ARES CAPITAL CORP
Form 497
January 23, 2012

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Filed pursuant to Rule 497
Registration No. 333-174716

PROSPECTUS SUPPLEMENT
(To prospectus dated October 28, 2011)

14,280,000 Shares

Common Stock

We are offering for sale 14,280,000 shares of our common stock.

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 and the rules and regulations promulgated thereunder. 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. To a lesser extent, we also make equity investments.

We are externally managed by Ares Capital Management LLC, a wholly owned subsidiary of Ares Management LLC, a global alternative asset manager and a Securities and Exchange Commission ("SEC") registered investment adviser with approximately $46 billion of total committed capital under management as of December 31, 2011. Ares Operations LLC, a wholly owned subsidiary 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." On January 19, 2012, the last reported sales price of our common stock on The NASDAQ Global Select Market was $16.09 per share. The net asset value per share of our common stock at September 30, 2011 (the last date prior to the date of this prospectus supplement on which we determined net asset value) was $15.13.

Investing in our common stock involves risks that are described in the "Risk Factors" section beginning on page 27 of the accompanying prospectus, including the risk of leverage.

This prospectus supplement and the accompanying prospectus concisely provide important information about us that you should know before investing in our common stock. Please read this prospectus supplement and the accompanying prospectus before you invest and keep it for future reference. We file annual, quarterly and current reports, proxy statements and other information with 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*. The SEC also maintains a website at *www.sec.gov* that contains this information. The information on the websites referred to herein is not incorporated by reference into this prospectus supplement and the accompanying prospectus.

The underwriters have agreed to purchase the common stock from us at a price of $15.41 per share, which will result in $220,054,800 of proceeds to us before expenses. The underwriters may offer the shares of common stock from time to time for sale in one or more transactions on the NASDAQ Global Select Market, in the over-the-counter market, through negotiated transactions or otherwise at market prices prevailing at the time of sale, at prices related to prevailing market prices or at negotiated prices.

The underwriters may also purchase up to an additional 2,142,000 shares of our common stock from us at the price per share set forth above within 30 days of the date of this prospectus supplement.

Neither the SEC nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The shares will be ready for delivery on or about January 25, 2012.

Joint Book-Running Managers

BofA Merrill Lynch **Morgan Stanley**

The date of this prospectus supplement is January 20, 2012.

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You should rely only on the information contained in this prospectus supplement and the accompanying prospectus. We have not, and the underwriters 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, and the underwriters 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 supplement and the accompanying prospectus is accurate only as of the date on the front cover of this prospectus supplement or such prospectus, as applicable. Our business, financial condition, results of operations and prospects may have changed since that date.

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FORWARD-LOOKING STATEMENTS

Some of the statements in this prospectus supplement and the accompanying 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 supplement involve a number of risks and uncertainties, including statements concerning:

- our, or our portfolio companies', future business, operations, operating results or prospects;
- the return or impact of current and future investments;
- the impact of a protracted decline in the liquidity of credit markets on our business;
- the impact of fluctuations in interest rates on our business;
- the impact of changes in laws or regulations (including interpretation thereof) governing our operations or the operations of our portfolio companies;
- the valuation of our investments in portfolio companies, particularly those having no liquid trading market;
- our ability to successfully integrate our business with the business of Allied Capital Corporation, including rotating out of certain investments acquired in connection therewith;
- our ability to recover unrealized losses;
- our ability to successfully invest any capital raised in this offering;
- market conditions and our ability to access alternative debt markets and additional debt and equity capital;
- our contractual arrangements and relationships with third parties;
- Middle East turmoil and the potential for rising energy prices and its impact on the industries in which we invest;
- the general economy (including inflation and the U.S. budget deficit) and its impact on the industries in which we invest;
- the uncertainty surrounding the strength of the U.S. economic recovery;

- United States and European sovereign debt issues;
- the financial condition of and ability of our current and prospective portfolio companies to achieve their objectives;
- our expected financings and investments;
- our ability to successfully integrate any acquisitions;
- the adequacy of our cash resources and working capital;
- the timing, form and amount of any dividend distributions;
- the timing of cash flows, if any, from the operations of our portfolio companies; and
- the ability of our investment adviser to locate suitable investments for us and to monitor and administer our investments.

We use words such as "anticipates," "believes," "expects," "intends," "will," "should," "may" and similar expressions to identify forward-looking statements, although not all forward-looking statements include these words. Our actual results and condition could differ materially from those

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implied or expressed in the forward-looking statements for any reason, including the factors set forth in "Risk Factors" in the accompanying prospectus and the other information included in this prospectus supplement or the accompanying prospectus.

The forward-looking statements included in this prospectus supplement and the accompanying prospectus have been based on information available to us as of their respective dates, 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.

The forward-looking statements in this prospectus supplement and the accompanying prospectus are excluded from the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

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THE COMPANY

This summary highlights some of the information contained elsewhere in this prospectus supplement and the accompanying 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" in the accompanying prospectus and the other information included in this prospectus supplement and the accompanying prospectus. Except where the context suggests otherwise, the terms "we," "us," "our," "the Company" and "Ares Capital" refer to Ares Capital Corporation and its consolidated subsidiaries; "Ares Capital Management" and "the investment adviser" refer to Ares Capital Management LLC; "Ares Operations" refers to Ares Operations LLC; and "Ares" and "Ares Management" refer to Ares Management LLC and its affiliated companies (other than portfolio companies of its affiliated funds).

As described in more detail below, we consummated the acquisition (the "Allied Acquisition") of Allied Capital Corporation ("Allied Capital") on April 1, 2010. Other than as set forth in the pro forma financial information or otherwise specifically set forth herein or the accompanying prospectus, financial information presented herein and in the accompanying prospectus for and as of periods ended on or prior to March 31, 2010 does not include any information in respect of Allied Capital. In addition, other than as set forth in the pro forma financial information or otherwise specifically set forth herein or the accompanying prospectus, financial information for the year ended December 31, 2010, including, without limitation, with respect to the Company's consolidated statements of operations, stockholders' equity and cash flows, only includes results attributable to Allied Capital for the period beginning on April 1, 2010.

Ares Capital

Ares Capital, a Maryland corporation, 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, as amended, and the rules and regulations promulgated thereunder, or the "Investment Company Act." We were founded on April 16, 2004, were initially funded on June 23, 2004 and completed our initial public offering on October 8, 2004. We are one of the largest BDCs with approximately $15 billion of total committed capital under management as of December 31, 2011, including available debt capacity (subject to leverage and borrowing base restrictions), vehicles directly or indirectly managed or co-managed by us or one of our wholly owned subsidiaries and vehicles managed or sub-managed by our wholly owned portfolio company, Ivy Hill Asset Management, L.P. ("IHAM").

We are externally managed by our investment adviser, Ares Capital Management, a wholly owned subsidiary of Ares Management, a global alternative asset manager and a SEC registered investment adviser with approximately $46 billion of total committed capital under management as of December 31, 2011. Ares Operations, our administrator, a wholly owned subsidiary of Ares Management, provides the administrative services necessary for us to operate.

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

On April 1, 2010, we consummated the Allied Acquisition in an all stock merger whereby each existing share of common stock of Allied Capital was exchanged for 0.325 shares of our common stock. The Allied Acquisition was valued at approximately $908 million as of April 1, 2010. In connection therewith, we issued approximately 58.5 million shares of our common stock to Allied Capital's then-existing stockholders, thereby resulting in our then-existing stockholders owning approximately

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69% of the combined company and the then-existing Allied Capital stockholders owning approximately 31% of the combined company.

We invest primarily in first and second lien senior loans and mezzanine debt, which in some cases includes an equity component. First and second lien senior loans generally are senior debt instruments that rank ahead of subordinated debt of a given portfolio company. Mezzanine debt is subordinated to senior loans and is generally unsecured. Our investments have generally ranged between $20 million and $250 million each, although the investment sizes may be more or less than this range. Our investment sizes are expected to grow with our capital availability.

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

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

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

We believe that our investment adviser, Ares Capital Management, is able to leverage the current investment platform, resources and existing relationships with financial sponsors, financial institutions, hedge funds and other investment firms of Ares to provide us with attractive investment opportunities. In addition to deal flow, the Ares investment platform assists our investment adviser in analyzing, structuring and monitoring investments. Ares has been in existence for more than 13 years and its senior principals have an average of over 20 years experience investing in senior loans, high yield bonds, mezzanine debt and private equity securities. The Company has access to the Ares staff of approximately 210 investment professionals and approximately 240 administrative professionals who

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provide assistance in accounting, finance, legal, compliance, operations, information technology and investor relations.

Since our initial public offering on October 8, 2004 through September 30, 2011, our realized gains have exceeded our realized losses by $155.6 million (excluding the one-time gain on the Allied Acquisition and gains/losses from the extinguishment of debt and other assets). For this same time period, we have exited 167 investments, resulting in an aggregate cash flow realized internal rate of return to us of approximately 16% (based on original cash invested of $4.3 billion and total proceeds from such exits of $5.3 billion). Approximately 77% of the exits resulted in an aggregate cash flow internal rate of return to us of 10% or greater. Internal rate of return is the discount rate that makes the net present value of all cash flows related to a particular investment equal to zero. Internal rate of return is gross of expenses related to investments as these expenses are not allocable to specific investments. Investments are considered to be exited when the original investment objective has been achieved through the receipt of cash and/or non-cash consideration upon the repayment of our debt investment or sale of an investment or through the determination that no further consideration was collectible and, thus, a loss may have been realized. These internal rate of return results are historical results relating to our past performance and are not necessarily indicative of future results, the achievement of which cannot be assured.

While our primary focus is to generate current income and capital appreciation through investments in first and second lien senior loans and mezzanine debt and, to a lesser extent, equity securities of eligible portfolio companies, we also may invest up to 30% of our portfolio in opportunistic investments in non-qualifying assets, as permitted by the Investment Company Act. See "Regulation" in the accompanying prospectus. Specifically, as part of this 30% basket, we may invest in entities that are not considered "eligible portfolio companies" (as defined in the Investment Company Act), including companies outside of the United States, entities that are operating pursuant to certain exceptions to the Investment Company Act, and publicly traded entities whose public equity market capitalization exceeds the levels provided for in the Investment Company Act.

