service, our investment adviser may rely on such service to maintain copies of proxy statements and records, so long as such service will provide a copy of such documents promptly upon request.

Our investment adviser's proxy voting policies are not exhaustive and are designed to be responsive to the wide range of issues that may be subject to a proxy vote. In general, our investment adviser votes our proxies in accordance with these guidelines unless: (1) it has determined otherwise due to the specific and unusual facts and circumstances with respect to a particular vote, (2) the subject matter of the vote is not covered by these guidelines, (3) a material conflict of interest is present, or (4) we find it necessary to vote contrary to our general guidelines to maximize stockholder value or the best interests of Ares Capital. In reviewing proxy issues, our investment adviser generally uses the following guidelines:

**Elections of Directors:** In general, our investment adviser will vote in favor of the management-proposed slate of directors. If there is a proxy fight for seats on a portfolio company's board of directors, or our investment adviser determines that there are other compelling reasons for withholding our vote, it will determine the appropriate vote on the matter. We may withhold votes for directors that fail to act on key issues, such as failure to: (1) implement proposals to declassify a board, (2) implement a majority vote requirement, (3) submit a rights plan to a stockholder vote or (4) act on tender offers where a majority of stockholders have tendered their shares. Finally, our investment adviser may withhold votes for directors of non-U.S. issuers where there is insufficient information about the nominees disclosed in the proxy statement.

**Appointment of Auditors:** We believe that a portfolio company remains in the best position to choose its independent auditors and our investment adviser will generally support management's recommendation in this regard.

**Changes in Capital Structure:** Changes in a portfolio company's charter or bylaws may be required by state or federal regulation. In general, our investment adviser will cast our votes in accordance with the management on such proposals. However, our investment adviser will consider carefully any proposal regarding a change in corporate structure that is not required by state or federal regulation.

**Corporate Restructurings, Mergers and Acquisitions:** We believe proxy votes dealing with corporate reorganizations are an extension of the investment decision. Accordingly, our investment adviser will analyze such proposals on a case-by-case basis and vote in accordance with its perception of our interests.

**Proposals Affecting Stockholder Rights:** We will generally vote in favor of proposals that give stockholders a greater voice in the affairs of a portfolio company and oppose any measure that seeks to limit such rights. However, when analyzing such proposals, our investment adviser will balance the financial impact of the proposal against any impairment of stockholder rights as well as of our investment in the portfolio company.

**Corporate Governance:** We recognize the importance of good corporate governance. Accordingly, our investment adviser will generally favor proposals that promote transparency and accountability within a portfolio company.

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**Anti-Takeover Measures:** Our investment adviser will evaluate, on a case-by-case basis, any proposals regarding anti-takeover measures to determine the measure's likely effect on stockholder value dilution.

**Stock Splits:** Our investment adviser will generally vote with management on stock split matters.

**Limited Liability of Directors:** Our investment adviser will generally vote with management on matters that could adversely affect the limited liability of directors.

**Social and Corporate Responsibility:** Our investment adviser will review proposals related to social, political and environmental issues to determine whether they may adversely affect stockholder value. Our investment adviser may abstain from voting on such proposals where they do not have a readily determinable financial impact on stockholder value.

Stockholders may obtain information regarding how we voted proxies with respect to our portfolio securities free of charge by making a written request for proxy voting information to: Ares Capital Corporation, 1999 Avenue of the Stars, Suite 1900, Los Angeles, California 90067.

### 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. We do not disclose any non-public personal information about our stockholders or former stockholders to anyone, except as permitted by law or as is necessary in order to service stockholder accounts (for example, to a transfer agent or third party administrator).

We restrict access to non-public personal information about our stockholders to employees of our investment adviser and its affiliates with a legitimate business need for the information. We maintain physical, electronic and procedural safeguards designed to protect the non-public personal information of our stockholders.

### OTHER

We will be periodically examined by the SEC for compliance with the Investment Company Act.

We are required to provide and maintain a bond issued by a reputable fidelity insurance company to protect us against larceny and embezzlement. Furthermore, as a BDC, we are prohibited from protecting any director or officer against any liability to Ares Capital or our stockholders arising from willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person's office.

### Compliance with the Sarbanes-Oxley Act of 2002 and The NASDAQ Global Select Market Corporate Governance Regulations

The Sarbanes-Oxley Act of 2002 imposes a wide variety of regulatory requirements on publicly-held companies and their insiders. Many of these requirements affect us. The Sarbanes-Oxley Act has required us to review our policies and procedures to determine whether we comply with the Sarbanes-Oxley Act and the regulations promulgated thereunder. We will continue to monitor our compliance with all future regulations that are adopted under the Sarbanes-Oxley Act and will take actions necessary to ensure that we are in compliance therewith.

In addition, The NASDAQ Global Select Market has adopted various corporate governance requirements as part of its listing standards. We believe we are in compliance with such corporate governance listing standards. We will continue to monitor our compliance with all future listing standards and will take actions necessary to ensure that we are in compliance therewith.

**CUSTODIAN, TRANSFER AND DIVIDEND PAYING AGENT AND REGISTRAR**

Our securities are held under a custody agreement by U.S. Bank National Association. The address of the custodian is Corporate Trust Services, One Federal Street, 3rd Floor, Boston, MA 02110. Computershare Investor Services, LLC will act as our transfer agent, dividend paying agent and registrar. The principal business address of Computershare is 2 N. LaSalle Street Chicago, IL 60602, telephone number: (312) 588-4993.

**BROKERAGE ALLOCATION AND OTHER PRACTICES**

Since we will generally acquire and dispose of our investments in privately negotiated transactions, we will infrequently use brokers in the normal course of our business. Subject to policies established by our board of directors, the investment adviser will be primarily responsible for the execution of the publicly traded securities portion of our portfolio transactions and the allocation of brokerage commissions. The investment adviser does not expect to execute transactions through any particular broker or dealer, but will seek to obtain the best net results for Ares Capital, taking into account such factors as price (including the applicable brokerage commission or dealer spread), size of order, difficulty of execution, and operational facilities of the firm and the firm's risk and skill in positioning blocks of securities. While the investment adviser generally will seek reasonably competitive trade execution costs, Ares Capital will not necessarily pay the lowest spread or commission available. Subject to applicable legal requirements, the investment adviser may select a broker based partly upon brokerage or research services provided to the investment adviser and Ares Capital and any other clients. In return for such services, we may pay a higher commission than other brokers would charge if the investment adviser determines in good faith that such commission is reasonable in relation to the services provided.

**LEGAL MATTERS**

The legality of the securities offered hereby will be passed upon for Ares Capital by Proskauer Rose LLP, New York, New York, Sutherland Asbill & Brennan LLP, Washington, D.C. and Venable LLP, Baltimore, Maryland. Certain legal matters in connection with the offering will be passed upon for the dealer managers by Fried, Frank, Harris, Shriver & Jacobson LLP, New York, New York.

**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

KPMG LLP, located at 355 South Grand Avenue, Los Angeles, California 90071, is the independent registered public accounting firm of Ares Capital.

**AVAILABLE INFORMATION**

We have filed with the SEC a registration statement on Form N-2, together with all amendments and related exhibits, under the Securities Act of 1933, with respect to the securities offered by this prospectus. The registration statement contains additional information about us and the securities being offered by this prospectus.

We file with or submit to the SEC annual, quarterly and current periodic reports, proxy statements and other information meeting the informational requirements of the Exchange Act. This information is available free of charge by calling us collect at (310) 201-4200 or on our website at [www.arescapitalcorp.com](http://www.arescapitalcorp.com). You also may inspect and copy these reports, proxy statements and other information, as well as the registration statement and related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street, 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 Section, Washington, D.C. 20549-0102.

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors  
Ares Capital Corporation:

We have audited the accompanying consolidated balance sheets of Ares Capital Corporation (and subsidiaries) (the Company) as of December 31, 2006 and 2005, including the consolidated schedule of investments as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years ended December 31, 2006 and 2005 and the period from June 23, 2004 (inception) through December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements 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 and financial highlights referred to above present fairly, in all material respects, the financial position of Ares Capital Corporation (and subsidiaries) as of December 31, 2006 and 2005, and the results of their operations and their cash flows for the years ended December 31, 2006 and 2005 and the period from June 23, 2004 (inception) through December 31, 2004, 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), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 6, 2007 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

Los Angeles, CA  
March 6, 2007



**Report of Independent Registered Public Accounting Firm  
on Internal Control over Financial Reporting**

The Board of Directors  
Ares Capital Corporation:

We have audited management's assessment, included in the accompanying Annual Report, that Ares Capital Corporation (and subsidiaries) (the Company) maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company'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. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of 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, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and 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, management's assessment that Ares Capital Corporation (and subsidiaries) maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Ares Capital Corporation (and subsidiaries) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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, 2006 and 2005, and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended December 31, 2006 and 2005 and the period from June 23, 2004 (inception) through December 31, 2004, our report dated March 6, 2007 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Los Angeles, CA  
March 6, 2007

## ARES CAPITAL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

	As of	
	December 31, 2006	December 31, 2005
<b>ASSETS</b>		
Investments at fair value (amortized cost of \$1,245,758,040 and \$581,351,865, respectively)		
Non-control/Non-affiliate investments	\$ 991,529,464	\$ 515,184,991
Affiliate investments	244,292,372	70,783,384
Total investments at fair value	1,235,821,836	585,968,375
Cash and cash equivalents	91,538,878	16,613,334
Receivable for open trades	1,026,053	1,581,752
Interest receivable	10,121,104	5,828,098
Other assets	9,483,083	3,653,585
Total assets	\$ 1,347,990,954	\$ 613,645,144
<b>LIABILITIES</b>		
Debt	\$ 482,000,000	\$ 18,000,000
Reimbursed underwriting costs payable to the Investment Adviser		2,475,000
Dividend payable		12,889,225
Payable for open trades	60,000,000	5,500,000
Accounts payable and accrued expenses	2,027,948	1,222,678
Management and incentive fees payable	12,485,016	3,478,034
Interest and facility fees payable	2,044,586	313,930
Interest payable to the Investment Adviser		154,078
Total liabilities	558,557,550	44,032,945
Commitments and contingencies (Note 7)		
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, par value \$.001 per share, 100,000,000 common shares authorized, 52,036,527 and 37,909,484 common shares issued and outstanding, respectively	52,037	37,910
Capital in excess of par value	785,192,573	559,192,554
Accumulated undistributed net investment income	7,038,469	
Accumulated net realized gain on sale of investments	7,086,529	5,765,225
Net unrealized (depreciation) appreciation on investments	(9,936,204)	4,616,510
Total stockholders' equity	789,433,404	569,612,199
Total liabilities and stockholders' equity	\$ 1,347,990,954	\$ 613,645,144
<b>NET ASSETS PER SHARE</b>	\$ 15.17	\$ 15.03

See accompanying notes to consolidated financial statements.

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**ARES CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS**  
As of December 31, 2006

Company(1)	Industry	Investment	Interest(17)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets	
<b>Healthcare Services</b>									
American Renal Associates, Inc.	Dialysis provider	Senior secured loan (\$2,688,524 par due 12/2010)	9.37% (Libor + 4.00%/S)	12/14/05	\$ 2,688,524	\$ 2,688,524	\$ 1.00(3)		
		Senior secured loan (\$377,049 par due 12/2010)	10.75% (Base Rate + 2.50%/D)	12/14/05	377,049	377,049	\$ 1.00(3)		
		Senior secured loan (\$5,803,279 par due 12/2011)	9.87% (Libor + 4.50%/S)	12/14/05	5,803,279	5,803,279	\$ 1.00(3)		
		Senior secured loan (\$54,098 par due 12/2011)	9.87% (Libor + 4.50%/S)	12/14/05	54,098	54,098	\$ 1.00(3)		
		Senior secured loan (\$393,741 par due 12/2011)	11.25% (Base Rate + 3.00%/D)	12/14/05	393,741	393,741	\$ 1.00(3)		
		Senior secured loan (\$261,997 par due 12/2011)	11.25% (Base Rate + 3.00%/D)	12/14/05	261,997	261,997	\$ 1.00(3)		
		Senior secured loan (\$3,937,406 par due 12/2011)	12.37% (Libor + 7.00%/S)	12/14/05	3,937,406	3,937,406	\$ 1.00		
		Senior secured loan (\$2,619,971 par due 12/2011)	12.37% (Libor + 7.00%/S)	12/14/05	2,619,971	2,619,971	\$ 1.00(3)		
			12.37% (Libor + 7.00%/S)						
			12.37% (Libor + 7.00%/Q)						
Capella Healthcare, Inc.	Acute care hospital operator	Junior secured loan (\$31,000,000 par due 11/2013)	11.36% (Libor +6.00%/Q)	12/1/05	31,000,000	31,000,000	\$ 1.00		
DSI Renal, Inc.	Dialysis provider	Senior subordinated note (\$60,940,868 par due 4/2014)	12.00% Cash,	4/4/06	60,940,868	60,940,868	\$ 1.00(4)		
		Senior subordinated note (\$5,050,125 par due 4/2014)	2.00% PIK 12.00%	4/4/06	5,050,125	5,050,125	\$ 1.00(4)(3)		
		Senior secured revolving loan (\$4,000,000 par due 3/2013)	2.00% PIK	4/4/06	4,000,000	4,000,000	\$ 1.00		
		Senior secured revolving loan (\$960,000 par due 3/2013)	8.38% (Libor + 3.00%/Q)	4/4/06	960,000	960,000	\$ 1.00		
		Senior secured revolving loan (\$1,600,000 par due 3/2013)	8.38% (Libor + 3.00%/Q)	4/4/06	1,600,000	1,600,000	\$ 1.00		
		Senior secured revolving loan (\$1,600,000 par due 3/2013)	8.38% (Libor + 3.00%/Q)	4/4/06	1,600,000	1,600,000	\$ 1.00		
		Senior secured revolving loan (\$2,096,000 par due 3/2013)	8.38% (Libor + 3.00%/Q)	4/4/06	2,096,000	2,096,000	\$ 1.00		
			8.38% (Libor + 3.00%/Q)						
OnCURE Medical Corp.	Radiation oncology care provider	Senior subordinated note (\$23,318,089 par due 8/2013)	11.00% cash,	8/18/06	23,318,089	23,318,089	\$ 1.00(4)		
		Senior secured loan (\$3,403,750 par due 8/2011)	1.50% PIK 8.94%	8/23/06	3,403,750	3,403,750	\$ 1.00		
		Common stock (857,143 shares)	(Libor + 3.50%/S)	8/18/06	3,000,000	3,000,000	\$ 3.50(5)		

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Company(1)	Industry	Investment	Interest(17)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
Triad Laboratory Alliance, LLC	Laboratory services	Senior subordinated note (\$14,829,356 par due 12/2012)	12.00% cash,	12/21/05	14,829,356	14,829,355	\$ 1.00(4)	
		Senior secured loan (\$6,930,000 par due 12/2011)	1.75% PIK 8.61%	12/21/05	6,930,000	6,930,000	\$ 1.00	
		Senior secured loan (\$2,970,000 par due 12/2011)	(Libor + 3.25%/Q) 8.61% (Libor + 3.25%/Q)	12/21/05	2,970,000	2,970,000	\$ 1.00(3)	
					177,834,253	177,834,252		22.53%
<b>Printing, Publishing and Media</b>								
Canon Communications LLC	Print publications services	Junior secured loan (\$7,525,000 par due 11/2011)	12.10% (Libor + 6.75%/M)	5/25/05	7,525,000	7,525,000	\$ 1.00	
		Junior secured loan (\$4,250,000 par due 11/2011)	12.10% (Libor + 6.75%/M)	5/25/05	4,250,000	4,250,000	\$ 1.00(2)	
		Junior secured loan (\$12,000,000 par due 11/2011)	12.10% (Libor + 6.75%/M)	5/25/05	12,000,000	12,000,000	\$ 1.00(3)	

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Daily Candy, Inc.(11)	Internet publication provider	Senior secured loan (\$12,422,111 par due 5/2009)	10.36% (Libor + 5.00%/S)	5/25/06	12,744,556	12,422,111	\$	1.00	
		Senior secured loan (\$11,577,889 par due 5/2009)	10.36% (Libor + 5.00%/S)	5/25/06	11,878,414	11,577,889	\$	1.00(3)	
		Senior secured loan (\$388,191 par due 5/2009)	10.36% (Libor + 5.00%/S)	5/25/06	398,267	388,191	\$	1.00	
		Senior secured oan (\$361,809 par due 5/2009)	10.36% (Libor + 5.00%/Q)	5/25/06	371,200	361,809	\$	1.00(3)	
		Senior secured loan (\$64,698 par due 5/2009)	10.36% (Libor + 5.00%/Q)	5/25/06	66,378	64,698	\$	1.00	
		Senior secured loan (\$60,302 par due 5/2009)	10.36% (Libor + 5.00%/Q)	5/25/06	61,867	60,302	\$	1.00(3)	
		Common stock (1,250,000 shares)	12.25% (Base Rate + 4.00%/D)	5/25/06	2,375,000	2,375,000	\$	1.90(5)	
		Warrants to purchase 1,381,578 shares	4.00%/D	5/25/06	2,624,998	2,624,998	\$	1.90(5)	
			12.25% (Base Rate + 4.00%/D)						
		National Print Group, Inc.	Printing management services	Senior secured revolving loan (\$2,336,173 par due 3/2012)	10.75% (Base Rate + 2.50%/D)	3/2/06	2,336,173	2,336,173	\$
Senior secured loan (\$5,295,652 par due 3/2012)	8.86% (Libor + 3.50%/Q)			3/2/06	5,295,652	5,295,652	\$	1.00(3)	
Senior secured loan (\$273,913 par due 3/2012)	10.75% (Base Rate + 2.50%/D)			3/2/06	273,913	273,913	\$	1.00(3)	
Senior secured loan (\$5,295,652 par due 3/2012)	8.85% (Libor + 3.50%/B)			3/2/06	5,295,652	5,295,652	\$	1.00(3)	
Senior secured loan (\$2,319,368 par due 8/2012)	12.37% (Libor + 7.00%/Q)			3/2/06	2,319,368	2,319,368	\$	1.00	
Senior secured loan (\$419,763 par due 8/2012)	12.37% (Libor + 7.00%/Q)			3/2/06	419,763	419,763	\$	1.00(3)	
Senior secured loan (\$1,932,806 par due 8/2012)	12.38% (Libor + 7.00%/Q)			3/2/06	1,932,806	1,932,806	\$	1.00	
Senior secured loan (\$349,802 par due 8/2012)	12.38% (Libor + 7.00%/Q)			3/2/06	349,802	349,802	\$	1.00(3)	
Preferred stock (9,344 shares)	12.38% (Libor + 7.00%/Q)			3/2/06	2,000,000	2,000,000	\$	214.04(5)	
	12.38% (Libor + 7.00%/Q)								
The Teaching Company, LLC and The Teaching Company Holdings, Inc.(18)	Education publications provider	Senior secured loan (\$28,000,000 par due 9/2012)	10.50%	9/29/06	28,000,000	28,000,000	\$	1.00	
		Senior secured loan (\$12,000,000 par due 9/2012)	10.50%	9/29/06	12,000,000	12,000,000	\$	1.00(3)	
		Preferred stock (29,969 shares)		9/29/06	2,996,921	2,996,921	\$	100.00(5)	
		Common stock (15,393 shares)		9/29/06	3,079	3,079	\$	1.00(5)	
					117,518,809	116,873,127		14.80%	
<b>Manufacturing</b>									
Arrow Group Industries, Inc.	Residential and outdoor shed manufacturer	Senior secured loan (\$6,000,000 par due 4/2010)	10.36% (Libor + 5.00%/Q)	3/28/05	6,038,283	6,000,000	\$	1.00(3)	
Emerald Performance Materials, LLC	Polymers and performance materials manufacturer	Senior secured loan (\$10,421,053 par due 5/2011)	9.60% (Libor + 4.25%/B)	5/16/06	10,421,053	10,421,053	\$	1.00(3)	
		Senior secured loan (\$3,736,842 par due 5/2011)	11.35% (Libor + 6.00%/M)	5/16/06	3,736,842	3,736,842	\$	1.00	
		Senior secured loan (\$1,526,316 par due 5/2011)	11.35% (Libor + 6.00%/M)	5/16/06	1,526,316	1,526,316	\$	1.00(3)	
		Senior secured loan (\$4,210,526 par due 5/2011)	13.00%	5/16/06	4,210,526	4,210,526	\$	1.00	

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Qualitor, Inc.	Automotive aftermarket components supplier	Senior secured loan (\$1,960,000 par due 12/2011)	9.61% (Libor + 4.25%/Q)	12/29/04	1,960,000	1,960,000 \$	1.00(3)
		Junior secured loan (\$5,000,000 par due 6/2012)	12.61% (Libor + 7.25%/Q)	12/29/04	5,000,000	5,000,000 \$	1.00(3)
Professional Paint, Inc.	Paint manufacturer	Junior secured loan (\$4,500,000 par due 5/2013)	11.13% (Libor + 5.75%/S)	5/25/06	4,500,000	4,500,000 \$	1.00
		Junior secured loan (\$12,000,000 par due 5/2013)	11.13% (Libor + 5.75%/S)	5/25/06	12,000,000	12,000,000 \$	1.00(3)

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Reflexite Corporation(10)	Developer and manufacturer of high visibility reflective products	Senior subordinated loan (\$10,616,954 par due 12/2011) Common Stock (1,729,627 shares)	11.00% cash, 3.00% PIK	12/30/04 3/28/06	10,616,954 25,682,891	10,616,954 25,682,891	\$	1.00(2)(4) 14.85(5)
Universal Trailer Corporation(6)	Livestock and specialty trailer manufacturer	Common stock (50,000 shares) Warrants to purchase 22,208 shares		10/8/04 10/8/04	6,424,645 1,505,776	5,500,000 2,442,880	\$	110.00(5) 110.00(5)
Varel Holdings, Inc.	Drill bit manufacturer	Common stock (30,451 shares)		5/18/05	3,045	1,011,569	\$	33.22(5)
					93,626,331	94,609,031		11.98%

**Services Other**

American Residential Services, LLC	Plumbing, heating and air-conditioning services	Senior subordinated note (\$8,767,425 par due 9/2013)	12.00% Cash, 3.00% PIK	11/9/06	8,767,425	8,767,425	\$	1.00(4)
Diversified Collection Services, Inc.	Collections services	Senior secured loan (\$5,242,026 par due 2/2011)	9.60% (Libor + 4.25%/M)	2/2/05	5,242,026	5,242,026	\$	1.00(3)
		Senior secured loan (\$1,742,026 par due 8/2011)	11.35%	2/2/05	1,742,026	1,742,026	\$	1.00(2)
		Senior secured loan (\$6,757,974 par due 8/2011)	(Libor + 6.00%/M)	2/2/05	6,757,974	6,757,974	\$	1.00(3)
		Preferred stock (14,927 shares)	11.35% (Libor + 6.00%/M)	5/18/06	169,123	169,123	\$	11.33(5)
		Common stock (114,004 shares)	6.00%/M	2/2/05	295,270	295,270	\$	2.59(5)
GCA Services Group, Inc.	Custodial services	Senior secured loan (\$50,000,000 par due 12/2011)	12.00%	12/15/06	50,000,000	50,000,000	\$	1.00(4)
NPA Acquisition, LLC	Powersport vehicle auction operator	Senior secured loan (\$4,533,333 par due 8/2012)	8.57% (Libor + 3.25%/S)	8/28/06	4,533,333	4,533,333	\$	1.00
		Senior secured loan (\$400,000 par due 8/2012)	8.60% (Libor + 3.25%/Q)	8/28/06	400,000	400,000	\$	1.00
		Senior secured loan (\$66,667 par due 8/2012)	3.25%/Q	8/28/06	66,667	66,667	\$	1.00
		Junior secured loan (\$2,000,000 par due 2/2013)	10.25% (Base Rate + 2.00%/D)	8/23/06	2,000,000	2,000,000	\$	1.00
		Junior secured loan (\$12,000,000 par due 2/2013)	12.11% (Libor + 6.75%/Q)	8/23/06	12,000,000	12,000,000	\$	1.00(3)
		Common units (1,709 units)	12.11% (Libor + 6.75%/Q)	8/23/06	1,000,000	1,000,000	\$	585.14(5)
					92,973,844	92,973,844		11.78%

**Containers-Packaging**

Captive Plastics, Inc.	Plastics container manufacturer	Junior secured loan (\$15,500,000 par due 2/2012)	12.63% (Libor + 7.25%/Q)	12/19/05	15,500,000	15,500,000	\$	1.00
		Junior secured loan (\$12,000,000 par due 2/2012)	12.63% (Libor + 7.25%/Q)	12/19/05	12,000,000	12,000,000	\$	1.00(3)
Industrial Container Services, LLC(8)	Industrial container manufacturer, reconditioner and servicer	Senior secured loan (\$11,939,547 par due 9/2011)	11.94% (Libor + 6.50%/S)	9/30/05	11,939,547	11,939,547	\$	1.00(3)
		Senior secured loan (\$16,504,747 par due 9/2011)	11.94%	6/21/06	16,504,747	16,504,747	\$	1.00
		Senior secured loan (\$9,950,000 par due 9/2011)	(Libor + 6.50%/S)	9/30/05	9,950,000	9,950,000	\$	1.00
		Senior secured revolving loan (\$4,130,435 par due 9/2011)	11.94% (Libor + 6.50%/S)	9/30/05	4,130,435	4,130,435	\$	1.00
		Senior secured revolving loan (\$1,239,130 par due 9/2011)	6.50%/S	9/30/05	1,239,130	1,239,130	\$	1.00
		Common stock (1,800,000 shares)	9.88% (Libor + 4.50%/Q)		1,800,000	1,800,000	\$	1.00(5)



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			11.25% (Base Rate + 3.00%/D)		9/29/05			
LabelCorp Holdings, Inc.	Consumer product labels manufacturer	Senior subordinated notes (\$9,320,235 par due 9/2012)	12.00% cash, 3.00% PIK	3/16/06	9,320,235	9,320,235	\$	1.00(4)
					<u>82,384,094</u>	<u>82,384,094</u>		10.44%

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Restaurants									
ADF Capital, Inc. & ADF Restaurant Group, LLC	Restaurant owner and operator	Senior secured revolving loan (\$4,236,726 par due 11/2013)	10.25% (Base Rate	11/27/06	4,236,726	4,236,726	\$	1.00	
		Senior secured loan (\$4,937,500 par due 11/2013)	+ 2.00%/D) 10.25% (Base Rate	11/27/06	4,937,500	4,937,500	\$	1.00	
		Senior secured loan (\$23,060,000 par due 11/2012)	+ 2.00%/D) 14.75% (Base Rate	11/27/06	23,060,000	23,060,000	\$	1.00	
		Senior secured loan (\$11,940,000 par due 11/2012)	+ 2.00%/D) 14.75% (Base Rate	11/27/06	11,940,000	11,940,000	\$	1.00(3)	
		Warrants to purchase 9,500,000 units	+ 6.50%/D) 14.75% (Base Rate + 6.50%/D)	6/1/06	9,488,200	9,500,000	\$	1.00(5)	
Encanto Restaurants, Inc.(15)	Restaurant owner and operator	Junior secured loan (\$13,170,625 par due 8/2013)	7.50% Cash, 3.50% PIK	8/16/06	13,170,625	13,170,625	\$	1.00(4)	
		Junior secured loan (\$12,157,500 par due 8/2013)	7.50% Cash, 3.50% PIK	8/16/06	12,157,500	12,157,500	\$	1.00(3)(4)	
					78,990,551	79,002,351			10.01%
Retail									
Savers, Inc and SAI Acquisition Corporation	For-profit thrift retailer	Senior subordinated note (\$28,220,888 par due 8/2014)	10.00% cash, 2.00% PIK	8/8/06	28,220,888	28,220,888	\$	1.00(4)	
		Common stock (1,170,182 shares)		8/8/06	4,500,000	4,500,000	\$	3.85(5)	
Things Remembered, Inc. and TRM Holdings Corporation	Personalized gifts retailer	Senior secured loan (\$4,800,000 par due 9/2012)	10.10% (Libor + 4.75%/M)	9/28/06	4,800,000	4,800,000	\$	1.00(3)	
		Senior secured loan (\$28,000,000 par due 9/2012)	11.35% (Libor + 6.00%/M)	9/28/06	28,000,000	28,000,000	\$	1.00	
		Senior secured loan (\$7,200,000 par due 9/2012)	11.35% (Libor + 6.00%/M)	9/28/06	7,200,000	7,200,000	\$	1.00(3)	
		Preferred stock (80 shares)	11.35% (Libor + 6.00%/M)	9/28/06	1,800,000	1,800,000	\$	22,500.00(5)	
		Common stock (800 shares)	11.35% (Libor + 6.00%/M)	9/28/06	200,000	200,000	\$	250.00(5)	
					74,720,888	74,720,888			9.47%
Consumer Products Non-Durable									
AWTP, LLC	Water treatment services	Junior secured loan (\$1,600,000 par due 12/2012)	12.86% (Libor + 7.50%/Q)	12/21/05	1,600,000	1,600,000	\$	1.00	
		Junior secured loan (\$12,000,000 par due 12/2012)	12.86% (Libor + 7.50%/Q)	12/21/05	12,000,000	12,000,000	\$	1.00(3)	
Making Memories Wholesale, Inc.(7)	Scrapbooking branded products manufacturer	Senior secured loan (\$7,758,333 par due 3/2011)	9.88% (Libor + 4.50%/Q)	5/5/05	7,758,333	7,758,333	\$	1.00(3)	
		Senior subordinated loan (\$10,204,325 par due 5/2012)	12.50% cash, 2.00% PIK	5/5/05	10,204,325	10,204,325	\$	1.00(4)	
		Preferred stock (3,759 shares)	2.00% PIK	5/5/05	3,758,800	1,320,000	\$	351.16(5)	
Shoes for Crews, LLC	Safety footwear and slip-related mats	Senior secured loan (\$1,248,680 par due 7/2010)	8.61% (Libor + 3.25%/S)	10/8/04	1,256,027	1,256,027	\$	1.01(3)	
		Senior secured loan (\$60,747 par due 7/2010)	8.61% (Libor + 3.25%/Q)	10/8/04	61,104	61,104	\$	1.01(3)	
		Senior secured loan (\$60,747 par due 7/2010)	8.61% (Libor + 3.25%/Q)	10/8/04	61,104	61,104	\$	1.01(3)	
		Senior secured revolving loan (\$3,333,333 par due 7/2010)	10.25% (Base Rate + 2.00%/D) 10.25% (Base Rate + 2.00%/D)	6/16/06	3,333,333	3,333,333	\$	1.00	
Tumi Holdings, Inc.	Branded luggage designer, marketer and distributor	Senior secured loan (\$2,500,000 par due 12/2012)	8.11% (Libor + 2.75%/Q)	5/24/05	2,500,000	2,500,000	\$	1.00(3)	
		Senior secured loan (\$5,000,000 par due 12/2013)	8.61% (Libor + 3.25%/Q)	3/14/05	5,000,000	5,000,000	\$	1.00(3)	
		Senior subordinated loan (\$13,682,839 par due 12/2014)	16.36%	3/14/05	13,682,839	13,682,839	\$	1.00(2)(4)	

