

ARES CAPITAL CORP
Form 10-Q
August 07, 2008

**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 June 30, 2008

OR

o

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

For the transition period to

Commission File No. 000-50697

ARES CAPITAL CORPORATION

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(Exact name of Registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

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

280 Park Avenue, 22nd Floor, Building East, New York, NY 10017

(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 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 Accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

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 August 7, 2008

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Common stock, \$0.001 par value

97,152,820

ARES CAPITAL CORPORATION

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ARES CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(dollar amounts in thousands, except per share data)

| | June 30, 2008 (unaudited) | As of | December 31, 2007 |
|--|------------------------------|-------|-------------------|
| ASSETS | | | |
| Investments at fair value (amortized cost of \$2,161,978 and \$1,795,621, respectively) | | | |
| Non-controlled/non-affiliate company investments | \$ 1,457,081 | \$ | 1,167,200 |
| Non-controlled affiliate company investments | 436,639 | | 430,371 |
| Controlled affiliate company investments | 196,732 | | 176,631 |
| Total investments at fair value | 2,090,452 | | 1,774,202 |
| Cash and cash equivalents | 77,047 | | 21,142 |
| Receivable for open trades | 587 | | 1,343 |
| Interest receivable | 24,588 | | 23,730 |
| Other assets | 8,382 | | 8,988 |
| Total assets | \$ 2,201,056 | \$ | 1,829,405 |
| LIABILITIES | | | |
| Debt | \$ 847,734 | \$ | 681,528 |
| Accounts payable and accrued expenses | 5,439 | | 5,516 |
| Management and incentive fees payable | 16,694 | | 13,041 |
| Interest and facility fees payable | 2,641 | | 4,769 |
| Total liabilities | \$ 872,508 | \$ | 704,854 |
| Commitments and contingencies (Note 6) | | | |
| STOCKHOLDERS EQUITY | | | |
| Common stock, par value \$.001 per share, 200,000,000 and 100,000,000 common shares authorized, respectively, 97,152,820 and 72,684,090 common shares issued and outstanding, respectively | | 97 | 73 |
| Capital in excess of par value | 1,399,467 | | 1,136,599 |
| Accumulated undistributed net investment income | (624) | | 7,005 |
| Accumulated undistributed net realized gain on sale of investments and foreign currencies | 17 | | 1,471 |
| Net unrealized loss on investments and foreign currencies | (70,409) | | (20,597) |
| Total stockholders equity | 1,328,548 | | 1,124,551 |
| Total liabilities and stockholders equity | \$ 2,201,056 | \$ | 1,829,405 |
| NET ASSETS PER SHARE | \$ 13.67 | \$ | 15.47 |

See accompanying notes to consolidated financial statements.

ARES CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS

(dollar amounts in thousands, except per share data)

| | For the three months ended | | For the six months ended | |
|---|------------------------------|------------------------------|------------------------------|------------------------------|
| | June 30, 2008 (unaudited) | June 30, 2007 (unaudited) | June 30, 2008 (unaudited) | June 30, 2007 (unaudited) |
| INVESTMENT INCOME: | | | | |
| From non-controlled/non-affiliate company investments: | | | | |
| Interest from investments | \$ 37,768 | \$ 34,251 | \$ 72,734 | \$ 64,145 |
| Capital structuring service fees | 8,421 | 1,982 | 11,146 | 6,267 |
| Interest from cash & cash equivalents | 441 | 671 | 989 | 1,492 |
| Dividend income | 375 | 375 | 871 | 750 |
| Other income | 583 | 389 | 1,408 | 507 |
| Total investment income from non-controlled/non-affiliate company investments | 47,588 | 37,668 | 87,148 | 73,161 |
| From non-controlled affiliate company investments: | | | | |
| Interest from investments | 8,198 | 5,469 | 16,697 | 9,416 |
| Capital structuring service fees | | 3,225 | 1,095 | 3,262 |
| Dividend income | 218 | 503 | 266 | 503 |
| Other income | 378 | 314 | 619 | 552 |
| Total investment income from non-controlled affiliate company investments | 8,794 | 9,511 | 18,677 | 13,733 |
| From controlled affiliate company investments: | | | | |
| Interest from investments | 3,758 | 55 | 6,180 | 55 |
| Capital structuring service fees | 2,900 | 165 | 3,000 | 165 |
| Other income | 424 | | 666 | |
| Total investment income from controlled affiliate company investments | 7,082 | 220 | 9,846 | 220 |
| Total investment income | 63,464 | 47,399 | 115,671 | 87,114 |
| EXPENSES: | | | | |
| Interest and credit facility fees | 7,155 | 7,565 | 17,078 | 16,114 |
| Base management fees | 7,679 | 5,814 | 14,766 | 10,903 |
| Incentive management fees | 9,015 | 6,229 | 15,508 | 10,983 |
| Professional fees | 1,653 | 1,524 | 2,871 | 2,489 |
| Insurance | 349 | 266 | 626 | 531 |
| Administrative | 365 | 235 | 900 | 445 |
| Depreciation | 102 | 102 | 204 | 203 |
| Directors fees | 66 | 63 | 140 | 128 |
| Other | 881 | 653 | 1,728 | 1,415 |
| Total expenses | 27,265 | 22,451 | 53,821 | 43,211 |
| NET INVESTMENT INCOME BEFORE INCOME TAXES | 36,199 | 24,948 | 61,850 | 43,903 |
| Income tax expense (benefit), including excise tax | 138 | (43) | (184) | (33) |
| NET INVESTMENT INCOME | 36,061 | 24,991 | 62,034 | 43,936 |
| REALIZED AND UNREALIZED GAINS (LOSSES) ON INVESTMENTS AND FOREIGN CURRENCY | | | | |

