

ARES CAPITAL CORP
Form 10-Q
November 02, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016

OR

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

For the transition period to

Commission File No. 814-00663

ARES CAPITAL CORPORATION

(Exact name of Registrant as specified in its charter)

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Maryland
(State or other jurisdiction of
incorporation or organization)

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

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

(Address of principal executive office) (Zip Code)

(212) 750-7300

(Registrant's telephone number, including area code)

N/A

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

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

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

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

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

Accelerated filer
Smaller reporting company

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

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

Class	Outstanding at October 28, 2016
Common stock, \$0.001 par value	313,954,008

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(in thousands, except per share data)

	September 30, 2016 (unaudited)	As of	December 31, 2015
ASSETS			
Investments at fair value			
Non-controlled/non-affiliate company investments	\$ 5,981,144	\$	6,481,333
Non-controlled affiliate company investments	175,473		195,074
Controlled affiliate company investments	2,648,034		2,379,089
Total investments at fair value (amortized cost of \$8,927,999 and \$9,147,646, respectively)	8,804,651		9,055,496
Cash and cash equivalents	125,089		257,056
Interest receivable	120,665		137,968
Receivable for open trades	21,664		
Other assets	63,789		56,292
Total assets	\$ 9,135,858	\$	9,506,812
LIABILITIES			
Debt	\$ 3,720,916	\$	4,113,935
Base management fees payable	33,923		34,125
Income based fees payable	33,052		31,234
Capital gains incentive fees payable	50,963		42,265
Accounts payable and other liabilities	51,730		60,587
Interest and facility fees payable	32,170		51,007
Payable for open trades	4,125		327
Total liabilities	3,926,879		4,333,480
Commitments and contingencies (Note 7)			
STOCKHOLDERS EQUITY			
Common stock, par value \$0.001 per share, 500,000 common shares authorized; 313,954 and 314,347 common shares issued and outstanding, respectively	314		314
Capital in excess of par value	5,312,800		5,318,277
Accumulated overdistributed net investment income	(3,262)		(894)
Accumulated net realized gains (losses) on investments, foreign currency transactions, extinguishment of debt and other assets	25,523		(53,013)
Net unrealized losses on investments, foreign currency and other transactions	(126,396)		(91,352)
Total stockholders equity	5,208,979		5,173,332
Total liabilities and stockholders equity	\$ 9,135,858	\$	9,506,812
NET ASSETS PER SHARE	\$ 16.59	\$	16.46

See accompanying notes to consolidated financial statements.

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	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
INVESTMENT INCOME:				
From non-controlled/non-affiliate company investments:				
Interest income from investments	\$ 134,098	\$ 128,814	\$ 411,856	\$ 376,257
Capital structuring service fees	33,786	27,883	60,440	49,410
Dividend income	6,226	4,045	23,215	11,957
Other income	3,203	2,583	9,708	8,683
Total investment income from non-controlled/non-affiliate company investments	177,313	163,325	505,219	446,307
From non-controlled affiliate company investments:				
Interest income from investments	4,211	3,629	12,155	10,948
Capital structuring service fees				2,205
Dividend income		38	40	1,407
Other income	49	66	275	196
Total investment income from non-controlled affiliate company investments	4,260	3,733	12,470	14,756
From controlled affiliate company investments:				
Interest income from investments	61,525	75,494	186,968	220,660
Capital structuring service fees	1,249	1,885	2,425	21,416
Dividend income	10,000	10,000	30,250	40,099
Management and other fees	3,879	6,148	13,506	18,421
Other income	444	363	1,144	2,015
Total investment income from controlled affiliate company investments	77,097	93,890	234,293	302,611
Total investment income	258,670	260,948	751,982	763,674
EXPENSES:				
Interest and credit facility fees	43,300	56,618	138,877	171,614
Base management fees	33,923	33,284	103,126	100,221
Income based fees	33,052	31,842	91,097	90,156
Capital gain incentive fees	(5,491)	(2,628)	8,698	834
Administrative fees	3,433	3,545	10,198	10,515
Professional fees and other costs related to the American Capital Acquisition	2,699		10,710	
Other general and administrative	6,488	6,926	20,814	22,652
Total expenses	117,404	129,587	383,520	395,992
NET INVESTMENT INCOME BEFORE INCOME TAXES	141,266	131,361	368,462	367,682
Income tax expense, including excise tax	3,570	884	12,772	7,025
NET INVESTMENT INCOME	137,696	130,477	355,690	360,657
REALIZED AND UNREALIZED GAINS (LOSSES) ON INVESTMENTS, FOREIGN CURRENCY AND OTHER TRANSACTIONS:				
Net realized gains (losses):				
Non-controlled/non-affiliate company investments	3,601	19,378	55,114	71,182