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			(Libor + 6.00% cash, 5.00% PIK/Q)					
UCG Paper Crafts, Inc.	Scrapbooking materials manufacturer	Senior secured loan (\$1,985,000 par due 2/2013)	8.60%	2/23/06	1,985,000	1,985,000	\$	1.00(3)
		Junior secured loan (\$2,952,625 par due 2/2013)	(Libor + 3.25%/M)	2/23/06	2,952,625	2,952,625	\$	1.00
		Junior secured loan (\$9,949,875 par due 2/2013)	12.85%	2/23/06	9,949,875	9,949,875	\$	1.00(3)
			(Libor + 7.50%/M)					
					76,103,365	73,664,565		9.33%

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<b>Financial</b>								
Abingdon Investments Limited(13)(15)(16)	Investment company	Ordinary shares (948,500 shares)		12/15/06	9,032,978	9,485,000	\$	10.00(5)
Firstlight Financial Corporation(14)(16)	Investment company	Senior subordinated loan (\$36,000,000 par due 12/2016)	10.00% PIK	12/31/06	36,000,000	36,000,000	\$	1.00(4)
		Common stock (6,000 shares)		12/31/06	6,000,000	6,000,000	\$	1,000.00(5)
		Common stock (18,000 shares)		12/31/06	18,000,000	18,000,000	\$	1,000.00(5)
Partnership Capital Growth Fund I, L.P.(16)	Investment partnership	Limited partnership interest (25% interest)		6/16/06	225,260	225,260		(5)
					<b>69,258,238</b>	<b>69,710,260</b>		<b>8.83%</b>
<b>Environmental Services</b>								
Mactec, Inc.	Engineering and environmental services	Common stock (186 shares)		11/3/04			\$	(5)
Waste Pro USA, Inc.	Waste management services	Senior subordinated loan (\$25,000,000 par due 11/2013)	11.50%	11/9/06	25,000,000	25,000,000	\$	1.00
		Preferred stock (15,000 shares)	10.00% PIK	11/9/06	15,000,000	15,000,000	\$	1,000.00(4)
		Warrants to purchase 882,671 shares		11/9/06			\$	(5)
Wastequip, Inc.	Waste management equipment manufacturer	Junior secured loan \$15,000,000 par due 7/2012)	10.85% (Libor + 5.50%/M)	10.85% (Libor + %/M)	8/4/05	15,000,000	15,000,000	\$ 1.00
		Junior secured loan (\$12,000,000 par due 7/2012)	5.50%	5.50	8/4/05	12,000,000	12,000,000	\$ 1.00(3)
					<b>67,000,000</b>	<b>67,000,000</b>		<b>8.49%</b>
<b>Education</b>								
Equinox SMU Partners LLC and SMU Acquisition Corp.(9)(15)	Medical school operator	Senior secured revolving loan (\$1,932,342 par due 12/2010)	13.25% (Base Rate + 5.00%/Q)	1/26/06	1,932,342	1,932,342	\$	1.00
		Senior secured revolving loan (\$3,000,000 par due 12/2010)	11.36% (Libor + 6.00%/B)	1/26/06	3,000,000	3,000,000	\$	1.00
		Senior secured loan (\$4,858,118 par due 12/2010)	11.37% (Libor + 6.00%/Q)	1/26/06	4,858,118	4,858,118	\$	1.00
		Senior secured loan (\$4,966,882 par due 12/2010)	11.37% (Libor + 6.00%/Q)	1/26/06	4,966,882	4,966,882	\$	1.00(3)
		Senior secured loan (\$1,500,000 par due 12/2010)	11.37% (Libor + 6.00%/Q)	1/26/06	1,500,000	1,500,000	\$	1.00
		Senior secured loan (\$1,500,000 par due 12/2010)	11.37% (Libor + 6.00%/Q)	1/26/06	1,500,000	1,500,000	\$	1.00(3)
		Limited liability company membership interest (17.39% interest)	11.37% (Libor + 6.00%/Q)	1/25/06	4,000,000	4,000,000		(5)
ELC Acquisition Corporation	Developer, manufacturer and retailer of educational products	Junior secured loan (\$8,333,333 par due 11/2013)	12.37% (Libor + 7.00%/Q)	11/30/06	8,333,333	8,333,333	\$	1.00(3)
Lakeland Finance, LLC	Private school operator	Senior secured note (\$33,000,000 par due 12/2012)	11.50%	12/13/05	33,000,000	33,000,000	\$	1.00
					<b>63,090,675</b>	<b>63,090,675</b>		<b>7.99%</b>
<b>Business Services</b>								
Investor Group Services, LLC	Financial services	Senior secured loan (\$1,500,000 par due 6/2011)	12.00%	6/22/06	1,500,000	1,500,000	\$	1.00(3)
		Senior secured revolving loan (\$500,000 par due 6/2011)	11.04% (Libor + 5.50%/S)	6/22/06	500,000	500,000	\$	1.00
		Limited liability company		6/22/06				(5)

membership interest  
(10.00% interest)

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Miller Heiman, Inc.	Sales consulting services	Senior secured loan	8.60%	6/20/05	3,093,785	3,093,785	\$	1.00(3)
		(\$3,093,785 par due 6/2010)	(Libor + 3.25%/M)					
		Senior secured loan	9.12%	6/20/05	4,017,591	4,017,591	\$	1.00(3)
		(\$4,017,591 par due 6/2012)	(Libor + 3.75%/Q)					
MR Processing Holding Corp.	Bankruptcy and foreclosure processing services	Senior subordinated note	12.00% Cash,	3/23/06	20,303,747	20,303,747	\$	1.00(4)
		(\$20,303,747 par due 2/2013)	2.00% PIK					
		Senior secured loan	9.02%	3/28/06	1,990,000	1,990,000	\$	1.00
		(\$1,990,000 par due 2/2012)	(Libor + 3.50%/S)					
		Preferred stock (30,000 shares)		4/11/06	3,000,000	3,000,000	\$	100.00(5)
Primis Marketing Group, Inc. and Primis Holdings, LLC(12)	Database marketing services	Senior subordinated note	11.00% Cash,	8/25/06	10,085,790	10,085,790	\$	1.00(4)
		(\$10,085,790 par due 2/2013)	2.50% PIK					
		Preferred units (4,000 units)		8/25/06	3,600,000	3,600,000	\$	9.00(5)
		Common units		8/25/06	400,000	400,000	\$	0.10(5)
		(4,000,000 units)						
Summit Business Media, LLC	Business media consulting services	Junior secured loan	12.35%	12/18/06	10,000,000	10,000,000	\$	1.00
		(\$10,000,000 par due 11/2013)	(Libor + 7.00%/M)					
					58,490,913	58,490,913		7.41%
<b>Beverage, Food and Tobacco</b>								
Best Brands Corporation	Baked goods manufacturer	Junior secured loan	11.85%	12/14/06	40,000,000	40,000,000	\$	1.00
		(\$40,000,000 par due 6/2013)	(Libor + 6.50%/M)					
Charter Baking Company, Inc.	Baked goods manufacturer	Preferred stock (6,258 shares)		9/1/06	2,500,000	2,500,000	\$	399.49(5)
Farley's & Sathers Candy Company, Inc.	Branded candy manufacturer	Junior secured loan	11.36%	3/23/06	10,000,000	10,000,000	\$	1.00(3)
		(\$10,000,000 par due 3/2011)	(Libor + 6.00%/S)					
					52,500,000	52,500,000		6.65%
<b>Aerospace &amp; Defense</b>								
ILC Industries, Inc.	Industrial products provider	Junior secured loan	11.50%	6/27/06	12,000,000	12,000,000	\$	1.00(3)
		(\$12,000,000 par due 8/2012)						
		Junior secured loan	11.50%	6/27/06	3,000,000	3,000,000	\$	1.00
		(\$3,000,000 par due 8/2012)						
Thermal Solutions LLC and TSI Group, Inc.	Thermal management and electronics packaging manufacturer	Senior secured loan	9.37%	3/28/05	3,225,625	3,225,625	\$	1.00(3)
		(\$3,225,625 par due 3/2012)	(Libor + 4.00%/Q)					
		Senior secured loan		3/28/05	8,125	8,125	\$	1.00(3)
		(\$8,125 par due 3/2012)	11.25% (Base Rate + 3.00%/D)					
		Senior secured loan		3/28/05	1,611,842	1,611,849	\$	1.00(3)
		(\$1,611,842 par due 3/2011)	+ 3.00%/D)					
		Senior secured loan	9.02%	3/28/05	46,053	46,053	\$	1.00(3)
		(\$46,053 par due 3/2011)	(Libor + 3.50%/Q)					
		Senior subordinated notes	3.50%/Q)	3/28/05	3,137,948	3,126,808	\$	1.00(2)(4)
(\$3,126,808 par due 9/2012)	10.75% (Base Rate + 2.50%/D)							
Senior subordinated notes		3/21/06	2,548,752	2,548,752	\$	1.00(2)(4)		
(\$2,548,751 par due 3/2013)	2.50%/D)							
Preferred stock	11.50% cash,	3/28/05	539,000	539,000	\$	10.00(5)		
(53,900 shares)	2.75% PIK							
Common stock	11.50% cash,	3/28/05	11,000	11,000	\$	0.01(5)		
(1,100,000 shares)	2.50% PIK							
					26,128,345	26,117,212		3.31%

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<b>Broadcasting and Cable</b>							
Patriot Media & Communications CNJ, LLC	Cable services	Junior secured loan (\$5,000,000 par due 10/2013)	10.50% (Libor + 5.00%/S)	10/6/05	5,000,000	5,000,000	\$ 1.00(3)
Pappas Telecasting Incorporated	Television broadcasting	Senior secured loan (\$11,695,696 par due 2/2010)	14.73% (Libor + 4.48% cash, 5.00% PIK/Q)	3/1/06	11,695,696	11,695,696	\$ 1.00(4)(3)
		Senior secured loan (\$8,129,405 par due 2/2010)	14.73% (Libor + 4.48% cash, 5.00% PIK/Q)	3/1/06	8,129,405	8,129,405	\$ 1.00(4)
		Senior secured loan (\$369,212 par due 2/2010)	14.25% (Libor + 4.00% cash, 5.00% PIK/Q)	3/1/06	369,212	369,212	\$ 1.00(4)
		Senior secured loan (\$531,180 par due 2/2010)	14.25% (Libor + 4.00% cash, 5.00% PIK/Q)	3/1/06	531,180	531,180	\$ 1.00(4)(3)
					25,725,493	25,725,493	3.26%
<b>Consumer Products Durable</b>							
Berkline/Benchcraft Holdings LLC	Furniture manufacturer and distributor	Junior secured loan (\$5,000,000 par due 5/2012)	15.25% (Base Rate + 5.00%, 2.00%PIK/D)	11/3/04	5,000,000	504,206	\$ 0.10(2)
		Preferred units (2,536 units)		10/8/04	1,046,343		\$ (5)
		Warrants to purchase 483,020 units		10/8/04	2,752,559		\$ (5)
Innovative Brands, LLC	Consumer products and personal care manufacturer	Senior Secured Loan (\$13,000,000 par due 9/2011)	11.13%	10/12/06	13,000,000	13,000,000	\$ 1.00
		Senior Secured Loan (\$12,000,000 par due 9/2011)	11.13%	10/12/06	12,000,000	12,000,000	\$ 1.00(3)
					33,798,902	25,504,206	3.23%
<b>Computers and Electronics</b>							
RedPrairie Corporation	Software manufacturer	Junior secured loan (\$12,000,000 par due 1/2013)	11.87% (Libor + 6.50%/Q)	7/13/06	12,000,000	12,000,000	\$ 1.00(3)
X-rite, Incorporated	Artwork software manufacturer	Junior secured loan (\$10,000,000 par due 7/2013)	10.37% (Libor + 5.00%/Q)	7/6/06	10,000,000	10,000,000	\$ 1.00
					22,000,000	22,000,000	2.79%
<b>Cargo Transport</b>							
The Kenan Advantage Group, Inc.	Fuel transportation provider	Senior subordinated notes (\$9,198,136 par due 12/2013)	9.5% cash, 3.50% PIK	12/15/05	9,198,136	9,198,136	\$ 1.00(4)
		Senior secured loan (\$2,475,008 par due 12/2011)	8.36% (Libor + 3.00%/Q)	12/15/05	2,475,008	2,475,008	\$ 1.00(3)
		Preferred stock (10,984 shares)		12/15/05	1,098,400	1,098,400	\$ 100.00(5)
		Common stock (30,575 shares)		12/15/05	30,575	30,575	\$ 1.00(5)
					12,802,119	12,802,119	1.62%
<b>Farming and Agriculture</b>							
The GSI Group, Inc.	Agricultural equipment manufacturer	Senior notes (\$10,000,000 par due 5/2013)	12.00%	5/11/05	10,000,000	10,000,000	\$ 1.00
		Common stock (7,500 shares)		5/12/05	750,000	750,000	\$ 100.00(5)
					10,750,000	10,750,000	1.36%

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Housing		Building Materials						
HB&G Building Products	Synthetic and wood product manufacturer	Senior subordinated loan (\$8,655,829 par due 3/2011)	13.00% cash, 2.00% PIK	10/8/04	8,655,829	8,663,415	\$	1.01(2)(4)
		Common stock (2,743 shares)		10/8/04	752,888	752,888	\$	274.48(5)
		Warrants to purchase (4,464 shares)		10/8/04	652,503	652,503	\$	146.17(5)
					10,061,220	10,068,806		1.28%
Total					\$ 1,245,758,040	\$ 1,235,821,836		

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- (1) We do not "Control" any of our portfolio companies, as defined in the Investment Company Act of 1940. In general, under the 1940 Act, we would "Control" a portfolio company if we owned 25% or more of its voting securities. All of our portfolio company investments are subject to legal restriction on sales which as of December 31, 2006 represented 157% of the Company's net assets.
  - (2) Pledged as collateral for the CP Funding Facility and unless otherwise noted, all other investments are pledged as collateral for the Revolving Credit Facility (see Note 8 to the consolidated financial statements).
  - (3) Pledged as collateral for the ARCC CLO and unless otherwise noted, all other investments are pledged as collateral for the Revolving Credit Facility (see Note 8 to the consolidated financial statements).
  - (4) Has a payment-in-kind interest feature (see Note 2 to the consolidated financial statements).
  - (5) Non-income producing at December 31, 2006.
  - (6) As defined in the 1940 Act, we are an "Affiliate" of this portfolio company because we own more than 5% of the portfolio company's outstanding voting securities. For the year ended December 31, 2006, for this portfolio company there were total purchases of \$5,000,000, redemptions of \$7,528,880 (cost), sales of \$6,054,725 (cost), interest income of \$176,732, other income of \$3,125, net realized gains of \$47,283 and net unrealized gains of \$3,440,585.
  - (7) As defined in the 1940 Act, we are an "Affiliate" of this portfolio company because we own more than 5% of the portfolio company's outstanding voting securities. For the year ended December 31, 2006, for this portfolio company there were total redemptions of \$1,385,417 (cost), interest income of \$2,356,449 other income of \$83,567 and net unrealized losses of \$2,438,800.
  - (8) As defined in the 1940 Act, we are an "Affiliate" of this portfolio company because we own more than 5% of the portfolio company's outstanding voting securities. For the year ended December 31, 2006, for this portfolio company there were total purchases of \$23,754,739 redemptions of \$13,065,631 (cost), interest income of \$4,523,901, capital structuring service fees of \$350,000 and other income of \$124,297.
  - (9) As defined in the 1940 Act, we are an "Affiliate" of this portfolio company because we own more than 5% of the portfolio company's outstanding voting securities. For the year ended December 31, 2006, for this portfolio company there were total purchases of \$41,782,342, redemptions of \$20,025,000 (cost), interest income of \$2,061,440, capital structuring service fees of \$583,810 and other income of \$19,219.
  - (10) As defined in the 1940 Act, we are an "Affiliate" of this portfolio company because we own more than 5% of the portfolio company's outstanding voting securities. For the year ended December 31, 2006, there were total purchases of \$25,682,89, interest income of \$1,4,58,918 and dividend income of \$242,148.
  - (11) As defined in the 1940 Act, we are an "Affiliate" of this portfolio company because we own more than 5% of the portfolio company's outstanding voting securities. For the year ended December 31, 2006, there were total purchases of \$30,000,000, redemptions of \$125,000 (cost), interest income of \$1,647,946 and capital structuring service fees of \$250,000.
  - (12) As defined in the 1940 Act, we are an "Affiliate" of this portfolio company because we own more than 5% of the portfolio company's outstanding voting securities. For the year ended December 31, 2006, there were total purchases of \$14,000,000, interest income of \$463,266 and capital structuring service fees of \$200,000.
  - (13) As defined in the 1940 Act, we are an "Affiliate" of this portfolio company because we own more than 5% of the portfolio company's outstanding voting securities. For the year ended December 31, 2006, there were total purchases of \$9,032,978.
  - (14) As defined in the 1940 Act, we are an "Affiliate" of this portfolio company because we own more than 5% of the portfolio company's outstanding voting securities. For the year ended December 31, 2006, there were total purchases of \$60,000,000.
  - (15) Non-U.S. company or principal place of business outside the U.S.
  - (16)

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Non-registered investment company.

(17)

A majority of the variable rate loans to our portfolio companies bear interest at a rate that may be determined by reference to either Libor or an alternate Base Rate (commonly based on the Federal Funds Rate or the Prime Rate), at the borrower's option, which reset semi-annually (S), quarterly (Q), bi-monthly (B) monthly (M) or daily (D). For each such loan, we have provided the current interest rate in effect at December 31, 2006.

(18)

In addition to the interest earned based on the stated interest rate of this security, we are entitled to receive an additional interest amount of 2.50% on \$24,166,667 aggregate principal amount of the portfolio company's senior term debt previously syndicated by us.

See accompanying notes to consolidated financial statements.

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## ARES CAPITAL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED SCHEDULE OF INVESTMENTS

As of December 31, 2005

Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
<b>Healthcare Services</b>								
American Renal Associates, Inc.	Dialysis provider	Senior secured loan (\$3,426,230 par due 12/2010)	8.68% (Libor + 4.00%/Q)	12/14/05	\$ 3,426,230	\$ 3,426,230	\$ 1.00	
		Senior secured loan (\$180,328 par due 12/2010)	8.50% (Libor + 4.00%/Q)	12/14/05	180,328	180,328	\$ 1.00	
		Senior secured loan (\$5,886,885 par due 12/2011)	9.18% (Libor + 4.50%/Q)	12/14/05	5,886,885	5,886,885	\$ 1.00	
		Senior secured loan (\$14,754 par due 12/2011)	9.00% (Libor + 4.50%/Q)	12/14/05	14,754	14,754	\$ 1.00	
		Senior secured loan (\$7,213,115 par due 12/2011)	11.68% (Libor + 7.00%/Q)	12/14/05	7,213,115	7,213,115	\$ 1.00	
Capella Healthcare, Inc.	Acute care hospital operator	Junior secured loan (\$29,000,000 par due 11/2013)	10.45% (Libor + 6.00%/Q)	12/1/05	29,000,000	29,000,000	\$ 1.00	
PHNS, Inc.	Information technology and business process outsourcing	Senior subordinated loan (\$16,000,000 par due 11/2011)	13.50% cash, 2.5% PIK	10/29/04	15,785,661	16,000,000	\$ 1.00(3)	
Triad Laboratory Alliance, LLC	Laboratory services	Senior subordinated loan (\$9,714,888 par due 12/2012)	12.00% cash, 1.75% PIK	12/21/05	9,714,888	9,714,888	\$ 1.00(3)	
		Senior secured loan (\$3,000,000 par due 12/2011)	7.78% (Libor + 3.25%/Q)	12/21/05	3,000,000	3,000,000	\$ 1.00	
					74,221,861	74,436,200		
<b>Containers-Packaging</b>								
Captive Plastics, Inc.	Plastics container manufacturer	Junior secured loan (\$16,000,000 par due 2/2012)	11.62% (Libor + 7.25%/M)	12/19/05	16,000,000	16,000,000	\$ 1.00	
Industrial Container Services, LLC(7)	Industrial container manufacturer, reconditioner and servicer	Senior secured loan (\$26,728,663 par due 9/2011)	11.00% (Libor + 6.50%/Q)	9/30/05	26,728,663	26,728,663	\$ 1.00	
		Senior secured loan (\$4,643,479 par due 9/2011)	8.88% (Libor + 4.50%/M)	9/30/05	4,643,479	4,643,479	\$ 1.00	
		Senior secured revolving loan (\$1,160,870 par due 9/2011)	10.25% (Base Rate + 3.00%/Q)	9/30/05	1,160,870	1,160,870	\$ 1.00	
		Senior secured revolving loan (\$541,739 par due 9/2011)	10.25% (Base Rate + 3.00%/Q)	9/30/05	541,739	541,739	\$ 1.00	
		Common stock (1,800,000 shares)		9/29/05	1,800,000	1,800,000	\$ 1.00(4)	
York Label Holdings, Inc.	Consumer product labels manufacturer	Senior subordinated loan (\$10,368,791 par due 2/2010)	10.00% cash, 4.00% PIK	11/3/04	10,362,901	10,368,791	\$ 1.00(2)(3)	
		Preferred stock (650 shares)	10.00%	11/3/04	3,742,445	3,742,445	\$ 5.757.61(3)	
		Warrants to purchase 156,000 shares		11/3/04	5,320,409	5,320,408	\$ 34.11(4)	
					70,300,506	70,306,395		
<b>Environmental Services</b>								
Mactec, Inc.	Engineering and environmental consulting services	Common stock (186 shares)		11/3/04			\$ 0.00(4)	



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United Site Services, Inc.	Portable restroom and site services	Senior secured loan (\$5,061,957 par due 8/2011)	7.37% (Libor + 3.00%/M)	9/14/05	5,061,957	5,061,957	\$	1.00	
		Senior secured loan (\$3,043,478 par due 8/2011)	7.41% (Libor + 3.00%/Q)	9/14/05	3,043,478	3,043,478	\$	1.00	
		Senior secured loan (\$1,869,565 par due 8/2011)	7.28% (Libor + 3.00%/Q)	9/14/05	1,869,565	1,869,565	\$	1.00	
		Junior secured loan (\$13,461,538 par due 6/2010)	12.44% (Libor + 8.00%/Q)	12/1/04	13,419,063	13,461,538	\$	1.00(2)	
Wastequip, Inc.	Waste management equipment manufacturer	Common stock (216,795 shares)		10/8/04	1,353,851	1,353,851	\$	6.24(4)	
		Junior secured loan (\$15,000,000 par due 7/2012)	10.53% (Libor + 6.00%/Q)	8/4/05	15,000,000	15,000,000	\$	1.00	
WCA Waste Systems, Inc.	Waste management services	Junior secured loan (\$25,000,000 par due 10/2011)	10.53% (Libor + 6.00%/Q)	4/25/05	25,000,000	25,000,000	\$	1.00(2)	
					64,747,914	64,790,389			
<b>11.37%</b>									
<b>Restaurants</b>									
CICQ, LP	Restaurant franchisor, owner and operator	Limited partnership interest (26.5% interest)		8/15/05	53,000,000	62,284,540			
					53,000,000	62,284,540			
<b>10.93%</b>									
<b>Services Other</b>									
Diversified Collection Services, Inc.	Collections services	Senior secured loan (\$6,300,000 par due 2/2011)	8.38% (Libor + 4.00%/M)	2/2/05	6,300,000	6,300,000	\$	1.00(2)	
		Senior secured loan (\$8,500,000 par due 8/2011)	10.00% (Libor + 6.00%/Q)	2/2/05	8,500,000	8,500,000	\$	1.00(2)	
		Preferred stock (114,004 shares)		2/2/05	295,270	295,270	\$	2.59(4)	
Event Rentals, Inc.	Party rental services	Senior secured loan (\$2,676,136 par due 11/2011)	9.91% (Libor + 5.25%/S)	11/17/05	2,676,136	2,676,136	\$	1.00	
		Senior secured loan (\$2,897,727 par due 11/2011)	9.92% (Libor + 5.25%/Q)	11/17/05	2,897,727	2,897,727	\$	1.00	
		Senior secured loan (\$170,455 par due 11/2011)	11.50% (Base Rate + 4.25%/D)	11/17/05	170,455	170,455	\$	1.00	
		Senior secured loan (\$8,011,363 par due 11/2011)	9.91% (Libor + 5.25%/S)	11/17/05	8,011,363	8,011,363	\$	1.00	
GCA Services, Inc.	Custodial services	Senior subordinated loan (\$32,743,750 par due 1/2010)	12.00% cash, 3.00% PIK	7/25/05	32,743,750	32,743,750	\$	1.00(3)	
					61,594,701	61,594,701			
<b>10.81%</b>									
<b>Manufacturing</b>									
Arrow Group Industries, Inc.	Residential and outdoor shed manufacturer	Senior secured loan (\$6,000,000 par due 4/2010)	9.53% (Libor + 5.00%/Q)	3/28/05	6,040,153	6,000,000	\$	1.00	
		Senior secured loan (\$6,000,000 par due 10/2010)	14.03% (Libor + 9.50%/Q)	3/28/05	6,000,000	6,000,000	\$	1.00	
Qualitor, Inc.	Automotive aftermarket components supplier	Senior secured loan (\$827,059 par due 12/2011)	8.27% (Libor + 4.00%/Q)	12/29/04	827,059	827,059	\$	1.00(2)	
		Senior secured loan (\$1,152,941 par due 12/2011)	8.53% (Libor + 4.00%/Q)	12/29/04	1,152,941	1,152,941	\$	1.00(2)	
		Junior secured loan (\$5,000,000 par due 6/2012)	11.53% (Libor + 7.00%/Q)	12/29/04	5,000,000	5,000,000	\$	1.00(2)	
Reflexite Corporation	Developer and manufacturer of high visibility reflective products	Senior subordinated loan (\$10,304,329 par due 12/2011)	11.00% cash, 3.00% PIK	12/30/04	10,304,329	10,304,329	\$	1.00(2)(3)	

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Universal Trailer Corporation(5)	Livestock and specialty trailer manufacturer	Senior secured loan (\$1,048,960 par due 3/2007)	8.39% (Libor + 4.00%/M)	10/8/04	1,054,725	1,054,725 \$	1.01
		Senior subordinated loan (\$7,500,000 par due 9/2008)	13.50%	10/8/04	7,522,762	7,528,881 \$	1.00
		Common stock (50,000 shares)		10/8/04	6,424,645	3,113,351 \$	62.27(4)
		Warrants to purchase 22,208 shares		10/8/04	1,505,776	1,382,826 \$	62.27(4)
Varel Holdings, Inc.	Drill bit manufacturer	Senior secured loan (\$6,643,750 par due 12/2010)	8.58% (Libor + 4.00%/S)	5/18/05	6,643,750	6,643,750 \$	1.00(2)
		Senior secured loan (\$2,333,333 par due 12/2010)	8.47% (Libor + 4.00%/Q)	5/18/05	2,333,333	2,333,333 \$	1.00(2)
		Senior secured loan (\$3,333,333 par due 12/2011)	12.48% (Libor + 8.00%/Q)	5/18/05	3,333,333	3,333,333 \$	1.00(2)
		Preferred stock (30,451 shares)		5/18/05	1,046,568	1,046,568 \$	34.37(3)
		Common stock (30,451 shares)		5/18/05	3,045	3,045 \$	0.10(4)
					<b>59,192,419</b>	<b>55,724,141</b>	<b>9.78%</b>
<b>Consumer Products Non-Durable</b>							
Making Memories Wholesale, Inc.(6)	Scrapbooking branded products manufacturer	Senior secured loan (\$9,143,750 par due 3/2011)	8.50% (Libor + 4.00%/Q)	5/5/05	9,143,750	9,143,750 \$	1.00(2)
		Senior subordinated loan (\$10,000,000 par due 5/2012)	12.00% cash, 2.50% PIK	5/5/05	10,000,000	10,000,000 \$	1.00(3)
		Preferred stock (3,500 shares)		5/5/05	3,685,100	3,685,100 \$	1,052.89(3)
Shoes for Crews, LLC	Safety footwear and slip-related mats manufacturer	Senior secured loan (\$1,478,167 par due 7/2010)	9.00% (Base Rate + 1.75%/D)	10/8/04	1,486,865	1,486,865 \$	1.01(2)
			7.78% (Libor + 3.25%/Q)	10/8/04	47,525	47,525 \$	1.01(2)
Tumi Holdings, Inc.	Branded luggage designer, marketer and distributor	Senior secured loan (\$2,500,000 par due 12/2012)	7.28% (Libor + 2.75%/Q)	5/24/05	2,500,000	2,500,000 \$	1.00(2)
		Senior secured loan (\$5,000,000 par due 12/2013)	7.78% (Libor + 3.25%/Q)	3/14/05	5,000,000	5,000,000 \$	1.00(2)
		Senior subordinated loan (\$13,008,799 par due 12/2014)	15.53% (Libor + 6.00% cash, 5.00% PIK/Q)	3/14/05	13,008,799	13,008,799 \$	1.00(2)(3)
					<b>44,872,039</b>	<b>44,872,039</b>	<b>7.88%</b>
<b>Education</b>							
Lakeland Finance, LLC	Private school operator	Senior secured note (\$33,000,000 par due 12/2012)	11.50%	12/13/05	33,000,000	33,000,000 \$	1.00
					<b>33,000,000</b>	<b>33,000,000</b>	<b>5.79%</b>
<b>Consumer Products Durable</b>							
AWTP, LLC	Water treatment services	Junior secured loan (\$13,600,000 par due 12/2012)	13.50% (Base Rate + 6.25%/Q)	12/21/05	13,600,000	13,600,000 \$	1.00
Berkline/Benchcraft Holdings LLC	Furniture manufacturer and distributor	Junior secured loan (\$5,000,000 par due 5/2012)	14.05% (Libor + 10.00%/Q)	11/3/04	5,000,000	4,500,000 \$	0.90(2)
		Preferred stock (2,536 shares)		10/8/04	1,046,343	677,643 \$	267.21(4)
		Warrants to purchase 483,020 shares		10/8/04	2,752,559	1,782,640 \$	3.69(4)
					<b>22,398,902</b>	<b>20,560,283</b>	<b>3.61%</b>
<b>Financial</b>							
Foxe Basin CLO 2003, Ltd.	Collateralized debt obligation	Preference shares (3,000 shares)		10/8/04	2,743,440	2,743,440 \$	914.48(8)(9)
Hudson Straits CLO 2004, Ltd.	Collateralized debt obligation	Preference shares (5,750 shares)		10/8/04	5,217,331	5,143,121 \$	894.46(8)(9)
MINCS-Glace Bay, Ltd.	Collateralized debt obligation	Secured notes (\$9,500,000 par due 7/2014)	7.79% (Libor + 3.60%/Q)	10/8/04	9,019,819	9,500,000 \$	1.00(8)(9)
					<b>16,980,590</b>	<b>17,386,561</b>	<b>3.05%</b>