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| TRANSACTIONS: | | | | |
|---|------------|------------|------------|------------|
| Net realized gains (losses): | | | | |
| Non-controlled/non-affiliate company investments | 10 | (8,113) | 217 | (7,844) |
| Non-controlled affiliate company investments | 1 | 230 | 1 | 320 |
| Controlled affiliate company investments | | | | |
| Foreign currency transactions | 6 | | (2) | |
| Net realized gains (losses) | 17 | (7,883) | 216 | (7,524) |
| Net unrealized gains (losses): | | | | |
| Non-controlled/non-affiliate company investments | (9,990) | 14,376 | (28,594) | 12,284 |
| Non-controlled affiliate company investments | (13,116) | 2,083 | (23,858) | 8,460 |
| Controlled affiliate company investments | (9,700) | | 2,633 | |
| Foreign currency transactions | | | 7 | |
| Net unrealized gains (losses) | (32,806) | 16,459 | (49,812) | 20,744 |
| Net realized and unrealized gains (losses) from investments and foreign currency transactions | | | | |
| | (32,789) | 8,576 | (49,596) | 13,220 |
| NET INCREASE IN STOCKHOLDERS EQUITY | | | | |
| RESULTING FROM OPERATIONS | \$ 3,272 | \$ 33,567 | \$ 12,438 | \$ 57,156 |
| BASIC AND DILUTED EARNINGS PER COMMON | | | | |
| SHARE (see Note 4) | \$ 0.04 | \$ 0.48 | \$ 0.15 | \$ 0.91 |
| WEIGHTED AVERAGE SHARES OF COMMON STOCK | | | | |
| OUTSTANDING BASIC AND DILUTED (see Note 4) | 90,125,629 | 70,117,970 | 82,097,395 | 62,544,682 |

See accompanying notes to consolidated financial statements.

ARES CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

As of June 30, 2008 (unaudited)

(dollar amounts in thousands, except per unit data)

| Company(1) | Industry | Investment | Interest(10) | Initial Acquisition Date | Amortized Cost | Fair Value | Fair Value Per Unit | Percentage of Net Assets |
|---|------------------------------|--|-----------------------------|--------------------------|----------------|------------|---------------------|--------------------------|
| Healthcare Services | | | | | | | | |
| American Renal Associates, Inc. | Dialysis provider | Senior secured loan (\$1,803 par due 12/2010) | 6.06% (Libor+ 3.25%/Q) | 12/14/05 | \$ 1,803 | \$ 1,803 | \$ | 1.00(3) |
| | | Senior secured loan (\$180 par due 12/2010) | 6.75% (Base Rate + 1.75%/D) | 12/14/05 | 180 | 180 | \$ | 1.00(3) |
| | | Senior secured loan (\$5,738 par due 12/2011) | 6.06% (Libor+ 3.25%/Q) | 12/14/05 | 5,738 | 5,738 | \$ | 1.00(3) |
| | | Senior secured loan (\$31 par due 12/2011) | 6.75% (Base Rate + 1.75%/D) | 12/14/05 | 31 | 31 | \$ | 1.00(3) |
| | | Senior secured loan (\$262 par due 12/2011) | 6.06% (Libor+ 3.25%/Q) | 12/14/05 | 262 | 262 | \$ | 1.00(3) |
| | | Senior secured loan (\$2,620 par due 12/2011) | 5.94% (Libor + 3.25%/Q) | 12/14/05 | 2,620 | 2,620 | \$ | 1.00(3) |
| Capella Healthcare, Inc. | Acute care hospital operator | Junior secured loan (\$65,000 par due 2/2016) | 13.00% | 2/29/08 | 65,000 | 65,000 | \$ | 1.00 |
| | | Junior secured loan (\$30,000 par due 2/2016) | 13.00% | 2/29/08 | 30,000 | 30,000 | \$ | 1.00(2) |
| CT Technologies Intermediate Holdings, Inc. and CT Technologies Holdings, LLC (6) | Healthcare analysis services | Senior secured revolving loan (\$810 par due 3/2012) | 7.98% (Libor + 5.00%/A) | 6/15/07 | 810 | 810 | \$ | 1.00 |
| | | Senior secured revolving loan (\$810 par due 3/2012) | 9.65% (Libor + 5.00%/B) | 6/15/07 | 810 | 810 | \$ | 1.00 |
| | | Senior secured revolving loan (\$810 par due 3/2012) | 7.90% (Libor + 5.00%/B) | 6/15/07 | 810 | 810 | \$ | 1.00 |
| | | Senior secured revolving loan (\$900 par due 3/2012) | 9.00% (Base Rate + 4.00%/D) | 6/15/07 | 900 | 900 | \$ | 1.00 |
| | | Senior secured loan (\$13,833 par due 3/2012) | 9.65% (Libor + 5.00%/S) | 6/15/07 | 13,800 | 13,142 | \$ | 0.95 |
| | | Senior secured loan (\$4,000 par due 3/2012) | 9.65% (Libor + 5.00%/S) | 6/15/07 | 4,000 | 3,800 | \$ | 0.95(3) |