We and General Electric Capital Corporation and GE Global Sponsor Finance LLC (collectively, "GE") also co-invest through an unconsolidated vehicle, the Senior Secured Loan Fund LLC, which operates using the name "Senior Secured Loan Program" (the "SSLP"). The SSLP was initially formed in December 2007 to co-invest in "stretch senior" and "unitranche" loans (loans that combine both senior and subordinated debt, generally in a first lien position) of middle-market companies and, as of September 30, 2011, had approximately $5.1 billion of available capital, approximately $3.7 billion in aggregate principal amount of which was funded as of September 30, 2011. At September 30, 2011, we had agreed to make available to the SSLP approximately $1.0 billion, of which approximately $174 million was unfunded. The SSLP is capitalized as transactions are completed and all portfolio decisions and generally all other decisions in respect of the SSLP must be approved by both an affiliate of GE and the Company. See " Recent Developments" for information regarding an increase in the size of the SSLP subsequent to September 30, 2011.

We also manage an unconsolidated fund, AGILE Fund I, LLC (the "AGILE Fund"), which had approximately $62 million of total committed capital under management as of December 31, 2011.

In addition, our portfolio company, IHAM, manages 10 unconsolidated credit vehicles and sub-manages four other unconsolidated credit vehicles (these vehicles managed or sub-managed by IHAM are collectively referred to as the "IHAM Vehicles"), which are described in more detail under "Business Investments Managed Vehicles" in the accompanying prospectus. We have also made direct investments in securities of certain of these vehicles. As of December 31, 2011, IHAM had total committed capital under management of approximately $3.4 billion, which included approximately $0.3 billion invested by Ares Capital in IHAM or securities issued by the IHAM Vehicles.

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About Ares

Founded in 1997, Ares is a global alternative asset manager and SEC registered investment adviser with approximately $46 billion of total committed capital under management and approximately 450 employees as of December 31, 2011.

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

Ares is comprised of the following groups:

Private Debt Group. The Ares Private Debt Group manages Ares Capital, Ares Credit Strategies Fund II, L.P., Ares Credit Strategies Fund III, L.P., Ares Mezzanine Partners, L.P., Ares' private debt middle-market financing business in Europe, Ares Capital Europe ("ACE"), as well as the Ares Commercial Real Estate group, which together had approximately $18.5 billion of total committed capital under management as of December 31, 2011, including capital which may be committed for investment both directly and through certain financial services portfolio companies of the Company. The Ares Private Debt Group focuses primarily on non-syndicated first and second lien senior loans and mezzanine debt, which in some cases may include an equity component. The Ares Private Debt Group also makes equity investments in private middle-market companies, usually in conjunction with a concurrent debt investment.

Capital Markets Group. The Ares Capital Markets Group had approximately $22.2 billion of total committed capital under management as of December 31, 2011 through a variety of funds and investment vehicles, focusing primarily on syndicated senior secured loans, high yield bonds, distressed debt, other liquid fixed income investments and other publicly traded debt securities.

Private Equity Group. The Ares Private Equity Group had approximately $5.6 billion of total committed capital under management as of December 31, 2011, primarily through Ares Corporate Opportunities Fund L.P., Ares Corporate Opportunities Fund II, L.P. and Ares Corporate Opportunities Fund III, L.P. (collectively referred to as "ACOF"). ACOF generally makes private equity investments in amounts substantially larger than the private equity investments anticipated to be made by Ares Capital. In particular, the Ares 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 certain high net worth individuals investing in Ares' funds.

Ares Capital Management

Ares Capital Management, our investment adviser, is served by an origination, investment and portfolio management team of approximately 70 U.S.-based investment professionals led by U.S.-based senior partners of the Ares Private Debt Group: Michael Arougheti, Eric Beckman, Kipp deVeer, Mitchell Goldstein and Michael Smith. Ares Capital Management leverages off of Ares' investment platform and benefits from the significant capital markets, trading and research expertise of Ares' investment professionals. Ares has approximately 210 investment professionals covering current investments in more than 1,100 companies across over 30 industries. Ares Capital Management's investment committee has eight members, including senior partners in the Ares Private Debt Group, senior partners in the Ares Private Equity Group and a senior adviser in the Ares Capital Markets Group.

Recent Developments

In October 2011, Ares Capital and Ares Capital CP Funding LLC ("Ares Capital CP"), a wholly owned subsidiary of Ares Capital, amended the Revolving Funding Facility (as defined herein) to, among other things, increase the commitment size from $400 million to $500 million.

In October 2011, the total available capital for the Senior Secured Loan Program was increased from $5.1 billion to $7.7 billion. In connection with this increase, GE and Ares Capital agreed to make available to the SSLP up to $6.2 billion and $1.5 billion, respectively.

From October 1, 2011 through December 31, 2011, we made new investment commitments of $853 million, of which $823 million were funded. Of these new commitments, 55% were in first lien senior secured debt, 30% were in investments in subordinated certificates of the SSLP, 9% were in second lien senior secured debt, 4% were in senior subordinated debt, and 2% were in equity securities. Of the $853 million of new investment commitments, 94% were floating rate, 4% were fixed rate, and 2% were non-interest bearing. The weighted average yield of debt and income producing securities funded during the period at amortized cost was 12.5%. We may seek to syndicate a portion of these new investment commitments to third parties, although there can be no assurance that we will be able to do so.

From October 1, 2011 through December 31, 2011, we exited $688 million of investment commitments. Of these investment commitments, 78% were in first lien senior secured debt, 7% were in second lien senior secured debt, 5% were in senior subordinated debt, 5% were in collateralized loan obligations, and 5% were in equity and other securities. Of the $688 million of exited investment commitments, 84% were floating rate investments, 7% were on non-accrual status, 5% were fixed rate investments, and 4% were non-interest bearing. The weighted average yield of debt and income producing securities exited or repaid during the period at amortized cost was 9.5%. On the $688 million of investment commitments exited from October 1, 2011 through December 31, 2011, we recognized total net realized losses of approximately $5 million. Included within the $688 million of investment commitments exited from October 1, 2011 through December 31, 2011 were $92 million of investment commitments acquired as part of the Allied Acquisition. We recognized net realized gains of approximately $2 million on the investments exited that were acquired as part of the Allied Acquisition.

In addition, as of December 31, 2011, we had an investment backlog and pipeline of $170 million and $215 million, respectively. We may syndicate a portion of these investments and commitments to third parties. The consummation of any of the investments in this backlog and pipeline depends upon, among other things: satisfactory completion of our due diligence investigation of the prospective portfolio company, our acceptance of the terms and structure of such investment and the execution and delivery of satisfactory transaction documentation. We cannot assure you that we will make any of these investments or that we will syndicate any portion of such investments and commitments.

In January 2012, Ares Capital and Ares Capital CP amended the Revolving Funding Facility to, among other things, (i) extend the reinvestment period by one year to January 18, 2015, (ii) extend the

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maturity date by one year to January 18, 2017, and (iii) replace the pricing grid with an applicable spread over LIBOR of 2.50% and an applicable spread over "base rate" of 1.50%.

Recently, Ares Capital formed Ares Capital JB Funding LLC ("ACJB LLC"), a wholly owned subsidiary of Ares Capital, through which Ares Capital and ACJB LLC have been in negotiations to establish a revolving funding facility (the "New Funding Facility") by entering into a Loan and Servicing Agreement (the "Loan and Servicing Agreement") currently being negotiated with a large international bank. If the transaction is closed as it is currently proposed, the New Funding Facility will allow ACJB LLC to borrow up to $200 million. In connection with the possible New Funding Facility, we expect to enter into a Purchase and Sale Agreement with ACJB LLC pursuant to which we may sell to ACJB LLC certain loans that we have originated or acquired (the "New Loans") from time to time. The obligations of ACJB LLC under the New Funding Facility as proposed will be secured by all of the assets held by ACJB LLC, including the New Loans sold or transferred by Ares Capital to ACJB LLC. It is anticipated that the New Funding Facility will be a revolving funding facility with a three year reinvestment period and an eight year final maturity date and that the reinvestment period and final maturity are both expected to be subject to two one-year extensions by mutual agreement.

Subject to certain exceptions and as currently proposed, we expect that the interest charged on the New Funding Facility will be based on LIBOR plus 2.125% (with no floor) or a "base rate" (which is the greater of a prime rate and the federal funds rate plus 0.50%) plus 1.125% (with no floor). Neither Ares Capital nor ACJB LLC has entered into the New Funding Facility yet and there can be no assurance that the New Funding Facility will be consummated on the terms described above, if at all. To the extent the New Funding Facility is closed, any borrowings will be subject to leverage and borrowing base restrictions consistent with our other facilities. The foregoing description is a summary only and is qualified by the documents anticipated to be entered into in connection with the New Funding Facility, when, as and if executed by Ares Capital, ACJB LLC and the other parties thereto.

Our Corporate Information

Our administrative offices are located at 2000 Avenue of the Stars, 12th Floor, Los Angeles, California 90067, telephone number (310) 201-4200, and our executive offices are located at 245 Park Avenue, 44th Floor, New York, New York 10167, telephone number (212) 750-7300.

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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, based on the assumptions set forth below. 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 supplement or the accompanying prospectus contains a reference to fees or expenses paid or to be paid by "you," "us," "the Company" or "Ares Capital," or that "we" will pay fees or expenses, stockholders will directly or indirectly bear such fees or expenses as investors in Ares Capital.

Stockholder transaction expenses (as a percentage of offering price):	
Sales load paid by us	4.23%(1)
Offering expenses	0.25%(2)
Dividend reinvestment plan expenses	None (3)
Total stockholder transaction expenses paid	4.48%
Estimated annual expenses (as a percentage of consolidated net assets attributable to common stock)(4):	
Management fees	2.32%(5)
Incentive fees payable under investment advisory and management agreement (20% of pre-incentive fee net investment income and 20% of realized capital gains, subject to certain limitations)	2.32%(6)
Interest payments on borrowed funds	3.81%(7)
Other expenses	1.16%(8)
Acquired fund fees and expenses	0.01%(9)
Total annual expenses (estimated)	9.62%(10)

(1) The underwriting discounts and commissions with respect to the shares sold in this offering, which is a one-time fee, is the only sales load paid in connection with this offering. Because the underwriters may offer the shares from time to time, for the purpose of calculating sales load, we have assumed the underwriters will sell the shares to the public at a price of $16.09 per share, our closing price on January 19, 2012.