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**Printing, Publishing and Media**

Canon Communications LLC	Print publications services	Junior secured loan (\$16,250,000 par due 11/2011)	12.03% (Libor + 7.50%/Q)	5/25/05	16,250,000	16,250,000 \$	1.00(2)
					16,250,000	16,250,000	2.85%

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<b>Aerospace &amp; Defense</b>								
ILC Industries, Inc.	Industrial products provider	Junior secured loan (\$6,500,000 par due 8/2012)	10.28% (Libor + 5.75%/Q)	8/30/05	6,529,232	6,500,000	\$	1.00
Thermal Solutions LLC	Thermal management and electronics packaging manufacturer	Senior secured loan (\$5,973,529 par due 3/2011)	9.71% (Libor + 5.25%/Q)	3/28/05	5,973,529	5,973,529	\$	1.00(2)
		Senior subordinated loan (\$3,062,766 par due 3/2012)	11.50% cash, 2.75% PIK	3/28/05	3,067,225	3,062,766	\$	1.00(2)(3)
		Preferred stock (29,400 shares)		3/28/05	294,000	294,000	\$	10.00(4)
		Common stock (600,000 shares)		3/28/05	6,000	6,000	\$	0.01(4)
					<u>15,869,986</u>	<u>15,836,295</u>		2.78%
<b>Cargo Transport</b>								
Kenan Advantage Group, Inc.	Fuel transportation provider	Senior subordinated loan (\$8,870,968 par due 12/2013)	13.00%	12/15/05	8,870,968	8,870,968	\$	1.00
		Senior secured loan (\$2,500,000 par due 12/2011)	7.50% (Libor + 3.00%/Q)	12/15/05	2,500,000	2,500,000	\$	1.00
		Preferred stock (10,984 shares)		12/15/05	1,098,400	1,098,400	\$	100.00(4)
		Common stock (30,575 shares)		12/15/05	30,575	30,575	\$	1.00(4)
					<u>12,499,943</u>	<u>12,499,943</u>		2.19%
<b>Farming and Agriculture</b>								
The GSI Group, Inc.	Agricultural equipment manufacturer	Senior notes (\$10,000,000 par due 5/2013)	12.00%	5/11/05	10,000,000	10,000,000	\$	1.00
		Common stock (7,500 shares)		5/12/05	750,000	750,000	\$	100.00(4)
					<u>10,750,000</u>	<u>10,750,000</u>		1.89%
<b>Housing Building Materials</b>								
HB&G Building Products	Synthetic and wood product manufacturer	Senior subordinated loan (\$8,439,529 par due 3/2011)	13.00% cash, 4.00% PIK	10/8/04	8,435,645	8,439,529	\$	1.00(2)(3)
		Common stock (2,743 shares)		10/8/04	752,888	752,888	\$	274.48(4)
		Warrants to purchase 4,464 shares		10/8/04	652,503	652,503	\$	146.17(4)
							<u>9,841,036</u>	<u>9,844,920</u>
<b>Business Services</b>								
Miller Heiman, Inc.	Sales consulting services	Senior secured loan (\$4,521,687 par due 6/2010)	8.14% (Libor + 3.75%/M)	6/20/05	4,521,687	4,521,687	\$	1.00(2)
		Senior secured loan (\$4,058,379 par due 6/2012)	8.78% (Libor + 4.25%/Q)	6/20/05	4,058,379	4,058,379	\$	1.00(2)
					<u>8,580,066</u>	<u>8,580,066</u>		1.51%
<b>Cable Television</b>								
Patriot Media & Communications CNJ, LLC	Cable services	Junior secured loan (\$5,000,000 par due 10/2013)	9.50% (Libor + 5.00%/Q)	10/6/05	5,000,000	5,000,000	\$	1.00
					<u>5,000,000</u>	<u>5,000,000</u>		0.88%
<b>Healthcare Medical Products</b>								
Aircast, Inc.	Manufacturer of orthopedic braces, supports and vascular systems	Senior secured loan (\$1,251,902 par due 12/2010)	7.20% (Libor + 2.75%/Q)	12/2/04	1,251,902	1,251,902	\$	1.00(2)
		Junior secured loan (\$1,000,000 par due 6/2011)	11.45% (Libor + 7.00%/Q)	12/2/04	1,000,000	1,000,000	\$	1.00(2)



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	2,251,902	2,251,902	0.40%
	<u>                    </u>	<u>                    </u>	
Total	\$ 581,351,865	\$ 585,968,375	
	<u>                    </u>	<u>                    </u>	

- 
- (1) We do not "Control" any of our portfolio companies, as defined in the Investment Company Act of 1940. In general, under the 1940 Act, we would "Control" a portfolio company if we owned 25% or more of its voting securities. All of our portfolio company investments are subject to legal restriction on sales which as of December 31, 2005 represented 103% of the Company's net assets.
- (2) Pledged as collateral for the credit facility payable (see Note 8 to the consolidated financial statements).
- (3) Has a payment-in-kind interest feature (see Note 2 to the consolidated financial statements).
- (4) Non-income producing at December 31, 2005.

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- (5) As defined in the 1940 Act, we are an "Affiliate" of this portfolio company because we own more than 5% of the portfolio company's outstanding voting securities. For the year ended December 31, 2005, for this portfolio company there were total purchases of \$2,000,000, redemptions of \$2,919,939 (cost), interest income of \$1,147,137, other income of \$143,667, net realized losses of \$4,278 and net unrealized losses of \$3,429,198.
- (6) As defined in the 1940 Act, we are an "Affiliate" of this portfolio company because we own more than 5% of the portfolio company's outstanding voting securities. For the year ended December 31, 2005, for this portfolio company there were total purchases of \$26,000,000, sales of \$3,000,000 (cost), redemptions of \$237,500 (cost), interest income of \$1,514,431, capital structuring services fees of \$862,500 and other income of \$2,068.
- (7) As defined in the 1940 Act, we are an "Affiliate" of this portfolio company because we own more than 5% of the portfolio company's outstanding voting securities. For the year ended December 31, 2005, for this portfolio company there were total purchases of \$54,647,808, total sales of \$19,000,000 (cost), redemptions of \$706,069 (cost), interest income of \$943,631, capital structuring services fees of \$1,058,750 and other income of \$44,426.
- (8) Non-U.S. company or principal place of business outside the U.S.
- (9) Non-registered investment company.
- (10) A majority of the variable rate loans to our portfolio companies bear interest at a rate that may be determined by reference to either Libor or an alternate Base Rate (commonly based on the Federal Funds Rate or the Prime Rate), at the borrower's option, which reset semi-annually (S), quarterly (Q), monthly (M) or daily (D). For each such loan, we have provided the current interest rate in effect at December 31, 2005.

See accompanying notes to consolidated financial statements.

## ARES CAPITAL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF OPERATIONS

	For the Year Ended December 31, 2006	For the Year Ended December 31, 2005	For the Period June 23, 2004 (inception) through December 31, 2004
<b>INVESTMENT INCOME:</b>			
From non-control/non-affiliate investments:			
Interest from investments	\$ 85,641,997	\$ 30,360,311	\$ 3,289,259
Interest from cash & cash equivalents	2,419,540	1,457,830	39,325
Dividend income	2,227,843	744,818	191,130
Capital structuring service fees	14,633,691	3,314,440	542,353
Other income	553,020	256,467	27,889
	<b>105,476,091</b>	<b>36,133,866</b>	<b>4,089,956</b>
From affiliate investments:			
Interest from investments	12,688,652	3,605,200	285,059
Dividend income	242,148		
Capital structuring service fees	1,383,810	1,921,250	
Other income	230,207	190,161	5,833
	<b>14,544,817</b>	<b>5,716,611</b>	<b>290,892</b>
<b>Total investment income</b>	<b>120,020,908</b>	<b>41,850,477</b>	<b>4,380,848</b>
<b>EXPENSES:</b>			
Organizational expenses			199,183
Base management fees	13,645,724	5,147,492	471,565
Incentive management fees	19,516,393	4,202,078	95,471
Administrative	953,400	888,081	135,941
Professional fees	3,016,217	1,398,125	336,187
Directors fees	250,169	309,536	119,966
Insurance	866,218	630,513	161,855
Interest and credit facility fees	18,583,815	1,528,060	137,396
Interest to the Investment Adviser	25,879	154,078	
Depreciation	258,563		
Other	1,341,637	310,714	8,189
	<b>58,458,015</b>	<b>14,568,677</b>	<b>1,665,753</b>
<b>NET INVESTMENT INCOME BEFORE INCOME TAXES</b>	<b>61,562,893</b>	<b>27,281,800</b>	<b>2,715,095</b>
Income tax expense, including excise tax	4,931,288	158,000	
<b>NET INVESTMENT INCOME</b>	<b>56,631,605</b>	<b>27,123,800</b>	<b>2,715,095</b>
<b>REALIZED AND UNREALIZED NET GAINS ON INVESTMENTS:</b>			
Net realized gains (losses):			
Net realized gains from non-control/non-affiliate investment transactions	27,569,148	10,345,991	245,345
Net realized gains (losses) from affiliate investment transactions	47,283	(4,278)	(899)
<b>Net realized gains from investment transactions</b>	<b>27,616,431</b>	<b>10,341,713</b>	<b>244,446</b>

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	For the Year Ended December 31, 2006	For the Year Ended December 31, 2005	For the Period June 23, 2004 (inception) through December 31, 2004
<b>Net unrealized gains (losses):</b>			
Investment transactions from non-control/non-affiliate investments	(15,554,499)	7,814,761	229,875
Investment transactions from affiliate investments	1,001,785	(3,429,198)	1,072
Net unrealized gains (losses) from investment transactions	(14,552,714)	4,385,563	230,947
Net realized and unrealized gain on investments	13,063,717	14,727,276	475,393
NET INCREASE IN STOCKHOLDERS' EQUITY RESULTING FROM OPERATIONS	\$ 69,695,322	\$ 41,851,076	\$ 3,190,488
BASIC AND DILUTED EARNINGS PER COMMON SHARE (see Note 4)	\$ 1.61	\$ 1.78	\$ 0.29
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING (see Note 4)	43,156,462	23,487,935	11,066,767

See accompanying notes to consolidated financial statements.

## ARES CAPITAL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	Common Stock		Capital in Excess of Par Value	Accumulated Undistributed Net Investment Income	Accumulated Net Realized Gain on Sale of Investments	Net Unrealized (Depreciation) Appreciation of Investments	Total Stockholders' Equity
	Shares	Amount					
Balance at June 23, 2004	100	\$	\$ 1,500	\$	\$	\$	\$ 1,500
Issuance of common stock	11,066,667	11,067	165,988,938				166,000,005
Offering and underwriting costs			(8,638,658)				(8,638,658)
Underwriting cost paid by the Investment Adviser (see Note 10)			2,475,000				2,475,000
Net increase in stockholders' equity resulting from operations				2,715,095	244,446	230,947	3,190,488
Dividend declared (\$0.28 per share)				(2,851,510)	(244,446)		(3,095,956)
Return on capital (\$0.02 per share)			(224,074)				(224,074)
Balance at December 31, 2004	11,066,767	\$ 11,067	\$ 159,602,706	\$ (136,415)	\$	\$ 230,947	\$ 159,708,305
Issuance of common stock from add-on offerings (net of offering and underwriting costs)	26,575,000	26,575	397,373,747				397,400,322
Reimbursement of underwriting costs paid by the Investment Adviser (see Note 10)			(2,475,000)				(2,475,000)
Shares issued in connection with dividend reinvestment plan	267,717	268	4,691,101				4,691,369
Net increase in stockholders' equity resulting from operations				27,123,800	10,341,713	4,385,563	41,851,076
Dividend declared (\$1.30 per share)				(26,987,385)	(4,576,488)		(31,563,873)
Balance at December 31, 2005	37,909,484	\$ 37,910	\$ 559,192,554	\$	\$ 5,765,225	\$ 4,616,510	\$ 569,612,199
Issuance of common stock from add-on offerings (net of offering and underwriting costs)	13,511,250	13,511	211,739,152				211,752,663
Shares issued in connection with dividend reinvestment plan	615,793	616	10,701,634				10,702,250
Net increase in stockholders' equity resulting from operations				56,631,605	27,616,431	(14,552,714)	69,695,322
Dividend declared (\$1.64 per share)				(56,631,605)	(15,697,425)		(72,329,030)
Tax reclassification of stockholders' equity in accordance with generally accepted accounting principles			3,559,233	7,038,469	(10,597,702)		
Balance at December 31, 2006	52,036,527	\$ 52,037	\$ 785,192,573	\$ 7,038,469	\$ 7,086,529	\$ (9,936,204)	\$ 789,433,404

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<u>Common Stock</u>	<u>Accumulated Undistributed Net Investment</u>	<u>Accumulated Net Realized Gain on Sale of Investments</u>	<u>Net Unrealized (Depreciation) Appreciation of Investments</u>
See accompanying notes to consolidated financial statements.			

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## ARES CAPITAL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CASH FLOWS

	For the Year Ended December 31, 2006	For the Year Ended December 31, 2005	For the Period June 23, 2004 (inception) through December 31, 2004
<b>OPERATING ACTIVITIES:</b>			
Net increase in stockholders' equity resulting from operations	\$ 69,695,322	\$ 41,851,076	\$ 3,190,488
Adjustments to reconcile net increase in stockholders' equity resulting from operations:			
Net realized gains from investment transactions	(27,616,431)	(10,341,713)	(244,446)
Net unrealized gains/(losses) from investment transactions	14,552,714	(4,385,563)	(230,947)
Net accretion of discount on securities	(673,276)	(85,899)	9,091
Increase in accrued payment-in-kind dividends and interest	(6,288,733)	(3,113,035)	(508,762)
Amortization of debt issuance costs	1,822,249	465,398	41,220
Depreciation	258,563		
Proceeds from sale and redemption of investments	458,243,822	126,029,440	53,480,443
Purchases of investments	(1,033,015,858)	(498,798,732)	(243,860,004)
Changes in operating assets and liabilities:			
Interest receivable	(4,293,006)	(4,687,603)	(1,140,495)
Other assets	(2,336,374)	(147,207)	(417,331)
Accounts payable and accrued expenses	805,270	(333,768)	1,556,446
Management and incentive fees payable	9,006,982	3,203,377	274,657
Interest and facility fees payable	1,730,656	217,754	96,176
Interest payable to the Investment Adviser	(154,078)	154,078	
<b>Net cash used in operating activities</b>	<b>(518,262,178)</b>	<b>(349,972,397)</b>	<b>(187,753,464)</b>
<b>FINANCING ACTIVITIES:</b>			
Net proceeds from issuance of common stock	211,752,663	397,400,322	159,836,347
Borrowings on debt	977,000,000	123,500,000	55,500,000
Repayments on credit facility payable	(513,000,000)	(161,000,000)	
Credit facility financing costs	(5,573,936)	(2,817,442)	(778,223)
Underwriting costs payable to the Investment Adviser	(2,475,000)		
Dividends paid in cash	(74,516,005)	(17,303,309)	
<b>Net cash provided by financing activities</b>	<b>593,187,722</b>	<b>339,779,571</b>	<b>214,558,124</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>74,925,544</b>	<b>(10,192,826)</b>	<b>26,804,660</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>16,613,334</b>	<b>26,806,160</b>	<b>1,500</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 91,538,878</b>	<b>\$ 16,613,334</b>	<b>\$ 26,806,160</b>
<b>Supplemental Information:</b>			
Interest paid during the period	\$ 14,357,976	\$ 638,204	\$
Taxes paid during the period	\$ 4,519,317	\$	\$

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	<b>For the Year Ended December 31, 2006</b>	<b>For the Year Ended December 31, 2005</b>	<b>For the Period June 23, 2004 (inception) through December 31, 2004</b>
Dividends declared during the period	\$ 72,329,030	\$ 31,563,873	\$ 3,320,030

See accompanying notes to consolidated financial statements.

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**ARES CAPITAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**As of December 31, 2006**

**1. ORGANIZATION**

Ares Capital Corporation (the "Company" or "ARCC" or "we") is a specialty finance company that is a closed-end, non-diversified management investment company incorporated in Maryland that is regulated as a business development company under the Investment Company Act of 1940 ("1940 Act"). We were incorporated on April 16, 2004 and were initially funded on June 23, 2004. On October 8, 2004, we completed our initial public offering (the "IPO"). On the same date, we commenced substantial investment operations.

The Company has qualified and has elected to be treated for tax purposes as a regulated investment company, or a "RIC", under the Internal Revenue Code of 1986 (the "Code"), as amended. The Company expects to continue to qualify and to elect to be treated for tax purposes as a RIC. 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 may include an equity component, and, to a lesser extent, in equity investments in private middle market companies.

We are externally managed by Ares Capital Management LLC (the "Investment Adviser"), an affiliate of Ares Management LLC ("Ares Management"), an independent investment management firm that manages investment funds. Ares Technical Administration, LLC ("Ares Administration"), an affiliate of Ares Management, provides the administrative services necessary for us to operate.

**2. SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

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

***Cash and Cash Equivalents***

Cash and cash equivalents include 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. Investments for which market quotations are readily available are valued at such market quotations. Debt and equity securities that are not publicly traded or whose market price is not readily available are valued at fair value as determined in good faith by our board of directors based on the input of our management and audit committee. In addition, the board of

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directors currently receives input from independent valuation firms that have been engaged at the direction of the board to value each portfolio security at least once during a trailing 12 month period. The valuation process is conducted at the end of each fiscal quarter, with approximately a quarter of our portfolio companies without market quotations subject to valuation by the independent valuation firm each quarter. The types of factors that the board may take into account in fair value pricing of our investments include, as relevant, the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly traded securities and other relevant factors.

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 private equity 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 under a valuation policy and a consistently applied valuation process. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may differ significantly from the values that would have been used had a ready market existed for such investments, and the differences could be material.

With respect to investments for which market quotations are not readily available, we undertake a multi-step valuation process each quarter, as described below:

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

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

The audit committee of our board of directors reviews these preliminary valuations as well as valuations with respect to approximately a quarter of our portfolio companies prepared by an independent valuation firm.

The board of directors discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of our management and audit committee and the independent valuation firms.

### ***Interest Income Recognition***

Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis to the extent that such amounts are expected to be collected. The Company stops accruing interest on its investments when it is determined that interest is no longer collectible. If any cash is received after it is determined that interest is no longer collectible, we will treat the cash as payment on the principal balance until the entire principal balance has been repaid, before any interest income is recognized. Discounts and premiums on securities purchased are accreted/amortized 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 amortizations of premium on bonds.

### ***Payment in Kind Interest***

The Company has loans in its portfolio that contain a payment-in-kind ("PIK") provision. The PIK interest, computed at the contractual rate specified in each loan agreement, is added to the principal balance of the loan and recorded as interest income. To maintain the Company's status as a RIC, this non-cash source of income must be paid out to stockholders in the form of dividends, even though the Company has not yet collected the cash. For the years ended December 31, 2006 and

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December 31, 2005, \$6,288,733 and \$3,113,035, respectively, in PIK income were recorded. For the period from June 23, 2004 (inception) through December 31, 2004, \$508,762 in PIK income was recorded.

### *Capital Structuring Service Fees*

The Company's Investment Adviser seeks to provide assistance to the portfolio companies in connection with the Company's investments and in return the Company may receive fees for capital structuring services. These fees are normally paid at the closing of the investments, are generally non-recurring and are recognized as revenue when earned upon closing 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 equity investors, restructuring existing loans, raising equity and debt capital, and providing general financial advice, which concludes upon closing 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. 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 in the event that the Company does not provide significant services in connection with the investment, a portion of loan fees paid to the Company in such situations may be deferred and amortized over the estimated life of the loan.

### *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 day.
- (2) Purchases and sales of investment securities, income and expenses at the rates of exchange prevailing on the respective dates of such transactions.

Although the net assets and the fair values are presented at the foreign exchange rates at the end of the day, the Company does not isolate the portion of the results of the operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in fair value of investments. Such fluctuations are included with the net realized and unrealized gains or losses from investments. 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 revaluation of currencies and future adverse political and economic developments which could cause investments in their markets to be less liquid and prices more volatile than those of comparable U.S. companies.

### *Organizational Expenses*

Approximately \$200,000 in organizational expenses were expensed as incurred for the period from June 23, 2004 (inception) through December 31, 2004.

### *Offering Expenses*

The Company's offering costs were charged against the proceeds from the IPO, the Add-on Offering (as defined in Note 11), the October Add-on Offering (as defined in Note 11), the July Add-on Offering (as defined in Note 11) and the December Add-on Offering (as defined in Note 11)

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when received and were approximately \$1,600,000, \$635,000, \$553,000, \$556,000 and \$236,000, respectively (see Note 11).

### ***Debt Issuance Costs***

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

### ***Federal Income Taxes***

The Company has qualified and elected and intends to continue to qualify for the tax treatment applicable to regulated investment companies under Subchapter M of the Code and, among other things, has made and intends to continue to make the requisite distributions to its stockholders which will relieve the Company from Federal income taxes. In order to qualify as a RIC, among other factors, the Company is required to timely distribute to its stockholders at least 90% of investment company taxable income, as defined by the Code, for each year.

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. For the years ended December 31, 2006 and December 31, 2005, provisions of approximately \$570,000 and \$158,000, respectively were recorded for Federal excise taxes. As of December 31, 2006, the entire \$570,000 was unpaid and included in accounts payable on the accompanying consolidated balance sheet.

Certain of our wholly owned subsidiaries are subject to Federal and state income taxes. For the year ended December 31, 2006 we recorded a provision of approximately \$4,360,000 for these subsidiaries. For the year ended December 31, 2005, and for the period from June 23, 2004 (inception) through December 31, 2004 we recorded no provision for these subsidiaries.

### ***Dividends***

Dividends and distributions to common stockholders are recorded on the record date. The amount to be paid out as a dividend is determined by the board of directors each quarter and is generally based upon the earnings estimated by management. Net realized capital gains, if any, are 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 our distributions 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 dividends.

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

*Fair Value of Financial Instruments*

The carrying value of the Company's financial instruments approximate fair value. The carrying value of interest and open trade receivables, accounts payable and accrued expenses, as well as the credit facility payable approximate fair value due to their short maturity.

**3. AGREEMENTS**

The Company has entered into an investment advisory agreement (the "Advisory Agreement") with the Investment Adviser under which the Investment Adviser, subject to the overall supervision of our board of directors, provides investment advisory services to ARCC. For providing these services, the Investment Adviser receives a fee from us, consisting of two components a base management fee and an incentive fee. The base management fee is calculated at an annual rate of 1.5% of our total assets (other than cash or cash equivalents but including assets purchased with borrowed funds). The base management fee is payable quarterly in arrears. The base management fee is calculated 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 incentive fee has two parts. One part is calculated and payable quarterly in arrears based on our pre-incentive fee net investment income. 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 payment-in-kind interest, preferred stock with payment-in-kind dividends and zero coupon securities, accrued income that we have not yet received in cash. The 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 received as a result of a default by an entity on the obligation that resulted in the accrual of such income.

Pre-incentive fee net investment income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets at the end of the immediately preceding calendar quarter, is compared to a fixed "hurdle rate" of 2.00% per quarter.

We pay the 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 2.50% 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 2.50%) 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 2.50% 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.

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

The second part of the incentive fee is determined and payable in arrears as of the end of each calendar year (or upon termination of the Advisory Agreement, as of the termination date), commencing with the calendar year ending on December 31, 2004, and equals 20% of our realized capital gains for the calendar year, if any, computed net of all realized capital losses and unrealized capital depreciation for such year.

We defer cash payment of any incentive fee otherwise earned by the 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) the aggregate distributions to the stockholders and (b) the change in net assets (defined as total assets less indebtedness) 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.

For the year ended December 31, 2006, we incurred \$13,645,724 in base management fees, \$16,067,931 in incentive management fees related to pre-incentive fee net investment income and \$3,448,462 in incentive management fees related to realized capital gains. As of December 31, 2006, \$12,485,016 was unpaid and included in management and incentive fees payable in the accompanying consolidated balance sheet.

For the year ended December 31, 2005, we incurred \$5,147,492 in base management fees, \$3,222,690 in incentive management fees related to pre-incentive fee net investment income and \$979,388 in incentive management fees related to realized capital gains.

For the period from October 8, 2004 (the date of the IPO and the commencement of substantial investment operations) through December 31, 2004, we incurred \$471,565 in base management fees and \$59,904 in incentive management fees related to pre-incentive fee net investment income and \$35,567 in incentive management fees related to realized capital gains.

We also entered into a separate administration agreement (the "Administration Agreement") with Ares Administration under which Ares Administration furnishes us with office, equipment and clerical, bookkeeping and record keeping services at our office facilities. Payments under the Administration Agreement will be equal to an amount based upon our allocable portion of Ares Administration's overhead in performing its obligations under the Administration Agreement, including our allocable portion of the cost of our officers and their respective staffs. Under the Administration Agreement, Ares Administration also performs or oversees the performance of our required administrative services, which include, among other things, being responsible for the financial records which we are required to maintain and preparing reports to our stockholders and reports filed with the SEC. In addition, Ares Administration assists us in determining and publishing the 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. Under the Administration Agreement, Ares Administration also provides on our behalf, managerial assistance to those portfolio companies to which we are required to provide such assistance. The Administration Agreement may be terminated by either party without penalty upon 60-days' written notice to the other party.

For the year ended December 31, 2006, we incurred \$953,400 in administrative fees. As of December 31, 2006, \$385,613 was unpaid and included in accounts payable and accrued expenses in the accompanying consolidated balance sheet.

For the year ended December 31, 2005, we incurred \$888,081 in administrative fees. For the period from October 8, 2004 (the date of the IPO and the commencement of substantial investment operations) through December 31, 2004 we incurred \$135,941 in administrative fees. Prior to October 8, 2004, we incurred no administrative fees.

**4. EARNINGS PER SHARE**

The following information sets forth the computation of basic and diluted net increase in stockholders' equity per share resulting from the year ended December 31, 2006:

Numerator for basic and diluted net increase in stockholders' equity resulting from operations per share:	\$ 69,695,322
Denominator for basic and diluted net increase in stockholders' equity resulting from operations per share:	43,156,462
Basic and diluted net increase in stockholders' equity resulting from operations per share:	\$ 1.61

The following information sets forth the computation of basic and diluted net increase in stockholders' equity per share resulting from the year ended December 31, 2005:

Numerator for basic and diluted net increase in stockholders' equity resulting from operations per share:	\$ 41,851,076
Denominator for basic and diluted net increase in stockholders' equity resulting from operations per share:	23,487,935
Basic and diluted net increase in stockholders' equity resulting from operations per share:	\$ 1.78

The following information sets forth the computation of basic and diluted net increase in stockholders' equity per share resulting from October 8, 2004 (the date of the IPO and the commencement of substantial investment operations) through December 31, 2004:

Numerator for basic and diluted net increase in stockholders' equity resulting from operations per share:	\$ 3,190,488
Denominator for basic and diluted net increase in stockholders' equity resulting from operations per share:	11,066,767
Basic and diluted net increase in stockholders' equity resulting from operations per share:	\$ 0.29

If the above computation had been done for the period from June 23, 2004 (inception) through December 31, 2004, the numerator would have remained the same, but the denominator would have been 4,905,916 resulting in a basic and diluted net increase in stockholders' equity resulting from operations per share of \$0.65.

**5. INVESTMENTS**

For the year ended December 31, 2006, the Company purchased (A) \$726.4 million aggregate principal amount of senior term debt, (B) \$249.4 million aggregate principal amount of senior subordinated debt, (C) \$110.8 million of investments in equity securities, and (D) \$855,000 of investments in collateralized debt obligations.

In addition, for the year ended December 31, 2006, (1) \$175.4 million aggregate principal amount of senior term debt, (2) \$82.2 million aggregate principal amount of senior subordinated debt and (3) \$9.0 million of investments in collateralized debt obligations were redeemed. Additionally, (A) \$80.0 million aggregate principal amount of senior term debt, (B) \$17.0 million aggregate principal amount of senior subordinated debt and (C) \$65.6 million of investments in equity securities were sold.





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Geographic Region	December 31, 2006	December 31, 2005
Mid-Atlantic	29.4%	24.3%
West	21.6	38.9
Southeast	21.3	10.2
Midwest	19.2	12.3
Northeast	5.7	11.3
International	2.8	3.0
Total	100.0%	100.0%

**6. INCOME TAXES**

The following reconciles net increase in stockholders' equity resulting from operations to taxable income for the year ended December 31, 2006:

Net increase in stockholders' equity resulting from operations	\$ 69,695,322
Net unrealized gain on investments transactions not taxable	14,552,714
Other income not currently taxable	(24,661,430)
Other taxable income	16,256,585
Expenses not currently deductible	5,704,847
Other deductible expenses	(1,106,914)
Taxable income before deductions for distributions	\$ 80,441,124

Excluded from taxable income before deductions for distributions are \$238,668 of capital losses realized by the Company after October 31, 2006, which were deferred for tax purposes to the first day of the following fiscal year. During the year ended December 31, 2006, as a result of permanent book-to-tax differences primarily due to the recharacterization of distributions, differences in the book and tax basis of investments sold, dividends paid by portfolio companies to the Company in excess of portfolio company earnings and nondeductible federal taxes, the Company increased accumulated undistributed net investment income by \$7,038,469, decreased accumulated net realized gain on sale of investments by \$10,597,702 and increased capital in excess of par value by \$3,559,233. Aggregate stockholders' equity was not affected by this reclassification. As of December 31, 2006, the cost of investments for tax purposes was \$1,245,892,583 resulting in a gross unrealized appreciation and depreciation of \$2,482,828 and \$12,553,575, respectively.