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| | | | | | |
|---|-------------------------|---------|--------|----------|-------------|
| Senior secured loan (\$6,787 par due 3/2012) | 7.98% (Libor + 5.00%/A) | 6/15/07 | 6,771 | 6,448 \$ | 0.95 |
| Senior secured loan (\$1,963 par due 3/2012) | 7.98% (Libor + 5.00%/A) | 6/15/07 | 1,963 | 1,864 \$ | 0.95(3) |
| Senior secured loan (\$10,116 par due 3/2012) | 8.09% (Libor + 5.00%/A) | 6/15/07 | 10,066 | 9,610 \$ | 0.95 |
| Senior secured loan (\$2,925 par due 3/2012) | 8.09% (Libor + 5.00%/A) | 6/15/07 | 2,925 | 2,779 \$ | 0.95(3) |
| Senior secured loan (\$10,245 par due 3/2012) | 7.78% (Libor + 5.00%/A) | 6/15/07 | 10,245 | 9,733 \$ | 0.95 |
| Senior secured loan (\$2,963 par due 3/2012) | 7.78% (Libor + 5.00%/A) | 6/15/07 | 2,963 | 2,814 \$ | 0.95(3) |
| Preferred stock (6,925 shares) | 14.00% PIK | 6/15/07 | 6,925 | 6,925 \$ | 1,000.00(4) |
| Common stock (9,679 shares) | | 6/15/07 | 4,000 | 4,000 \$ | 413.27(5) |

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| Company(1) | Industry | Investment | Interest(10) | Initial Acquisition Date | Amortized Cost | Fair Value | Fair Value Per Unit | Percentage of Net Assets |
|---|---|--|-----------------------------|--|-------------------------|------------|---------------------|--------------------------|
| | | Common stock (1,546 shares) | | 6/15/07 | | \$ | | (5) |
| DSI Renal, Inc. | Dialysis provider | Senior subordinated note (\$54,473 par due 4/2014) | 12.00% Cash, 2.00% PIK | 4/4/06 | 54,539 | 54,473 | \$ | 1.00(4) |
| | | Senior subordinated note (\$11,693 par due 4/2014) | 12.00% Cash, 2.00% PIK | 4/4/06 | 11,693 | 11,693 | \$ | 1.00(4)(3) |
| | | Senior secured revolving loan (\$122 par due 3/2013) | 8.00% (Base Rate + 3.00%/D) | 4/4/06 | 122 | 109 | \$ | 0.90 |
| | | Senior secured revolving loan (\$1,600 par due 3/2013) | 5.68% (Libor + 3.00%/Q) | 4/4/06 | 1,600 | 1,440 | \$ | 0.90 |
| | | Senior secured revolving loan (\$1,920 par due 3/2013) | 5.67% (Libor + 3.00%/B) | 4/4/06 | 1,920 | 1,728 | \$ | 0.90 |
| | | Senior secured revolving loan (\$1,120 par due 3/2013) | 5.92% (Libor + 3.00%/Q) | 4/4/06 | 1,120 | 1,008 | \$ | 0.90 |
| | | Senior secured revolving loan (\$1,152 par due 3/2013) | 5.92% (Libor + 3.00%/Q) | 4/4/06 | 1,152 | 1,037 | \$ | 0.90 |
| | | Senior secured revolving loan (\$1,600 par due 3/2013) | 5.75% (Libor + 3.00%/Q) | 4/4/06 | 1,600 | 1,440 | \$ | 0.90 |
| | | GG Merger Sub I, Inc. | Drug testing services | Senior secured loan (\$23,330 par due 12/2014) | 6.79% (Libor + 4.00%/Q) | 12/14/07 | 22,354 | 21,930 |
| HCP Acquisition Holdings, LLC (7) | Healthcare compliance advisory services | Class A units (8,100,000 units) | | 6/26/08 | 8,100 | 8,100 | \$ | 1.00(5) |
| MPBP Holdings, Inc., Cohr Holdings, Inc. and MPBP Acquisition Co., Inc. | Healthcare equipment services | Junior secured loan (\$20,000 par due 1/2014) | 9.19% (Libor + 6.25%/Q) | 1/31/07 | 20,000 | 12,000 | \$ | 0.60 |
| | | Junior secured loan (\$12,000 par due 1/2014) | 9.19% (Libor + 6.25%/Q) | 1/31/07 | 12,000 | 7,200 | \$ | 0.60(3) |
| | | Common stock (50,000 shares) | | 1/31/07 | 5,000 | | \$ | (5) |
| MWD Acquisition Sub, Inc. | Dental services | Junior secured loan (\$5,000 par due 5/2012) | 9.13% (Libor + 6.25%/S) | 5/3/07 | 5,000 | 4,500 | \$ | 0.90 |
| OnCURE Medical Corp. | Radiation oncology care provider | Senior subordinated note (\$26,254 par due 8/2013) | 11.00% Cash, 1.50% PIK | 8/18/06 | 26,254 | 25,729 | \$ | 4 0.98(4) |
| | | Senior secured loan (\$1,612 par due 8/2009) | 6.00% (Libor + 3.50%/M) | 8/18/06 | 1,612 | 1,548 | \$ | 0.96 |