(2) Amount reflects estimated offering expenses of approximately $580,000 and based on the 14,280,000 shares offered in this offering (assuming that the underwriters do not exercise their option to purchase additional shares).

(3) The expenses of the dividend reinvestment plan are included in "Other expenses."

(4) "Consolidated net assets attributable to common stock" equals our average net assets for the nine months ended September 30, 2011.

(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. The 2.32% reflected on the table is calculated on our average net assets (rather than our total assets). See "Management Investment Advisory and Management Agreement" in the accompanying prospectus.

(6) This item represents our investment adviser's incentive fees based on annualizing actual amounts earned on our pre-incentive fee net investment income for the nine months ended September 30, 2011 and assumes that the incentive fees earned at the end of the 2011 calendar year will be based on the actual cumulative realized capital gains computed net of cumulative realized capital losses and unrealized capital depreciation as of September 30, 2011. For purposes of this table, we

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have assumed that this fee will remain constant although it is based on Ares Capital's performance and will not be paid unless Ares Capital achieves certain goals. We expect to invest or otherwise utilize all of the net proceeds from this offering within three months of the date of this offering and may have capital gains and interest income that could result in the payment of an incentive fee to our investment adviser in the first year after completion of this offering. Since our initial public offering through September 30, 2011, the average quarterly incentive fee payable to our investment adviser has been approximately 0.56% of our weighted average net assets (2.24% 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 year ended December 31, 2010 and the nine months ended September 30, 2011.

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 1.75% quarterly (7.0% 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 1.75% 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 2.1875%. The effect of this provision is that, if pre-incentive fee net investment income exceeds 2.1875% 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 (the "Capital Gains Fee"), payable annually in arrears, 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 and before taking into account any incentive fees payable during the period) is less than 7.0% of our net assets (defined as total assets less indebtedness) at the beginning of such period.

These calculations will be adjusted for any share issuances or repurchases.

"Incentive fees payable under investment advisory and management agreement" does not include an accrual (in accordance with GAAP) for a capital gains incentive fee of $28.2 million for the nine months ended September 30, 2011 because no capital gains incentive fee was payable under the investment advisory and management agreement. GAAP requires that the capital gains incentive fee accrual consider the cumulative aggregate unrealized capital appreciation in the calculation, as a capital gains incentive fee would be payable if such unrealized capital appreciation were realized, even though such unrealized capital appreciation is not permitted to be considered in calculating the fee actually payable under the Investment Company Act or the investment advisory and management agreement. This GAAP accrual is calculated using the aggregate cumulative realized capital gains and losses and aggregate cumulative unrealized capital depreciation included in the calculation of the Capital Gains Fee plus the aggregate cumulative unrealized capital appreciation. If such amount is positive at the end of a period, then GAAP requires us to record a capital gains incentive fee equal to 20% of such cumulative amount, less the aggregate amount of actual Capital Gains Fees paid or capital gains incentive fees accrued under GAAP in all prior periods. The resulting accrual for any capital gains incentive fee under GAAP in a given period may result in an additional expense if such cumulative amount is greater

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than in the prior period or a reversal of previously recorded expense if such cumulative amount is less than in the prior period. If such cumulative amount is negative, then there is no accrual. There can be no assurance that such unrealized capital appreciation will be realized in the future or that the amount accrued for will ultimately be paid.

See "Management Investment Advisory and Management Agreement" in the accompanying prospectus.

(7)

"Interest payments on borrowed funds" represents an estimate of our annualized interest expenses based on actual interest and credit facility expenses incurred for the nine months ended September 30, 2011. During the nine months ended September 30, 2011, our average outstanding borrowings were $1,670.6 million and cash paid for interest expense was $66.1 million. We had outstanding borrowings of $1,899.6 million (with a carrying value of $1,800.2 million) at September 30, 2011. This item is based on our assumption that our borrowings and interest costs after an offering will remain similar to those prior to this offering. The amount of leverage that we employ at any particular time will depend on, among other things, our board of directors' and our investment adviser's assessment of market and other factors at the time of any proposed borrowing. See "Risk Factors Risks Relating to Our Business We borrow money, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing with us" in the accompanying prospectus.

(8)

Includes our overhead expenses, including payments under our administration agreement with Ares Operations, based on our allocable portion of overhead and other expenses incurred by Ares Operations in performing its obligations under the administration agreement, and income taxes. Such expenses are estimates based on annualized "Other expenses" for the nine months ended September 30, 2011. 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. See "Management Administration Agreement" in the accompanying prospectus.

(9)

The Company's stockholders indirectly bear the expenses of underlying funds or other investment vehicles that would be investment companies under section 3(a) of the Investment Company Act but for the exceptions to that definition provided for in sections 3(c)(1) and 3(c)(7) of the Investment Company Act ("Acquired Funds") in which the Company invests. This amount includes the fees and expenses of Acquired Funds in which the Company is invested as of September 30, 2011. Certain of these Acquired Funds are subject to management fees, which generally range from 1% to 2.5% of total net assets, or incentive fees, which generally range between 15% to 25% of net profits. When applicable, fees and expenses are based on historic fees and expenses for the Acquired Funds. For those Acquired Funds with little or no operating history, fees and expenses are based on expected fees and expenses stated in the Acquired Funds' offering memorandum, private placement memorandum or other similar communication without giving effect to any performance. Future fees and expenses for these Acquired Funds may be substantially higher or lower because certain fees and expenses are based on the performance of the Acquired Funds, 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 $3.1 billion for the nine months ended September 30, 2011.

(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 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 and before taking into account any incentive fees payable during the period), rather than the total assets, including assets that have been funded with borrowed monies.

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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 that 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. Transaction expenses are not included in the following example.

	1 year	3 years	5 years	10 years
You would pay the following expenses on a $1,000 common stock investment, assuming a 5% annual return(1)	$ 75	$ 219	$ 356	$ 670

(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, $85; 3 years, $247; 5 years, $400; and 10 years, $744. 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 and before taking into account any incentive fees payable during the period) was less than 7.0% of our net assets (defined as total assets less indebtedness) 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, if our board of directors authorizes and we declare a cash dividend, 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" in the accompanying prospectus 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 as actual expenses (including the cost of debt, if any, and other expenses) that we may incur in the future and such actual expenses may be greater or less than those shown.

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SELECTED CONDENSED CONSOLIDATED FINANCIAL DATA OF ARES CAPITAL

The following selected financial and other data as of and for the years ended December 31, 2010, 2009, 2008, 2007 and 2006 are derived from our consolidated financial statements, which have been audited by KPMG LLP, an independent registered public accounting firm whose report thereon is included elsewhere in the accompanying prospectus. The selected financial and other data for the nine months ended September 30, 2011 and 2010 and other quarterly financial information are 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, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. 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" and "Senior Securities," which are included elsewhere in this prospectus supplement or the accompanying prospectus.

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ARES CAPITAL CORPORATION AND SUBSIDIARIES
SELECTED FINANCIAL DATA
As of and For the Nine Months Ended September 30, 2011 and 2010 and
As of and For the Years Ended December 31, 2010, 2009, 2008, 2007 and 2006
(dollar amounts in millions, except per share data and as otherwise indicated)

	As of and For the Nine Months Ended September 30, 2011	As of and For the Nine Months Ended September 30, 2010	As of and For the Year Ended December 31, 2010	As of and For the Year Ended December 31, 2009	As of and For the Year Ended December 31, 2008	As of and For the Year Ended December 31, 2007	As of and For the Year Ended December 31, 2006
Total Investment Income	$ 447.3	$ 326.2	$ 483.4	$ 245.3	$ 240.4	$ 188.9	$ 120.0
Total Expenses	252.8	173.4	262.2	111.3	113.2	94.8	58.4
Net Investment Income Before Income Taxes	194.5	152.8	221.2	134.0	127.2	94.1	61.6
Income Tax Expense (Benefit), Including Excise Tax	4.6	0.4	5.4	0.6	0.2	(0.8)	4.9

Ivy Hill Asset Management, L.P.(7)	Asset management services	Member interest (100% interest)		6/15/2009	103,458	136,235(16)	
					256,844	290,094	9.51%
Consumer Products Non-durable							
Augusta Sportswear, Inc.	Manufacturer of athletic apparel	Senior secured loan ($6,556 par due 7/2015)	8.50% (Libor + 7.50%/Q)	9/3/2010	6,556	6,556(2)(14)	
		Senior secured loan ($9,353 par due 7/2015)	8.50% (Libor + 7.50%/Q)	9/3/2010	9,353	9,353(3)(14)	
					15,909	15,909	
Gilchrist & Soames, Inc.	Personal care manufacturer	Senior subordinated loan ($22,902 par due 10/2013)	13.44%	4/1/2010	22,128	22,902(16)	
Insight Pharmaceuticals Corporation(6)	OTC drug products manufactuer	Senior subordinated loan ($50,255 par due 9/2012)	13.00% Cash, 2.00% PIK	4/1/2010	50,255	50,255(2)(4)(14)	
		Senior subordinated loan ($5,298 par due 9/2012)	13.00% Cash, 2.00% PIK	4/1/2010	5,298	5,298(4)(14)(16)	
		Common stock (155,000 shares)		4/1/2010	12,070	13,432(16)	
					67,623	68,985	
Making Memories Wholesale, Inc.(7)	Scrapbooking branded	Senior secured revolving loan	10.00% (Libor + 6.50%/Q)	8/21/2009	250	250(14)(16)	