For income tax purposes, distributions paid to stockholders are reported as ordinary income, non-taxable, capital gains, or a combination thereof. Dividends paid per common share for the year ended December 31, 2006 were taxable as follows (unaudited):

Ordinary income	\$ 64,551,090
Capital gains	7,777,944
Return of capital	
Total	\$ 72,329,034

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The following reconciles net increase in stockholders' equity resulting from operations to taxable income for the year ended December 31, 2005:

Net increase in stockholders' equity resulting from operations	\$ 41,851,076
Net unrealized gain on investments transactions not taxable	(4,385,563)
Other income not currently taxable	(2,751,144)
Other taxable income	3,035,574
Expenses not currently deductible	93,207
Other deductible expenses	(172,179)
	\$ 37,670,971
	\$ 37,670,971

As of December 31, 2005, the cost of investments for tax purposes was \$582,201,478 resulting in a gross unrealized appreciation and depreciation of \$10,037,426 and \$6,270,529, respectively.

For income tax purposes, distributions paid to stockholders are reported as ordinary income, non-taxable, capital gains, or a combination thereof. Dividends paid per common share for the year ended December 31, 2005 were taxable as follows (unaudited):

Ordinary income	\$ 31,563,873
Capital gains	
Return of capital	
	\$ 31,563,873
	\$ 31,563,873

The following reconciles net increase in stockholders' equity resulting from operations to taxable income for the period from June 23, 2004 (inception) through December 31, 2004:

Net increase in stockholders' equity resulting from operations	\$ 3,190,488
Net unrealized gain on investments transactions not taxable	(230,947)
Other taxable income	186,326
Expenses not currently deductible	189,275
Other deductible expenses	(417,331)
	\$ 2,917,811
	\$ 2,917,811

For income tax purposes, distributions paid to stockholders are reported as ordinary income, non-taxable, capital gains, or a combination thereof. Dividends paid per common share for the period from June 23, 2004 (inception) through December 31, 2004 were taxable as follows (unaudited):

Ordinary income	\$ 3,095,956
Capital gains	
Return of capital	224,074
	\$ 3,320,030
	\$ 3,320,030

### 7. COMMITMENTS AND CONTINGENCIES

As of December 31, 2006, the Company had committed to make a total of approximately \$79.0 million of investments in various revolving senior secured loans. As of December 31, 2006, \$45.2 million was unfunded. Included within the \$79.0 million commitment in revolving secured loans is a commitment to issue up to \$3.7 million in standby letters of credit through a financial intermediary on behalf of certain portfolio companies. Under these arrangements, the Company would be required to make payments to third-party beneficiaries if the portfolio companies were to default on their related payment obligations. As of December 31, 2006, the Company had \$2.8 million in standby letters

of credit issued and outstanding on behalf of the portfolio companies, of which no amounts were recorded as a liability. Of these letters of credit, \$2.3 million expire on September 30, 2007 and \$500,000 expire on July 31, 2007. These letters of credit may be extended under substantially similar terms for additional one-year terms at the Company's option until the revolving line of credit, under which the letters of credit were issued, matures on September 30, 2011.

As of December 31, 2006, the Company was subject to a subscription agreement to fund up to \$10.0 million of equity commitments in a private equity investment partnership. As of December 31, 2006, \$225,000 was funded to this partnership.

As of December 31, 2005, the Company had committed to make a total of approximately \$43.0 million of investments in various revolving senior secured loans. As of December 31, 2005, \$28.8 million was unfunded. Included within the \$43.0 million commitment in revolving secured loans is a commitment to issue up to \$3.2 million in standby letters of credit through a financial intermediary on behalf of a portfolio company. Under these arrangements, the Company would be required to make payments to third-party beneficiaries if the portfolio company was to default on its related payment obligations. As of December 31, 2005, the Company had \$2.2 million in standby letters of credit issued and outstanding on behalf of the portfolio company, of which no amounts were recorded as a liability.

## 8. BORROWINGS

In accordance with the 1940 Act, with certain limited exceptions, we are only allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, is at least 200% after such borrowing. On October 29, 2004, we formed Ares Capital CP Funding LLC ("Ares Capital CP"), a wholly owned subsidiary of the Company, through which we established a revolving credit facility (the "CP Funding Facility"). On November 3, 2004 (the "Facility Effective Date"), we entered into the CP Funding Facility that, as amended, allows Ares Capital CP to issue up to \$350.0 million of variable funding certificates ("VFC"). As part of the CP Funding Facility, we are subject to limitations as to how borrowed funds may be used including restrictions on geographic concentrations, sector concentrations, loan size, payment frequency and status, average life, collateral interests and investment ratings as well as regulatory restrictions on leverage which may affect the amount of VFC that we may issue from time to time. There are also certain requirements relating to portfolio performance, including required minimum portfolio yield and limitations on delinquencies and charge-offs, violation of which could result in the early amortization of the CP Funding Facility and limit further advances under the CP Funding Facility and in some cases could be an event of default. Such limitations, requirements, and associated defined terms are as provided for in the documents governing the CP Funding Facility. As of December 31, 2006, there was \$15.0 million outstanding under the CP Funding Facility and the Company continues to be in compliance with all of the limitations and requirements of the CP Funding Facility. As of December 31, 2005, there was \$18.0 million outstanding under the CP Funding Facility.

The CP Funding Facility is scheduled to expire on October 31, 2007 and is secured by all of the assets held by Ares Capital CP, which as of December 31, 2006 consisted of eight investments. At expiration, at our election, any principal amounts then outstanding will be amortized over a 24-month period from the termination date. Under the terms of the CP Funding Facility, we are required to pay a renewal fee of 0.375% of the total amount available for borrowing on or around each November 3rd.

The interest charged on the VFC is based on the commercial paper rate plus 0.70%. The interest charged on the VFC is payable quarterly. As of December 31, 2006 the commercial paper rate was 5.3481% and as of December 31, 2005 the commercial paper rate was 4.3223%. For the years ended December 31, 2006 and December 31, 2005, the average interest rates (i.e. commercial paper rate plus the spread) were 5.80% and 4.26%, respectively. For the years ended December 31, 2006 and December 31, 2005, the average outstanding balances were \$45,620,822 and \$17,939,726, respectively. The average interest rate during the period from the Facility Effective Date through December 31,

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2004 was 1.78% (from date of first borrowing through December 31, 2004, the average interest rate was 3.50%) and the average outstanding balance was \$10,466,102.

For the years ended December 31, 2006 and December 31, 2005 the interest expense incurred was \$2,615,244 and \$799,307, respectively. For the period from June 23, 2004 (inception) through December 31, 2004 the interest expense incurred was \$60,532. Cash paid for interest expense during the years ended December 31, 2006 and December 31, 2005 were \$2,603,286 and \$638,204, respectively. There was no cash paid for interest during the period from June 23, 2004 (inception) through December 31, 2004.

The Company is also required to pay a commitment fee for any unused portion of the CP Funding Facility. Initially, the commitment fee was 0.175% per annum. On April 8, 2005 the CP Funding Facility was amended pursuant to which among other things, the commitment fee was temporarily reduced to 0.11% per annum until the earlier of (a) the date the total borrowings outstanding exceed \$150.0 million or (b) October 3, 2005, after which the commitment fee was 0.175% per annum. On November 14, 2005 the CP Funding Facility was further amended pursuant to which among other things, the commitment fee was reduced to 0.10% per annum prior to the first time that the borrowings outstanding under the CP Funding Facility equal or exceed \$200.0 million and 0.125% per annum on and after the first time that the borrowings outstanding under the CP Funding Facility exceed \$200.0 million. On July 13, 2006 the CP Funding Facility was further amended pursuant to which among other things, the commitment fee was increased to 0.125% per annum calculated based on an amount equal to \$200.0 million less the borrowings outstanding under the CP Funding Facility. As soon as the borrowings outstanding under the CP Funding Facility equal or exceed \$200.0 million, the fee is calculated based on an amount equal to \$350.0 million less the borrowings outstanding under the CP Funding Facility. For the years ended December 31, 2006 and December 31, 2005, the commitment fees incurred were \$260,355 and \$257,800, respectively. For the period from June 23, 2004 (inception) through December 31, 2004 the commitment fee incurred was \$35,644.

In December 2005, we entered into a senior secured revolving credit facility (the "Revolving Credit Facility") under which the lenders have agreed to extend credit to the Company in an initial aggregate principal amount not exceeding \$250 million at any one time outstanding. The Revolving Credit Facility expires on December 28, 2010 and with certain exceptions is secured by substantially all of the assets in our portfolio (other than investments held by Ares Capital CP under the CP Funding Facility and those held as a part of the Debt Securitization, discussed below) which as of December 31, 2006 consisted of 108 investments. Under the Revolving Credit Facility, we have made certain representations and warranties and are required to comply with various covenants, reporting requirements and other customary requirements for similar revolving credit facilities, including, without limitation, covenants related to: (a) limitations on the incurrence of additional indebtedness and liens, (b) limitations on certain investments, (c) limitations on certain restricted payments, (d) maintaining a certain minimum stockholders' equity, (e) maintaining a ratio of total assets (less total liabilities) to total indebtedness, of the Company and its subsidiaries, of not less than 2.0:1.0, (f) maintaining minimum liquidity, and (g) limitations on the creation or existence of agreements that prohibit liens on certain properties of the Company and its subsidiaries.

In addition to the asset coverage ratio described above, borrowings under the Revolving Credit Facility (and the incurrence of certain other permitted debt) will be subject to compliance with a borrowing base that will apply different advance rates to different types of assets in our portfolio. The Revolving Credit Facility also includes an "accordion" feature that allows us to increase the size of the Revolving Credit Facility to a maximum of \$500 million under certain circumstances. The Revolving Credit Facility also includes usual and customary events of default for senior secured revolving credit facilities of this nature. As of December 31, 2006, there was \$193.0 million outstanding under the Revolving Credit Facility and the Company continues to be in compliance with all of the limitations and requirements of the Revolving Credit Facility. As of December 31, 2005, there were no amounts outstanding under the Revolving Credit Facility.

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The interest charged under the Revolving Credit Facility is generally based on LIBOR (one, two, three or six month) plus 1.00%. As of December 31, 2006, the one, two, three and six month LIBOR were 5.32%, 5.35%, 5.36% and 5.37%, respectively. For the year ended December 31, 2006 the average interest rate was 6.44%. For the year ended December 31, 2006, the average outstanding balance was \$89,021,918. For the year ended December 31, 2006, the interest expense incurred was \$5,732,028. Cash paid for interest expense during the year ended December 31, 2006 was \$4,518,853. As of December 31, 2005, the one, two, three and six month LIBOR were 4.39%, 4.48%, 4.54% and 4.70%, respectively. The Company is also required to pay a commitment fee of 0.20% for any unused portion of the Revolving Credit Facility. For the years ended December 31, 2006 and December 31, 2005, the commitment fees incurred were \$317,549 and \$5,555, respectively.

As of December 31, 2006, the Company had \$3.7 million in standby letters of credit issued through the Revolving Credit Facility. There were no letters issued as of December 31, 2005.

On July 7, 2006, through our wholly owned subsidiary, ARCC CLO 2006 LLC ("ARCC CLO"), we completed a \$400.0 million debt securitization (the "Debt Securitization") and issued approximately \$314.0 million principal amount of asset-backed notes (including a \$50.0 million revolver of which \$40.0 million has not been drawn down as of December 31, 2006) (the "CLO Notes") to third parties that were secured by a pool of middle market loans that have been purchased or originated by the Company. The CLO Notes are included in the December 31, 2006 consolidated balance sheet. We retained approximately \$86.0 million of certain BBB and non-rated securities in the Debt Securitization (the "Retained Notes"). The CLO Notes mature on December 20, 2019, and, as of December 31, 2006, there is \$274.0 million outstanding under the Debt Securitization (excluding the Retained Notes). The blended pricing of the CLO Notes, excluding fees, is approximately 3-month LIBOR plus 34 basis points.

The classes, amounts, ratings and interest rates (expressed as a spread to LIBOR) of the CLO Notes are:

Class	Amount (millions)	Rating (S&P/Moody's)	LIBOR Spread (basis points)
A-1A	\$ 75	AAA/Aaa	25
A-1A VFN	50(1)	AAA/Aaa	28
A-1B	14	AAA/Aaa	37
A-2A	75	AAA/Aaa	22
A-2B	33	AAA/Aaa	35
B	23	AA/Aa2	43
C	44	A/A2	70
Total	\$ 314		

(1) Revolving class, \$10.0 million of which was drawn as of December 31, 2006.

During the first five years from the closing date, principal collections received on the underlying collateral may be used to purchase new collateral, allowing us to maintain the initial leverage in the securitization for the entire five-year period. Under the terms of the securitization, up to 15% of the collateral may be subordinated loans that are neither first nor second lien loans.

The Class A-1A VFN Notes are a revolving class of secured notes and allow us to borrow and repay AAA/Aaa financing over the initial five-year period thereby providing more efficiency in funding costs. All of the notes are secured by the assets of ARCC Commercial Loan Trust 2006, including commercial loans totaling \$308.1 million as of the closing date, currently which were sold to the trust by the Company, the originator and servicer of the assets. As of December 31, 2006, there were 62 investments securing the notes. Additional commercial loans will be purchased by the trust from the Company primarily using the proceeds from the Class A-1A VFN Notes. The pool of commercial loans

in the trust must meet certain requirements, including, but not limited to, asset mix and concentration, collateral coverage, term, agency rating, minimum coupon, minimum spread and sector diversity requirements.

The interest charged under the ARCC CLO debt securitization is based on 3-month LIBOR which as of December 31, 2006 was 5.36%. For the year ended December 31, 2006, the effective average interest rate was 5.99%. For the year ended December 31, 2006, we incurred \$7,714,178 of interest expense and the cash paid for interest was \$7,235,837. The Company is also required to pay a commitment fee of 0.175% for any unused portion of the Class A-1A VFN Notes. For the year ended December 31, 2006, the commitment fee incurred was \$42,063 on these notes.

## 9. DERIVATIVE INSTRUMENTS

In 2005, we entered into a costless collar agreement in order to manage the exposure to changing interest rates related to the Company's fixed rate investments. The costless collar agreement is for a notional amount of \$20 million, has a cap of 6.5%, a floor of 2.72% and matures in 2008. The costless collar agreement allows us to receive an interest payment for any quarterly period when the 3-month LIBOR exceeds 6.5%, and requires us to pay an interest payment for any quarterly period when the 3-month LIBOR is less than 2.72%. The costless collar resets quarterly based on the 3-month LIBOR. As of December 31, 2006, the 3-month LIBOR was 5.36%. As of December 31, 2006 these derivatives had no fair value.

## 10. RELATED PARTY TRANSACTIONS

The underwriting costs related to the IPO were \$7,425,000 or \$0.675 per share. As a part of the IPO, the Investment Adviser, on our behalf, agreed to pay the underwriters \$0.225 of the \$0.675 per share in underwriting discount and commissions for a total of approximately \$2.5 million. We were obligated to repay this amount, together with accrued interest (charged at the 3-month LIBOR plus 2% starting on October 8, 2004) (a) if during any four calendar quarter period ending on or after October 8, 2005 the sum of (i) the aggregate distributions, including return of capital, if any, to the stockholders and (ii) the change in net assets (defined as total assets less indebtedness) equals or exceeds 7.0% of the net assets at the beginning of such period (as adjusted for any share issuances or repurchases) or (b) upon the Company's liquidation. On March 8, 2005, the Company's board of directors approved entering into an amended and restated agreement with the Investment Adviser whereby the Company would be obligated to repay the Investment Adviser for the approximate \$2.5 million only if the conditions for repayment referred to above were met before the third anniversary of the IPO. If one or more such events did not occur on or before October 8, 2007, we would not be obligated to repay this amount to the Investment Adviser. For the year ended December 31, 2005, the sum of our aggregate distributions to our stockholders and our change in net assets exceeded 7.0% of net assets as of December 31, 2004 (as adjusted for any share issuances). As a result, in February 2006 we repaid this amount together with accrued interest.

In accordance with the Advisory Agreement, we bear all costs and expenses of the operation of the Company and reimburse the Investment Adviser for all such costs and expenses incurred in the operation of the Company. For the year ended December 31, 2006, the Investment Adviser incurred such expenses totaling \$853,435. As of December 31, 2006, \$54,807 was unpaid and such payable is included in accounts payable and accrued expenses in the accompanying consolidated balance sheet. For the year ended December 31, 2005, the Investment Adviser incurred such expenses totaling \$243,377.

During 2006, we entered into a sublease agreement with Ares Management, whereby Ares Management subleases approximately 25% of the office facilities that we lease, for a fixed rent equal to 25% of the basic annual rent payable by us under our lease, plus certain additional costs and expenses. For the year ended December 31, 2006, such amounts payable to the Company totaled \$92,807. As of

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December 31, 2006, the entire amount was unpaid and included as a receivable in other assets in the accompanying consolidated balance sheet.

As of December 31, 2006, Ares Management, of which the Investment Adviser is a wholly owned subsidiary, owned 666,667 shares of the Company's common stock representing approximately 1.3% of the total shares outstanding as of December 31, 2006.

See Note 3 for a description of other related party transactions.

### 11. STOCKHOLDERS' EQUITY

On March 23, 2005, we completed a public add-on offering (the "Add-on Offering") of 12,075,000 shares of common stock (including the underwriters' over-allotment option of 1,575,000 shares) at \$16.00 per share, less an underwriting discount and commissions totaling \$0.72 per share. Total proceeds received from the Add-on Offering, net of the underwriters' discount and offering costs, were \$183.9 million.

On October 18, 2005, we completed a public add-on offering (the "October Add-on Offering") of 14,500,000 shares of common stock at \$15.46 per share, less an underwriting discount and commissions totaling \$0.6957 per share. Total proceeds received from the October Add-on Offering, net of the underwriters' discount and offering costs, were approximately \$213.5 million.

On July 18, 2006, we completed a public add-on offering (the "July Add-on Offering"), of 10,781,250 shares of common stock (including the underwriters' over-allotment option of 1,406,250 shares) at \$15.67 per share, less an underwriting discount and commissions totaling \$0.58 per share. Total proceeds received from the July Add-on Offering, net of the underwriters' discount and offering costs, were approximately \$162.0 million.

On December 19, 2006, we completed a public add-on offering (the "December Add-on Offering"), of 2,730,000 shares of common stock at \$18.50 per share, less an underwriting discount and commissions totaling \$0.19 per share. Total proceeds received from the December Add-on Offering, net of the underwriter's discount and offering costs, were approximately \$49.8 million.

### 12. DIVIDEND

For the three months ended December 31, 2006, the Company declared a dividend on November 8, 2006 of \$0.40 per share and an additional dividend of \$0.10 per share for a total of \$20,814,611 and \$5,203,653, respectively. The record date for the dividends was December 15, 2006 and the dividends were distributed on December 29, 2006. For the three months ended September 30, 2006, the Company declared a dividend on August 9, 2006 of \$0.40 per share for a total of \$19,595,399. The record date was September 15, 2006 and the dividend was distributed on September 29, 2006. For the three months ended June 30, 2006, the Company declared a dividend on May 8, 2006 of \$0.38 per share for a total of \$14,481,380. The record date was June 15, 2006 and the dividend was distributed on June 30, 2006. For the three months ended March 31, 2006, the Company declared a dividend on February 28, 2006 of \$0.36 per share for a total of \$13,682,573. The record date was March 24, 2006 and the dividend was distributed on April 14, 2006.

For the three months ended December 31, 2005, the Company declared a dividend on December 12, 2005 of \$0.34 per share for a total of \$12,889,224. The record date was December 22, 2005 and the dividend was distributed on January 17, 2006. For the three months ended September 30, 2005, the Company declared a dividend on September 6, 2005 of \$0.34 per share for a total of \$7,940,174. The record date was September 16, 2005 and the dividend was distributed on September 30, 2005. For the three months ended June 30, 2005, the Company declared a dividend on June 20, 2005 of \$0.32 per share for a total of \$7,413,951. The record date was June 30, 2005 and the dividend was distributed on July 15, 2005. For the three months ended March 31, 2005, the Company declared a dividend on February 23, 2005 of \$0.30 per share for a total of \$3,320,524. The record date was March 7, 2005 and the dividend was distributed on April 15, 2005.

## 13. FINANCIAL HIGHLIGHTS

The following is a schedule of financial highlights as of and for the years ended December 31, 2006 and December 31, 2005 and for the period from June 23, 2004 (inception) through December 31, 2004:

Per Share Data:	As of and for the year ended December 31, 2006	As of and for the year ended December 31, 2005	For the period from June 23,2004 (inception) through December 31, 2004
Net asset value, beginning of period(1)	\$ 15.03	\$ 14.43	\$ 15.00
Issuance of common stock	0.20	0.39	(0.78)
Effect of antidilution	(0.03)	(0.16)	
Underwriting costs (reimbursed to)/paid by the Investment Adviser (see Note 10)(2)		(0.11)	0.22
Net investment income for period(2)	1.31	1.15	0.25
Net realized and unrealized gains for period(2)	0.30	0.63	0.04
Net increase in stockholders' equity	1.61	1.90	(0.27)
Distributions from net investment income	(1.31)	(1.15)	(0.25)
Distributions in excess of net investment income			(0.01)
Distributions from net realized capital gains on securities	(0.33)	(0.15)	(0.02)
Total distributions to stockholders before return of capital	(1.64)	(1.30)	(0.28)
Tax return of capital			(0.02)
Total distributions	(1.64)	(1.30)	(0.30)
Net asset value at end of period(1)	\$ 15.17	\$ 15.03	\$ 14.43
Per share market value at end of period	\$ 19.11	\$ 16.07	\$ 19.43
Total return based on market value(3)	29.12%	(10.60)%	31.53%
Total return based on net asset value(4)	10.73%	12.04%	(1.80)%
Shares outstanding at end of period	52,036,527	37,909,484	11,066,767
Ratio/Supplemental Data:			
Net assets at end of period	\$ 789,433,404	\$ 569,612,199	\$ 159,708,305
Ratio of operating expenses to average net assets(5)(6)	8.84%	4.11%	5.24%
Ratio of net investment income to average net assets(5)(7)	9.19%	7.56%	8.54%
Portfolio turnover rate(5)	49%	34%	215%

(1) The net assets used equals the total stockholders' equity on the consolidated balance sheets.

(2) Weighted average basic per share data.

(3)



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For the year ended December 31, 2006, the 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 dividend of \$0.36 per share for holders of record on March 24, 2006, the declared dividend of \$0.38 per share for holders of record on June 15, 2006, the declared dividend of \$0.40 per share for holders of record on September 15, 2006, the declared dividend of \$0.40 per share for holders of record on December 15, 2006 and the declared dividend of \$0.10 per share for holders of record on December 15, 2006. For the year ended December 31, 2005, the total return based on market value equals the decrease of the ending market value at December 31,

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2005 of \$16.07 per share over the ending market value at December 31, 2004 of \$19.43, plus the declared dividend of \$0.30 per share for holders of record on March 7, 2005, the declared dividend of \$0.32 per share for holders of record on June 30, 2005, the declared dividend of \$0.34 per share for holders of record on September 16, 2005 and the declared dividend of \$0.34 per share for holders of record on December 22, 2005, divided by the market value at December 31, 2004. For the period from June 23, 2004 (inception) through December 31, 2004, the total return based on market value equals the increase of the ending market value at December 31, 2004 of \$19.43 per share over the offering price of \$15 per share, plus the declared dividend of \$0.30 per share (includes return of capital of \$0.01 per share) for holders of record on December 27, 2004, divided by the offering price. Total return based on market value is not annualized.

(4)

For the year ended December 31, 2006, the total return based on net asset value equals the change in net asset value during the period plus the declared dividend of \$0.36 per share for holders of record on March 24, 2006, the declared dividend of \$0.38 per share for holders of record on June 15, 2006, the declared dividend of \$0.40 per share for holders of record on September 15, 2006, the declared dividend of \$0.40 per share for holders of record on December 15, 2006 and the declared dividend of \$0.10 per share for holders of record on December 15, 2006. The calculation was adjusted for shares issued in connection with dividend reinvestment plan, the issuances of common stock in connection with the July Add-on Offering and the December Add-on Offering. For the year ended December 31, 2005, the total return based on net asset value equals the change in net asset value during the period plus the declared dividend of \$0.30 per share for holders of record on March 7, 2005, the declared dividend of \$0.32 per share for holders of record on June 30, 2005, the declared dividend of \$0.34 per share for holders of record on September 16, 2005 and the declared dividend of \$0.34 per share for holders of record on December 22, 2005, divided by the beginning net asset value during the period. The calculation was adjusted for shares issued in connection with dividend reinvestment plan, the issuances of common stock in connection with the Add-on Offering and October Add-on Offering, and the reimbursement of underwriting costs paid by the Investment Adviser. For the period from June 23, 2004 (inception) through December 31, 2004 the total return based on net asset value equals the change in net asset value during the period plus the declared dividend of \$0.30 per share (includes return of capital of \$0.01 per share) for holders of record on December 27, 2004, divided by the beginning net asset value during the period. Total return based on net asset value is not annualized.

(5)

The ratios reflect an annualized amount.

(6)

For the year ended December 31, 2006, the ratio of operating expenses to average net assets consisted of 2.06% of base management fees, 2.95% of incentive management fees, 2.81% of the cost of borrowing and other operating expenses of 1.02%. For the year ended December 31, 2005, the ratio of operating expenses to average net assets consisted of 1.44% of base management fees, 1.17% of incentive management fees, 0.43% of the cost of borrowing and other operating expenses of 1.07%. These ratios reflect annualized amounts.

(7)

The ratio of net investment income to average net assets excludes income taxes related to realized gains.

### 14. IMPACT OF NEW ACCOUNTING STANDARDS

In July 2006, the Financial Accounting Standards Board ("FASB") released FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," ("FIN 48"). FIN 48 provides guidance on how uncertain tax positions should be recognized, measured, presented, and disclosed in the financial statements. FIN 48 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authorities. Tax positions not deemed to satisfy the "more-likely-than-not" threshold would be recorded as a tax benefit or expense in the current year. FASB required adoption of FIN 48 for fiscal years beginning after December 15, 2006, and FIN 48 is to be applied to all open tax years as of the effective date. However, on December 22, 2006, the Securities and Exchange Commission delayed the required implementation date of FIN 48 for business development companies until March 31, 2007. The Company is currently evaluating the implications of FIN 48, and its impact in the consolidated financial statements has not yet been determined.

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In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurement ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements, but does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. At this time, the Company is evaluating the implications of SFAS No. 157, and its impact in the consolidated financial statements has not yet been determined.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ("SFAS 159"), which provides companies with an option to report selected financial assets and liabilities at fair value. The objective of SFAS 159 is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS 159 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to more easily understand the effect of the company's choice to use fair value on its earnings. SFAS 159 also requires entities to display the fair value of the selected assets and liabilities on the face of the balance sheet. SFAS 159 does not eliminate disclosure requirements of other accounting standards, including fair value measurement disclosures in SFAS 157. This Statement is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity makes that choice in the first 120 days of that fiscal year and also elects to apply the provisions of Statement 157. At this time, the Company is evaluating the implications of SFAS No. 159, and its impact in the consolidated financial statements has not yet been determined.

### 15. SELECTED QUARTERLY DATA (Unaudited)

	2006			
	Q4	Q3	Q2	Q1
Total Investment Income	\$ 37,508,058	\$ 31,831,794	\$ 30,489,751	\$ 20,191,305
Net investment income before net realized and unrealized gain on investments and incentive compensation	\$ 23,508,149	\$ 21,792,136	\$ 16,233,294	\$ 14,614,419
Incentive compensation	\$ 5,188,969	\$ 4,464,141	\$ 6,940,399	\$ 2,922,884
Net investment income before net realized and unrealized gain on investments	\$ 18,319,180	\$ 17,327,995	\$ 9,292,895	\$ 11,691,535
Net realized and unrealized gain on investments	\$ 2,699,307	\$ 813,127	\$ 7,399,785	\$ 2,151,498
Net increase in stockholders' equity resulting from operations	\$ 21,018,487	\$ 18,141,122	\$ 16,692,680	\$ 13,843,033
Basic and diluted earnings per common share	\$ 0.42	\$ 0.39	\$ 0.44	\$ 0.36
Net asset value per share as of the end of the quarter	\$ 15.17	\$ 15.06	\$ 15.10	\$ 15.03

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	2005				Q4(1)
	Q4	Q3	Q2	Q1	2004
Total Investment Income	\$ 14,890,281	\$ 11,607,989	\$ 9,601,615	\$ 5,750,592	\$ 4,380,848
Net investment income before net realized and unrealized gain on investments and incentive compensation	\$ 11,071,081	\$ 8,887,631	\$ 7,567,053	\$ 3,800,113	\$ 3,009,749
Incentive compensation	\$ (510,478)	\$ 2,643,353	\$ 1,798,919	\$ 270,284	\$ 95,471
Net investment income before net realized and unrealized gain on investments	\$ 11,581,559	\$ 6,244,278	\$ 5,768,134	\$ 3,529,829	\$ 2,914,278
Net realized and unrealized gain on investments	\$ 4,281,465	\$ 3,637,612	\$ 1,834,122	\$ 4,974,077	\$ 475,393
Net increase in stockholders' equity resulting from operations	\$ 15,863,024	\$ 9,881,890	\$ 7,602,256	\$ 8,503,906	\$ 3,389,671
Basic and diluted earnings per common share	\$ 0.45	\$ 0.42	\$ 0.33	\$ 0.69	\$ 0.34
Net asset value per share as of the end of the quarter	\$ 15.03	\$ 15.08	\$ 14.97	\$ 14.96	\$ 14.43

(1) The Company was initially funded on June 23, 2004 (inception) but had no significant operations until the fourth quarter of 2004. The sole activity for the second and third quarters of 2004 was the incurrence of \$199,183 in organizational expenses.

## 16. SUBSEQUENT EVENTS

On January 8, 2007, the underwriter exercised its over-allotment option of 409,500 shares of common stock granted in the December Add-on Offering at \$18.50 per share less an underwriting discount and commissions totaling \$0.19 per share. Total proceeds received from the sale of common stock pursuant to the over-allotment option, net of the underwriter's discount and offering costs, were approximately \$7.5 million.

On February 9, 2007, we completed a public add-on offering (the "February Add-on Offering") of 1,382,078 shares of common stock (including the underwriter's over-allotment option of 180,271 shares) at \$19.95 per share, less an underwriting discount and commissions totaling \$0.25 per share. Total proceeds received from the February Add-on Offering, net of the underwriter's discount and offering costs, were approximately \$27.0 million.

On March 1, 2007, in accordance with the "accordion" feature of the Revolving Credit Facility, we increased the aggregate principal amount of the Revolving Credit Facility by \$100.0 million to a total of \$350.0 million.