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Non-controlled affiliate company investments	12,223	25,897	13,097	26,230
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	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Controlled affiliate company investments	5,048		11,378	
Foreign currency transactions	(310)	2,462	(1,053)	6,327
Net realized gains	20,562	47,737	78,536	103,739
Net unrealized gains (losses):				
Non-controlled/non-affiliate company investments	(57,484)	(23,322)	(91,240)	(47,050)
Non-controlled affiliate company investments	(10,043)	(29,859)	11,724	(13,463)
Controlled affiliate company investments	23,506	(7,920)	48,490	(34,535)
Foreign currency and other transactions	(3,996)	(254)	(4,018)	(1,552)
Net unrealized losses	(48,017)	(61,355)	(35,044)	(96,600)
Net realized and unrealized gains (losses) from investments, foreign currency and other transactions	(27,455)	(13,618)	43,492	7,139
REALIZED LOSSES ON EXTINGUISHMENT OF DEBT				(3,839)
NET INCREASE IN STOCKHOLDERS' EQUITY RESULTING FROM OPERATIONS	\$ 110,241	\$ 116,859	\$ 399,182	\$ 363,957
BASIC AND DILUTED EARNINGS PER COMMON SHARE (see Note 10)	\$ 0.35	\$ 0.37	\$ 1.27	\$ 1.16
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING (see Note 10)	313,954	314,469	314,067	314,350

See accompanying notes to consolidated financial statements.

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As of September 30, 2016

(dollar amounts in thousands)

(unaudited)

Company(1)	Business Description	Investment	Interest(6)(12)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Investment Funds and Vehicles							
Covestia Capital Partners, LP (10)	Investment partnership	Limited partnership interest (47.00% interest)		6/17/2008	\$ 487	\$ 1,770(2)	
HCI Equity, LLC (8)(9)(10)	Investment company	Member interest (100.00% interest)		4/1/2010		128	
Imperial Capital Private Opportunities, LP (10)(26)	Investment partnership	Limited partnership interest (80.00% interest)		5/10/2007	4,054	17,131(2)	
Partnership Capital Growth Fund I, L.P. (10)	Investment partnership	Limited partnership interest (25.00% interest)		6/16/2006		194(2)	
Partnership Capital Growth Investors III, L.P. (10)(26)	Investment partnership	Limited partnership interest (2.50% interest)		10/5/2011	2,655	3,039(2)	
PCG-Ares Sidecar Investment II, L.P. (10)(26)	Investment partnership	Limited partnership interest (100.00% interest)		10/31/2014	7,456	11,430(2)	
PCG-Ares Sidecar Investment, L.P. (10)(26)	Investment partnership	Limited partnership interest (100.00% interest)		5/22/2014	3,355	2,796(2)	
Piper Jaffray Merchant Banking Fund I, L.P. (10)(26)	Investment partnership	Limited partnership interest (2.00% interest)		8/16/2012	1,664	1,491	
Senior Direct Lending Program, LLC (8)(10)(28)	Co-investment vehicle	Subordinated certificates (\$195,338 par due 12/2036)	8.86% (Libor + 8.00%/M)(22)	7/27/2016	195,338	195,338	
		Member interest (87.50% interest)		7/27/2016			
					195,338	195,338	
Senior Secured Loan Fund LLC (8)(11)(27)	Co-investment vehicle	Subordinated certificates (\$2,003,959 par due 12/2024)	8.86% (Libor + 8.00%/M)(21)	10/30/2009	1,938,446	1,899,754	
		Member interest (87.50% interest)		10/30/2009			
					1,938,446	1,899,754	
VSC Investors LLC (10)	Investment company	Membership interest (1.95% interest)		1/24/2008	299	1,124(2)	
					2,153,754	2,134,195	40.97%
Healthcare Services							
				1/5/2016	18,750	18,188(3)(20)	