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| | | | | | | | |
|---|--|---|--------------------------------|---------|--------|-----------|---------|
| | | Common stock (857,143 shares) | | 8/18/06 | 3,000 | 3,000 \$ | 3.50(5) |
| Passport Health Communications, Inc. | Healthcare technology provider | Senior secured loan (\$25,000 par due 5/2014) | 10.50% (Libor + 7.50%/S) | 5/9/08 | 25,000 | 25,000 \$ | 1.00 |
| PG Mergersub, Inc. | Provider of patient surveys, management reports and national databases for the integrated healthcare delivery system | Senior subordinated loan (\$5,000 par due 3/2016) | 12.50% | 3/12/08 | 4,900 | 4,900 \$ | 0.98 |

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| Company(1) | Industry | Investment | Interest(10) | Initial Acquisition Date | Amortized Cost | Fair Value | Fair Value Per Unit | Percentage of Net Assets |
|---|----------------------------------|---|---|--------------------------|----------------|------------|---------------------|--------------------------|
| | | Preferred stock (333 shares) | | 3/12/08 | 333 | 333 \$ | 1,000.00(5) | |
| | | Class A Common stock (16,667 shares) | | 3/12/08 | 167 | 167 \$ | 10.00(5) | |
| Triad Laboratory Alliance, LLC | Laboratory services | Senior subordinated note (\$15,221 par due 12/2012) | 12.00% cash, 1.75% PIK | 12/21/05 | 15,221 | 15,221 \$ | 1.00(4) | |
| | | Senior secured loan (\$2,925 par due 12/2011) | 6.05% (Libor + 3.25%/Q) | 12/21/05 | 2,924 | 2,633 \$ | 0.90(3) | |
| VOTC Acquisition Corp. | Radiation oncology care provider | Senior secured loan (\$2,946 par due 7/2012) | 15.78% (Libor + 11.00% Cash, 2.00% PIK/Q) | 6/30/08 | 2,946 | 2,946 \$ | 1.00(4) | |
| | | | | | 401,179 | 378,214 | | 28.44% |
| Beverage, Food and Tobacco | | | | | | | | |
| 3091779 Nova Scotia Inc. | Baked goods manufacturer | Junior secured loan (Cdn\$14,000 par due 11/2012) | 11.50% | 11/2/07 | 14,850 | 13,734 \$ | 1.00(12) | |
| | | Warrants to purchase 57,545 shares | | | | \$ | (5) | |
| Apple & Eve, LLC and US Juice Partners, LLC (6) | Juice manufacturer | Senior secured revolving loan (\$1,846 par due 10/2013) | 8.92% (Libor + 6.00%/Q) | 10/5/07 | 1,846 | 1,846 \$ | 1.00 | |
| | | Senior secured revolving loan (\$3,500 par due 10/2013) | 10.00% (Base Rate + 5.00%/D) | 10/5/07 | 3,500 | 3,500 \$ | 1.00 | |
| | | Senior secured revolving loan (\$1,000 par due 10/2013) | 8.78% (Libor + 6.00%/Q) | 10/5/07 | 1,000 | 1,000 \$ | 1.00 | |
| | | Senior secured loan (\$33,660 par due 10/2013) | 9.02% (Libor + 6.00%/S) | 10/5/07 | 33,660 | 31,977 \$ | 0.95 | |
| | | Senior secured loan (\$11,880 par due 10/2013) | 9.02% (Libor + 6.00%/S) | 10/5/07 | 11,880 | 11,286 \$ | 0.95(3) | |
| | | Senior secured loan (\$85 par due 10/2013) | 8.80% (Libor + 6.00%/Q) | 10/5/07 | 85 | 81 \$ | 0.95 | |
| | | Senior secured loan (\$30 par due 10/2013) | 8.80% (Libor + 6.00%/Q) | 10/5/07 | 30 | 29 \$ | 0.95(3) | |
| | | Senior units (50,000 units) | | 10/5/07 | 5,000 | 5,000 \$ | 100.00(5) | |
| Best Brands Corporation | Baked goods manufacturer | Senior secured loan (\$7,626 par due 12/2012) | 9.70 (Libor + 7.00%/Q) | 2/15/2008 | 7,033 | 7,680 \$ | 1.00 | |
| | | Junior secured loan (\$1,007 par due 6/2013) | 16.73% (Libor + 5.00% Cash, | 12/14/06 | 1,007 | 1,007 \$ | 1.00(4) | |