## ARES CAPITAL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

	As of	
	September 30, 2007	December 31, 2006
	(unaudited)	
<b>ASSETS</b>		
Investments at fair value (amortized cost of \$1,616,635,547 and \$1,245,758,040, respectively)		
Non-control/non-affiliate investments	\$ 1,216,373,487	\$ 991,529,464
Non-control affiliated company investments	288,372,864	244,292,372
Control affiliated company investments	110,826,428	
Total investments at fair value	1,615,572,779	1,235,821,836
Cash and cash equivalents	48,707,617	91,538,878
Receivable for open trades	142,155	1,026,053
Interest receivable	17,428,045	10,121,104
Other assets	8,487,911	9,483,083
Total assets	\$ 1,690,338,507	\$ 1,347,990,954
<b>LIABILITIES</b>		
Debt	\$ 527,500,000	\$ 482,000,000
Payable for open trades		60,000,000
Accounts payable and accrued expenses	3,483,917	2,027,948
Management and incentive fees payable	12,124,595	12,485,016
Interest and facility fees payable	2,904,578	2,044,586
Total liabilities	546,013,090	558,557,550
Commitments and contingencies (Note 6)		
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, par value \$.001 per share, 100,000,000 common shares authorized, 72,684,090 and 52,036,527 common shares issued and outstanding, respectively	72,683	52,037
Capital in excess of par value	1,140,951,235	785,192,573
Accumulated undistributed net investment income		7,038,469
Accumulated net realized gains on sale of investments	4,364,267	7,086,529
Net unrealized depreciation on investments	(1,062,768)	(9,936,204)
Total stockholders' equity	1,144,325,417	789,433,404
Total liabilities and stockholders' equity	\$ 1,690,338,507	\$ 1,347,990,954
<b>NET ASSETS PER SHARE</b>	\$ 15.74	\$ 15.17

See accompanying notes to consolidated financial statements.



**ARES CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS**  
**As of September 30, 2007**

Company(Industry)	Investment	Interest(20)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
<b>Healthcare Services</b>							
Andysis Reprovidor Associates, Inc.	Senior secured loan (\$2,131,147 par due 12/2010)	8.36% (Libor + 3.25%/S)	12/14/05	\$ 2,131,147	\$ 2,131,147	\$ 1.00(3)	
	Senior secured loan (\$5,770,492 par due 12/2011)	8.36% (Libor + 3.25%/S)	12/14/05	5,770,492	5,770,492	\$ 1.00(3)	
	Senior secured loan (\$42,623 par due 12/2011)	9.50% (Base Rate + 1.75%/D)	12/14/05	42,623	42,623	\$ 1.00(3)	
	Senior secured loan (\$393,741 par due 12/2011)	8.36% (Libor + 3.25%/Q)	12/14/05	393,741	393,741	\$ 1.00	
	Senior secured loan (\$261,997 par due 12/2011)	8.36% (Libor + 3.25%/Q)	12/14/05	261,997	261,997	\$ 1.00(3)	
	Senior secured loan (\$196,721 par due 12/2010)	8.45% (Libor + 3.25%/Q)	12/14/05	196,721	196,721	\$ 1.00(3)	
	Senior secured loan (\$196,721 par due 12/2010)	9.20% (Libor + 4.00%/Q)	12/14/05	196,721	196,721	\$ 1.00(3)	
	Senior secured loan (\$3,937,406 par due 12/2011)	8.61% (Libor + 3.25%/Q)	12/14/05	3,937,406	3,937,406	\$ 1.00	
	Senior secured loan (\$2,619,971 par due 12/2011)	8.61% (Libor + 3.25%/Q)	12/14/05	2,619,971	2,619,971	\$ 1.00(3)	
	Capita care Healthant, Inoperator	Junior secured loan (\$19,000,000 par due 11/2013)	10.70% (Libor + 5.50%/Q)	12/1/05	19,000,000	19,000,000	\$ 1.00
Junior secured loan (\$19,000,000 par due 11/2013)		10.70% (Libor + 5.50%/Q)	12/1/05	19,000,000	19,000,000	\$ 1.00	
Junior secured loan (\$30,000,000 par due 11/2013)		10.70% (Libor + 5.50%/Q)	12/1/05	30,000,000	30,000,000	\$ 1.00(2)	
CTHealthcare Technologies Intermedicent Holdings Inc. and CT Technologies Holdings, LLC(15)	Senior secured revolving loan (\$810,000 par due 3/2012)	10.38% (Libor + 5.00%/S)	6/15/07	810,000	810,000	\$ 1.00	
	Senior secured revolving loan (\$810,000 par due 3/2012)	10.82% (Libor + 5.00%/M)	6/15/07	810,000	810,000	\$ 1.00	
	Senior secured revolving loan (\$810,000 par due 3/2012)	10.36% (Libor + 5.00%/Q)	6/15/07	810,000	810,000	\$ 1.00	
	Senior secured loan (\$20,333,333 par due 3/2012)	10.38% (Libor + 5.00%/S)	6/15/07	20,333,333	20,333,333	\$ 1.00	
	Senior secured loan (\$20,333,333 par due 3/2012)	10.82% (Libor + 5.00%/M)	6/15/07	20,333,333	20,333,333	\$ 1.00	

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Company(Industry)	Investment	Interest(20)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
	3/2012)						
	Senior secured loan (\$20,333,333 par due 3/2012)	10.36% (Libor + 5.00%/Q)	6/15/07	20,333,333	20,333,333	\$ 1.00	
	Preferred stock (6,000 shares)		6/15/07	6,000,000	6,000,000	\$ 1,000.00(5)	

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		Common stock (9,679 shares)		6/15/07	4,000,000	4,000,000	\$	413.27(5)
		Common stock (1,546 shares)		6/15/07			\$	(5)
DSI Renal, Inc.	Dialysis provider	Senior subordinated note (\$70,971,360 par due 4/2014)	12.00% Cash, 2.00% PIK	4/4/06	70,588,540	70,971,360	\$	1.00(4)
		Senior subordinated note (\$11,459,476 par due 4/2014)	12.00% Cash, 2.00% PIK	4/4/06	11,459,476	11,459,476	\$	1.00(4)(3)
		Senior secured revolving loan (\$3,200,000 par due 3/2013)	8.38% (Libor + 3.00%/Q)	4/4/06	3,200,000	3,158,400	\$	0.99
		Senior secured revolving loan (\$1,600,000 par due 3/2013)	8.63% (Libor + 3.00%/Q)	4/4/06	1,600,000	1,579,200	\$	0.99
		Senior secured revolving loan (\$800,000 par due 3/2013)	8.56% (Libor + 3.00%/Q)	4/4/06	800,000	789,600	\$	0.99
		Senior secured revolving loan (\$800,000 par due 3/2013)	8.56% (Libor + 3.00%/M)	4/4/06	800,000	789,600	\$	0.99
		Senior secured revolving loan (\$267,200 par due 3/2013)	10.25% (Base Rate + 2.50%/D)	4/4/06	267,200	263,726	\$	0.99
MPBP Holdings, Inc.,Cohr Holdings, Inc. and MPBP Acquisition Co., Inc.	Healthcare equipment services	Junior secured loan (\$20,000,000 par due 1/2014)	11.53% (Libor + 6.25%/S)	1/31/07	20,000,000	20,000,000	\$	1.00
		Junior secured loan (\$12,000,000 par due 1/2014)	11.53% (Libor + 6.25%/S)	1/31/07	12,000,000	12,000,000	\$	1.00(3)
		Common stock (50,000 shares)		1/31/07	5,000,000	5,000,000	\$	100.00(5)
MWD Acquisition Sub, Inc.	Dental services	Senior secured loan (\$4,974,519 par due 5/2013)	8.57% (Libor + 3.25%/S)	5/3/07	4,962,083	4,962,083	\$	1.00
		Senior secured loan (\$12,740 par due 5/2013)	8.61% (Libor + 3.25%/Q)	5/3/07	12,709	12,709	\$	1.00
		Junior secured loan (\$5,000,000 par due 5/2012)	11.57% (Libor + 6.25%/S)	5/3/07	5,000,000	5,000,000	\$	1.00
OnCURE Medical Corp.	Radiation oncology care provider	Senior subordinated note (\$25,956,654 par due 8/2013)	11.00% Cash, 1.50% PIK	8/18/06	25,956,654	25,956,654	\$	1.00(4)
		Senior secured loan (\$1,416,690 par due 8/2008)	9.25% (Libor + 3.50%/Q)	8/23/06	1,416,690	1,416,690	\$	1.00
		Senior secured loan (\$3,248,438 par due 8/2011)	9.25% (Libor + 3.50%/Q)	8/23/06	3,248,438	3,248,438	\$	1.00
		Common stock (857,143 shares)		8/18/06	3,000,000	3,000,000	\$	3.50(5)
Triad Laboratory Alliance, LLC	Laboratory services	Senior subordinated note (\$15,026,980 par due 12/2012)	12.00% cash, 1.75% PIK	12/21/05	15,026,980	15,026,980	\$	1.00(4)
		Senior secured loan (\$6,877,500 par due 12/2011)	8.45% (Libor + 3.25%/Q)	12/21/05	6,877,500	6,877,500	\$	1.00
		Senior secured loan (\$2,947,500 par due 12/2011)	8.45% (Libor + 3.25%/Q)	12/21/05	2,947,500	2,947,500	\$	1.00(3)
					332,144,588	332,440,734		29.13%



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<b>Education</b>							
ELC Acquisition Corporation	Developer, manufacturer and retailer of educational products	Senior secured loan (\$2,707,304 par due 11/2012)	9.18% (Libor + 3.75%/S)	11/30/06	2,707,304	2,707,304	\$ 1.00
		Junior secured loan (\$8,333,333 par due 11/2013)	12.50% (Libor + 7.00%/M)	11/30/06	8,333,333	8,333,333	\$ 1.00(3)
		Senior secured loan (\$355,268 par due 11/2012)	9.18% (Libor + 3.75%/S)	11/30/06	355,268	355,268	\$ 1.00(3)
Equinox EIC Partners, LLC and MUA Management Company, Ltd.(1),(9)	Medical school operator	Senior secured revolving loan (\$5,000,000 par due 12/2012)	11.36% (Libor + 6.00%/Q)	4/3/07	5,000,000	5,000,000	\$ 1.00
		Senior secured revolving loan (\$988,503 par due 12/2012)	13.25% (Base Rate + 5.00%/D)	4/3/07	988,503	988,503	\$ 1.00
		Senior secured revolving loan (\$2,000,000 par due 12/2012)	11.33% (Libor + 6.00%/Q)	4/3/07	2,000,000	2,000,000	\$ 1.00
		Senior secured loan (\$7,700,000 par due 12/2012)	11.20% (Libor + 6.00%/Q)	4/3/07	7,700,000	7,700,000	\$ 1.00
		Senior secured loan (\$30,500,000 par due 12/2012)	11.11% (Libor + 6.00%/S)	9/21/07	30,500,000	30,500,000	\$ 1.00
		Senior secured loan (\$7,375,000 par due 12/2012)	11.36% (Libor + 6.00%/Q)	4/3/07	7,375,000	7,375,000	\$ 1.00(3)
		Senior secured loan (\$100,000 par due 12/2012)	12.75% (Base Rate + 5.00%/Q)	4/3/07	100,000	100,000	\$ 1.00(3)
		Common membership units (26.27% interest)		9/21/07	15,500,000	15,500,000	(5)
Instituto de Banca y Comercio, Inc.(18)	Private school operator	Senior secured revolving loan (\$1,500,000 par due 3/2014)	8.13% (Libor + 3.00%/M)	3/15/07	1,500,000	1,500,000	\$ 1.00
		Senior secured loan (\$24,438,750 par due 3/2014)	10.36% (Libor + 5.00%/Q)	3/15/07	24,438,750	24,438,750	\$ 1.00
		Senior secured loan (\$11,970,000 par due 3/2014)	10.36% (Libor + 5.00%/Q)	3/15/07	11,970,000	11,970,000	\$ 1.00(3)
Lakeland Finance, LLC	Private school operator	Senior secured note (\$18,000,000 par due 12/2012)	11.50%	12/13/05	18,000,000	18,000,000	\$ 1.00
		Senior secured note (\$15,000,000 par due 12/2012)	11.50%	12/13/05	15,000,000	15,000,000	\$ 1.00(2)
					151,468,158	151,468,158	13.27%
<b>Printing, Publishing and Media</b>							
Canon Communications LLC	Print publications services	Junior secured loan (\$7,525,000 par due 11/2011)	11.88% (Libor + 6.75%/M)	5/25/05	7,525,000	7,525,000	\$ 1.00
		Junior secured loan (\$4,250,000 par due 11/2011)	11.88% (Libor + 6.75%/M)	5/25/05	4,250,000	4,250,000	\$ 1.00(2)
		Junior secured loan (\$12,000,000 par due 11/2011)	11.88% (Libor + 6.75%/M)	5/25/05	12,000,000	12,000,000	\$ 1.00(3)
Courtside Acquisition Corp.	Community newspaper publisher	Senior subordinated loan (\$31,150,000 par due 6/2014)	15.00% PIK	6/29/07	31,150,000	31,150,000	\$ 1.00(4)



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Daily Candy, Inc.(11)	Internet publication provider	Senior secured loan (\$10,355,330 par due 5/2009)	10.38% (Libor + 5.00%/S)	5/25/06	11,067,442	10,355,330	\$	1.00
		Senior secured loan (\$11,695,431 par due 5/2009)	10.38% (Libor + 5.00%/S)	5/25/06	12,499,698	11,695,431	\$	1.00(3)
		Senior secured loan (\$152,267 par due 5/2009)	10.38% (Libor + 5.00%/S)	5/25/06	162,738	152,267	\$	1.00
		Senior secured loan (\$171,972 par due 5/2009)	10.38% (Libor + 5.00%/S)	5/25/06	183,798	171,972	\$	1.00(3)
		Common stock (1,250,000 shares)		5/25/06	2,375,000	4,085,000	\$	3.27(5)
		Warrants to purchase 1,381,578 shares		5/25/06	2,624,998	4,514,997	\$	3.27(5)
National Print Group, Inc.	Printing management services	Senior secured revolving loan (\$827,524 par due 3/2012)	10.75% (Base Rate + 2.50%/D)	3/2/06	827,524	827,524	\$	1.00
		Senior secured revolving loan (\$913,043 par due 3/2012)	9.22% (Libor + 3.50%/M)	3/2/06	913,043	913,043	\$	1.00
		Senior secured loan (\$4,911,854 par due 3/2012)	8.70% (Libor + 3.50%/Q)	3/2/06	4,911,854	4,911,854	\$	1.00(3)
		Senior secured loan (\$239,674 par due 3/2012)	10.25% (Base Rate + 2.50%/D)	3/2/06	239,674	239,674	\$	1.00(3)
		Senior secured loan (\$5,110,685 par due 3/2012)	9.04% (Libor + 3.50%/Q)	3/2/06	5,110,685	5,110,685	\$	1.00(3)
		Senior secured loan (\$2,244,052 par due 8/2012)	12.34% (Libor + 7.00%/B)	3/2/06	2,244,052	2,244,052	\$	1.00
		Senior secured loan (\$406,132 par due 8/2012)	12.34% (Libor + 7.00%/B)	3/2/06	406,132	406,132	\$	1.00(3)
		Senior secured loan (\$1,932,806 par due 8/2012)	12.36% (Libor + 7.00%/Q)	3/2/06	1,932,806	1,932,806	\$	1.00
		Senior secured loan (\$349,802 par due 8/2012)	12.36% (Libor + 7.00%/Q)	3/2/06	349,802	349,802	\$	1.00(3)
			Preferred stock (9,344 shares)		3/2/06	2,000,000	2,000,000	\$
The Teaching Company, LLC and The Teaching Company Holdings, Inc.(21)	Education publications provider	Senior secured loan (\$40,000,000 par due 9/2012)	10.50%	9/29/06	40,000,000	40,000,000	\$	1.00
		Preferred stock (29,969 shares)		9/29/06	2,996,921	2,996,921	\$	100.00(5)
		Common stock (15,393 shares)		9/29/06	3,079	3,079	\$	0.20(5)
					145,774,246	147,835,569		12.95%
<b>Financial</b>								
Abingdon Investments Limited(13)(18)(19)	Investment company	Ordinary shares (948,500 shares)		12/15/06	9,032,978	8,195,040	\$	8.64(5)
		Senior subordinated loan (\$63,313,824 par due 12/2016)	10.00% PIK	12/31/06	63,313,824	63,313,824	\$	1.00(4)
		Common stock (10,000 shares)		12/31/06	10,000,000	10,000,000	\$	1,000.00(5)
Firstlight Financial Corporation(14)(19)	Investment company	Common stock (30,000 shares)		12/31/06	30,000,000	30,000,000	\$	1,000.00(5)

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Imperial Capital Group, LLC(19)	Investment banking services	Common units (7,710 shares)	5/10/07	14,997,159	14,997,159 \$	1,945.16(5)
		Common units (2,526 shares)	5/10/07	2,526	2,526 \$	1.00(5)
		Common units (315 shares)	5/10/07	315	315 \$	1.00(5)

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Partnership Capital Growth Fund I, L.P.(19)	Limited partnership interest (25% interest)		6/16/06	1,317,082	1,317,082		(5)
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128,663,884      127,825,946      11.20%

**Retail**

Apex Retailer LLC	Senior secured loan (\$19,397,033 par due 3/2012)	10.39% (Libor + 5.25%/S)	3/27/07	19,397,033	19,397,033	\$	1.00
	Senior secured loan (\$19,900,000 par due 3/2012)	10.39% (Libor + 5.25%/S)	3/27/07	19,900,000	19,900,000	\$	1.00(2)
	Senior secured loan (\$11,940,000 par due 3/2012)	10.39% (Libor + 5.25%/S)	3/27/07	11,940,000	11,940,000	\$	1.00(3)

Safe In SAI Acquisition Corporation	Senior subordinated note (\$28,416,285 par due 8/2014)	10.00% cash, 2.00% PIK	8/8/06	28,416,285	28,416,285	\$	1.00(2)(4)
	Common stock (1,170,182 shares)		8/8/06	4,500,000	4,500,000	\$	3.85(5)

Personalized Retailer and TRM Holdings Corporation	Senior secured loan (\$4,752,000 par due 9/2012)	10.25% (Libor + 4.75%/Q)	9/28/06	4,752,000	4,752,000	\$	1.00(3)
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	Senior secured loan (\$14,000,000 par due 9/2012)	11.50% (Libor + 6.00%/M)	9/28/06	14,000,000	14,000,000	\$	1.00(2)
	Senior secured loan (\$14,000,000 par due 9/2012)	11.50% (Libor + 6.00%/M)	9/28/06	14,000,000	14,000,000	\$	1.00
	Senior secured loan (\$7,200,000 par due 9/2012)	11.50% (Libor + 6.00%/M)	9/28/06	7,200,000	7,200,000	\$	1.00(3)
	Preferred stock (80 shares)		9/28/06	1,800,000	1,800,000	\$	22,500.00(5)
	Common stock (800 shares)		9/28/06	200,000	200,000	\$	250.00(5)

126,105,318      126,105,318      11.05%

**Services Other**

Financing, Retailing Services LLC	Junior secured loan (\$10,050,555 par due 4/2015)	10.00% Cash, 2.00% PIK	4/17/07	10,050,555	10,050,555	\$	1.00(4)
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Di Services, Inc.	Senior secured loan (\$5,011,838 par due 2/2011)	10.88% (Libor + 5.00%/M)	2/2/05	5,011,838	4,360,299	\$	0.87(3)
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	Senior secured loan (\$1,742,026 par due 8/2011)	14.07% (Libor + 8.50%/M)	2/2/05	1,742,026	1,358,781	\$	0.78(2)
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	Senior secured loan (\$6,757,974 par due 8/2011)	14.07% (Libor + 8.50%/M)	2/2/05	6,757,974	5,271,219	\$	0.78(3)
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	Preferred stock (14,927 shares)		5/18/06	169,123		\$	(5)
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			2/2/05	295,270		\$	(5)
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GCA Custodial Services Group, Inc.	Common stock (114,004 shares)						
	Senior secured loan (\$8,000,000 par due 12/2011)	12.00%	12/15/06	8,000,000	8,000,000	\$	1.00
	Senior secured loan (\$30,000,000 par due 12/2011)	12.00%	12/15/06	30,000,000	30,000,000	\$	1.00(2)
	Senior secured loan (\$12,000,000 par due 12/2011)	12.00%	12/15/06	12,000,000	12,000,000	\$	1.00(3)

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Grocery Families and GFH Holdings, LLC	Senior secured revolving loan (\$762,500 par due 8/2011)	9.25% (Base Rate + 1.50%/D)	3/16/07	762,500	762,500	\$	1.00
	Senior secured revolving loan (\$500,000 par due 8/2011)	8.36% (Libor + 3.00%/B)	3/16/07	500,000	500,000	\$	1.00
	Senior secured loan (\$366,950 par due 8/2011)	9.01% (Libor + 3.50%/Q)	3/16/07	366,950	366,950	\$	1.00
	Senior secured loan (\$9,645,550 par due 8/2011)	9.01% (Libor + 3.50%/Q)	3/16/07	9,645,550	9,645,550	\$	1.00(3)
	Senior secured loan (\$70,550 par due 8/2011)	9.15% (Libor + 3.50%/Q)	3/16/07	70,550	70,550	\$	1.00
	Senior secured loan (\$1,854,450 par due 8/2011)	9.15% (Libor + 3.50%/Q)	3/16/07	1,854,450	1,854,450	\$	1.00(3)
	Senior secured loan (\$3,575,000 par due 8/2011)	11.65% (Libor + 6.00%/Q)	3/16/07	3,575,000	3,575,000	\$	1.00
	Senior secured loan (\$35,814 par due 8/2011)	11.65% (Libor + 6.00%/Q)	3/16/07	35,814	35,814	\$	1.00
	Common stock (552,430 shares)		3/16/07	872,286	599,994	\$	1.09(5)
	NBA Acquisition, LLC operator	Senior secured loan (\$4,066,667 par due 8/2012)	8.61% (Libor + 3.25%/Q)	8/28/06	4,066,667	4,066,667	\$
Senior secured loan (\$133,333 par due 8/2012)		9.07% (Libor + 3.25%/M)	8/28/06	133,333	133,333	\$	1.00
Senior secured loan (\$145,057 par due 8/2012)		9.75% (Base Rate + 2.00%/D)	8/28/06	145,057	145,057	\$	1.00
Junior secured loan (\$2,000,000 par due 2/2013)		11.95% (Libor + 6.75%/Q)	8/23/06	2,000,000	2,000,000	\$	1.00
Junior secured loan (\$12,000,000 par due 2/2013)		11.95% (Libor + 6.75%/Q)	8/23/06	12,000,000	12,000,000	\$	1.00(3)
Common units (1,709 shares)			8/23/06	1,000,000	1,000,000	\$	585.14(5)
				111,054,943	107,796,719		9.44%
<b>Consumer Products Non-Durable</b>							
Ball Entertainment Inc.	Senior secured loan (\$5,937,500 par due 1/2012)	9.86% (Libor + 4.50%/Q)	1/24/07	5,937,500	5,937,500	\$	1.00(3)
	Senior secured loan (\$5,000,000 par due 1/2012)	9.86% (Libor + 4.50%/Q)	1/24/07	5,000,000	5,000,000	\$	1.00(3)
Infocision Brands and LLC personal care manufacturer	Senior Secured Loan (\$12,902,500 par due 9/2011)	11.13%	10/12/06	12,902,500	12,902,500	\$	1.00
	Senior Secured Loan (\$11,910,000 par due 9/2011)	11.13%	10/12/06	11,910,000	11,910,000	\$	1.00(3)
M&M's Manufactured Whirlpools Inc.(a) manufacturer	Senior secured loan (\$7,283,333 par due 3/2011)	10.25% (Base Rate + 2.50%/D)	5/5/05	7,283,333	7,283,333	\$	1.00(3)

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	Senior subordinated loan (\$10,465,650 par due 5/2012)	12.00% cash, 4.00% PIK	5/5/05	10,465,650	10,465,650	\$	1.00(2)(4)
	Preferred stock (3,759 shares)		5/5/05	3,758,800	1,320,000	\$	351.16(5)
Shareholder for footwear and credit-related LLCs	Senior secured loan (\$1,113,688 par due 7/2010)	8.63% (Libor + 3.25%/S)	10/8/04	1,120,241	1,120,241	\$	1.01(3)

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	Senior secured revolving loan (\$3,333,333 par due 7/2010)	9.75% (Base Rate + 2.00%/D)	6/16/06	3,333,333	3,333,333	\$	1.00
The Cosmetic Products LLC (the manufacturer)	Preferred units (6,850 units)	8.00% PIK	6/21/07	7,047,585	7,047,585	\$	1,028.84(4)
	Common units (6,850 units)		6/21/07			\$	(5)
Woolworth Manufacturer Apparel, LLC	Senior subordinated notes (\$22,557,500 par due 4/2013)	12.60% cash, 1.00% PIK	4/2/07	22,557,500	22,557,500	\$	1.00(2)(4)
	Common stock (10,000 shares)		4/2/07	10,000,000	7,000,000		700.00(5)
				101,316,442	95,877,642		8.40%
<b>Manufacturing</b>							
Artesian Group Industries, Inc. (the manufacturer)	Senior secured loan (\$5,616,000 par due 4/2010)	10.35% (Libor + 5.00%/M)	3/28/05	5,650,203	5,616,000	\$	1.00(3)
Enrichment and Performance Materials LLC (the manufacturer)	Senior secured loan (\$10,164,115 par due 5/2011)	10.07% (Libor + 4.25%/M)	5/16/06	10,164,115	10,164,115	\$	1.00(3)
	Senior secured loan (\$3,728,092 par due 5/2011)	11.82% (Libor + 6.00%/M)	5/16/06	3,728,091	3,728,092	\$	1.00
	Senior secured loan (\$1,522,742 par due 5/2011)	11.82% (Libor + 6.00%/M)	5/16/06	1,522,742	1,522,742	\$	1.00(3)
	Senior secured loan (\$4,344,014 par due 5/2011)	10.00% cash, 3.00% PIK	5/16/06	4,354,874	4,354,874	\$	1.00(4)
Professional Paint Manufacturer Inc.	Junior secured loan (\$1,000,000 par due 5/2013)	11.88% (Libor + 6.25%/B)	5/25/06	1,000,000	1,000,000	\$	1.00(3)
Quality Automotive Incaftermarket components supplier	Senior secured loan (\$1,778,980 par due 12/2011)	9.45% (Libor + 4.25%/Q)	12/29/04	1,778,980	1,778,980	\$	1.00(3)
	Junior secured loan (\$5,000,000 par due 6/2012)	12.45% (Libor + 7.25%/Q)	12/29/04	5,000,000	5,000,000	\$	1.00(3)
Redeveloper and Contractor (the manufacturer) of high-visibility reflective products	Common Stock (1,821,860 shares)		3/28/06	27,435,318	34,615,340	\$	19.00(5)
Saw Precision Mid Components PC Manufacturer Partners LLC	Common units (1,000 shares)		2/2/07	1,000,000	1,000,000		1,000.00(5)
Universal and Specialty Computer (the manufacturer)	Common stock (50,000 shares)		10/8/04	6,424,645	1,523,375	\$	30.47(4)
	Warrants to purchase 22,208 shares		10/8/04	1,505,776	676,622	\$	30.47(5)
Value bit Holdings Inc. (the manufacturer)	Common stock (30,451 shares)		5/18/05	3,045	4,000,001	\$	131.36(5)
				69,567,789	74,980,141		6.57%

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**Restaurants**

ADF Restaurant Capitaler and Inoperator & ADF Restaurant Group, LLC	Senior secured revolving loan (\$2,000,000 par due 11/2013)	8.38% (Libor + 3.00%/S)	11/27/06	2,000,000	2,000,000 \$	1.00
	Senior secured revolving loan (\$1,236,726 par due 11/2013)	9.75% (Base Rate + 2.00%/D)	11/27/06	1,236,726	1,236,726 \$	1.00

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	Senior secured loan (\$49,511 par due 11/2012)	14.25% (Base Rate + 6.50%/D)	11/27/06	49,511	49,511	\$	1.00
	Senior secured loan (\$2,500 par due 11/2012)	14.25% (Base Rate + 6.50%/D)	11/27/06	2,500	2,500	\$	1.00(2)
	Senior secured loan (\$35,489 par due 11/2012)	14.25% (Base Rate + 6.50%/D)	11/27/06	35,489	35,489	\$	1.00(3)
	Senior secured loan (\$19,606,317 par due 11/2012)	12.88% (Libor + 7.50%/S)	11/27/06	19,606,317	19,606,317	\$	1.00
	Senior secured loan (\$990,000 par due 11/2012)	12.88% (Libor + 7.50%/S)	11/27/06	990,000	990,000	\$	1.00(2)
	Senior secured loan (\$14,053,683 par due 11/2012)	12.88% (Libor + 7.50%/S)	11/27/06	14,053,683	14,053,683	\$	1.00(3)
	Promissory note (\$10,463,601 par due 11/2016)	10.00% PIK	6/1/06	10,451,801	10,463,601	\$	1.00(4)(5)
	Warrants to purchase 0.61 shares		6/1/06			\$	(5)
Restaurant Restaurants Inc.	Junior secured loan (\$24,000,000 par due 8/2013)	7.50% Cash, 3.50% PIK	8/16/06	24,142,333	24,142,333	\$	1.00(4)
Inc.	Junior secured loan (\$1,000,000 par due 8/2013)	7.50% Cash, 3.50% PIK	8/16/06	1,005,931	1,005,931	\$	1.00(3)(4)
				73,574,291	73,586,091		6.45%
<b>Environmental Services</b>							
Water LLC treatment services	Junior secured loan (\$1,604,000 par due 12/2012)	13.43% (Libor + 8.50%/A)	12/23/05	1,604,044	1,604,044	\$	1.00
	Junior secured loan (\$12,030,333 par due 12/2012)	13.43% (Libor + 8.50%/A)	12/23/05	12,030,333	12,030,333	\$	1.00(3)
Engineering Inc.	Common stock (16 shares)		11/3/04		334	\$	20.86(5)
	Common stock (5,556 shares)		11/3/04		115,444	\$	20.78(5)
Waste Management USA Inc.	Senior subordinated loan (\$25,000,000 par due 11/2013)	11.50%	11/9/06	25,000,000	25,000,000	\$	1.00(2)
	Preferred stock (15,000 shares)	10.00% PIK	11/9/06	15,000,000	15,000,000	\$	1,000.00(4)
	Warrants to purchase 882,671 shares		11/9/06		3,999,999	\$	4.53(5)
Waste Inc.	Senior subordinated loan (\$12,602,083 par due 2/2015)	12.00%	2/5/07	12,602,083	12,602,084	\$	1.00
	Common stock (13,889 shares)		2/2/07	1,388,889	1,388,889	\$	100.00(5)
				67,625,349	71,741,127		6.29%
<b>Containers Packaging</b>							
Plastics Plastic Inc.	Junior secured loan (\$15,500,000 par due 2/2012)	12.61% (Libor + 7.25%/Q)	12/19/05	15,500,000	15,500,000	\$	1.00
			12/19/05	12,000,000	12,000,000	\$	1.00(3)