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Absolute Dental Management LLC and ADM Equity, LLC	Dental services provider	First lien senior secured loan (\$18,750 par due 1/2022)	9.06% (Libor + 8.06%/Q)			
		First lien senior secured loan (\$5,000 par due 1/2022)	9.06% (Libor + 8.06%/Q)	1/5/2016	5,000	4,850(4)(20)
		Class A preferred units (4,000,000 units)		1/5/2016	4,000	1,901(2)
		Class A common units (4,000,000 units)		1/5/2016		(2)
					27,750	24,939
ADCS Billings Intermediate Holdings, LLC (25)	Dermatology practice	First lien senior secured revolving loan (\$1,375 par due 5/2022)	8.25%(Base Rate + 4.75%/Q)	5/18/2016	1,375	1,375(2)(20)(24)
ADG, LLC and RC IV GEDC Investor LLC (25)	Dental services provider	First lien senior secured revolving loan (\$2,117 par due 9/2022)	5.75% (Libor + 4.75%/Q)	9/28/2016	2,117	2,117(2)(20)
		First lien senior secured loan (\$33,388 par due 9/2023)	5.75% (Libor + 4.75%/Q)	9/28/2016	33,387	33,387(2)(20)
		Second lien senior secured loan (\$87,500 par due 3/2024)	10.00% (Libor + 9.00%/Q)	9/28/2016	87,500	87,500(2)(20)
		Membership units (3,000,000 units)		9/28/2016	3,000	3,000(2)
					126,004	126,004
Alegeus Technologies Holdings Corp.	Benefits administration and transaction processing provider	Preferred stock (2,997 shares)		12/13/2013	3,087	1,793
		Common stock (3 shares)		12/13/2013	3	

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As of September 30, 2016

(dollar amounts in thousands)

(unaudited)

Company(1)	Business Description	Investment	Interest(6)(12)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
					3,090	1,793	
Argon Medical Devices, Inc.	Manufacturer and marketer of single-use specialty medical devices	Second lien senior secured loan (\$9,000 par due 6/2022)	10.50% (Libor + 9.50%/Q)	12/23/2015	8,758	9,000(2)(20)	
AwarePoint Corporation	Healthcare technology platform developer	First lien senior secured loan (\$8,772 par due 6/2018)	10.50% (Libor + 9.50%/M)	9/5/2014	8,548	8,772(2)(20)	
		Warrant to purchase up to 3,213,367 shares of Series 1 preferred stock (expires 9/2024)		11/14/2014		609(2)	
					8,548	9,381	
CCS Intermediate Holdings, LLC and CCS Group Holdings, LLC (25)	Correctional facility healthcare operator	First lien senior secured revolving loan (\$3,750 par due 7/2019)	5.00% (Libor + 4.00%/Q)	7/23/2014	3,750	3,188(2)(20)(24)	
		First lien senior secured revolving loan (\$1,620 par due 7/2019)	6.50%(Base Rate + 3.00%/Q)	7/23/2014	1,620	1,377(2)(20)(24)	
		First lien senior secured loan (\$6,601 par due 7/2021)	5.00% (Libor + 4.00%/Q)	7/23/2014	6,579	5,611(2)(20)	
		Second lien senior secured loan (\$135,000 par due 7/2022)	9.38% (Libor + 8.38%/Q)	7/23/2014	134,017	101,250(2)(20)	
		Class A units (601,937 units)		8/19/2010		215(2)	
					145,966	111,641	
Correctional Medical Group Companies, Inc.	Correctional facility healthcare operator	First lien senior secured loan (\$3,088 par due 9/2021)	9.39% (Libor + 8.39%/Q)	9/29/2015	3,088	3,026(2)(20)	
		First lien senior secured loan (\$4,093 par due 9/2021)	9.39% (Libor + 8.39%/Q)	9/29/2015	4,093	4,011(2)(20)	
		First lien senior secured loan (\$44,707 par due 9/2021)	9.39% (Libor + 8.39%/Q)	9/29/2015	44,707	43,813(3)(20)	
					51,888	50,850	
DCA Investment Holding, LLC (25)	Multi-branded dental practice management	First lien senior secured revolving loan (\$5,774 par due 7/2021)	7.75%(Base Rate + 4.25%/Q)	7/2/2015	5,774	5,659(2)(20)(24)	
		First lien senior secured loan (\$18,945 par due 7/2021)	6.25% (Libor + 5.25%/Q)	7/2/2015	18,831	18,566(4)(20)	