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|---------------------|-------------|----------|--------|--------|----|------------|
| | 7.00% | | | | | |
| | PIK/Q) | | | | | |
| Junior secured loan | 16.73% | 12/14/06 | 27,802 | 27,800 | \$ | 1.00(2)(4) |
| (\$27,801 par due | (Libor + | | | | | |
| 6/2013) | 5.00% Cash, | | | | | |
| | 7.00% | | | | | |
| | PIK/Q) | | | | | |

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| Company(1) | Industry | Investment | Interest(10) | Initial Acquisition Date | Amortized Cost | Fair Value | Fair Value Per Unit | Percentage of Net Assets |
|---|--|---|---|--------------------------|----------------|------------|---------------------|--------------------------|
| | | Junior secured loan (\$11,451 par due 6/2013) | 16.73% (Libor + 5.00% Cash, 7.00% PIK/Q) | 12/14/06 | 11,451 | 11,451 \$ | | 1.00(3)(4) |
| Charter Baking Company, Inc. | Baked goods manufacturer | Senior subordinated note (\$5,000 par due 2/2013) | 12.00% | 2/6/08 | 5,000 | 5,000 \$ | | 1.00 |
| | | Preferred stock (6,258 shares) | | 9/1/06 | 2,500 | 2,500 \$ | | 399.48(5) |
| OTG Management, Inc. | Airport restaurant operator | Junior secured loan (\$10,136 par due 6/2013) | 18.00% (Libor + 11.00% Cash, 4.00% PIK/M) | 6/19/08 | 10,136 | 10,136 \$ | | 1.00(4) |
| | | Warrants to purchase up to 9 shares of common stock | | | | \$ | | (5) |
| Vistar Corporation and Wellspring Distribution Corp. | Foodservice distributor | Senior subordinated note (\$73,625 par due 5/2015) | 13.50% | 5/23/08 | 73,625 | 73,625 \$ | | 1.00 |
| | | Class A non-voting common stock (1,366,120 shares) | | 5/23/08 | 7,500 | 7,500 \$ | | 1.00(5) |
| | | | | | 217,905 | 215,152 | | 16.18% |
| Education | | | | | | | | |
| Campus Management Corp. and Campus Management Acquisition Corp. (6) | Education software developer | Senior secured loan (\$44,888 par due 8/2013) | 11.00% | 2/8/08 | 44,888 | 44,888 \$ | | 1.00 |
| | | Preferred stock (422,764 shares) | 8.00% PIK | 2/8/08 | 7,674 | 7,674 \$ | | 18.15(4) |
| ELC Acquisition Corporation | Developer, manufacturer and retailer of educational products | Senior secured loan (\$264 par due 11/2012) | 6.27% (Libor + 3.25%/S) | 11/30/06 | 264 | 264 \$ | | 1.00(3) |
| | | Junior secured loan (\$8,333 par due 11/2013) | 9.80% (Libor + 7.00%/Q) | 11/30/06 | 8,333 | 8,333 \$ | | 1.00(3) |
| Equinox EIC Partners, LLC and MUA Management Company, Ltd. (7) (8) | Medical school operator | Senior secured revolving loan (\$3,350 par due 12/2012) | 10.00% (Base Rate + 5.00%/D) | 4/3/07 | 3,350 | 3,350 \$ | | 1.43 |
| | | Senior secured revolving loan (\$3,500 par due 12/2012) | 8.80% (Libor + 6.00%/Q) | 4/3/07 | 3,500 | 3,500 \$ | | 1.00 |
| | | Senior secured revolving loan (\$3,450 par due 12/2012) | 10.00% (Base Rate + 5.00%/D) | 4/3/07 | 3,450 | 3,450 \$ | | 1.00 |