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Junior secured loan	12.61%
(\$12,000,000 par due	(Libor +
2/2012)	7.25%/Q)

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Industrial Container Services LLC (8) Conditioner and servicer	Senior secured loan (\$9,875,000 par due 9/2011)	9.15% (Libor + 4.00%/M)	9/30/05	9,875,000	9,875,000	\$	1.00
	Senior secured loan (\$12,036,488 par due 9/2011)	9.15% (Libor + 4.00%/M)	6/21/06	12,036,488	12,036,488	\$	1.00
	Senior secured loan (\$992,405 par due 9/2011)	9.15% (Libor + 4.00%/M)	6/21/06	992,405	992,405	\$	1.00(2)
	Senior secured loan (\$15,199,368 par due 9/2011)	9.15% (Libor + 4.00%/M)	6/21/06	15,199,368	15,199,368	\$	1.00(3)
	Common stock (1,800,000 shares)		9/29/05	1,800,000	3,499,992	\$	1.94(5)
				<u>67,403,261</u>	<u>69,103,253</u>		6.05%
<b>Business Services</b>							
Financial Group Services, LLC (16)	Senior secured loan (\$1,000,000 par due 6/2011)	12.00%	6/22/06	1,000,000	1,000,000	\$	1.00(3)
	Limited liability company membership interest (10.00% interest)		6/22/06				(5)
Sales and Marketing Services Inc.	Senior secured loan (\$2,062,523 par due 6/2010)	8.38% (Libor + 3.25%/M)	6/20/05	2,062,523	2,062,523	\$	1.00(3)
	Senior secured loan (\$3,987,000 par due 6/2012)	8.95% (Libor + 3.75%/Q)	6/20/05	3,987,000	3,987,000	\$	1.00(3)
Bankruptcy Recovery Holdings LLC (10) Processing services	Senior subordinated note (\$29,374,140 par due 2/2014)	11.50% Cash, 2.00% PIK	2/8/07	29,374,140	29,374,140	\$	1.00(2)(4)
	Preferred stock (30,000 shares)		4/11/06	3,000,000	4,500,000	\$	150.00(5)
Database Marketing Group Inc. and Primis Holdings, LLC (12)	Senior subordinated note (\$10,222,345 par due 2/2013)	11.00% Cash, 2.50% PIK	8/24/06	10,222,345	8,586,770	\$	0.84(2)(4)
	Preferred units (4,000 shares)		8/24/06	3,600,000		\$	(5)
	Common units (4,000,000 shares)		8/24/06	400,000		\$	(5)
Advertising Acquisition Corp.	Senior secured loan (\$1,995,000 par due 5/2013)	10.01% (Libor +4.50%/Q)	5/29/07	1,995,000	1,995,000	\$	1.00
	Senior secured loan (\$5,000 par due 5/2013)	11.50% (Base Rate + 3.25%/D)	5/29/07	5,000	5,000	\$	1.00
	Common Stock (250,000 shares)		5/29/07	250,000	250,000	\$	1.00(5)
Business Media LLC (1)	Junior secured loan (\$10,000,000 par due 11/2013)	12.13% (Libor + 7.00%/M)	8/3/07	10,000,000	10,000,000	\$	1.00(3)
				<u>65,896,008</u>	<u>61,760,433</u>		5.41%

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**Beverage, Food and Tobacco**

Baked goods Manufacturer Corporation	Junior secured loan (\$26,170,754 par due 6/2013)	17.57% (Libor + 12.00%/M)	12/14/06	26,170,754	26,170,749	\$	1.00(2)
	Junior secured loan (\$11,744,368 par due 6/2013)	17.57% (Libor + 12.00%/M)	12/14/06	11,744,368	11,744,368	\$	1.00(3)
Baked goods Manufacturer Company, Inc.	Preferred stock (6,258 shares)		9/1/06	2,500,000	2,500,000	\$	399.49(4)



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Family & candy Sweets Candy Company, Inc.	Junior secured loan (\$10,000,000 par due 3/2011)	11.38% (Libor + 6.00%/S)	3/23/06	10,000,000	10,000,000	\$	1.00(3)
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50,415,122      50,415,117      4.42%

**Computers and Electronics**

ReSoft Computer manufacturer	Junior secured loan (\$6,500,000 par due 1/2013)	11.86% (Libor + 6.50%/Q)	7/13/06	6,500,000	6,500,000	\$	1.00
	Junior secured loan (\$12,000,000 par due 1/2013)	11.86% (Libor + 6.50%/Q)	7/13/06	12,000,000	12,000,000	\$	1.00(3)
X-Act Incorporated manufacturer	Junior secured loan (\$10,000,000 par due 7/2013)	10.72% (Libor + 5.00%/M)	7/6/06	10,000,000	10,100,000	\$	1.01(3)

28,500,000      28,600,000      2.51%

**Grocery**

Planet Organic Health Corp.(18)	Senior secured loan (\$7,000,000 par due 7/2014)	10.86% (Libor + 5.50%/Q)	7/3/07	7,000,000	7,000,000	\$	1.00
	Senior secured loan (\$10,500,000 par due 7/2014)	10.86% (Libor + 5.50%/Q)	7/3/07	10,500,000	10,500,000	\$	1.00(3)
	Senior subordinated note (\$9,044,000 par due 7/2012)	11.00% Cash, 2.00% PIK	7/3/07	9,044,000	9,044,000	\$	1.00(4)

26,544,000      26,544,000      2.33%

**Aerospace & Defense**

IL Industrial Industries In provider	Junior secured loan (\$12,000,000 par due 8/2012)	11.50%	6/27/06	12,000,000	12,000,000	\$	1.00(3)
	Junior secured loan (\$3,000,000 par due 8/2012)	11.50%	6/27/06	3,000,000	3,000,000	\$	1.00
Thermal Solutions LLC and electronics TS packaging Group manufacturer Inc.	Senior secured loan (\$2,805,371 par due 3/2012)	9.45% (Libor + 4.25%/Q)	3/28/05	2,805,370	2,760,485	\$	0.98(3)
	Senior secured loan (\$1,251,085 par due 3/2011)	8.95% (Libor + 3.75%/Q)	3/28/05	1,251,085	1,232,319	\$	0.99(3)
	Senior subordinated notes (\$3,212,652 par due 9/2012)	11.50% cash, 2.75% PIK	3/28/05	3,229,924	3,161,485	\$	0.98(2)(4)
	Senior subordinated notes (\$2,596,839 par due 3/2013)	11.50% cash, 2.50% PIK	3/21/06	2,597,020	2,500,937	\$	0.96(2)(4)
	Preferred stock (53,900 shares)		3/28/05	539,000	522,399	\$	9.69(5)
	Common stock (1,100,000 shares)		3/28/05	11,000	10,670	\$	0.01(5)

25,433,399      25,188,295      2.21%

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**Broadcasting and Cable**

Papaya Television Telecommunications Incorporated	Senior secured loan (\$8,015,843 par due 2/2010)	15.04% (Libor + 4.66% cash, 5.00% PIK/Q)	3/1/06	8,019,183	7,698,550 \$	0.96(4)
	Senior secured loan (\$11,532,284 par due 2/2010)	15.04% (Libor + 4.66% cash, 5.00% PIK/Q)	3/1/06	11,537,089	11,075,798 \$	0.96(4)(3)
	Senior secured loan (\$759,477 par due 2/2010)	14.38% (Libor + 4.00% cash, 5.00% PIK/Q)	3/1/06	759,784	729,404 \$	0.96(4)

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	Senior secured loan (\$1,092,648 par due 2/2010)	14.38% (Libor + 4.00% cash, 5.00% PIK/Q)	3/1/06	1,093,103	1,049,398	\$	0.96(4)(3)
				21,409,159	20,553,150		1.80%
<b>Cargo Transport</b>							
ThFuel Ken Ad Group, Inc.	Senior subordinated notes (\$9,437,783 par due 12/2013)	9.50% cash, 3.50% PIK	12/15/05	9,437,783	9,437,783	\$	1.00(2)(4)
	Senior secured loan (\$2,456,271 par due 12/2011)	8.20% (Libor + 3.00%/Q)	12/15/05	2,456,271	2,456,271	\$	1.00(3)
	Preferred stock (10,984 shares)		12/15/05	1,098,400	1,098,400	\$	100.00(5)
	Common stock (30,575 shares)		12/15/05	30,575	30,575	\$	1.00(5)
				13,023,029	13,023,029		1.14%
<b>Housing Building Materials</b>							
HS Building Products Manufacturer	Senior subordinated loan (\$8,784,979 par due 3/2011)	13.00% cash, 3.00% PIK	10/8/04	8,806,081	8,817,576	\$	1.00(2)(4)
	Common stock (2,743 shares)		10/8/04	752,888	752,888	\$	274.48(5)
	Warrants to purchase (4,464 shares)		10/8/04	652,503	652,503	\$	146.17(5)
				10,211,472	10,222,967		0.90%
<b>Consumer Products Durable</b>							
Be Holdings LLC	Senior subordinated Promissory note (\$1,000,000 par due 11/2012)		5/9/07	505,089	505,090	\$	0.10(5)
				505,089	505,090		0.04%
Total				\$ 1,616,635,547	\$ 1,615,572,779		

- (1) Other than our investments in Equinox EIC Partners LLC, The Thymes, LLC and Reflexite Corporation, we do not "Control" any of our portfolio companies, as defined in the Investment Company Act of 1940 (the "1940 Act"). In general, under the 1940 Act, we would "Control" a portfolio company if we owned 25% or more of its voting securities. All of our portfolio company investments are subject to legal restriction on sales which as of September 30, 2007 represented 141% of the Company's net assets.
- (2) Pledged as collateral for the CP Funding Facility and unless otherwise noted, all other investments are pledged as collateral for the Revolving Credit Facility (see Note 7 to the consolidated financial statements).
- (3) Pledged as collateral for the ARCC CLO and unless otherwise noted, all other investments are pledged as collateral for the Revolving Credit Facility (see Note 7 to the consolidated financial statements).
- (4) Has a payment-in-kind interest feature (see Note 2 to the consolidated financial statements).
- (5)

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Non-income producing at September 30, 2007.

- (6) As defined in the 1940 Act, we are an "Affiliate" of this portfolio company because we own more than 5% of the portfolio company's outstanding voting securities. For the nine months ended September 30, 2007, for this portfolio company there was total unrealized depreciation of (\$5,730,424).
- (7) As defined in the 1940 Act, we are an "Affiliate" of this portfolio company because we own more than 5% of the portfolio company's outstanding voting securities. For the nine months ended September 30, 2007, for this portfolio company there were total redemptions of \$475,000 (cost), interest income of \$1,780,797 and other income of \$421.
- (8) As defined in the 1940 Act, we are an "Affiliate" of this portfolio company because we own more than 5% of the portfolio company's outstanding voting securities. For the nine months ended September 30, 2007, for this portfolio company there were total purchases of \$3,676,087, redemptions of \$9,419,293 (cost), interest income of \$2,897,625, other income of \$112,931 and net unrealized appreciation of \$1,699,992.
- (9) As defined in the 1940 Act, we are an "Affiliate" of this portfolio company because we own more than 5% of the portfolio company's outstanding voting securities. In addition, as defined in the 1940 Act, we "Control" this portfolio company because we own more than 25% of the portfolio company's outstanding voting securities. For the nine months ended September 30, 2007, for this portfolio company there were total purchases of \$80,988,503, sales of \$4,000,000, redemptions of \$20,532,342 (cost), interest income of \$1,744,243, capital structuring service fees of \$2,734,231, other income of \$19,162 and net realized gain of \$3,488,289.

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- (10) As defined in the 1940 Act, we are an "Affiliate" of this portfolio company because we own more than 5% of the portfolio company's outstanding securities. In addition, as defined in the 1940 Act, we "Control" this portfolio company because we own more than 25% of the portfolio company's outstanding voting securities. For the nine months ended September 30, 2007, there were total purchases of \$1,752,427, redemptions of \$10,682,338, interest income of \$451,518, dividend income of \$121,074, net realized gains of \$320,470 and net unrealized appreciation of \$7,410,493.
- (11) As defined in the 1940 Act, we are an "Affiliate" of this portfolio company because we own more than 5% of the portfolio company's outstanding voting securities. For the nine months ended September 30, 2007, there were total purchases of \$29,988,503, redemptions of \$2,499,999 (cost), interest income of \$2,468,346 and net unrealized appreciation of \$2,987,650.
- (12) As defined in the 1940 Act, we are an "Affiliate" of this portfolio company because we own more than 5% of the portfolio company's outstanding voting securities. For the nine months ended September 30, 2007, there was total interest income of \$860,848 and unrealized loss of (\$5,635,575).
- (13) As defined in the 1940 Act, we are an "Affiliate" of this portfolio company because we own more than 5% of the portfolio company's outstanding voting securities. For the nine months ended September 30, 2007, there was total dividend income of \$891,590 and unrealized depreciation of (\$1,289,960).
- (14) As defined in the 1940 Act, we are an "Affiliate" of this portfolio company because we own more than 5% of the portfolio company's outstanding voting securities. For the nine months ended September 30, 2007, there were total purchases of \$40,000,000, interest income of \$3,313,824, capital structuring service fees of \$37,500 and other income of \$562,500.
- (15) As defined in the 1940 Act, we are an "Affiliate" of this portfolio company because we own more than 5% of the portfolio company's outstanding voting securities. For the nine months ended September 30, 2007, there were total purchases of \$135,930,000, sales of \$62,500,000, capital structuring service fees of \$2,597,500, interest income of \$1,804,982 and other income of \$68,021.
- (16) As defined in the 1940 Act, we are an "Affiliate" of this portfolio company because we own more than 5% of the portfolio company's outstanding voting securities. For the nine months ended September 30, 2007, there were total purchases of \$400,000, redemptions of \$1,400,000, interest income of \$188,760 and other income of \$18,626.
- (17) As defined in the 1940 Act, we are an "Affiliate" of this portfolio company because we own more than 5% of the portfolio company's outstanding voting securities. In addition, as defined in the 1940 Act, we "Control" this portfolio company because we own more than 25% of the portfolio company's outstanding voting securities. For the nine months ended September 30, 2007, there were total purchases of \$6,925,000, sales of \$75,000, capital structuring service fees of \$165,000 and interest income of \$197,444.
- (18) Non-U.S. company or principal place of business outside the U.S.
- (19) Non-registered investment company.
- (20) A majority of the variable rate loans to our portfolio companies bear interest at a rate that may be determined by reference to either Libor or an alternate Base Rate (commonly based on the Federal Funds Rate or the Prime Rate), at the borrower's option, which reset annually (A), semi-annually (S), quarterly (Q), bi-monthly (B), monthly (M) or daily (D). For each such loan, we have provided the current interest rate in effect at September 30, 2007.
- (21) In addition to the interest earned based on the stated interest rate of this security, we are entitled to receive an additional interest amount of 2.50% on \$24,166,667 aggregate principal amount of the portfolio company's senior term debt previously syndicated by us.

See accompanying notes to consolidated financial statements.

**ARES CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF OPERATIONS**

	For the Three Months Ended September 30, 2007	For the Three Months Ended September 30, 2006	For the Nine Months Ended September 30, 2007	For the Nine Months Ended September 30, 2006
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>INVESTMENT INCOME:</b>				
From non-control/non-affiliate company investments:				
Interest from investments	\$ 35,827,080	\$ 22,894,133	\$ 99,972,569	\$ 58,682,492
Capital structuring service fees	578,147	3,888,145	6,845,104	10,304,843
Interest from cash & cash equivalents	790,522	938,670	2,282,478	1,369,847
Dividend income	634,816		1,384,816	1,170,000
Other income	218,131	154,962	724,812	441,972
	<hr/>	<hr/>	<hr/>	<hr/>
Total investment income from non-control/non-affiliate company investments	38,048,696	27,875,910	111,209,779	71,969,154
From non-control affiliated company investments:				
Interest from investments	5,669,413	3,611,098	13,315,182	8,848,228
Capital structuring service fees		200,000	2,635,000	1,383,810
Dividend income	388,885	121,074	891,590	121,074
Other income	228,490	23,712	762,500	190,584
	<hr/>	<hr/>	<hr/>	<hr/>
Total investment income from non-control affiliated company investments	6,286,788	3,955,884	17,604,272	10,543,696
From control affiliated company investments:				
Interest from investments	1,355,340		3,181,102	
Capital structuring service fees	2,107,231		2,899,231	
Dividend income	121,074		121,074	
Other income	12,305		29,918	
	<hr/>	<hr/>	<hr/>	<hr/>
Total investment income from control affiliated company investments	3,595,950		6,231,325	
	<hr/>	<hr/>	<hr/>	<hr/>
Total investment income	47,931,434	31,831,794	135,045,376	82,512,850
	<hr/>	<hr/>	<hr/>	<hr/>
<b>EXPENSES:</b>				
Interest and credit facility fees	9,352,757	4,901,647	25,466,645	11,405,010
Base management fees	6,158,583	3,660,997	17,062,254	9,311,853
Incentive management fees	5,966,011	4,464,141	16,949,183	14,327,424
Professional fees	1,039,619	618,059	3,529,025	1,766,147
Insurance	270,180	205,670	801,035	592,202
Administrative	291,000	201,763	736,357	567,787
Depreciation	103,425	99,595	306,903	148,896
Directors fees	64,750	52,750	192,750	189,919
Interest to the Investment Adviser				25,879
Other	855,059	552,221	2,268,655	937,837
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	24,101,384	14,756,843	67,312,807	39,272,954
NET INVESTMENT INCOME BEFORE INCOME TAXES	23,830,050	17,074,951	67,732,569	43,239,896
	<hr/>	<hr/>	<hr/>	<hr/>
Income tax expense (benefit), including excise tax	(78,788)	(253,044)	(112,069)	4,927,471
	<hr/>	<hr/>	<hr/>	<hr/>
NET INVESTMENT INCOME	23,908,838	17,327,995	67,844,638	38,312,425
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	For the Three Months Ended September 30, 2007	For the Three Months Ended September 30, 2006	For the Nine Months Ended September 30, 2007	For the Nine Months Ended September 30, 2006
<b>REALIZED AND UNREALIZED NET GAINS ON INVESTMENTS:</b>				
Net realized gains (losses):				
Net realized gains from non-control/non-affiliate company investments	7,398,059	1,611,935	(446,199)	26,055,526
Net realized gains from non-control affiliated company investments				47,283
Net realized gains from control affiliated company investments	3,488,289		3,808,759	
	<u>10,886,348</u>	<u>1,611,935</u>	<u>3,362,560</u>	<u>26,102,809</u>
Net unrealized gains (losses):				
Net unrealized gains (losses) from non-control/non-affiliate company investments	(2,852,640)	(2,302,632)	9,431,260	(14,797,305)
Net unrealized gains (losses) from non-control affiliated company investments	(9,018,072)	1,503,824	(7,968,317)	(941,094)
Net unrealized gains from control affiliated company investments			7,410,493	
	<u>(11,870,712)</u>	<u>(798,808)</u>	<u>8,873,436</u>	<u>(15,738,399)</u>
Net realized and unrealized gains (losses) from investments	<u>(984,364)</u>	<u>813,127</u>	<u>12,235,996</u>	<u>10,364,410</u>
<b>NET INCREASE IN STOCKHOLDERS' EQUITY RESULTING FROM OPERATIONS</b>	<u>\$ 22,924,474</u>	<u>\$ 18,141,122</u>	<u>\$ 80,080,634</u>	<u>\$ 48,676,835</u>
<b>BASIC AND DILUTED EARNINGS PER COMMON SHARE (see Note 4)</b>	<u>\$ 0.32</u>	<u>\$ 0.39</u>	<u>\$ 1.25</u>	<u>\$ 1.19</u>
<b>WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING (see Note 4)</b>	<u>70,712,458</u>	<u>46,880,245</u>	<u>64,296,949</u>	<u>41,018,821</u>

See accompanying notes to consolidated financial statements.

**ARES CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
**For the Nine Months Ended September 30, 2007 (unaudited)**

	<u>Common Stock</u>		<u>Capital in Excess of Par Value</u>	<u>Accumulated Undistributed Net Investment Income</u>	<u>Accumulated Net Realized Gains on Sale of Investments</u>	<u>Net Unrealized Appreciation (Depreciation) on Investments</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>					
Balance at December 31, 2006	52,036,527	\$ 52,037	\$ 785,192,573	\$ 7,038,469	\$ 7,086,529	\$ (9,936,204)	\$ 789,433,404
Shares issued in connection with dividend reinvestment plan	685,985	685	11,612,851				11,613,536
Issuance of common stock from add-on offerings (net of offering and underwriting costs)	19,961,578	19,961	344,145,811				344,165,772
Net increase in stockholders' equity resulting from operations				67,844,638	3,362,560	8,873,436	80,080,634
Dividend declared (\$1.24 per share)				(74,883,107)	(6,084,822)		(80,967,929)
Balance at September 30, 2007	72,684,090	\$ 72,683	\$ 1,140,951,235	\$	\$ 4,364,267	\$ (1,062,768)	\$ 1,144,325,417

See accompanying notes to consolidated financial statements.



**ARES CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
**For the Nine Months Ended September 30, 2006 (unaudited)**

	<u>Common Stock</u>		<u>Capital in Excess of Par Value</u>	<u>Accumulated Undistributed Net Investment Income</u>	<u>Accumulated Net Realized Gains on Sale of Investments</u>	<u>Net Unrealized Appreciation (Depreciation) on Investments</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>					
Balance at January 1, 2006	37,909,484	\$ 37,910	\$ 559,192,554	\$	\$ 5,765,225	\$ 4,616,510	\$ 569,612,199
Issuance of common stock from add-on offering (net of offering and underwriting costs)	10,781,250	10,781	161,991,734				162,002,515
Shares issued in connection with dividend reinvestment plan	400,461	401	6,736,272				6,736,673
Net increase in stockholders' equity resulting from operations				38,312,425	26,102,809	(15,738,399)	48,676,835
Dividend declared (\$1.14 per share)				(38,312,425)	(9,446,927)		(47,759,352)
Balance at September 30, 2006	49,091,195	\$ 49,092	\$ 727,920,560	\$	\$ 22,421,107	\$ (11,121,889)	\$ 739,268,870

See accompanying notes to consolidated financial statements.

**ARES CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

	For the Nine Months Ended September 30, 2007	For the Nine Months Ended September 30, 2006
	(unaudited)	(unaudited)
<b>OPERATING ACTIVITIES:</b>		
Net increase in stockholders' equity resulting from operations	\$ 80,080,634	\$ 48,676,835
Adjustments to reconcile net increase in stockholders' equity resulting from operations:		
Net realized gains from investment transactions	(3,362,560)	(26,102,809)
Net unrealized (gains) losses from investment transactions	(8,873,436)	15,738,399
Net accretion of discount on securities	(897,013)	(395,114)
Increase in accrued payment-in-kind dividends and interest	(10,015,029)	(4,373,346)
Amortization of debt issuance costs	1,533,493	1,317,329
Depreciation	306,903	148,896
Proceeds from sale and redemption of investments	466,369,282	306,852,077
Purchases of investments	(882,088,289)	(744,333,358)
Changes in operating assets and liabilities:		
Interest receivable	(7,306,941)	(5,103,382)
Other assets	(600,224)	(7,162,818)
Accounts payable and accrued expenses	1,455,969	1,011,618
Management and incentive fees payable	(360,421)	7,503,566
Interest and facility fees payable	859,992	3,757,369
Interest payable to the Investment Adviser		(154,078)
	<u>(362,897,640)</u>	<u>(402,618,816)</u>
<b>Net cash used in operating activities</b>		
<b>FINANCING ACTIVITIES:</b>		
Net proceeds from issuance of common stock	344,165,772	162,002,515
Borrowings on debt	405,500,000	740,200,000
Repayments on debt	(360,000,000)	(392,200,000)
Credit facility financing costs	(245,000)	
Underwriting costs payable to the Investment Adviser		(2,475,000)
Dividends paid in cash	(69,354,393)	(53,911,904)
	<u>320,066,379</u>	<u>453,615,611</u>
<b>Net cash provided by financing activities</b>		
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(42,831,261)</b>	<b>50,996,795</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>91,538,878</b>	<b>16,613,334</b>
	<u>91,538,878</u>	<u>16,613,334</u>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 48,707,617</b>	<b>\$ 67,610,129</b>
	<u>\$ 48,707,617</u>	<u>\$ 67,610,129</u>
<b>Supplemental Information:</b>		
Interest paid during the period	\$ 22,614,775	\$ 5,933,911
Taxes paid during the period	\$ 606,723	\$ 3,260,589
Dividends declared during the period	\$ 80,967,929	\$ 47,759,352

See accompanying notes to consolidated financial statements.

**ARES CAPITAL CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**As of September 30, 2007**

**1. ORGANIZATION**

Ares Capital Corporation (the "Company" or "ARCC" or "we") is a specialty finance company that is a closed-end, non-diversified management investment company incorporated in Maryland that is regulated as a business development company under the Investment Company Act of 1940 (the "1940 Act"). We were incorporated on April 16, 2004 and initially funded on June 23, 2004. On October 8, 2004, we completed our initial public offering (the "IPO"). On the same date, we commenced substantial investment operations.

The Company has qualified and has elected to be treated for tax purposes as a regulated investment company, or a "RIC", under the Internal Revenue Code of 1986, as amended (the "Code"). The Company expects to continue to qualify to be treated for tax purposes as a RIC. 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, and, to a lesser extent, in equity investments in private U.S. middle market companies.

We are externally managed by Ares Capital Management LLC (the "Investment Adviser"), an affiliate of Ares Management LLC ("Ares Management"), an independent international firm that manages investment funds. Ares Operations LLC ("Ares Administration"), an affiliate of Ares Management, provides the administrative services necessary for us to operate pursuant to an amended and restated administration agreement (the "Administration Agreement").

Interim financial statements are prepared in accordance with generally accepted accounting principles in the United States ("GAAP") for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain disclosures accompanying financial statements prepared in accordance with GAAP are omitted. In the opinion of management, all adjustments, consisting solely of normal recurring accruals, considered necessary for the fair presentation of financial statements for the interim period, have been included. The current period's results of operations will not necessarily be indicative of results that ultimately may be achieved for the fiscal year ending December 31, 2007.

**2. SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Presentation*

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

*Cash and Cash Equivalents*

Cash and cash equivalents include 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. Investments for which market quotations are readily available are valued at such market quotations. Debt and equity securities that are not publicly traded or whose market price is not readily available are valued at fair value as determined in good faith by our board of directors based on the input of our management and audit committee. In addition, the board of directors currently receives input from independent valuation firms that have been engaged at the direction of the board to assist in the valuation of each portfolio investment at least once during a trailing 12 month period. The valuation process is conducted at the end of each fiscal quarter, with approximately a quarter of our valuations of portfolio companies without market quotations subject to review by an independent valuation firm each quarter. The types of factors that the board may take into account in determining the fair value of our investments include, as relevant, the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly traded securities and other relevant factors.

When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we use the pricing indicated by the external event to corroborate our valuation. Because there is not a readily available market value for most of the investments in our portfolio, we value substantially all of our portfolio investments at fair value as determined in good faith by our board under a valuation policy and a consistently applied valuation process. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may 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.

With respect to investments for which market quotations are not readily available, our board of directors undertakes a multi-step valuation process each quarter, as described below:

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

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

The audit committee of our board of directors reviews these preliminary valuations, as well as the input of an independent valuation firm with respect to the valuations of approximately a quarter of our portfolio companies.

The board of directors discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of our management and audit committee and independent valuation firms.

***Interest Income Recognition***

Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis. Discounts and premiums on securities purchased are accreted/amortized 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.

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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. 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. 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. As of September 30, 2007, \$10,222,345 aggregate principal amount of loans were placed on non-accrual status. As of December 31, 2006, \$5,000,000 aggregate principal amount of loans were placed on non-accrual status.

### *Payment in Kind Interest*

The Company has loans in its portfolio that contain a payment-in-kind ("PIK") provision. The PIK interest, computed at the contractual rate specified in each loan agreement, is added to the principal balance of the loan and recorded as interest income. To maintain the Company's status as a RIC, this non-cash source of income must be paid out to stockholders in the form of dividends even though the Company has not yet collected the cash. For the three and nine months ended September 30, 2007, \$4,281,447 and \$10,015,029 in PIK income was recorded. For the three and nine months ended September 30, 2006, \$1,817,565 and \$4,373,346 in PIK income was recorded.

### *Capital Structuring Service Fees*

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 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.

### *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 day.
- (2) Purchases and sales of investment securities (and related income and expenses) at the rates of exchange prevailing on the respective dates of such transactions.

Although net assets and fair values are presented based on the applicable foreign exchange rates described above, the Company does not isolate the portion of its results of operations based on changes in foreign exchange rates from the portion of its results of operations based on changes in the fair value of its investments. Such exchange rate fluctuations are included with the net realized and

unrealized gains or losses from investments. 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 fluctuations and revaluations and future adverse political, social and economic developments, which could cause investments in their markets to be less liquid and prices more volatile than those of comparable U.S. companies or U.S. government securities.

***Offering Expenses***

The Company's offering costs were charged against the proceeds from the February Add-on Offering (as defined in Note 10), the April Add-on Offering (as defined in Note 10) and the August Add-on Offering (as defined in Note 10) when received. For the nine months ended September 30, 2007, the Company incurred approximately \$864,000 of such costs.

***Debt Issuance Costs***

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

***Federal Income Taxes***

The Company has qualified and elected, and intends to continue to qualify, for the tax treatment applicable to regulated investment companies under Subchapter M of the Code and, among other things, has made and intends to continue to make the requisite distributions to its stockholders which will relieve the Company from federal income taxes. In order to qualify as a RIC, among other factors, the Company is required to timely distribute to its stockholders at least 90% of investment company taxable income, as defined by the Code, for each year.