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DNAnexus, Inc.	Bioinformatics company	First lien senior secured loan (\$10,075 par due 10/2018)	9.25% (Libor + 8.25%/M)	3/21/2014	24,605 9,861	24,225 10,075(2)(20)
		Warrant to purchase up to 909,092 units of Series C preferred stock (expires 3/2024)		3/21/2014		121(2)
Global Healthcare Exchange, LLC and GHX Ultimate Parent Corp.	On-demand supply chain automation solutions provider	Second lien senior secured loan (\$47,500 par due 8/2023)	9.75% (Libor + 8.75%/Q)	8/18/2016	9,861 46,787	10,196 47,500(2)(20)
		Class A common stock (1,788 shares)		3/11/2014	1,788	1,788(2)
		Class B common stock (980 shares)		3/11/2014	30	5,244(2)
					48,605	54,532
Greenphire, Inc. and RMCF III CIV XXIX, L.P (25)	Software provider for clinical trial management	First lien senior secured loan (\$1,500 par due 12/2018)	9.00% (Libor + 8.00%/M)	12/19/2014	1,500	1,500(2)(20)
		First lien senior secured loan (\$3,800 par due 12/2018)	9.00% (Libor + 8.00%/M)	12/19/2014	3,800	3,800(2)(20)
		Limited partnership interest (99.90% interest)		12/19/2014	999	1,590(2)
					6,299	6,890
Hygiena Borrower LLC (25)	Adenosine triphosphate testing technology provider	Second lien senior secured loan (\$10,000 par due 8/2023)	10.00% (Libor + 9.00%/Q)	8/26/2016	10,000	10,000(2)(20)
INC Research Mezzanine Co-Invest, LLC	Pharmaceutical and biotechnology consulting services	Common units (1,410,000 units)		9/27/2010		738(2)
Intermedix Corporation	Revenue cycle management provider to the emergency healthcare industry	Second lien senior secured loan (\$112,000 par due 6/2020)	9.25% (Libor + 8.25%/Q)	12/27/2012	112,000	107,520(2)(20)
Island Medical Management Holdings, LLC (25)	Provider of physician management services	First lien senior secured revolving loan (\$250 par due 9/2021)	6.00% (Libor + 5.00%/Q)	9/1/2016	250	250(2)(20)
		First lien senior secured loan (\$382 par due 9/2022)	6.00% (Libor + 5.00%/Q)	9/1/2016	382	382(2)(20)

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As of September 30, 2016

(dollar amounts in thousands)

(unaudited)

Company(1)	Business Description	Investment	Interest(6)(12)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
		First lien senior secured loan (\$6,228 par due 9/2022)	6.00% (Libor + 5.00%/Q)	9/1/2016	6,228	6,228(2)(20)	
					6,860	6,860	
MC Acquisition Holdings I, LLC	Healthcare professional provider	Class A units (1,338,314 shares)		1/17/2014	1,338	1,170(2)	
MW Dental Holding Corp. (25)	Dental services provider	First lien senior secured revolving loan (\$1,000 par due 4/2018)	8.50% (Libor + 7.00%/Q)	4/12/2011	1,000	1,000(2)(20)	
		First lien senior secured loan (\$44,972 par due 4/2018)	8.50% (Libor + 7.00%/Q)	4/12/2011	44,972	44,972(2)(20)	
		First lien senior secured loan (\$47,373 par due 4/2018)	8.50% (Libor + 7.00%/Q)	4/12/2011	47,373	47,373(3)(20)	
		First lien senior secured loan (\$19,591 par due 4/2018)	8.50% (Libor + 7.00%/Q)	4/12/2011	19,591	19,591(4)(20)	
					112,936	112,936	
My Health Direct, Inc. (25)	Healthcare scheduling exchange software solution provider	First lien senior secured loan (\$1,600 par due 1/2018)	10.75%	9/18/2014	1,581	1,600(2)	
		Warrant to purchase up to 4,548 shares of Series D preferred stock (expires 9/2024)		9/18/2014	39	40(2)	
					1,620	1,640	
New Trident Holdcorp, Inc.	Outsourced mobile diagnostic healthcare service provider	Second lien senior secured loan (\$80,000 par due 7/2020)	10.25% (Libor + 9.00%/Q)	8/6/2013	79,085	76,000(2)(20)	
NMSC Holdings, Inc. and ASP NAPA Holdings, LLC	Anesthesia management services provider	Second lien senior secured loan (\$72,796 par due 10/2023)	11.00% (Libor + 10.00%/Q)	4/19/2016	72,796	72,796(2)(20)	
		Class A units (25,277 units)		4/19/2016	2,528	2,488(2)	
					75,324	75,284	
Nodality, Inc.	Biotechnology company	First lien senior secured loan (\$2,743 par due 8/2016)		11/12/2015	2,533	2,585(2)(19)	
		First lien senior secured loan (\$10,885 par due 8/2016)		4/25/2014	9,694	773(2)(19)	
		Common stock (3,736,255 shares)		5/1/2016		(2)	
					12,227	3,358	
nThrive, Inc. (fka Precyse Acquisition Corp.)	Provider of healthcare information management technology and	Second lien senior secured loan (\$10,000 par due 4/2023)	10.75% (Libor + 9.75%/Q)	4/20/2016	9,624	10,000(2)(20)	