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

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Company(1)	Industry	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Education							
Campus Management Corp. and Campus Management Acquisition Corp.(6)	Education software developer	Preferred stock (465,509 shares)		2/8/2008	9,949	13,834(16)	
Community Education Centers, Inc.	Offender re-entry and in-prison treatment services provider	Senior secured loan ($20,000 par due 12/2014)	6.25% (Libor + 5.25%/M)	12/10/2010	20,000	20,000(14)(16)	
		Junior secured loan ($9,231 par due 12/2015)	15.28% (Libor + 15.00%/M)	12/10/2010	9,231	9,231(16)	
		Junior secured loan ($30,769 par due 12/2015)	15.30% (Libor + 15.00%/M)	12/10/2010	30,769	30,769(16)	
		Warrants to purchase up to 578,407 shares		12/13/2010		1,009(16)	
					60,000	61,009	
eInstruction Corporation	Developer, manufacturer and retailer of educational products	Senior subordinated loan ($23,270 par due 1/2015)	16.00% PIK	4/1/2010	21,290	22,106(4)(16)	
		Junior secured loan ($17,000 par due 7/2014)	7.80% (Libor + 7.50%/Q)	4/1/2010	14,881	14,960(16)	
		Common stock (2,406 shares)		4/1/2010	926	1,326(16)	
					37,097	38,392	
ELC Acquisition Corporation	Developer, manufacturer and retailer of educational products	Senior secured loan ($160 par due 11/2012)	3.51% (Libor + 3.25%/M)	11/30/2006	160	160(3)	
		Junior secured loan ($8,333 par due 11/2013)	7.26% (Libor + 7.00%/M)	11/30/2006	8,333	8,333(3)	
					8,493	8,493	
Instituto de Banca y Comercio, Inc. & Leeds IV Advisors, Inc.	Private school operator	Series B preferred stock (1,401,385 shares)		8/5/2010	4,004	4,244(16)	
		Series B preferred stock (348,615 shares)		8/5/2010	996	1,056(16)	
		Series C preferred stock (1,994,644 shares)		6/7/2010	547	2,586(16)	
		Series C preferred stock (517,942 shares)		6/7/2010	142	672(16)	
		Common stock (16 shares)		6/7/2010		(16)	
		Common stock (4 shares)		6/7/2010		(16)	
					5,689	8,558	
JTC Education Holdings, Inc.	Postsecondary school operator	Senior secured loan ($19,997 par due 12/2014)	12.50% (Libor + 9.50%/M)	12/31/2009	19,997	19,997(14)(16)	
		Senior secured loan ($10,863 par due 12/2014)	12.50% (Libor + 9.50%/M)	12/31/2009	10,863	10,863(3)(14)	

					30,860	30,860
R3 Education, Inc. (formerly known as Equinox EIC	Medical school operator	Senior secured loan ($6,275 par due 4/2013)	9.00% (Libor + 6.00%/Q)	4/3/2007	6,275	9,652(3)(14)
Partners, LLC and MUA Management Company) and		Senior secured loan ($10,113 par due 4/2013)	9.00% (Libor + 6.00%/Q)	9/21/2007	10,113	15,555(14)(16)

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Company(1)	Industry	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
EIC Acquisitions Corp.(8)		Senior secured loan ($4,000 par due 4/2013)	9.00% (Libor + 6.00%/Q)	9/21/2007	4,000	6,153(3)(14)	
		Senior secured loan ($5,727 par due 4/2013)	13.00% PIK	12/8/2009	2,335	8,809(4)(16)	
		Preferred stock (800 shares)		7/30/2008	200	100(16)	
		Preferred stock (8,000 shares)		7/30/2008	2,000	1,000(16)	
		Common membership interest (26.27% interest)		9/21/2007	15,800	20,734(16)	
		Warrants to purchase up to 27,890 shares		12/8/2009		(16)	
					40,723	62,003	
					192,811	223,149	7.32%
Manufacturing							
Component Hardware Group, Inc.	Commercial equipment manufacturer	Senior secured loan ($3,014 par due 12/2014)	7.00% Cash, 3.00% PIK	8/4/2010	3,014	3,014(4)(16)	
		Senior subordinated loan ($10,078 par due 12/2014)	7.50% Cash, 5.00% PIK	4/1/2010	5,775	10,078(4)	
		Warrants to purchase up to 1,462,500 shares of common stock		8/4/2010		1,240(16)	
					8,789	14,332	
Emerald Performance Materials, LLC	Polymers and performance materials manufacturer	Senior secured loan ($375 par due 5/2011)	8.25% (Libor + 4.25%/M)	5/16/2006	375	375(14)(16)	
		Senior secured loan ($5,801 par due 5/2011)	8.25% (Libor + 4.25%/M)	5/16/2006	5,801	5,801(14)(16)	
		Senior secured loan ($536 par due 5/2011)	8.25% (Libor + 4.25%/M)	5/16/2006	536	536(3)(14)	
		Senior secured loan ($8,296 par due 5/2011)	8.25% (Libor + 4.25%/M)	5/16/2006	8,296	8,296(3)(14)	
		Senior secured loan ($3,806 par due 5/2011)	10.00% (Libor + 6.00%/M)	5/16/2006	3,806	3,806(14)(16)	
		Senior secured loan ($1,579 par due 5/2011)	10.00% (Libor + 6.00%/M)	5/16/2006	1,579	1,579(3)(14)	
		Senior secured loan ($3,558 par due 5/2011)	13.00% Cash, 3.00% PIK	5/16/2006	3,558	3,558(4)(16)	
		Senior secured loan ($5,089 par due 5/2011)	13.00% Cash, 3.00% PIK	5/16/2006	5,089	5,089(2)(4)	
					29,040	29,040	

Industrial Air Tool, LP and Affiliates d/b/a Industrial Air	Industrial products	Class B common units (37,125 units)		4/1/2010	6,000	14,787
Tool(7)		Member interest (375 units)		4/1/2010	7,419	149(16)
					13,419	14,936
NetShape Technologies, Inc.	Metal precision engineered components manufacturer	Senior secured revolving loan ($972 par due 2/2013)	4.06% (Libor + 3.75%/M)	4/1/2010	521	602(16)
		Common units (1,000 units)		1/30/2007	1,000	(16)
					1,521	602
Reflexite Corporation(7)	Developer and manufacturer of high-visibility reflective products	Senior subordinated loan ($3,282 par due 11/2014)	20.00% (Base Rate + 12.25% Cash, 7.50% PIK/Q)	2/26/2008	3,282	3,282(4)(14)(16)
		Senior subordinated loan ($5,999 par due 11/2014)	20.00% (Base Rate + 12.25% Cash, 7.50% PIK/Q)	2/26/2008	5,999	5,999(3)(4)(14)
		Common stock (1,821,860 shares)		3/28/2006	27,435	30,523(16)
					36,716	39,804

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Company(1)	Industry	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
STS Operating, Inc.	Hydraulic systems equipment and supplies provider	Senior subordinated loan ($30,386 par due 1/2013)	11.00%	4/1/2010	29,461	30,386(2)	
Bundy Refrigeration International Holding B.V. (aka Tyde Group Worldwide)	Refrigeration and cooling systems parts manufacturer	Senior secured loan ($9,010 par due 4/2012)	13.13% (Base Rate + 9.88%/Q)	12/15/2010	9,010	9,010(16)	
		Senior secured loan ($15,592 par due 4/2012)	15.38% (Base Rate + 12.13%/Q)	12/15/2010	15,592	15,592(16)	
					24,602	24,602	
UL Holding Co., LLC	Petroleum product manufacturer	Senior secured loan ($5,000 par due 12/2012)	15.00%	8/13/2010	5,000	5,000(16)	
		Junior secured loan ($2,108 par due 12/2012)	9.66% (Libor + 9.38%/Q)	2/13/2009	2,108	2,108(16)	
		Junior secured loan ($839 par due 12/2012)	9.66% (Libor + 9.38%/Q)	2/13/2009	839	839(3)	
		Junior secured loan ($2,119 par due 12/2012)	14.50%	2/13/2009	2,119	2,119(16)	
		Junior secured loan ($844 par due 12/2012)	14.50%	2/13/2009	844	844(3)	
		Junior secured loan ($10,809 par due 12/2012)	9.66% (Libor + 9.38%/Q)	2/13/2009	10,809	10,809(3)	
		Junior secured loan ($2,963 par due 12/2012)	14.50%	2/13/2009	2,963	2,963(2)	
		Junior secured loan ($988 par due 12/2012)	14.50%	2/13/2009	988	988(3)	
		Common units (50,000 units)		4/25/2008	500	97(16)	
		Common units (207,843 units)		4/25/2008		403(16)	
					26,170	26,170	
Universal Trailer Corporation(6)	Livestock and specialty trailer manufacturer	Common stock (74,920 shares)		10/8/2004	7,930	(16)	
					177,648	179,872	5.90%
Services-Other							
The Dwyer Group	Operator of multiple franchise concepts primarily related to	Senior subordinated loan ($27,100 par due 12/2016)	14.50%	12/22/2010	27,100	27,100(16)	
	home maintenance or repairs	Series A preferred units (15,000,000 units)	8.00% PIK	12/22/2010	15,000	15,000(16)	

					42,100	42,100
Growing Family, Inc. and GFH Holdings, LLC(6)	Photography services	Senior secured revolving loan ($182 par due 8/2011)	9.00% (Base Rate + 1.75% Cash, 4.00% PIK/M)	3/16/2007	178	80(4)(14)(16)
		Senior secured revolving loan ($2,252 par due 8/2011)	9.00% (Base Rate + 1.75% Cash, 4.00% PIK/M)	3/16/2007	2,207	991(4)(14)(16)
		Senior secured loan ($524 par due 3/2013)	9.00% (Base Rate + 1.75% Cash, 4.00% PIK/M)	3/16/2007	514	230(4)(14)(16)
		Senior secured loan ($6,498 par due 3/2013)	9.00% (Base Rate + 1.75% Cash, 4.00% PIK/M)	3/16/2007	6,378	2,859(4)(14)(16)
		Preferred stock (8,750 shares)		3/16/2007		(16)
		Common stock (552,430 shares)		3/16/2007	872	(16)
		Warrants to purchase up to 11,313,678 Class B units		3/16/2007		(16)
					10,149	4,160
PODS Funding Corp.	Storage and warehousing	Senior subordinated loan ($25,125 par due 6/2015)	15.00%	12/23/2009	25,125	25,125(16)
		Senior subordinated loan ($7,582 par due 12/2015)	16.64% PIK	12/23/2009	6,290	7,430(4)(16)
					31,415	32,555