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|--|-------------------------|---------|--------|-----------|--|---------|
| 12/2012) | | | | | | |
| Senior secured loan (\$3,637 par due 12/2012) | 9.19% (Libor + 6.00%/S) | 4/3/07 | 3,637 | 3,637 \$ | | 1.00 |
| Senior secured loan (\$613 par due 12/2012) | 8.81% (Libor + 6.00%/Q) | 4/3/07 | 613 | 613 \$ | | 1.00 |
| Senior secured loan (\$14,113 par due 12/2012) | 8.54% (Libor + 6.00%/S) | 9/21/07 | 14,113 | 14,113 \$ | | 1.00 |
| Senior secured loan (\$7,400 par due 12/2012) | 8.72% (Libor + 6.00%/Q) | 4/3/07 | 7,400 | 7,400 \$ | | 1.00(3) |
| Common membership interest (26.27% interest) | | 9/21/07 | 15,000 | 20,000 | | (5) |

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| Company(1) | Industry | Investment | Interest(10) | Initial Acquisition Date | Amortized Cost | Fair Value | Fair Value Per Unit | Percentage of Net Assets |
|--|-------------------------|---|-------------------------|--------------------------|----------------|------------|---------------------|--------------------------|
| (8) | Private school operator | Senior secured revolving loan (\$1,500 par due 3/2014) | 5.68% (Libor + 3.00%/Q) | 3/15/07 | 1,500 | 1,500 \$ | 1.00 | |
| | | Senior secured revolving loan (\$1,643 par due 3/2014) | 5.68% (Libor + 3.00%/Q) | 3/15/07 | 1,643 | 1,643 \$ | 1.00 | |
| | | Senior secured revolving loan (\$821 par due 3/2014) | 5.80% (Libor + 3.00%/Q) | 3/15/07 | 821 | 821 \$ | 1.00 | |
| | | Senior secured revolving loan (\$1,125 par due 3/2014) | 5.92% (Libor + 3.00%/Q) | 3/15/07 | 1,125 | 1,125 \$ | 1.00 | |
| | | Senior secured loan (\$7,500 par due 3/2014) | 7.87% (Libor + 5.00%/Q) | 3/15/07 | 7,500 | 7,500 \$ | 1.00 | |
| | | Senior secured loan (\$12,315 par due 3/2014) | 7.87% (Libor + 5.00%/Q) | 3/15/07 | 12,315 | 12,315 \$ | 1.00 | |
| | | Senior secured loan (\$11,880 par due 3/2014) | 7.87% (Libor + 5.00%/Q) | 3/15/07 | 11,880 | 11,880 \$ | 1.00(3) | |
| | | Senior subordinated loan (\$19,302 par due 6/2014) | 10.50% Cash, 3.50% PIK | 6/4/08 | 19,302 | 19,302 \$ | 1.00(4) | |
| | | Promissory note (\$429 par due 9/2015) | 6.00% | 6/4/08 | 429 | 857 \$ | 2.00 | |
| | | Preferred stock (214,286 shares) | | 6/4/08 | 1,018 | 2,036 \$ | 9.50(5) | |
| Common stock (214,286 shares) | | 6/4/08 | 54 | 107 \$ | 0.50(5) | | | |
| Lakeland Finance, LLC | Private school operator | Senior secured note (\$18,000 par due 12/2012) | 11.50% | 12/13/05 | 18,000 | 18,000 \$ | 1.00 | |
| | | Senior secured note (\$15,000 par due 12/2012) | 11.50% | 12/13/05 | 15,000 | 15,000 \$ | 1.00(2) | |
| | | | | | 202,809 | 209,308 | 15.74% | |
| Financial | | | | | | | | |
| Abingdon Investments Limited (6) (8) (9) | Investment company | Ordinary shares (948,500 shares) | | 12/15/06 | 9,033 | 6,316 \$ | 6.66(5) | |
| Firstlight Financial Corporation (6) (9) | Investment company | Senior subordinated loan (\$68,214 par due 12/2016) | 10.00% PIK | 12/31/06 | 68,195 | 68,195 \$ | 1.00(4) | |
| | | Common stock (10,000 shares) | | 12/31/06 | 10,019 | 6,269 \$ | 625.00(5) | |
| | | Common stock (30,000 shares) | | 12/31/06 | 30,000 | 18,750 \$ | 625.00(5) | |
| Ivy Hill Middle Market Credit Fund, Ltd. (7) (8) (9) | Investment company | ClassB deferrable interest notes (\$40,000 par due 11/2018) | 8.66% (Libor + 6.00%/Q) | 11/20/07 | 40,000 | 40,000 \$ | 1.00 | |
| | | Subordinated notes (\$16,000 par due 11/2018) | | 11/20/07 | 16,000 | 14,400 \$ | 0.90(5) | |