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services						
OmniSYS Acquisition Corporation, OmniSYS, LLC, and OSYS Holdings, LLC (25)	Provider of technology-enabled solutions to pharmacies	First lien senior secured loan (\$5,899 par due 11/2018)	8.50% (Libor + 7.50%/Q)	11/21/2013	5,899	5,899(4)(20)
		Limited liability company membership interest (1.57%)		11/21/2013	1,000	679(2)
					6,899	6,578
Patterson Medical Supply, Inc.	Distributor of rehabilitation supplies and equipment	Second lien senior secured loan (\$78,000 par due 8/2023)	9.50% (Libor + 8.50%/Q)	9/2/2015	76,070	78,000(2)(20)
PerfectServe, Inc. (25)	Communications software platform provider for hospitals and physician practices	First lien senior secured loan (\$9,000 par due 3/2020)	9.00% (Libor + 8.00%/M)	9/15/2015	8,714	9,000(2)(20)
		First lien senior secured loan (\$2,000 par due 6/2020)	9.00% (Libor + 8.00%/M)	9/15/2015	1,965	2,000(2)(20)
		First lien senior secured loan (\$3,000 par due 6/2021)	9.00% (Libor + 8.00%/M)	9/15/2015	2,960	3,000(2)(20)
		Warrant to purchase up to 28,428 shares of Series C preferred stock (expires 9/2025)		9/15/2015	180	256(2)
		Warrant to purchase up to 34,113 units of Series C preferred stock (expires 12/2023)		12/26/2013		307(2)
					13,819	14,563
PhyMED Management LLC	Provider of anesthesia services	Second lien senior secured loan (\$47,239 par due 5/2021)	9.75% (Libor + 8.75%/Q)	12/18/2015	46,616	45,821(2)(20)
Respicardia, Inc.	Developer of implantable therapies to improve cardiovascular health	Warrant to purchase up to 99,094 shares of Series C preferred stock (expires 6/2022)		6/28/2012	38	28(2)

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As of September 30, 2016

(dollar amounts in thousands)

(unaudited)

Company(1)	Business Description	Investment	Interest(6)(12)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Sarnova HC, LLC, Tri-Anim Health Services, Inc., and BEMS Holdings, LLC	Distributor of emergency medical service and respiratory products	Second lien senior secured loan (\$54,000 par due 7/2022)	10.50% (Libor + 9.50%/Q)	1/29/2016	54,000	54,000(2)(20)	
Transaction Data Systems, Inc.	Pharmacy management software provider	Second lien senior secured loan (\$27,500 par due 6/2022)	10.00% (Libor + 9.00%/Q)	6/15/2015	27,500	27,500(2)(20)	
U.S. Anesthesia Partners, Inc.	Anesthesiology service provider	Second lien senior secured loan (\$23,500 par due 9/2020)	10.25% (Libor + 9.25%/Q)	12/14/2015	23,500	23,500(2)(20)	
		Second lien senior secured loan (\$50,000 par due 9/2020)	10.25% (Libor + 9.25%/Q)	9/24/2014	50,000	50,000(2)(20)	