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Company(1)	Industry	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
United Road Towing, Inc.	Towing company	Junior secured loan ($18,840 par due 1/2014)	14.75% (Libor + 11.25% Cash, 1.00% PIK/Q)	4/1/2010	18,606	18,840(4)(14)(16)	
		Warrants to purchase up to 607 shares		4/1/2010		4	
					18,606	18,844	
Web Services Company, LLC	Laundry service and equipment provider	Senior secured loan ($4,888 par due 8/2014)	7.00% (Base Rate + 3.75%/Q)	6/15/2009	4,718	4,888(3)	
		Senior subordinated loan ($13,563 par due 8/2016)	11.50% Cash, 2.50% PIK	8/29/2008	13,563	13,563(4)(16)	
		Senior subordinated loan ($26,462 par due 8/2016)	11.50% Cash, 2.50% PIK	8/29/2008	26,462	26,462(2)(4)	
					44,743	44,913	
					147,013	142,572	4.67%
Consumer Products Durable							
Bushnell Inc.	Sports optics manufacturer	Senior subordinated loan ($41,325 par due 2/2014)	6.80% (Libor + 6.50%/Q)	4/1/2010	30,708	30,994(16)	
Carlisle Wide Plank Floors, Inc.	Hardwood floor manufacturer	Senior secured loan ($1,545 par due 6/2011)		4/1/2010	1,449	773(4)(13)(16)	
		Common stock (345,056 shares)		4/1/2010			
					1,449	773	
Direct Buy Holdings, Inc. and Direct Buy Investors, LP(6)	Membership based buying club franchisor and operator	Senior secured loan ($1,897 par due 11/2012)	8.25% (Base Rate + 5.00%/Q)	12/14/2007	1,858	1,897(2)(14)	
		Senior subordinated loan ($81,634 par due 5/2013)	12.00% Cash, 4.00% PIK	4/1/2010	77,892	81,634(4)(16)	
		Limited partnership interest (80,000 shares)		4/1/2010	3,112	3,414(16)	
		Partnership interests (100,000 shares)		11/30/2007	10,000	4,347(16)	
					92,862	91,292	
					125,019	123,059	4.03%
Telecommunications							

American Broadband Communications, LLC and	Broadband communication services	Senior secured loan ($5,530 par due 9/2013)	7.50% (Libor + 5.50%/Q)	9/1/2010	5,861	5,530(14)(16)	
American Broadband		Senior secured loan ($17,775 par due 9/2013)	7.50% (Libor + 5.50%/Q)	9/1/2010	16,924	17,775(2)(14)	
		Senior secured loan ($9,283 par due 9/2013)	7.50% (Libor + 5.50%/Q)	9/1/2010	9,283	9,283(3)(14)	
		Senior subordinated loan ($30,594 par due 11/2014)	12.00% Cash, 4.00% PIK	9/1/2010	30,594	30,594(4)(16)	
		Senior subordinated loan ($32,768 par due 11/2014)	12.00% Cash, 4.00% PIK	2/8/2008	32,768	32,768(2)(4)	
		Senior subordinated loan ($10,321 par due 11/2014)	12.00% Cash, 4.00% PIK	11/7/2007	10,321	10,321(4)(16)	
		Warrants to purchase up to 200 shares		11/7/2007		3,915(16)	
		Warrants to purchase up to 208 shares		9/1/2010		(16)	
					105,751	110,186	
Startec Equity, LLC(7)	Communication services	Member interest		4/1/2010		(16)	
					105,751	110,186	3.59%
Food and Beverage							
Apple & Eve, LLC and US Juice Partners, LLC(6)	Juice manufacturer	Senior secured revolving loan ($1,200 par due 10/1/2013)	12.00% (Base Rate + 8.00%/Q)	10/5/2007	1,200	1,200(14)(16)	
		Senior secured loan ($14,162 par due 10/2013)	12.00% (Libor + 9.00%/M)	10/5/2007	14,162	14,162(14)(16)	

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Company(1)	Industry	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
		Senior secured loan ($14,900 par due 10/2013)	12.00% (Libor + 9.00%/M)	10/5/2007	14,900	14,900(3)(14)	
		Senior units (50,000 units)		10/5/2007	5,000	5,036	
					35,262	35,298	
Border Foods, Inc.(7)	Green chile and jalapeno products manufacturer	Senior secured loan ($28,526 par due 3/2012)	13.50%	4/1/2010	28,526	28,526(16)	
		Preferred stock (100,000 shares)		4/1/2010	21,346	22,801(16)	
		Common stock (148,838 shares)		4/1/2010	13,472	4,809(16)	
		Common stock (87,707 shares)		4/1/2010		2,834(16)	
		Common stock (23,922 shares)		4/1/2010		773(16)	
					63,344	59,743	
Charter Baking Company, Inc.	Baked goods manufacturer	Senior subordinated loan ($6,673 par due 2/2013)	13.00% PIK	2/6/2008	6,673	6,673(4)(16)	
		Preferred stock (6,258 shares)		9/1/2006	2,500	1,650(16)	
					9,173	8,323	
Distant Lands Trading Co.	Coffee manufacturer	Common stock (1,294 shares)		4/1/2010	980	1,048(16)	
		Common stock (2,157 shares)		4/1/2010		(16)	
					980	1,048	
Ideal Snacks Corporation	Snacks manufacturer	Senior secured revolving loan ($1,084 par due 6/2011)	8.50% (Base Rate + 4.00%/M)	4/1/2010	1,084	922(14)(16)	
					109,843	105,334	3.45%
Retail							
Apogee Retail, LLC	For-profit thrift retailer	Senior secured revolving loan ($780 par due 3/2012)	7.25% (Base Rate + 4.00%/Q)	3/27/2007	780	765(16)	
		Senior secured loan ($11,523 par due 9/2012)	12.00% Cash, 4.00% PIK	5/28/2008	11,523	11,523(4)(16)	
		Senior secured loan ($2,939 par due 3/2012)	5.51% (Libor + 5.25%/M)	3/27/2007	2,939	2,880(2)	
		Senior secured loan ($3,420 par due 9/2012)	12.00% Cash, 4.00% PIK	5/28/2008	3,420	3,420(4)(16)	
		Senior secured loan ($25,841 par due 3/2012)	5.51% (Libor + 5.25%/M)	3/27/2007	25,841	25,324(2)	

		Senior secured loan ($11,307 par due 3/2012)	5.51% (Libor + 5.25%/M)	3/27/2007	11,307	11,081(3)
					55,810	54,993
Savers, Inc. and SAI Acquisition Corporation	For-profit thrift retailer	Common stock (1,170,182 shares)		8/8/2006	4,500	7,238(16)

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Company(1)	Industry	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Things Remembered, Inc. and TRM Holdings Corporation	Personalized gifts retailer	Senior secured loan ($2,413 par due 9/2012)	6.50% (Base Rate + 1.25% Cash, 1.00% PIK/M)	9/28/2006	2,409	2,364(3)(4)(14)	
		Senior secured loan ($28,122 par due 9/2012)	6.50% (Base Rate + 1.25% Cash, 1.00% PIK/M)	9/28/2006	28,089	27,560(4)(14)(16)	
		Senior secured loan ($7,110 par due 9/2012)	6.50% (Base Rate + 1.25% Cash, 1.00% PIK/M)	9/28/2006	7,188	6,968(3)(4)(14)	
		Preferred stock (73 shares)		3/19/2009		1,939(16)	
		Preferred stock (80 shares)		9/28/2006	1,800	2,121(16)	
		Common stock (800 shares)		9/28/2006	200	(16)	
		Warrants to purchase up to 859 shares of preferred stock		3/19/2009		(16)	
					39,686	40,952	
					99,996	103,183	3.38%
Commercial Real Estate Finance							
10th Street, LLC(6)	Real estate holding company	Senior subordinated loan ($23,247 par due 11/2014)	8.93% Cash, 4.07% PIK	4/1/2010	23,247	23,247(4)	
		Member interest (10.00% interest)		4/1/2010	594	578	
		Option (25,000 units)		4/1/2010	25	25	
					23,866	23,850	
Allied Capital REIT, Inc.(7)	Real estate investment trust	Real estate equity interests		4/1/2010	50	35	
		Real estate equity interests		4/1/2010	115	699	
					165	734	
American Commercial Coatings, Inc.	Real estate property	Commercial mortgage loan ($2,000 par due 12/2025)		4/1/2010	1,927	1,875(13)	
Aquila Binks Forest Development, LLC	Real estate developer	Commercial mortgage loan ($12,870 par due 6/2011)	2.50%	4/1/2010	11,293	4,812(13)(16)	
		Real estate equity interest		4/1/2010			
					11,293	4,812	

Cleveland East Equity, LLC	Hotel operator	Real estate equity interest (2,522,748 shares)	4/1/2010	1,026	2,051
Commons R-3, LLC	Real estate developer	Real estate equity interest	4/1/2010		
Crescent Hotels & Resorts, LLC and affiliates(7)	Hotel operator	Senior subordinated loan ($433 par due 6/2010)	4/1/2010	433	444(13)(16)
		Senior subordinated loan ($4,124 par due 1/2012)	4/1/2010	1,475	(13)
		Senior subordinated loan ($4,348 par due 6/2017)	4/1/2010	1,482	1,288(13)(16)
		Senior subordinated loan ($2,722 par due 6/2017)	4/1/2010	928	1,963(13)(16)
		Senior subordinated loan ($5,974 par due 9/2012)	4/1/2010	2,051	(13)
		Senior subordinated loan ($263 par due 3/2013)	4/1/2010	263	(13)(16)
		Senior subordinated loan ($2,112 par due 9/2011)	4/1/2010		(13)
		Senior subordinated loan ($3,078 par due 1/2012)	4/1/2010		(13)
		Senior subordinated loan ($2,926 par due 6/2017)	4/1/2010		(13)
		Senior subordinated loan ($2,050 par due 6/2017)	4/1/2010		(13)
		Senior subordinated loan ($4,826 par due 9/2012)	4/1/2010		(13)