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|--|-----------------------------------|--|---------|-----|--------|------|
| Imperial Capital Group, LLC and Imperial Capital Private Opportunities, LP (6) (9) | Investment banking services | Limited partnership interest (80% interest) | 5/10/07 | 584 | 584 \$ | 1.00 |
|--|-----------------------------------|--|---------|-----|--------|------|

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| Company(1) | Industry | Investment | Interest(10) | Initial Acquisition Date | Amortized Cost | Fair Value | Fair Value Per Unit | Percentage of Net Assets |
|--|-----------------------------|--|-------------------------|--------------------------|----------------|------------|---------------------|--------------------------|
| | | Common units (7,710 units) | | 5/10/07 | 14,997 | 14,997 \$ | 1,945.16(5) | |
| | | Common units (2,526 units) | | 5/10/07 | 3 | 3 \$ | 1.00(5) | |
| | | Common units (315 units) | | 5/10/07 | | \$ | (5) | |
| Partnership Capital Growth Fund I, L.P. (9) | Investment partnership | Limited partnership interest (25% interest) | | 6/16/06 | 2,260 | 2,260 | | (5) |
| VSC Investors LLC (9) | Investment company | Membership interest (4.63% interest) | | 1/24/08 | 290 | 290 | | (5) |
| | | | | | 191,381 | 172,064 | | 13.06% |
| Retail | | | | | | | | |
| Apogee Retail, LLC | For-profit thrift retailer | Senior secured revolving loan (\$780 par due 3/2012) | 7.75% (Libor + 5.25%/S) | 3/27/07 | 780 | 780 \$ | | 1.00 |
| | | Senior secured loan (\$7,331 par due 3/2012) | 7.75% (Libor + 5.25%/S) | 3/27/07 | 7,331 | 7,331 \$ | | 1.00 |
| | | Senior secured loan (\$19,750 par due 3/2012) | 7.75% (Libor + 5.25%/S) | 3/27/07 | 19,750 | 19,750 \$ | | 1.00(2) |
| | | Senior secured loan (\$11,850 par due 3/2012) | 7.75% (Libor + 5.25%/S) | 3/27/07 | 11,850 | 11,850 \$ | | 1.00(3) |
| | | Senior secured loan (\$4,876 par due 3/2012) | 8.03% (Libor + 5.25%/S) | 3/27/07 | 4,876 | 4,876 \$ | | 1.00 |
| | | Senior secured loan (\$10,739 par due 11/2012) | 12.00% Cash, 4.00% PIK | 5/28/08 | 10,739 | 10,739 \$ | | 1.00(4) |
| Hudson Group, Inc. and Advent - Hudson, LLC | Retail newstand operator | Junior secured loan (\$35,139 par due 3/2015) | 11.50% Cash, 1.50% PIK | 3/28/08 | 35,139 | 35,139 \$ | | 1.00(4) |
| | | Membership units (6,057,000 units) | | 3/28/08 | 3,000 | 3,000 \$ | | 0.50(5) |
| Savers, Inc. and SAI Acquisition Corporation | For-profit thrift retailer | Senior subordinated note (\$28,000 par due 8/2014) | 10.00% cash, 2.00% PIK | 8/8/06 | 28,000 | 28,000 \$ | | 1.00(2) (4) |
| | | Common stock (1,170,182 shares) | | 8/8/06 | 4,500 | 5,800 \$ | | 4.96(5) |
| Things Remembered, Inc. and TRM Holdings Corporation | Personalized gifts retailer | Senior secured loan (\$4,728 par due 9/2012) | 7.47% (Libor + 4.75%/M) | 9/28/06 | 4,728 | 4,728 \$ | | 1.00(3) |
| | | Senior secured loan (\$14,000 par due 9/2012) | 8.48% (Libor + 6.00%/M) | 9/28/06 | 14,000 | 14,000 \$ | | 1.00(2) |
| | | Senior secured loan (\$14,000 par due 9/2012) | 8.48% (Libor + 6.00%/M) | 9/28/06 | 14,000 | 14,000 \$ | | 1.00 |
| | | Senior secured loan (\$7,200 par due 9/2012) | 8.48% (Libor + 6.00%/M) | 9/28/06 | 7,200 | 7,200 \$ | | 1.00(3) |
| | | Preferred stock (80 shares) | | 9/28/06 | 1,800 | 1,800 \$ | | 22,500.00(5) |