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 an excise tax estimate, if any, on estimated excess taxable income. For the three months ended September 30, 2007, the Company recorded a benefit of approximately \$34,000 for this federal excise tax. For the nine months ended September 30, 2007 the Company recorded a benefit of approximately \$64,000 for federal excise tax. For the three and nine months ended September 30, 2006, the Company recorded a benefit of approximately \$253,000 and a provision of \$571,000 respectively for federal excise tax.

Certain of our wholly owned subsidiaries are subject to federal and state income taxes. For the three and nine months ended September 30, 2007, we recognized tax benefits of approximately \$45,000 and \$48,000, respectively, for these subsidiaries. For the three and nine months ended September 30, 2006, we recorded a tax provision of approximately \$4,244,000 and \$4,354,000, respectively, for these subsidiaries.

***Dividends***

Dividends and distributions to common stockholders are recorded on the record date. The amount to be paid out as a dividend is determined by the 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 re-investment.

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We have adopted a dividend reinvestment plan that provides for reinvestment of our distributions 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 dividends.

### *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 estimated or assumed. Significant estimates include the valuation of investments.

### *Fair Value of Financial Instruments*

The carrying value of the Company's financial instruments approximate fair value. The carrying value of interest and open trade receivables, accounts payable and accrued expenses, as well as the credit facilities payable approximate fair value due to their short maturity. As of September 30, 2007, the fair value of the CLO Notes (as defined in Note 7) was approximately \$279.1 million (carrying value was \$314.0 million). As of December 31, 2006, the fair value of the CLO Notes approximated the carrying value as the variable interest rates were considered to be at market.

### **3. AGREEMENTS**

The Company has entered into an amended and restated investment advisory and management agreement (the "Advisory Agreement") with the Investment Adviser under which the Investment Adviser, subject to the overall supervision of our board of directors, provides investment advisory services to the Company. For providing these services, the Investment Adviser receives a fee from us, consisting of two components a base management fee and an incentive fee. The base management fee is calculated at an annual rate of 1.5% of our total assets (other than cash or cash equivalents but including assets purchased with borrowed funds). The base management fee is payable quarterly in arrears. The base management fee is calculated 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 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 payment-in-kind interest, preferred stock with payment-in-kind dividends and zero coupon securities, accrued income that we have not yet received in cash. The 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 received as a result of a default by an entity on the obligation that resulted in the accrual of such income.

Pre-incentive fee net investment income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Pre-incentive fee net investment

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income, expressed as a rate of return on the value of our net assets (defined as total assets less indebtedness) at the end of the immediately preceding calendar quarter, is compared to a fixed "hurdle rate" of 2.00% per quarter.

We pay the 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 2.50% 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 2.50%) 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 2.50% 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 Advisory Agreement, as of the termination date), commencing with the calendar year ending on December 31, 2004, and is calculated at the end of each applicable year by subtracting (a) the sum of the Company's cumulative aggregate realized capital losses and aggregate unrealized capital depreciation from (b) the Company's cumulative aggregate realized capital gains, in each case calculated from October 8, 2004. If such amount is positive at the end of such year, then the Capital Gains Fee for such year is equal to 20.0% 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 the Company's 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 the Company's 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 the Company's 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 the 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 (before taking into account any incentive fees payable during that 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.

For the three and nine months ended September 30, 2007, we incurred \$6,158,583 and \$17,062,254, respectively, in base management fees and \$5,966,012 and \$16,949,183 respectively, in incentive management fees related to pre-incentive fee net investment income. For the three and nine



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months ended September 30, 2007, we accrued no incentive management fees related to net realized capital gains. As of September 30, 2007, \$12,124,595 was unpaid and included in management and incentive fees payable in the accompanying consolidated balance sheet.

For the three and nine months ended September 30, 2006, we incurred \$3,660,997 and \$9,311,853, respectively, in base management fees and \$4,358,427 and \$11,365,248, respectively, in incentive management fees related to pre-incentive fee net investment income. For the three and nine months ended September 30, 2006, we accrued \$105,714 and \$2,962,176, respectively, in incentive management fees related to net realized capital gains.

We also entered into the Administration Agreement with Ares Administration under which Ares Administration furnishes us with office, equipment and clerical, bookkeeping and record keeping services at our office facilities. Payments under the Administration Agreement are equal to an amount based upon our allocable portion of Ares Administration's overhead and other expenses incurred in performing its obligations under the Administration Agreement, including our allocable portion of the cost of certain of our officers and their respective staffs. Under the Administration Agreement, Ares Administration also performs or oversees the performance of our required administrative services, which include, among other things, being responsible for the financial records which we are required to maintain and preparing reports to our stockholders and reports filed with the SEC. In addition, Ares Administration assists us in determining and publishing the 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. Under the Administration Agreement, Ares Administration also provides on our behalf, managerial assistance to those portfolio companies to which we are required to provide such assistance. The Administration Agreement may be terminated by either party without penalty upon 60-days' written notice to the other party.

For the three and nine months ended September 30, 2007, we incurred \$291,000 and \$736,357, respectively, in administrative fees. As of September 30, 2007, \$291,000 was unpaid and included in accounts payable and accrued expenses in the accompanying consolidated balance sheet.

For the three and nine months ended September 30, 2006, we incurred \$201,763 and \$567,787, respectively, in administrative fees.

#### 4. EARNINGS PER SHARE

The following information sets forth the computation of basic and diluted net increase in stockholders' equity per share resulting from operations for the three and nine months ended September 30, 2007:

	Three months ended September 30, 2007	Nine months ended September 30, 2007
Numerator for basic and diluted net increase in stockholders' equity resulting from operations per share:	\$ 22,924,481	\$ 80,080,634
Denominator for basic and diluted net increase in stockholders' equity resulting from operations per share:	70,712,458	64,296,949
Basic and diluted net increase in stockholders' equity resulting from operations per share:	\$ 0.32	\$ 1.25

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The following information sets forth the computation of basic and diluted net increase in stockholders' equity per share resulting from operations for the three and nine months ended September 30, 2006:

	<b>Three months ended September 30, 2006</b>	<b>Nine months ended September 30, 2006</b>
Numerator for basic and diluted net increase in stockholders' equity resulting from operations per share:	\$ 18,141,122	\$ 48,676,835
Denominator for basic and diluted net increase in stockholders' equity resulting from operations per share:	46,880,245	41,018,821
Basic and diluted net increase in stockholders' equity resulting from operations per share:	\$ 0.39	\$ 1.19

### 5. INVESTMENTS

Under the 1940 Act, we are required to separately identify non-controlled investments where we own more than 5% of a portfolio company's outstanding voting securities as "affiliated companies." In addition, under the 1940 Act, we are required to separately identify investments where we own more than 25% of a portfolio company's outstanding voting securities as "control affiliated companies." We had no existing control relationship with any of the portfolio companies identified as "affiliated companies" or "control affiliated companies" prior to making the indicated investment.

For the three months ended September 30, 2007, the Company funded (A) \$75.1 million aggregate principal amount of senior term debt, (B) \$34.0 million aggregate principal amount of senior subordinated debt and (C) \$11.3 million of investments in equity securities.

In addition, for the three months ended September 30, 2007, (1) \$76.3 million aggregate principal amount of senior term debt and (2) \$10.0 million of senior notes were redeemed. Additionally, (a) \$12.5 million aggregate principal amount of senior term debt, (b) \$10.0 million aggregate principal amount of senior subordinated debt and (c) \$4.8 million of investments in equity securities were sold.

As of September 30, 2007, investments and cash and cash equivalents consisted of the following:

	<b>Amortized Cost</b>	<b>Fair Value</b>
Cash and cash equivalents	\$ 48,707,617	\$ 48,707,617
Senior term debt	1,010,545,213	1,005,544,463
Senior subordinated debt	389,248,283	387,842,496
Equity securities	216,842,051	222,185,820
	\$ 1,665,343,164	\$ 1,664,280,396

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As of December 31, 2006, investments and cash and cash equivalents consisted of the following:

	<b>Amortized Cost</b>	<b>Fair Value</b>
Cash and cash equivalents	\$ 91,538,878	\$ 91,538,878
Senior term debt	796,857,471	791,677,723
Senior notes	10,000,000	10,000,000
Senior subordinated debt	299,881,314	299,877,755
Equity securities	139,019,255	134,266,358
<b>Total</b>	<b>\$ 1,337,296,918</b>	<b>\$ 1,327,360,714</b>

The amortized cost represents the original cost adjusted for the accretion of discounts and amortization of premiums on debt using the effective interest method.

The industry and geographic compositions of our portfolio at fair value at September 30, 2007 and December 31, 2006 were as follows:

<b>Industry</b>	<b>September 30, 2007</b>	<b>December 31, 2006</b>
Health Care	20.6%	14.4%
Other Services	10.5	12.2
Education	9.4	5.1
Printing/Publishing	9.1	9.5
Financial	7.9	5.6
Retail	7.8	6.0
Consumer Products	6.0	8.0
Manufacturing	4.6	7.7
Restaurants	4.6	6.4
Environmental Services	4.4	5.4
Containers/Packaging	4.3	6.7
Beverage/Food/Tobacco	3.1	4.3
Computers/Electronics	1.8	1.8
Grocery	1.6	
Aerospace and Defense	1.6	2.1
Broadcasting/Cable	1.3	2.1
Cargo Transport	0.8	1.0
Homebuilding	0.6	0.8
Farming and Agriculture		0.9
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Geographic Region</b>	<b>September 30, 2007</b>	<b>December 31, 2006</b>
Mid-Atlantic	24.6%	29.4%
Midwest	22.7	19.2
West	21.0	21.6
Southeast	17.6	21.3
International	10.3	2.8
Northeast	3.8	5.7
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

## 6. COMMITMENTS AND CONTINGENCIES

As of September 30, 2007, the Company had committed to make a total of approximately \$243.7 million of investments in various revolving senior secured and subordinated loans. As of September 30, 2007, \$177.0 million of this committed amount was unfunded. Additionally, \$197.1 million of the \$243.7 million in commitments extend beyond the maturity date of our Revolving Credit Facility (as defined in Note 7). Included within the \$243.7 million in commitments in revolving secured and subordinated loans 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, the Company would be required to make payments to third-party beneficiaries if the portfolio companies were to default on their related payment obligations. As of September 30, 2007, the Company had \$8.8 million in standby letters of credit issued and outstanding on behalf of the portfolio companies, of which no amounts were recorded as a liability. Of these letters of credit, \$1.3 million expire on June 10, 2013, \$500,000 expire on August 31, 2010, \$4.6 million expire on February 28, 2009 and \$2.4 million expire on September 30, 2008. These letters of credit may be extended under substantially similar terms for additional one-year terms at the Company's option until the Revolving Credit Facility, under which the letters of credit were issued, matures on December 28, 2010.

As of September 30, 2007, the Company was subject to subscription agreements to fund up to \$111.8 million of equity commitments, substantially all at the discretion of the Company, in private equity investment partnerships. As of September 30, 2007, \$1.3 million was funded to these partnerships.

As of December 31, 2006, the Company had committed to make a total of approximately \$174.0 million of investments in various revolving senior secured and subordinated loans. As of December 31, 2006, \$117.0 million was unfunded. Additionally, \$129.8 million of the \$174.0 million in commitments extended beyond the maturity date of our Revolving Credit Facility. Included within the \$174.0 million in commitments in revolving senior secured and subordinated loans were commitments to issue up to \$3.8 million in standby letters of credit through a financial intermediary on behalf of certain portfolio companies. Under these arrangements, the Company would be required to make payments to third-party beneficiaries if the portfolio companies were to default on their related payment obligations. As of December 31, 2006, the Company had \$2.8 million in standby letters of credit issued and outstanding on behalf of the portfolio companies, of which no amounts were recorded as a liability.

As of December 31, 2006, the Company was subject to a subscription agreement to fund up to \$10.0 million of equity commitments in a private equity investment partnership. As of December 31, 2006, \$225,000 was funded to this partnership.

## 7. BORROWINGS

In accordance with the 1940 Act, with certain limited exceptions, we are only allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, is at least 200% after such borrowing. On October 29, 2004, we formed Ares Capital CP Funding LLC ("Ares Capital CP"), a wholly owned subsidiary of the Company, through which we established a revolving credit facility (the "CP Funding Facility"). On November 3, 2004, we entered into the CP Funding Facility that, as amended, allows Ares Capital CP to issue up to \$350.0 million of variable funding certificates. As of September 30, 2007, there was \$85.0 million outstanding under the CP Funding Facility and we continue to be in compliance with all of the limitations and requirements of the CP Funding Facility. As of December 31, 2006 there was \$15.0 million outstanding under the CP Funding Facility.

As of September 30, 2007 the CP Funding Facility was scheduled to expire on October 31, 2007 (unless extended prior to such date with the consent of the lenders; see Note 14). The CP Funding

Facility is secured by all of the assets held by Ares Capital CP, which as of September 30, 2007 consisted of 21 investments. At expiration, at our election, any principal amounts then outstanding will be amortized over a 24-month period from the termination date.

The interest charged on the indebtedness incurred under our CP Funding Facility is payable quarterly and, as of September 30, 2007, was based on the commercial paper rate plus 0.70% (see Note 14). As of September 30, 2007, the commercial paper rate was 5.6829% and as of December 31, 2006 the commercial paper rate was 5.3481%. For the three and nine months ended September 30, 2007, the average interest rate (commercial paper rate plus the spread) was 6.22% and 6.10%, respectively. For the three and nine months ended September 30, 2006, the average interest rate was 6.10% and 5.71%, respectively. For the three and nine months ended September 30, 2007, the average outstanding balance was \$85,000,000 and \$89,406,593, respectively. For the three and nine months ended September 30, 2006, the average outstanding balance was \$12,360,870 and \$55,939,927, respectively. For the three and nine months ended September 30, 2007, the interest expense incurred was \$1,350,363 and \$4,145,072, respectively. For the three and nine months ended September 30, 2006, the interest expense incurred was \$190,747 and \$2,381,652, respectively. Cash paid for interest expense during the nine months ended September 30, 2007 and September 30, 2006 was \$2,934,564 and \$2,412,359, respectively.

The Company is also required to pay a commitment fee for any unused portion of the CP Funding Facility. Currently, the commitment fee is equal to 0.125% per annum calculated based on an amount equal to \$200.0 million less the borrowings outstanding under the CP Funding Facility. As soon as the borrowings outstanding under the CP Funding Facility equal or exceed \$200.0 million, the fee is calculated based on an amount equal to \$350.0 million less the borrowings outstanding under the CP Funding Facility. For the three and nine months ended September 30, 2007, the commitment fee incurred was \$36,736 and \$104,591, respectively. For the three and nine months ended September 30, 2006, the commitment fee incurred was \$64,806 and \$201,258, respectively.

In December 2005, we entered into a senior secured revolving credit facility (the "Revolving Credit Facility") under which the lenders agreed to extend credit to the Company in an initial aggregate principal amount not exceeding \$250 million at any one time outstanding. The Revolving Credit Facility also includes an "accordion" feature that allows us to increase the size of the Revolving Credit Facility to a maximum of \$500 million under certain circumstances. On March 1, 2007, in accordance with this "accordion" feature of the Revolving Credit Facility, we increased the aggregate principal amount of the Revolving Credit Facility of \$100.0 million to a total of \$350.0 million. The Revolving Credit Facility expires on December 28, 2010 and with certain exceptions is secured by substantially all of the assets in our portfolio (other than investments held by Ares Capital CP under the CP Funding Facility and those held as a part of the Debt Securitization, discussed below), which as of September 30, 2007 consisted of 138 investments.

As of September 30, 2007, there was \$128.5 million outstanding under the Revolving Credit Facility and the Company continues to be in compliance with all of the limitations and requirements of the Revolving Credit Facility. As of December 31, 2006, there was \$193.0 million outstanding under the Revolving Credit Facility.

The interest charged under the Revolving Credit Facility is generally based on LIBOR (one, two, three or six month) plus 1.00%. As of September 30, 2007, the one, two, three and six month LIBOR were 5.12%, 5.17%, 5.23% and 5.13%, respectively. As of December 31, 2006, the one, two, three and six month LIBOR were 5.32%, 5.35%, 5.36% and 5.37%, respectively. For the three and nine months ended September 30, 2007, the average interest rate (LIBOR plus the spread) was 6.43% and 6.55%, respectively. For the three and nine months ended September 30, 2006, the average interest rate was 6.77% and 6.30%, respectively. For the three and nine months ended September 30, 2007, the average outstanding balance was \$160,059,783 and \$133,423,077, respectively. For the three and nine

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months ended September 30, 2006, the average outstanding balance was \$33,923,913 and \$75,183,150, respectively. For the three and nine months ended September 30, 2007, we incurred interest expense of \$2,595,133 and \$6,533,933, respectively. For the three and nine months ended September 30, 2006, we incurred interest expense of \$351,050 and \$3,541,037, respectively. Cash paid for interest expense during the nine months ended September 30, 2007 and September 30, 2006 was \$6,871,236 and \$3,521,372, respectively. The Company is also required to pay a commitment fee of 0.20% for any unused portion of the Revolving Credit Facility. For the three and nine months ended September 30, 2007, the commitment fee incurred was \$83,986 and \$273,747, respectively. For the three and nine months ended September 30, 2006, the commitment fee incurred was \$108,556 and \$257,844, respectively.

As of September 30, 2007, the Company had \$11.4 million in standby letters of credit issued through the Revolving Credit Facility. As of December 31, 2006, the Company had \$3.7 million in standby letters of credit issued through the Revolving Credit Facility.

On July 7, 2006, through our wholly owned subsidiary, ARCC CLO 2006 LLC ("ARCC CLO"), we completed a \$400.0 million debt securitization (the "Debt Securitization") and issued approximately \$314.0 million principal amount of asset-backed notes (including a \$50.0 million revolver, all of which was drawn as of September 30, 2007) (the "CLO Notes") to third parties that were secured by a pool of middle market loans that have been purchased or originated by the Company. The CLO Notes are included in the September 30, 2007 consolidated balance sheet. We retained approximately \$86.0 million of certain BBB and non-rated securities in the Debt Securitization. The CLO Notes mature on December 20, 2019, and, as of September 30, 2007, there was \$314.0 million aggregate principal amount of CLO Notes outstanding and we continue to be in compliance with all of the limitations and requirements of the Debt Securitization. The blended pricing of the CLO Notes, excluding fees, is approximately the 3-month LIBOR plus 34 basis points.

The classes, amounts, ratings and interest rates (expressed as a spread to LIBOR) of the CLO Notes are:

Class	Amount (millions)	Rating (S&P/Moody's)	LIBOR Spread (basis points)
A-1A	\$ 75	AAA/Aaa	25
A-1A VFN	50(1)	AAA/Aaa	28
A-1B	14	AAA/Aaa	37
A-2A	75	AAA/Aaa	22
A-2B	33	AAA/Aaa	35
B	23	AA/Aa2	43
C	44	A/A2	70
Total	\$ 314		

(1) Revolving class, \$50.0 million of which was drawn as of September 30, 2007.

As of September 30, 2007, there were 64 investments securing the notes. The interest charged under the ARCC CLO debt securitization is based on the 3-month LIBOR which as of September 30, 2007 was 5.23%. For the three and nine months ended September 30, 2007, the effective average interest rate (LIBOR plus the spread) was 5.76% and 5.77%, respectively. For the three and nine months ended September 30, 2006, the effective average interest rate was 5.86%. For the three and nine months ended September 30, 2007, we incurred \$4,560,620 and \$12,806,263, respectively, of interest expense. For the three and nine months ended September 30, 2006, we incurred \$3,653,371 of interest expense. Cash paid for interest expense during the nine months ended September 30, 2007 was \$12,808,470. There was no cash paid for interest expense during the nine months ended September 30,

2006. The Company is also required to pay a commitment fee of 0.175% for any unused portion of the Class A-1A VFN Notes. For the three and nine months ended September 30, 2007, the commitment fee incurred was \$22,639 on these notes. For the three and nine months ended September 30, 2006, the commitment fee incurred was \$23,611 on these notes.

## 8. DERIVATIVE INSTRUMENTS

In 2005, we entered into a costless collar agreement in order to manage the exposure to changing interest rates related to the Company's fixed rate investments. The costless collar agreement is for a notional amount of \$20 million, has a cap of 6.5%, a floor of 2.72% and matures in 2008. The costless collar agreement allows us to receive an interest payment for any quarterly period when the 3-month LIBOR exceeds 6.5%, and requires us to pay an interest payment for any quarterly period when the 3-month LIBOR is less than 2.72%. The costless collar resets quarterly based on the 3-month LIBOR. As of September 30, 2007, the 3-month LIBOR was 5.23%. As of September 30, 2007, this agreement had no fair value.

## 9. RELATED PARTY TRANSACTIONS

The underwriting costs related to our IPO were \$7,425,000, or \$0.675 per share. As a part of the IPO, the Investment Adviser, on our behalf, agreed to pay the underwriters \$0.225 of the \$0.675 per share in underwriting discount and commissions for a total of approximately \$2.5 million. We were obligated to repay this amount, together with accrued interest (charged at the 3-month LIBOR plus 2% starting on October 8, 2004) (a) if during any four calendar quarter period ending on or after October 8, 2005 the sum of (i) the aggregate distributions, including return of capital, if any, to the stockholders and (ii) the change in net assets (defined as total assets less indebtedness) equals or exceeds 7.0% of the net assets at the beginning of such period (as adjusted for any share issuances or repurchases) or (b) upon the Company's liquidation. On March 8, 2005, the Company's board of directors approved entering into an amended and restated agreement with the Investment Adviser whereby the Company would be obligated to repay the Investment Adviser for the approximate \$2.5 million only if the conditions for repayment referred to above were met before the third anniversary of the IPO. If one or more such events did not occur on or before October 8, 2007, we would not be obligated to repay this amount to the Investment Adviser. For the year ended December 31, 2005, the sum of our aggregate distributions to our stockholders and our change in net assets exceeded 7.0% of net assets as of December 31, 2004 (as adjusted for any share issuances). As a result, in February 2006 we repaid this amount together with accrued interest.

In accordance with the Advisory Agreement, we bear all costs and expenses of the operation of the Company and reimburse the Investment Adviser for all such costs and expenses incurred in the operation of the Company. For the three and nine months ended September 30, 2007, the Investment Adviser incurred such expenses totaling \$576,128 and \$1,421,487, respectively. For the three and nine months ended September 30, 2006, the Investment Adviser incurred such expenses totaling \$434,298 and \$665,026, respectively. As of September 30, 2007, \$377,186 was unpaid and included in accounts payable and accrued expenses in the accompanying consolidated balance sheet.

During 2006, we entered into a sublease agreement with Ares Management, whereby Ares Management subleases approximately 25% of the office facilities that we lease, for a fixed rent equal to 25% of the basic annual rent payable by us under our lease, plus certain additional costs and expenses. For the three and nine months ended September 30, 2007, such amounts payable to the Company totaled \$65,728 and \$200,138, respectively. As of September 30, 2007, there were no unpaid amounts. For the three and nine months ended September 30, 2006, such amounts payable to the Company totaled \$26,730.

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As of September 30, 2007, an affiliate of Ares Management owned 1,216,667 shares of the Company's common stock representing approximately 1.7% of the total shares outstanding as of September 30, 2007.

See Note 3 for a description of other related party transactions.

### 10. STOCKHOLDERS' EQUITY

On January 8, 2007, we sold 409,500 shares of common stock to an underwriter pursuant to its exercise of an over-allotment option granted in the public add-on offering completed in December 2006 at \$18.50 per share less an underwriting discount totaling \$0.19 per share. Total proceeds received from the sale of common stock pursuant to the over-allotment option, net of the underwriter's discount and offering costs, were approximately \$7.5 million.

On February 9, 2007, we completed a public add-on offering (the "February Add-on Offering") of 1,382,078 shares of common stock (including the underwriter's over-allotment option of 180,271 shares) at \$19.95 per share, less an underwriting discount totaling \$0.25 per share. Total proceeds received from the February Add-on Offering, net of the underwriter's discount and offering costs, were approximately \$27.2 million.

On April 4, 2007, we completed a public add-on offering (the "April Add-on Offering") of 15,525,000 shares of common stock (including the underwriters' over-allotment option of 2,025,000 shares) at \$17.97 per share, less an underwriting discount totaling approximately \$0.72 per share. Total proceeds received from the April Add-on Offering, net of the underwriters' discount and offering costs, were approximately \$267.2 million.

On August 28, 2007, we completed a public add-on offering (the "August Add-on Offering") of 2,645,000 shares of common stock (including the underwriters' over-allotment option of 345,000 shares) at \$16.30 per share, less an underwriting discount totaling approximately \$0.22 per share. Total proceeds received from the August Add-on Offering, net of the underwriters' discount and offering costs, were approximately \$42.3 million.

### 11. DIVIDEND

For the three months ended September 30, 2007, the Company declared a dividend on August 9, 2007 of \$0.42 per share for a total of \$30.4 million. The record date was September 14, 2007 and the dividend was distributed on September 28, 2007. For the three months ended June 30, 2007, the Company declared a dividend on May 10, 2007 of \$0.41 per share for a total of \$28.5 million. The record date was June 15, 2007 and the dividend was distributed on June 30, 2007. For the three months ended March 31, 2007, the Company declared a dividend on March 8, 2007 of \$0.41 per share for a total of \$22.1 million. The record date was March 19, 2007 and the dividend was distributed on March 30, 2007.

For the three months ended September 30, 2006, the Company declared a dividend on August 9, 2006 of \$0.40 per share for a total of \$19.6 million. The record date was September 15, 2006 and the dividend was distributed on September 29, 2006. For the three months ended June 30, 2006, the Company declared a dividend on May 8, 2006 of \$0.38 per share for a total of \$14.5 million. The record date was June 15, 2006 and the dividend was distributed on June 30, 2006. For the three months ended March 31, 2006, the Company declared a dividend on February 28, 2006 of \$0.36 per share for a total of \$13.7 million. The record date was March 24, 2006 and the dividend was distributed on April 14, 2006.



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12. FINANCIAL HIGHLIGHTS

The following is a schedule of financial highlights for the nine months ended September 30, 2007 and the nine months ended September 30, 2006:

Per Share Data:

	For the Nine Months Ended September 30, 2007	For the Nine Months Ended September 30, 2006
Net asset value, beginning of period(1)	\$ 15.17	\$ 15.03
Issuance of common stock	0.59	0.01
Effect of dilution	(0.03)	(0.03)
Net investment income for period(2)	1.06	0.94
Net realized and unrealized gains for period(2)	0.19	0.25
Net increase in stockholders' equity	1.25	1.19
Distributions from net investment income	(1.06)	(0.94)
Distributions from net realized capital gains on securities	(0.18)	(0.20)
Total distributions to stockholders	(1.24)	(1.14)
Net asset value at end of period(1)	\$ 15.74	\$ 15.06
Per share market value at end of period	\$ 16.27	\$ 17.42
Total return based on market value(3)	(8.39)%	15.49%
Total return based on net asset value(4)	8.18%	7.89%
Shares outstanding at end of period	72,684,090	49,091,195
Ratio/Supplemental Data:		
Net assets at end of period	\$ 1,144,325,417	\$ 739,268,870
Ratio of operating expenses to average net assets(5)(6)	8.96%	8.34%
Ratio of net investment income to average net assets(5)(7)	9.03%	9.02%
Portfolio turnover rate(5)	43%	47%

(1) The net assets used equals the total stockholders' equity on the consolidated balance sheets.

(2) Weighted average basic per share data.

(3) For the nine months ended September 30, 2007, the total return based on market value equals the decrease of the ending market value at September 30, 2007 of \$16.27 per share over the ending market value at December 31, 2006 of \$19.11 per share, plus the declared dividend of \$0.42 per share for holders of record on September 14, 2007, the declared dividend of \$0.41 per share for holders of record on June 15, 2007 and the declared dividend of \$0.41 per share for holders of record on March 19, 2007, divided by the market value at December 31, 2006. For the nine months ended September 30, 2006, the total return based on market value equals the increase of the ending market value at September 30, 2006 of \$17.42 per share over the ending market value at December 31, 2005 of \$16.07, plus the declared dividend of \$0.40 per share for holders of record on September 15, 2006, the declared dividend of \$0.38 per share for holders of record on June 15, 2006 and the declared dividend of \$0.36 per share for holders of record on March 24, 2006, divided by the market value at December 31, 2005. Total return based on market value is not annualized. The Company's shares fluctuate in value. The Company's performance changes over time and currently may be different than that shown. Past performance is no guarantee of future results.

(4) For the nine months ended September 30, 2007, the total return based on net asset value equals the change in net asset value during the period plus the declared dividend of \$0.42 per share for holders of record on September 14, 2007, the declared dividend of \$0.41 per share for holders of record on June 15, 2007 and the declared dividend of \$0.41 per share for holders of record on March 19, 2007, divided by the beginning net asset value during the period. The calculation was adjusted for shares issued in connection with the dividend reinvestment plan, shares issued in connection with the underwriter's exercising in full of the over-allotment option granted to it in connection with the December 2006 Add-on Offering and the issuance of common stock in connection with the February Add-on Offering, the April Add-on Offering and the August Add-on Offering. For the nine months ended September 30, 2006, the total return based on net asset value equals the change in net asset value during the period plus the declared dividend of \$0.40 per share for holders of record on September 15, 2006, the declared dividend of \$0.38 per share for holders of record on June 15, 2006 and the declared dividend of \$0.36 per share for holders of record on March 24, 2006, divided by the beginning net asset value during the period. The

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calculation was adjusted for shares issued in connection with the dividend reinvestment plan. Total return based on net asset value is not annualized. The Company's performance changes over time and currently may be different than that shown. Past performance is no guarantee of future results.

(5)

The ratios reflect an annualized amount.

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(6) For the nine months ended September 30, 2007, the ratio of operating expenses to average net assets consisted of 2.27% of base management fees, 2.26% of incentive management fees, 3.39% of the cost of borrowing and other operating expenses of 1.04%. For the three months ended September 30, 2006, the ratio of operating expenses to average net assets consisted of 1.98% of base management fees, 3.04% of incentive management fees, 2.42% of the cost of borrowing and other operating expenses of 0.90%. These ratios reflect annualized amounts.

(7) The ratio of net investment income to average net assets excludes income taxes related to realized gains.