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Company(1)	Industry	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
		Preferred equity interest		4/1/2010			
		Preferred equity interest		4/1/2010		43	
		Common equity interest		4/1/2010	35		
		Member interests		4/1/2010			
					6,667	3,738	
DI Safford, LLC	Hotel operator	Commercial mortgage loan ($5,311 par due 5/2032)		4/1/2010	2,757	2,750(13)(16)	
Holiday Inn West Chester	Hotel property	Real estate owned		4/1/2010	3,513	3,330	
Hot Light Brands, Inc.(7)	Real estate holding company	Senior secured loan ($27,393 par due 2/2011)		4/1/2010	4,875	4,629(13)(16)	
		Common stock (93,500 shares)		4/1/2010		(16)	
					4,875	4,629	
MGP Park Place Equity, LLC	Office building operator	Commercial mortgage loan ($6,170 par due 5/2011)		4/1/2010	320	163(13)	
NPH, Inc.	Hotel property	Real estate equity interest		4/1/2010	5,291	6,907	
Van Ness Hotel, Inc.	Hotel operator	Commercial mortgage loan ($3,750 par due 8/2013)		4/1/2010	1,027	(13)(16)	
		Commercial mortgage loan ($13,702 par due 12/2011)	5.50%	4/1/2010	13,702	11,291(16)	
		Real estate equity interests		4/1/2010		(16)	
					14,729	11,291	
					76,429	66,130	2.17%
Wholesale Distribution							
BECO Holding Company, Inc.	Wholesale distributor of first response fire protection equipment and related parts	Common stock (25,000 shares)		7/30/2010	2,500	2,500(16)	
Stag-Parkway, Inc.(7)	Automotive aftermarket components supplier	Senior secured loan ($34,500 par due 12/2014)	12.50% (Libor + 11.00%/Q)	9/30/2010	34,500	34,500(14)(16)	
			16.50%	9/30/2010	2,328	4,200(16)	

		Preferred stock (4,200 shares) Common stock (10,200 shares)		9/30/2010		13,987(16)	
					36,828	52,687	
					39,328	55,187	1.81%
Computers and Electronics							
Network Hardware Resale, Inc.	Networking equipment resale provider	Senior subordinated loan ($12,343 par due 12/2011)	12.00% (Base Rate + 6.00%/A)	4/1/2010	12,343	12,343(2)(14)	
		Convertible junior subordinated loan ($17,518 par due 12/2015)	9.75% PIK	4/1/2010	17,680	21,039(4)(16)	
					30,023	33,382	
TZ Merger Sub, Inc.	Healthcare enterprise software developer	Senior secured loan ($4,678 par due 8/2015)	6.75% (Base Rate + 3.50%/Q)	6/15/2009	4,597	4,678(3)	
					34,620	38,060	1.25%
Environmental Services							
AWTP, LLC	Water treatment services	Junior secured loan ($4,755 par due 12/2012)		12/21/2005	4,755	1,517(13)(16)	
		Junior secured loan ($2,086 par due 12/2012)		12/21/2005	2,086	666(3)(13)	
		Junior secured loan ($4,755 par due 12/2012)		12/21/2005	4,755	1,517(13)(16)	
		Junior secured loan ($2,086 par due 12/2012)		12/21/2005	2,086	666(3)(13)	
					13,682	4,366	

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Company(1)	Industry	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Mactec, Inc.	Engineering and environmental services	Class B-4 stock (16 shares)		11/3/2004		(16)	
		Class C stock (5,556 shares)		11/3/2004		162(16)	
						162	
Sigma International Group, Inc.(8)	Water treatment parts manufacturer	Junior secured loan ($1,833 par due 10/2013)	16.00% (Libor + 8.00%/Q)	10/11/2007	1,833	1,283(14)(16)	
		Junior secured loan ($917 par due 10/2013)	16.00% (Libor + 8.00%/Q)	10/11/2007	917	642(14)(16)	
		Junior secured loan ($2,778 par due 10/2013)	16.00% (Libor + 8.00%/Q)	10/11/2007	2,778	1,944(14)(16)	
		Junior secured loan ($4,000 par due 10/2013)	16.00% (Libor + 8.00%/Q)	10/11/2007	4,000	2,800(3)(14)	
		Junior secured loan ($2,000 par due 10/2013)	16.00% (Libor + 8.00%/Q)	10/11/2007	2,000	1,400(3)(14)	
		Junior secured loan ($6,060 par due 10/2013)	16.00% (Libor + 8.00%/Q)	10/11/2007	6,060	4,242(3)(14)	
					17,588	12,311	
Universal Environmental Services, LLC	Hydrocarbon recycling and related waste management services and products	Preferred member interest (15.00% interest)		4/1/2010			
		Preferred member interest (850,242 shares)		4/1/2010			
		Preferred member interest (7,099 shares)		4/1/2010			
		Preferred member interest (763,889 shares)		4/1/2010			
Waste Pro USA, Inc	Waste management services	Preferred Class A Common Equity (611,615 shares)		11/9/2006	12,263	16,861(16)	
Wastequip, Inc.(6)	Waste management equipment manufacturer	Senior subordinated loan ($12,669 par due 2/2015)		2/5/2007	12,581	760(13)(16)	
		Common stock (13,889 shares)		2/2/2007	1,389	(16)	
					13,970	760	
					57,503	34,460	1.13%

Automotive Services

Driven Brands, Inc.(6)	Automotive aftermarket car care franchisor	Senior secured loan ($3,200 par due 10/2014)	6.50% (Libor + 5.00%/M)	5/12/2010	3,116	3,200(3)(14)	
		Senior secured loan ($520 par due 10/2014)	6.50% (Libor + 5.00%/M)	4/1/2010	506	520(3)(14)	
		Senior secured loan ($213 par due 10/2014)	7.00% (Base Rate + 3.75%/M)	4/1/2010	207	213(3)	
		Common stock (3,772,098 shares)		4/1/2010	4,939	6,308	
					8,768	10,241	
Penn Detroit Diesel Allison, LLC(7)	Diesel engine manufacturer	Member interest (70,249 shares)		4/1/2010	20,069	22,057(16)	
					28,837	32,298	1.06%

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Company(1)	Industry	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Containers Packaging							
Industrial Container Services, LLC(6)	Industrial container manufacturer, reconditioner and servicer	Senior secured loan ($1,033 par due 9/2011)	5.75% (Base Rate + 2.50%/Q)	9/30/2005	1,033	1,033(16)	
		Senior secured loan ($20 par due 9/2011)	4.26% (Libor + 4.00%/Q)	6/21/2006	20	20(2)	
		Senior secured loan ($101 par due 9/2011)	4.26% (Libor + 4.00%/Q)	6/21/2006	101	101(2)	
		Senior secured loan ($308 par due 9/2011)	4.26% (Libor + 4.00%/Q)	6/21/2006	308	308(3)	
		Senior secured loan ($1,539 par due 9/2011)	4.26% (Libor + 4.00%/Q)	6/21/2006	1,539	1,539(3)	
		Senior secured loan ($107 par due 9/2011)	4.26% (Libor + 4.00%/Q)	6/21/2006	107	107(2)	
		Senior secured loan ($1,642 par due 9/2011)	4.26% (Libor + 4.00%/Q)	6/21/2006	1,642	1,642(3)	
		Senior secured loan ($27 par due 9/2011)	5.75% (Base Rate + 2.50%/Q)	6/21/2006	27	27(2)	
		Senior secured loan ($410 par due 9/2011)	5.75% (Base Rate + 2.50%/Q)	6/21/2006	410	410(3)	
		Common units (1,800,000 units)		9/29/2005	1,800	15,203(16)	
					6,987	20,390	
					6,987	20,390	0.67%
Health Clubs							
Athletic Club Holdings, Inc.	Premier health club operator	Senior secured loan ($7,250 par due 10/2013)	4.76% (Libor + 4.50%/M)	10/11/2007	7,250	6,453(2)(12)	
		Senior secured loan ($11,500 par due 10/2013)	4.76% (Libor + 4.50%/M)	10/11/2007	11,500	10,235(3)(12)	
					18,750	16,688	
					18,750	16,688	0.55%
Printing, Publishing and Media							
EarthColor, Inc.(7)	Printing management services	Common stock (89,435 shares)		4/1/2010			
LVCG Holdings LLC(7)	Commercial printer	Membership interests (56.53% interest)		10/12/2007	6,600		
National Print Group, Inc.	Printing management services	Senior secured revolving loan ($1,141 par due 10/2012)	9.00% (Libor + 6.00%/Q)	3/2/2006	1,141	965(14)(16)	
		Senior secured revolving loan ($1,250 par due 10/2012)	9.00% (Base Rate + 5.00%/Q)	3/2/2006	1,250	1,057(14)(16)	
				3/2/2006	7,359	7,091(3)(4)(14)	

		Senior secured loan ($7,685 par due 10/2012)	14.00% (Libor + 6.00% Cash, 5.00% PIK/Q)				
		Senior secured loan ($187 par due 10/2012)	14.00% (Base Rate + 5.00% Cash, 5.00% PIK/Q)	3/2/2006	179	173(3)(4)(14)	
		Preferred stock (9,344 shares)		3/2/2006	2,000	(16)	
					11,929	9,286	
The Teaching Company, LLC and The Teaching Company	Education publications provider	Preferred stock (29,969 shares)		9/29/2006	2,997	3,851(16)	
Holdings, Inc.		Common stock (15,393 shares)		9/29/2006	3	4(16)	
					3,000	3,855	
					21,529	13,141	0.43%
Aerospace and Defense							
AP Global Holdings, Inc.	Safety and security equipment manufacturer	Senior secured loan ($6,274 par due 10/2013)	4.02% (Libor + 3.75%/M)	11/18/2007	6,243	6,274(3)	