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| | | | | |
|---------------------------|---------|---------|---------|-----------|
| Common stock (800 shares) | 9/28/06 | 200 | 200 \$ | 250.00(5) |
| | | 167,893 | 169,193 | 12.72% |

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| Company(1) | Industry | Investment | Interest(10) | Initial Acquisition Date | Amortized Cost | Fair Value | Fair Value Per Unit | Percentage of Net Assets |
|---|--|---|-----------------------------|--------------------------|----------------|------------|---------------------|--------------------------|
| Business Services | | | | | | | | |
| Investor Group Services, LLC (16) | Financial services | Limited liability company membership interest (10.00% interest) | | 6/22/06 | | 500 \$ | 5,000.00(5) | |
| Miller Heiman, Inc. | Sales consulting services | Senior secured loan (\$635 par due 6/2010) | 6.27% (Libor + 3.25%/S) | 6/20/05 | 635 | 635 \$ | 1.00(3) | |
| | | Senior secured loan (\$3,967 par due 6/2012) | 7.50% (Base Rate + 2.50%/D) | 6/20/05 | 3,967 | 3,967 \$ | 1.00(3) | |
| Pillar Holdings LLC and PHL Holding Co. (6) | Mortgage services | Senior secured revolving loan (\$375 par due 11/2013) | 7.98% (Libor + 5.50%/M) | 11/20/07 | 375 | 375 \$ | 1.00 | |
| | | Senior secured revolving loan (\$938 par due 11/2013) | 8.30% (Libor + 5.50%/Q) | 11/20/07 | 938 | 938 \$ | 1.00 | |
| | | Senior secured loan (\$19,033 par due 11/2013) | 8.30% (Libor + 5.50%/Q) | 11/20/07 | 19,033 | 19,033 \$ | 1.00 | |
| | | Senior secured loan (\$11,880 par due 11/2013) | 8.30% (Libor + 5.50%/Q) | 11/20/07 | 11,880 | 11,880 \$ | 1.00(3) | |
| | | Common stock (72 shares) | | 11/20/07 | 3,000 | 4,500 \$ | 62,125.95(5) | |
| Primis Marketing Group, Inc. and Primis Holdings, LLC (6) | Database marketing services | Senior subordinated note (\$10,222 par due 2/2013) | 11.00% Cash, 2.50% PIK | 8/24/06 | 10,222 | 5,111 \$ | 0.50(4) (14) | |
| | | Preferred units (4,000 units) | | 8/24/06 | 3,600 | \$ | (5) | |
| | | Common units (4,000,000 units) | | 8/24/06 | 400 | \$ | (5) | |
| Prommis Solutions, LLC, E-Default Services, LLC, Statewide Tax and Title Services, LLC & Statewide Publishing Services, LLC (formerly known as MR Processing Holding Corp.) | Bankruptcy and foreclosure processing services | Senior subordinated note (\$21,773 par due 2/2014) | 11.50% Cash, 2.00% PIK | 2/8/07 | 21,773 | 21,773 \$ | 1.00(4) | |
| | | Senior subordinated note (\$29,817 par due 2/2014) | 11.50% Cash, 2.00% PIK | 2/8/07 | 29,818 | 29,818 \$ | 1.00(2) (4) | |

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| | | | | | | | | |
|--------------------------------|------------------------------------|--|-------------------------|----------|---------|---------|----|-----------|
| | | Preferred stock (30,000 shares) | | 4/11/06 | 3,000 | 7,000 | \$ | 233.33(5) |
| R2 Acquisition Corp. | Marketing services | Common stock (250,000 shares) | | 5/29/07 | 250 | 250 | \$ | 1.00(5) |
| Summit Business Media, LLC | Business media consulting services | Junior secured loan (\$10,000 par due 11/2013) | 9.49% (Libor + 7.00%/M) | 8/3/07 | 10,000 | 9,000 | \$ | 0.90(3) |
| VSS-Tranzact Holdings, LLC (6) | Management consulting services | Common membership interest (8.51% interest) | | 10/26/07 | 10,000 | 10,000 | | (5) |
| | | | | | 128,891 | 124,780 | | 9.38% |

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| Company(1) | Industry | Investment | Interest(10) | Initial Acquisition Date | Amortized Cost | Fair Value | Fair Value Per Unit | Percentage of Net Assets |
|--------------------------------|-----------------------------|---------------------------------------|-------------------------|--------------------------|----------------|------------|---------------------|--------------------------|
| Printing, Publishing and Media | | | | | | | | |
| Canon Communications LLC | Print publications services | Junior secured loan (\$7,525 11/2011) | 9.23% (Libor + 6.75%/M) | 5/25/05 | 7,525 | 7,525 \$ | 1.00 | |