### 13. IMPACT OF NEW ACCOUNTING STANDARDS

In July 2006, the Financial Accounting Standards Board ("FASB") released FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," ("FIN 48"). FIN 48 provides guidance on how uncertain tax positions should be recognized, measured, presented, and disclosed in the financial statements. FIN 48 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authorities. Tax positions not deemed to satisfy the "more-likely-than-not" threshold would be recorded as a tax benefit or expense in the current year. FASB required adoption of FIN 48 for fiscal years beginning after December 15, 2006, and FIN 48 is to be applied to all open tax years as of the effective date. However, on December 22, 2006, the Securities and Exchange Commission delayed the required implementation date of FIN 48 for business development companies until March 31, 2007. The Company has evaluated the implications of FIN 48 and determined that there is no material impact on the consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurement ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements, but does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company has evaluated the implications of SFAS No. 157 and determined that there is no material impact in the consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ("SFAS 159"), which provides companies with an option to report selected financial assets and liabilities at fair value. The objective of SFAS 159 is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS 159 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to more easily understand the effect of the company's choice to use fair value on its earnings. SFAS 159 also requires entities to display the fair value of the selected assets and liabilities on the face of the balance sheet. SFAS 159 does not eliminate disclosure requirements of other accounting standards, including fair value measurement disclosures in SFAS 157. This Statement is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity makes that choice in the first 120 days of that fiscal year and also elects to apply the provisions of Statement 157. At this time, the Company is evaluating the implications of SFAS No. 159, and its impact in the consolidated financial statements has not yet been determined.

### 14. SUBSEQUENT EVENTS

On October 18, 2007, we entered into an amendment to extend the maturity of the CP Funding Facility to October 8, 2008. Additionally, the interest rate charged on the CP Funding Facility was increased to the commercial paper rate plus 1.00%.

**PART C**

**Other information**

**ITEM 25. FINANCIAL STATEMENTS AND EXHIBITS**

(1) Financial Statements

The following statements of Ares Capital Corporation (the "Company" or the "Registrant") are included in Part A of this Registration Statement:

**Audited Consolidated Financial Statements**

Reports of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets as of December 31, 2006 and 2005	F-4
Consolidated Schedules of Investments as of December 31, 2006 and 2005	F-5
Consolidated Statement of Operations for the years ended December 31, 2006 and 2005 and for the period from June 23, 2004 (inception) through December 31, 2004	F-18
Consolidated Statement of Stockholders' Equity for the years ended December 31, 2006 and 2005 and for the period from June 23, 2004 (inception) through December 31, 2004	F-19
Consolidated Statement of Cash Flows for the years ended December 31, 2006 and 2005 and for the period from June 23, 2004 (inception) through December 31, 2004	F-20
Notes to Consolidated Financial Statements	F-21

**Unaudited Consolidated Interim Financial Statements**

Consolidated Balance Sheets as of September 30, 2007 (unaudited) and December 31, 2006	F-40
Consolidated Schedule of Investments (unaudited) as of September 30, 2007	F-41
Consolidated Statement of Operations (unaudited) for the three and nine months ended September 30, 2007 and September 30, 2006	F-53
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Consolidated Statement of Stockholders' Equity (unaudited) for the nine months ended September 30, 2006	F-55
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(2) Exhibits

- (a) Articles of Amendment and Restatement(1)
- (b) Amended and Restated Bylaws(1)
- (c) Not Applicable
- (d)(1) Form of Stock Certificate(3)
- (d)(2) Form of Instructions for Use of Subscription Certificates\*\*
- (d)(3) Form of Notice to Stockholders Who are Record Holders\*\*
- (d)(4) Form of Notice to Stockholders Who are Beneficial Holders\*\*
- (d)(5) Form of Notice to Clients of Stockholders Who are Beneficial Holders\*\*



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- (d)(6) Form of Subscription Certificate\*\*
- (d)(7) Form of Nominee Holder Certification Form\*\*
- (d)(8) Form of Beneficial Owner Election Form\*\*
- (d)(9) Form of Nominee Holder Over-Subscription Exercise Form\*\*
- (d)(10) Form of Notice of Guaranteed Delivery\*\*
- (d)(11) Subscription Agent Agreement between Ares Capital Corporation and [ ] \*\*
- (d)(12) Information Agent Agreement between Ares Capital Corporation and [ ] \*\*
- (e) Dividend Reinvestment Plan(1)
- (f) Not Applicable
- (g) Amended and Restated Investment Advisory and Management Agreement between Registrant and Ares Capital Management LLC(2)
- (h) Dealer Manager Agreement\*\*
- (i) Not Applicable
- (j) Custodian Agreement between Registrant and U.S. Bank National Association(3)
- (k)(1) Amended and Restated Administration Agreement between Registrant and Ares Operations LLC(9)
- (k)(2) Form of Stock Transfer Agency Agreement between Registrant and Computershare Investor Services, LLC(3)
- (k)(3) License Agreement between the Registrant and Ares Management LLC(1)
- (k)(4) Form of Indemnification Agreement between the Registrant and directors and certain officers(3)
- (k)(5) Form of Indemnification Agreement between the Registrant and the members of the Ares Capital Management LLC investment committee(3)
- (k)(6) Purchase and Sale Agreement, dated as of November 3, 2004, by and among Ares Capital Corporation and Ares Capital CP Funding LLC(4)
- (k)(7) Sale and Servicing Agreement, dated as of November 3, 2004, among Ares Capital CP, as borrower, Ares Capital as servicer, certain conduits and institutional lenders agented by Wachovia Capital Markets, LLC, U.S. Bank National Association, as trustee, and Lyon Financial Services, Inc. (D/B/A U.S. Bank Portfolio Services), as the backup servicer(4)
- (k)(8) Amendment No. 2 to Sale and Servicing Agreement, dated as of April 8, 2005, among Ares Capital CP Funding LLC, Ares Capital Corporation, each of the Conduit Purchasers and Institutional Purchasers from time to time party thereto, each of the Purchaser Agents from time to time party thereto, Wachovia Capital Markets, LLC, as administrative agent, U.S. Bank National Association, as trustee, and Lyon Financial Services, Inc. (D/B/A U.S. Bank Portfolio Services), as the backup servicer(5)

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- (k)(9) Amendment No. 3 to Sale and Servicing Agreement, dated as of October 31, 2005, among Ares Capital CP Funding LLC, Ares Capital Corporation, each of the Conduit Purchasers and Institutional Purchasers from time to time party thereto, each of the Purchaser Agents from time to time party thereto, Wachovia Capital Markets, LLC, as administrative agent, U.S. Bank National Association, as trustee, and Lyon Financial Services, Inc. (D/B/A U.S. Bank Portfolio Services), as the backup servicer(6)
- (k)(10) Amendment No. 4 to Sale and Servicing Agreement, dated as of November 14, 2005, among Ares Capital CP Funding LLC, Ares Capital Corporation, each of the Conduit Purchasers and Institutional Purchasers from time to time party thereto, each of the Purchaser Agents from time to time party thereto, Wachovia Capital Markets, LLC, as administrative agent, U.S. Bank National Association, as trustee, and Lyon Financial Services, Inc. (D/B/A U.S. Bank Portfolio Services), as the backup servicer(7)
- (k)(11) Senior Secured Revolving Credit Agreement, dated as of December 28, 2005, among Ares Capital Corporation, the lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent(8)
- (k)(12) 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(10)
- (k)(13) Commercial Loan Sale Agreement, dated as of July 7, 2006, between Ares Capital Corporation and ARCC CLO 2006 LLC(10)
- (k)(14) Indenture, dated as of July 7, 2006, between ARCC Commercial Loan Trust 2006 and U.S. Bank National Association(10)
- (k)(15) 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(10)
- (k)(16) Collateral Administration Agreement, dated as of July 7, 2006, among ARCC Commercial Loan Trust 2006, Ares Capital Corporation and U.S. Bank National Association(10)
- (k)(17) Master Participation Agreement, dated as of July 7, 2006, between Ares Capital CP Funding LLC and Ares Capital Corporation(10)
- (k)(18) 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(10)
- (k)(19) Amendment No. 6 to Sale and Servicing Agreement, dated as of November 1, 2006, among Ares Capital CP Funding LLC, Ares Capital Corporation, each of the Conduit Purchasers and Institutional Purchasers from time to time party thereto, each of the Purchaser Agents from time to time party thereto, Wachovia Capital Markets, LLC, as administrative agent, U.S. Bank National Association, as trustee, and Lyon Financial Services, Inc. (D/B/A U.S. Bank Portfolio Services), as the backup servicer(11)

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- (k)(20) Amendment No. 9 to Sale and Servicing Agreement, dated as of October 18, 2007, by and among Ares Capital CP Funding LLC, Ares Capital Corporation, each of the Conduit Purchasers and Institutional Purchasers from time to time party thereto, each of the purchaser agents from time to time party thereto, Wachovia Capital Markets, LLC, as administrative agent and purchaser agent with respect to Variable Funding Capital Company LLC as conduit purchaser, U.S. Bank National Association, as trustee, and Lyon Financial Services, Inc. (D/B/A U.S. Bank Portfolio Services), as the backup servicer(12)
- (k)(21) 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(13)
- (l)(1) Opinion and Consent of Venable LLP, Maryland counsel for Registrant\*\*
- (l)(2) Opinion and Consent of Proskauer Rose LLP, counsel for Registrant\*\*
- (m) Not Applicable
- (n)(1) Consent of independent registered public accounting firm for Registrant\*
- (n)(2) Opinion of independent registered public accounting firm for Registrant, regarding "senior securities" table contained herein(14)
- (o) Not Applicable
- (p) Not Applicable
- (q) Not Applicable
- (r) Code of Ethics\*
- 

\*  
Filed herewith.

\*\*  
To be filed by amendment.

- (1) Incorporated by reference to Exhibits (a)(3) and (b)(2), as applicable, to the Registrant's pre-effective Amendment No. 1 to the Registration Statement under the Securities Act of 1933, as amended, on Form N-2, filed on September 17, 2004.
- (2) Incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K dated June 2, 2006.
- (3) Incorporated by reference to Exhibits (d), (j), (k)(2), (k)(4) and (k)(5), as applicable, to the Registrant's pre-effective Amendment No. 2 to the Registration Statement under the Securities Act of 1933, as amended, on Form N-2, filed on September 28, 2004.
- (4) Incorporated by reference to Exhibits 10.1 and 10.2, as applicable, to the Registrant's Form 8-K, dated November 3, 2004.
- (5) Incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K dated April 8, 2005.
- (6) Incorporated by reference to Exhibit 10.12 to the Registrant's Form 10-K for the year ended December 31, 2005.
- (7) Incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K dated November 14, 2005.





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- (8) Incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K dated December 28, 2005.
- (9) Incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-Q for the quarter ended June 30, 2007.
- (10) Incorporated by reference to Exhibits 10.2 through 10.8, as applicable, to the Registrant's Form 10-Q for the quarter ended June 30, 2006.
- (11) Incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-Q for the quarter ended September 30, 2006.
- (12) Incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K dated October 18, 2007.
- (13) Incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K dated November 13, 2007.
- (14) Incorporated by reference to Exhibit (n)(2) to the Registrant's pre-effective Amendment No. 1 to the Registration Statement under the Securities Act of 1933, as amended, on Form N-2, filed on March 19, 2007.

### ITEM 26. MARKETING ARRANGEMENTS

The information contained under the heading "The Rights Offering Distribution Arrangements" on this Registration Statement is incorporated herein by reference and any information concerning any underwriters for a particular offering will be contained in the prospectus supplement related to that offering.

### ITEM 27. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

Commission registration fee	\$	13,755	*
NASDAQ Global Select Market Listing Fee			*
FINRA filing fee			*
Accounting fees and expenses			*
Legal fees and expenses			*
Printing and engraving			*
Miscellaneous fees and expenses			*
Total			*

\*  
To be provided by amendment.

**ITEM 28. PERSONS CONTROLLED BY OR UNDER COMMON CONTROL**

*Direct Subsidiaries*

The following list sets forth each of our subsidiaries, the state or country under whose laws the subsidiary is organized, and the percentage of voting securities or membership interests owned by us in such subsidiary:

ARCC CIC Flex Corp. (Delaware)	100%
ARCC CLO 2006 LLC (Delaware)	100%
ARCC CLPB Corp. (Delaware).	100%
ARCC Commercial Loan Trust 2006 (Delaware)	100%
ARCC IGS Corp. (Delaware)	100%
ARCC Imperial Corporation (Delaware)	100%
ARCC LVCG Investors LLC (Delaware)	100%
ARCC PAH Corp. (Delaware)	100%
ARCC TTL Corp. (Delaware)	100%
ARCC VTH Corp. (Delaware)	100%
ARCC WMA Corp. (Delaware)	100%
Ares Capital CP Funding LLC (Delaware)	100%
Ares Capital FL Holdings LLC (Delaware)	100%
Ivy Hill Asset Management GP, LLC (Delaware)	100%
Ivy Hill Asset Management, L.P. (Delaware)	100%(1)

(1) We hold 99% directly and 1% through our wholly owned subsidiary, Ivy Hill Asset Management GP, LLC.

*Indirect Subsidiaries*

The following list sets forth each of ARCC Imperial Corporation's subsidiaries, the state under whose laws the subsidiary is organized, and the percentage of voting securities or membership interests owned by ARCC Imperial Corporation of such subsidiary:

ARCC Imperial LLC (Delaware)	100%
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Each of our direct and indirect subsidiaries is consolidated for financial reporting purposes.

*Other Entities Deemed to be Controlled by the Company*

The following list sets forth each of the portfolio companies that we "control" under the Investment Company Act because we own more than 25% of the portfolio company's outstanding voting securities, the state or country under whose laws the portfolio company is organized, and the percentage of voting securities or membership interests owned by us in such portfolio company.

Equinox EIC Partners LLC (Delaware)	26%
Reflexite Corporation (Connecticut)	36%
The Thymes, LLC (Delaware)	70%

**ITEM 29. NUMBER OF HOLDERS OF SECURITIES**

The following table sets forth the approximate number of record holders of the Company's common stock at February 5, 2008.

TITLE OF CLASS	NUMBER OF RECORD HOLDERS
Common stock, \$0.001 par value	22 (including Cede & Co.)

As of February 5, 2008 we have 25 holders of our debt under the Debt Securitization, CP Funding Facility and the Revolving Credit Facility.

**ITEM 30. INDEMNIFICATION**

Maryland law permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages except for liability resulting from (a) actual receipt of an improper benefit or profit in money, property or services or (b) active and deliberate dishonesty established by a final judgment as being material to the cause of action. Our charter contains such a provision which eliminates directors' and officers' liability to the maximum extent permitted by Maryland law, subject to the requirements of the Investment Company Act.

Our charter authorizes us, to the maximum extent permitted by Maryland law and subject to the requirements of the Investment Company Act, to obligate us to indemnify any present or former director or officer or any individual who, while a director or officer and at our request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee, from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her status as a present or former director or officer and to pay or reimburse their reasonable expenses in advance of final disposition of a proceeding. Our bylaws obligate us, to the maximum extent permitted by Maryland law and subject to the requirements of the Investment Company Act, to indemnify any present or former director or officer or any individual who, while a director or officer and at our request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee and who is made or threatened to be made a party to the proceeding by reason of his service in that capacity from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her status as a present or former director or officer and to pay or reimburse their reasonable expenses in advance of final disposition of a proceeding. The charter and bylaws also permit us to indemnify and advance expenses to any person who served a predecessor of us in any of the capacities described above and any of our employees or agents or any employees or agents of our predecessor. In accordance with the Investment Company Act, we will not indemnify any person for any liability to which such person would be subject by reason of such person's willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office. In addition to the indemnification provided for in our bylaws, we have entered into indemnification agreements with each of our current directors and officers and with members of our investment adviser's investment committee and we intend to enter into indemnification agreements with each of our future directors and officers. The indemnification agreements attempt to provide these directors and senior officers the maximum indemnification permitted under Maryland law and the Investment Company Act. The agreements provide, among other things, for the advancement of expenses and indemnification for liabilities incurred which such person may incur by reason of his status as a present or former director or officer or member of our investment adviser's investment

committee in any action or proceeding arising out of the performance of such person's services as a present or former director or officer or member of our investment adviser's investment committee.

Maryland law requires a corporation (unless its charter provides otherwise, which our charter does not) to indemnify a director or officer who has been successful, on the merits or otherwise, in the defense of any proceeding to which he or she is made or threatened to be made a party by reason of his or her service in that capacity. Maryland law permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made or are threatened to be made a party by reason of their service in those or other capacities unless it is established that (a) the act or omission of the director or officer was material to the matter giving rise to the proceeding and (1) was committed in bad faith or (2) was the result of active and deliberate dishonesty, (b) the director or officer actually received an improper personal benefit in money, property or services or (c) in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. In addition, Maryland law permits a corporation to advance reasonable expenses to a director or officer upon the corporation's receipt of (a) a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation and (b) a written undertaking by him or her or on his or her behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the standard of conduct was not met.

The investment advisory and management agreement provides that, absent willful misfeasance, bad faith or gross negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations, our investment adviser Ares Capital Management and its officers, managers, agents, employees, controlling persons, members and any other person or entity affiliated with it are entitled to indemnification from the Company for any damages, liabilities, costs and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) arising from the rendering of the Adviser's services under the investment advisory and management agreement or otherwise as an investment adviser of the Company.

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

Insofar as indemnification for liability arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Company pursuant to the foregoing provisions, or otherwise, the Company has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Company of expenses incurred or paid by a director, officer or controlling person of the Company in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Company will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

**ITEM 31. BUSINESS AND OTHER CONNECTIONS OF INVESTMENT ADVISER**

A description of any other business, profession, vocation or employment of a substantial nature in which Ares Capital Management, and each partner, director or executive officer of Ares Capital Management, is or has been, during the past two fiscal years, engaged in for his or her own account or in the capacity of director, officer, employee, partner or trustee, is set forth in Part A of this Registration Statement in the sections entitled "Management." Additional information regarding Ares Capital Management and its officers and directors will be set forth in its Form ADV, as filed with the Securities and Exchange Commission (SEC File No. 801-63168), and is incorporated herein by reference.

**ITEM 32. LOCATION OF ACCOUNTS AND RECORDS**

All accounts, books and other documents required to be maintained by Section 31(a) of the Investment Company Act of 1940, and the rules thereunder are maintained at the offices of:

- (1) the Registrant, Ares Capital Corporation, 280 Park Avenue, 22<sup>nd</sup> Floor, Building East, New York, New York 10017;
- (2) the Transfer Agent, Computershare Investor Services, LLC, 2 N. LaSalle Street, Chicago, Illinois 60602;
- (3) the Custodian, U.S. Bank National Association, Corporate Trust Services, One Federal Street, 3rd floor, Boston, Massachusetts 02110; and
- (4) the Adviser, Ares Capital Management LLC 1999 Avenue of the Stars, Suite 1900, Los Angeles, California 90067.

**ITEM 33. MANAGEMENT SERVICES**

Not Applicable.

**ITEM 34. UNDERTAKINGS**

The Registrant undertakes:

- (1) to suspend the offering of shares until the prospectus is amended if (i) subsequent to the effective date of its registration statement, the net asset value declines more than ten percent from its net asset value as of the effective date of the registration statement; or (ii) the net asset value increases to an amount greater than the net proceeds as stated in the prospectus;
- (2) that, for the purpose of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by us under Rule 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective;
- (3) to remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering;
- (4) that, for the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of the securities at that time shall be deemed to be the initial bona fide offering thereof;
- (5) that, for the purpose of determining liability under the Securities Act to any purchaser, if the Registrant is subject to Rule 430C, each prospectus filed pursuant to Rule 497(b), (c), (d) or (e) under the Securities Act as part of a registration statement relating to an offering, other than

prospectus filed in reliance on Rule 430A under the Securities Act, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness, *provided, however*, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use; and

(6) that for the purpose of determining liability of the Registrant under the Securities Act to any purchaser in the initial distribution of securities, the undersigned Registrant undertakes that in a primary offering of securities of the undersigned Registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned Registrant will be a seller to the purchaser and will be considered to offer or sell such securities to the purchaser:

(i) any preliminary prospectus or prospectus of the undersigned Registrant relating to the offering required to be filed pursuant to Rule 497 under the Securities Act;

(ii) the portion of any advertisement pursuant to Rule 482 under the Securities Act relating to the offering containing material information about the undersigned Registrant or its securities provided by or on behalf of the undersigned Registrant; and

(iii) any other communication that is an offer in the offering made by the undersigned Registrant to the purchaser.

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## SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Registration Statement on Form N-2 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, in the State of New York, on the 7th day of February, 2008.

ARES CAPITAL CORPORATION

By:

/s/ MICHAEL J. AROUGHETI

Michael J. Arougheti

*President*

KNOW ALL MEN BY THESE PRESENT, each person whose signature appears below hereby constitutes and appoints Michael J. Arougheti, Richard S. Davis and Michael D. Weiner, and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place, and stead, in any and all capacities, to sign any and all amendments to this Registration Statement on Form N-2 and any registration statement filed pursuant to Rule 462(b) under the Securities Act of 1933, and to file the same, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities indicated on February 7, 2008. This document may be executed by the signatories hereto on any number of counterparts, all of which constitute one and the same instrument.

<u>SIGNATURE</u>	<u>TITLE</u>
<u>/s/ MICHAEL J. AROUGHETI</u>	President (principal executive officer)
Michael J. Arougheti	
<u>/s/ RICHARD S. DAVIS</u>	Chief Financial Officer (principal financial and accounting officer)
Richard S. Davis	
<u>/s/ DOUGLAS E. COLTHARP</u>	Director
Douglas E. Coltharp	
<u>/s/ FRANK E. O'BRYAN</u>	Director
Frank E. O'Bryan	
<u>/s/ ROBERT L. ROSEN</u>	Director
Robert L. Rosen	
<u>/s/ BENNETT ROSENTHAL</u>	Chairman and Director
Bennett Rosenthal	
<u>/s/ ERIC B. SIEGEL</u>	Director



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SIGNATURE

TITLE

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Eric B. Siegel

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**EXHIBIT INDEX**

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- (c) Not Applicable
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- (d)(5) Form of Notice to Clients of Stockholders Who are Beneficial Holders\*\*
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- (k)(7) Sale and Servicing Agreement, dated as of November 3, 2004, among Ares Capital CP, as borrower, Ares Capital as servicer, certain conduits and institutional lenders agented by Wachovia Capital Markets, LLC, U.S. Bank National Association, as

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trustee, and Lyon Financial Services, Inc. (D/B/A U.S. Bank Portfolio Services), as the backup servicer(4)

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- (k)(8) Amendment No. 2 to Sale and Servicing Agreement, dated as of April 8, 2005, among Ares Capital CP Funding LLC, Ares Capital Corporation, each of the Conduit Purchasers and Institutional Purchasers from time to time party thereto, each of the Purchaser Agents from time to time party thereto, Wachovia Capital Markets, LLC, as administrative agent, U.S. Bank National Association, as trustee, and Lyon Financial Services, Inc. (D/B/A U.S. Bank Portfolio Services), as the backup servicer(5)
  - (k)(9) Amendment No. 3 to Sale and Servicing Agreement, dated as of October 31, 2005, among Ares Capital CP Funding LLC, Ares Capital Corporation, each of the Conduit Purchasers and Institutional Purchasers from time to time party thereto, each of the Purchaser Agents from time to time party thereto, Wachovia Capital Markets, LLC, as administrative agent, U.S. Bank National Association, as trustee, and Lyon Financial Services, Inc. (D/B/A U.S. Bank Portfolio Services), as the backup servicer(6)
  - (k)(10) Amendment No. 4 to Sale and Servicing Agreement, dated as of November 14, 2005, among Ares Capital CP Funding LLC, Ares Capital Corporation, each of the Conduit Purchasers and Institutional Purchasers from time to time party thereto, each of the Purchaser Agents from time to time party thereto, Wachovia Capital Markets, LLC, as administrative agent, U.S. Bank National Association, as trustee, and Lyon Financial Services, Inc. (D/B/A U.S. Bank Portfolio Services), as the backup servicer(7)
  - (k)(11) Senior Secured Revolving Credit Agreement, dated as of December 28, 2005, among Ares Capital Corporation, the lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent(8)
  - (k)(12) 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(10)
  - (k)(13) Commercial Loan Sale Agreement, dated as of July 7, 2006, between Ares Capital Corporation and ARCC CLO 2006 LLC(10)
  - (k)(14) Indenture, dated as of July 7, 2006, between ARCC Commercial Loan Trust 2006 and U.S. Bank National Association(10)
  - (k)(15) 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(10)
  - (k)(16) Collateral Administration Agreement, dated as of July 7, 2006, among ARCC Commercial Loan Trust 2006, Ares Capital Corporation and U.S. Bank National Association(10)
  - (k)(17) Master Participation Agreement, dated as of July 7, 2006, between Ares Capital CP Funding LLC and Ares Capital Corporation(10)
  - (k)(18) 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(10)
  - (k)(19) Amendment No. 6 to Sale and Servicing Agreement, dated as of November 1, 2006, among Ares Capital CP Funding LLC, Ares Capital Corporation, each of the Conduit Purchasers and Institutional Purchasers from time to time party thereto, each of the Purchaser Agents from time to time party thereto, Wachovia Capital Markets, LLC, as administrative agent, U.S. Bank National Association, as trustee, and Lyon Financial Services, Inc. (D/B/A U.S. Bank Portfolio Services), as the backup servicer(11)
-

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- (k)(20) Amendment No. 9 to Sale and Servicing Agreement, dated as of October 18, 2007, by and among Ares Capital CP Funding LLC, Ares Capital Corporation, each of the Conduit Purchasers and Institutional Purchasers from time to time party thereto, each of the purchaser agents from time to time party thereto, Wachovia Capital Markets, LLC, as administrative agent and purchaser agent with respect to Variable Funding Capital Company LLC as conduit purchaser, U.S. Bank National Association, as trustee, and Lyon Financial Services, Inc. (D/B/A U.S. Bank Portfolio Services), as the backup servicer(12)
- (k)(21) 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(13)
- (l)(1) Opinion and Consent of Venable LLP, Maryland counsel for Registrant\*\*
- (l)(2) Opinion and Consent of Proskauer Rose LLP, counsel for Registrant\*\*
- (m) Not Applicable
- (n)(1) Consent of independent registered public accounting firm for Registrant\*
- (n)(2) Opinion of independent registered public accounting firm for Registrant, regarding "senior securities" table contained herein(14)
- (o) Not Applicable
- (p) Not Applicable
- (q) Not Applicable
- (r) Code of Ethics\*
- 

\*  
Filed herewith.

\*\*  
To be filed by amendment.

- (1) Incorporated by reference to Exhibits (a)(3) and (b)(2), as applicable, to the Registrant's pre-effective Amendment No. 1 to the Registration Statement under the Securities Act of 1933, as amended, on Form N-2, filed on September 17, 2004.
- (2) Incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K dated June 2, 2006.
- (3) Incorporated by reference to Exhibits (d), (j), (k)(2), (k)(4) and (k)(5), as applicable, to the Registrant's pre-effective Amendment No. 2 to the Registration Statement under the Securities Act of 1933, as amended, on Form N-2, filed on September 28, 2004.
- (4) Incorporated by reference to Exhibits 10.1 and 10.2, as applicable, to the Registrant's Form 8-K, dated November 3, 2004.
- (5) Incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K dated April 8, 2005.
- (6) Incorporated by reference to Exhibit 10.12 to the Registrant's Form 10-K for the year ended December 31, 2005.
- (7) Incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K dated November 14, 2005.
- (8) Incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K dated December 28, 2005.
- (9) Incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-Q for the quarter ended June 30, 2007.
-

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- (10) Incorporated by reference to Exhibits 10.2 through 10.8, as applicable, to the Registrant's Form 10-Q for the quarter ended June 30, 2006.
  - (11) Incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-Q for the quarter ended September 30, 2006.
  - (12) Incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K dated October 18, 2007.
  - (13) Incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K dated November 13, 2007.
  - (14) Incorporated by reference to Exhibit (n)(2) to the Registrant's pre-effective Amendment No. 1 to the Registration Statement under the Securities Act of 1933, as amended, on Form N-2, filed on March 19, 2007.
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### RISKS RELATING TO OUR BUSINESS

A failure on our part to maintain our status as a BDC would significantly reduce our operating flexibility.  
We are dependent upon Ares Capital Management's key personnel for our future success and upon their access to Ares investment professionals.  
Our financial condition and results of operation will depend on our ability to manage future growth effectively.  
Our ability to grow will depend on our ability to raise capital.  
We operate in a highly competitive market for investment opportunities.  
We will be subject to corporate-level income tax if we are unable to qualify as a RIC.  
We may have difficulty paying our required distributions if we recognize income before or without receiving cash representing such income.  
Regulations governing our operation as a BDC affect our ability to, and the way in which we, raise additional capital.  
We borrow money, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing with us.  
We may in the future determine to fund a portion of our investments with preferred stock, which would magnify the potential for gain or loss and the risks of investing in us in the same way as our borrowings.  
We will be exposed to risks associated with changes in interest rates.  
Many of our portfolio investments are not publicly traded and, as a result, there will be uncertainty as to the value of our portfolio investments.  
The lack of liquidity in our investments may adversely affect our business.  
We may experience fluctuations in our quarterly results.  
There are significant potential conflicts of interest that could impact our investment returns.  
Our investment adviser's liability is limited under the investment management agreement, and we will indemnify our investment adviser against certain liabilities, which may lead our investment adviser to act in a riskier manner on our behalf than it would when acting for its own account.  
We may be obligated to pay our investment adviser incentive compensation even if we incur a loss.

Changes in laws or regulations governing our operations, or changes in the interpretation thereof, and any failure by us to comply with laws or regulations governing our operations may adversely affect our business.

The Company may not replicate Ares' historical success.

Our ability to enter into transactions with our affiliates is restricted.

### RISKS RELATING TO OUR INVESTMENTS

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

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

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.

An investment strategy focused primarily on privately-held companies presents certain challenges, including the lack of available information about these companies and a greater vulnerability to economic downturns.

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

Investments in equity securities involve a substantial degree of risk.

Our incentive fee may induce Ares Capital Management to make certain investments, including speculative investments.

Our portfolio companies may be highly leveraged.

Our portfolio is concentrated in a limited number of portfolio companies, which subjects us to a risk of significant loss if any of these companies defaults on its repayment obligations.

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

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

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

### RISKS RELATING TO THE OFFERING

Investors in our equity securities may not receive dividends and our dividends may not grow over time.

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

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

The market price of our common stock may fluctuate significantly.

We may allocate the net proceeds from the offering in ways with which you may not agree.



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The market price of our common stock may decline following the offering and our shares of common stock may trade at discounts from net asset value.

There is no established trading market for the rights, which could make it more difficult for you to sell rights and could adversely affect their price.

We may terminate the rights offering at any time prior to the expiration of the subscription period, and neither we nor the subscription agent will have any obligation to you except to return your exercise payments.

Your interest in us may be diluted if you do not fully exercise your subscription rights.

Stockholders will experience dilution in their ownership percentage if they do not participate in our dividend reinvestment plan.

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.

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