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Company(1)	Industry	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Wyle Laboratories, Inc. and Wyle Holdings, Inc.	Provider of specialized engineering, scientific and technical services	Senior preferred stock (775 shares)	8.00%	1/17/2008	87	87(16)	
		Common stock (1,885,195 shares)		1/17/2008	2,291	1,968(16)	
					2,378	2,055	
					8,621	8,329	0.27%
Oil and Gas							
Geotrace Technologies, Inc.	Reservoir processing, development	Warrants to purchase up to 43,356 shares of common stock		4/1/2010	54	(16)	
		Warrants to purchase up to 26,622 shares of common stock		4/1/2010	33	(16)	
		Warrants to purchase up to 80,063 shares of preferred stock		4/1/2010	1,738	207(16)	
		Warrants to purchase up to 130,390 shares of preferred stock		4/1/2010	1,067	337(16)	
					2,892	544	
					2,892	544	0.02%
Housing Building Materials							
HB&G Building Products	Synthetic and wood product manufacturer	Senior subordinated loan ($8,956 par due 3/2013)		10/8/2004	8,991	179(13)(16)	
		Common stock (2,743 shares)		10/8/2004	753	(16)	
		Warrants to purchase up to 4,464 shares of common stock		10/8/2004	653	(16)	
					10,397	179	
					10,397	179	0.01%
					$ 4,291,955	$ 4,317,990	141.55%

(1) Other than our investments listed in footnote 7 below, we do not "Control" any of our portfolio companies, as defined in the Investment Company Act of 1940 (the "Investment Company Act"). In general, under the Investment Company Act, we would "Control" a portfolio company if we owned more than 25% of its outstanding voting securities and/or had the power to exercise control over the management or policies of such portfolio company. All of our portfolio company investments are subject to legal restrictions on sales which as of December 31, 2010 represented 142% of the Company's net assets or 95% of the Company's total assets.

(2) These assets are owned by the Company's wholly owned subsidiary Ares Capital CP, are pledged as collateral for the Revolving Funding Facility and, as a result, are not directly available to the creditors of the Company to satisfy any obligations of the Company other than Ares Capital CP's obligations under the Revolving Funding Facility (see Note 5 to the consolidated financial statements).

(3) Pledged as collateral for the ARCC CLO.

(4) Has a payment-in-kind interest feature (see Note 2 to the consolidated financial statements).

(5) Investments without an interest rate are non-income producing.

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(6)

As defined in the Investment Company Act, we are an "Affiliated Person" of this portfolio company because we own 5% or more of the portfolio company's outstanding voting securities or we have the power to exercise control over the management or policies of such portfolio company (including through a management agreement). Transactions during the year ended December 31, 2010 in which the issuer was an Affiliated company (but not a portfolio company that we "Control") are as follows:

Company	Purchases	Redemptions (cost)	Sales (cost)	Interest income	Capital structuring service fees	Dividend Income	Other income	Net realized gains (losses)	Net unrealized gains (losses)
10th Street LLC	$ 23,171	$	$	$ 2,465	$	$	$	$	$ (16)
Air Medical Group	$ 30,065	$ 11,955	$ 18,205	$ 106	$	$	$ 13	$ 14,909	$
Apple & Eve, LLC and US Juice Partners, LLC	$ 3,500	$ 5,022	$ 2,816	$ 3,753	$	$	$ 47	$	$ 36
BB&T Capital Partners/Windsor Mezzanine Fund, LLC	$ 13,943	$ 2,043	$	$	$	$	$	$	$ 3,804
Carador, PLC	$	$	$	$	$	$ 616	$	$	$ 2,844
Campus Management Corp. and Campus Management Acquisition Corp.	$	$ 43,462	$	$ 4,829	$	$	$ 1	$	$ (197)
CT Technologies Intermediate Holdings, Inc. and CT Technologies Holdings, LLC	$	$	$	$ 297	$	$	$	$	$ 3,070
Direct Buy Holdings, Inc. and Direct Buy Investors LP	$ 78,350	$ 219	$	$ 10,767	$	$	$	$ 6	$ 826
Driven Brands, Inc.	$ 103,157	$ 41	$ 96,643	$ 3,032	$	$	$	$ 843	$ 1,473
DSI Renal, Inc.	$ 1,505	$ 5,346	$ 7,991	$ 13,449	$	$	$ 57	$ 3,863	$ 24,699
The Dwyer Group	$ 42,100	$	$	$ 97	$ 813	$	$	$	$
Firstlight Financial Corporation	$	$	$	$ 545	$	$	$ 312	$	$ (1,295)
Growing Family, Inc. and GFH Holdings, LLC	$	$	$	$ 1,097	$	$	$	$ (7,659)	$ 1,668
Imperial Capital Group, LLC	$	$	$ 151	$	$	$ 1,509	$	$	$ 464
Industrial Container Services, LLC	$ 1,446	$ 10,692	$	$ 391	$	$	$ 148	$	$ 7,049
Insight Pharmaceuticals Corporation	$ 66,790	$	$	$ 6,325	$	$	$ 375	$	$ 1,362
Investor Group Services, LLC	$ 100	$ 100	$	$ 203	$	$	$ 20	$	$ 64
Multi-Ad Services, Inc.	$ 2,666	$ 1,886	$	$ 149	$	$	$ 17	$	$ 578
Pillar Holdings LLC and PHL Holding Co.	$	$ 4,597	$	$ 2,564	$	$	$ 36	$	$ (2,116)
Primis Marketing Group, Inc. and Primis Holdings, LLC	$	$	$	$	$	$	$	$	$ (409)
Regency Healthcare Group, LLC	$ 2,007	$	$	$	$	$	$	$	$ (335)
Service Champ, Inc.	$ 28,463	$ 26,585	$ 28,463	$ 969	$	$	$ 75	$	$
Soteria Imaging Services, LLC	$ 4,080	$	$ 142	$ 348	$	$	$	$	$ (636)
VSS-Tranzact Holdings, LLC	$ 204	$	$	$	$	$	$	$	$ (1,579)
Universal Corporation	$	$	$	$	$	$	$	$	$
Universal Trailer Corporation	$	$	$	$	$	$	$	$	$
Wastequip, Inc.	$	$	$ 449	$	$	$	$ 281	$ 3	$ (759)

(7)

As defined in the Investment Company Act, we are an "Affiliated Person" of this portfolio company because we own 5% or more of the portfolio company's outstanding voting securities or we have the power to exercise control over the management or policies of such portfolio company (including through a management agreement). In addition, as defined in the Investment Company Act, we "Control" this portfolio company because we own more than 25% of the portfolio company's outstanding voting securities or we have the power to exercise control over the management or policies of such portfolio company (including through a management agreement). Transactions during the period for the year ended December 31, 2010 in which the issuer was both an Affiliated company and a portfolio company that we Control are as follows:

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Company	Purchases	Redemptions (cost)	Sales (cost)	Interest income	Capital structuring service fees	Dividend Income	Other income	Net realized gains (losses)	Net unrealized gains (losses)
AGILE Fund I, LLC	$ 264	$	$	$	$	$ 124	$	$	$ (47)
Allied Capital REIT, Inc.	$ 765	$ 600	$	$	$	$ 40	$	$	$ 569
AllBridge Financial, LLC	$ 11,370	$	$	$	$	$	$ 29	$	$ 1,717
Avborne, Inc.	$ 39	$	$ 39	$	$	$	$	$ 41	$
Aviation Properties Corporation	$	$	$	$	$	$	$	$	$
BenefitMall Holdings, Inc.	$ 93,837	$	$	$ 5,525	$	$	$ 375	$	$ (3,060)
Border Foods, Inc.	$ 68,944	$ 5,600	$	$ 3,107	$	$	$ 25	$	$ (3,601)
Callidus Capital Corporation	$ 20,120	$ 16,000	$ 4,120	$	$	$	$	$ 2,580	$ (2,354)
Ciena Capital LLC	$ 98,012	$	$	$ 429	$	$	$	$	$ (6,058)
Citipostal, Inc.	$ 63,961	$ 1,020	$	$ 7,308	$	$	$ 282	$	$ (504)
Coverall North America, Inc.	$ 40,189	$	$	$ 3,541	$	$	$ 225	$	$ (7,624)
Crescent Hotels & Resorts, LLC and affiliates	$ 6,653	$	$	$ 532	$	$	$	$ 216	$ (2,894)
Direct Capital Corporation	$ 10,109	$	$	$	$	$	$	$ (31)	$
EarthColor, Inc.	$	$	$	$	$	$	$	$	$
Financial Pacific Company	$ 32,800	$	$ 32,899	$ 3,191	$	$	$ 500	$ 1,592	$ 1,543
HCI Equity, LLC	$ 808	$	$	$	$	$	$	$	$ 186
HCP Acquisition Holdings, LLC	$	$	$	$	$	$	$	$	$ 814
Hot Light Brands, Inc.	$ 6,746	$ 1,896	$	$ 2	$	$	$	$ 266	$ (246)
Hot Stuff Foods, LLC	$ 69,167	$ 10,230	$	$ 3,201	$	$	$ 71	$	$ 11,203
Huddle House Inc.	$ 19,607	$	$	$ 2,265	$	$	$ 564	$	$ (3,830)
Industrial Air Tool, LP and affiliates	$ 13,419	$	$	$	$	$	$ 130	$	$ 1,432
Ivy Hill Asset Management, L.P.	$ 71,116	$ 4,834	$	$	$	$ 7,320	$	$	$ 21,633
Ivy Hill Middle Market Credit Fund, Ltd.	$	$	$ 330	$ 6,859	$	$	$	$	$ 884
Knightsbridge CLO 2007-1 Ltd.	$ 14,852	$	$	$ 1,823	$	$	$	$	$ (307)
Knightsbridge CLO 2008-1 Ltd.	$ 36,996	$	$	$ 2,189	$	$	$	$	$ (3,108)
LVCG Holdings, LLC	$	$	$	$	$	$	$	$	$ (330)
Making Memories Wholesale, Inc.	$ 1,250	$ 1,007	$	$ 1,062	$	$	$ 188	$ 73	$ (3,883)
MVL Group, Inc.	$ 60,707	$ 4,837	$	$ 6,686	$	$	$	$ 80	$ 1,086
Penn Detroit Diesel Allison LLC	$ 20,069	$	$	$	$	$	$ 375	$	$ 1,987
Reflexite Corporation	$	$	$ 8,450	$ 3,568	$	$	$ 141	$ 950	$ 5,928
Senior Secured Loan Fund LLC*	$ 391,571	$ 15,410	$	$ 50,013	$ 29,946	$	$ 6,096	$ 796	$ 24,235
Stag-Parkway, Inc.	$ 36,810	$	$	$ 2,131	$	$ 18	$ 229	$	$ 15,513
Startec Equity, LLC	$	$	$	$	$	$	$	$	$
The Thymes, LLC	$	$	$	$ 421	$	$ 401	$	$	$ 797

* Together with GE Commercial Finance Investment Advisory Services LLC ("GE"), we serve as co-managers of the SSLP. Investments and portfolio decisions made by the SSLP must be approved by both the Company and GE; therefore, although the Company owns more than 25% of the voting securities of the LLC, the Company does not believe that it has control over the SSLP (for purposes of the Investment Company Act or otherwise).

(8) Non-U.S. company or principal place of business outside the U.S. and as a result is not a qualifying asset under Section 55(a) of the Investment Company Act. Under the Investment Company Act, we may not acquire any non-qualifying asset unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets.

(9) Non-registered investment company. Under the Investment Company Act, we may not acquire any non-qualifying asset unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets.

(10) 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 interest rate in effect on the date presented.

(11)

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 5% on $40 million aggregate principal amount outstanding of the portfolio company's senior term debt previously syndicated by us.

(12) 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 $25 million aggregate principal amount outstanding of the portfolio company's senior term debt previously syndicated by us.

(13) Loan was on non-accrual status as of December 31, 2010.

(14) Loan includes interest rate floor feature.

(15) In addition to the interest earned based on the stated interest rate of this security, the notes entitle us to receive a portion of the excess cash flow from the SSLP's loan portfolio, which may result in a return greater than the contractual rate.

(16) Pledged as collateral for the Revolving Credit Facility.

(17) Public company. Under the Investment Company Act, we may not acquire any non-qualifying asset unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets.

See accompanying notes to consolidated financial statements.

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ARES CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULE OF INVESTMENTS
As of December 31, 2009
(dollar amounts in thousands)

Company(1)	Industry	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Healthcare Services							
American Renal Associates, Inc.	Dialysis provider	Senior secured loan ($902 par due 12/2010)	8.50% (Libor + 5.00%/D)	12/14/2005	$ 902	$ 902(3)(15)	
		Senior secured loan ($10,389 par due 12/2011)	8.50% (Libor + 5.00%/Q)	12/14/2005	10,389	10,389(3)(15)	
					11,291	11,291	
Capella Healthcare, Inc.	Acute care hospital operator	Junior secured loan ($12,500 par due 2/2016)	13.00%	2/29/2008	12,500	12,500	
		Junior secured loan ($30,000 par due 2/2016)	13.00%	2/29/2008	30,000	30,000(2)	
					42,500	42,500	
CT Technologies Intermediate Holdings, Inc. and CT Technologies Holdings, LLC(6)	Healthcare analysis services	Preferred stock (7,427 shares)	14.00% PIK	6/15/2007	8,467	8,043(4)	
		Common stock (9,679 shares)		6/15/2007	4,000	8,114	
		Common stock (1,546 shares)		6/15/2007			
					12,467	16,157	
DSI Renal, Inc.	Dialysis provider	Senior secured revolving loan ($2 par due 3/2011)	7.25% (Base Rate + 4.00%/M)	4/4/2006	2	2	
		Senior secured revolving loan ($132 par due 3/2011)	7.25% (Base Rate + 4.00%/M)	4/4/2006	132	126	
		Senior secured revolving loan ($20 par due 3/2011)	7.25% (Base Rate + 4.00%/M)	4/4/2006	20	19	
		Senior secured revolving loan ($7,392 par due 3/2011)	7.25% (Base Rate + 4.00%/M)	4/4/2006	7,392	7,022	
		Senior secured revolving loan ($122 par due 3/2011)	7.25% (Base Rate + 4.00%/M)	4/4/2006	122	116	
		Senior secured loan ($339 par due 3/2013)	7.25% (Base Rate + 4.00%/Q)	4/4/2006	237	322	
		Senior secured loan ($44 par due 3/2013)	7.25% (Base Rate + 4.00%/Q)	4/4/2006	31	42	
		Senior secured loan ($16,960 par due 3/2013)	7.25% (Base Rate + 4.00%/Q)	4/4/2006	12,323	16,112	
		Senior subordinated loan ($66,552 par due 4/2014)	16.00% PIK	4/4/2006	66,215	63,220(4)	
		Senior subordinated loan ($14,285 par due 4/2014)	16.00% PIK	4/4/2006	14,211	13,571(3)(4)	
					100,685	100,552	
GG Merger Sub I, Inc.	Drug testing services	Senior secured loan ($11,330 par due 12/2014)	4.26% (Libor + 4.00%/Q)	12/14/2007	10,919	10,197(2)	
				12/14/2007	11,460	10,800(3)	

		Senior secured loan ($12,000 par due 12/2014)	4.26% (Libor + 4.00%/Q)			
					22,379	20,997
HCP Acquisition Holdings, LLC(7)	Healthcare compliance advisory services	Class A units (10,044,176 units)		6/26/2008	10,044	4,256
Heartland Dental Care, Inc.	Dental services	Senior subordinated loan ($32,717 par due 8/2013)	11.00% Cash, 3.25% PIK	7/31/2008	32,717	32,717(4)
Magnacare Holdings, Inc., Magnacare Administrative Services, LLC, and Magnacare, LLC	Health plan management company	Senior subordinated loan ($4,670 par due 1/2013)	12.75% Cash, 2.00% PIK	2/9/2009	3,363	4,670(4)

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Company(1)	Industry	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
MPBP Holdings, Inc., Cohr Holdings, Inc. and MPBP Acquisition Co., Inc.	Healthcare equipment services	Senior secured loan ($997 par due 1/2013)		1/31/2007	489	628	
		Junior secured loan ($20,000 par due 1/2014)	6.48% (Libor + 6.25%/B)	1/31/2007	20,049	5,000	
		Junior secured loan ($12,000 par due 1/2014)	6.48% (Libor + 6.25%/B)	1/31/2007	12,000	3,000(3)	
		Common stock (50,000 shares)		1/31/2007	5,000		
					37,538	8,628	
MWD Acquisition Sub, Inc.	Dental services	Junior secured loan ($5,000 par due 5/2012)	6.48% (Libor + 6.25%/M)	5/3/2007	5,000	4,350(3)	
OnCURE Medical Corp.	Radiation oncology care provider	Senior secured loan ($3,068 par due 6/2012)	3.75% (Libor + 3.50%/M)	8/18/2006	3,068	2,761(3)	
		Senior subordinated loan ($32,642 par due 8/2013)	11.00% Cash, 1.50% PIK	8/18/2006	32,664	29,378(4)	
		Common stock (857,143 shares)		8/18/2006	3,000	3,000	
					38,732	35,139	
Passport Health Communications, Inc., Passport Holding Corp. and Prism Holding Corp.	Healthcare technology provider	Senior secured loan ($12,660 par due 5/2014)	10.50% (Libor + 7.50%/M)	5/9/2008	12,660	12,660(2)(15)	
		Senior secured loan ($11,686 par due 5/2014)	10.50% (Libor + 7.50%/M)	5/9/2008	11,686	11,686(3)(15)	
		Series A preferred stock (1,594,457 shares)		7/30/2008	9,900	9,900	
		Common stock (16,106 shares)		7/30/2008	100	100	
					34,346	34,346	
PG Mergersub, Inc.	Provider of patient surveys, management reports and national databases for the integrated healthcare delivery system	Senior subordinated loan ($4,000 par due 3/2016)	12.50%	3/12/2008	3,938	4,000	
		Preferred stock (333 shares)		3/12/2008	333	333	
		Common stock (16,667 shares)		3/12/2008	167	167	
					4,438	4,500	
The Schumacher Group of Delaware, Inc.	Outsourced physician service provider	Junior secured loan ($5,229 par due 7/2013)	11.13% Cash, 1.00% PIK	7/18/2008	5,229	5,229(4)	
		Junior secured loan ($30,909 par due 7/2013)	11.13% Cash, 1.00% PIK	7/18/2008	30,943	30,909(2)(4)	
					36,172	36,138	
Univita Health, Inc.	Outsourced services provider	Senior subordinated loan ($20,500 par due 12/2014)	15.00%	12/22/2009	20,500	20,500	

VOTC Acquisition Corp.	Radiation oncology care provider	Senior secured loan ($17,417 par due 7/2012)	11.00% Cash, 2.00% PIK	6/30/2008	17,417	17,417(4)	
		Preferred stock (3,888,222 shares)		7/14/2008	8,748	3,800	
					26,165	21,217	
					438,337	397,958	31.64%
Investment Funds							
CIC Flex, LP(9)	Investment partnership	Limited partnership units (0.69 unit)		9/7/2007	41	41	
Covestia Capital Partners, LP(9)	Investment partnership	Limited partnership interest (47% interest)		6/17/2008	1,059	1,059	
Firstlight Financial Corporation(6)(9)	Investment company	Senior subordinated loan ($73,077 par due 12/2016)	1.00% PIK	12/31/2006	73,032	54,808(4)	
		Common stock (10,000 shares)		12/31/2006	10,000		

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Company(1)	Industry	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
		Common stock (30,000 shares)		12/31/2006	30,000		
					113,032	54,808	
Ivy Hill Middle Market Credit Fund, Ltd.(7)(8)(9)	Investment company	Class B deferrable interest notes ($40,000 par due 11/2018)	6.28% (Libor + 6.00%/Q)	11/20/2007	40,000	36,800	
		Subordinated notes ($15,681 par due 11/2018)	18.70%	11/20/2007	15,681	14,583	
					55,681	51,383	
Partnership Capital Growth Fund I, LP(9)	Investment partnership	Limited partnership interest (25% interest)		6/16/2006	3,045	3,045	
Senior Secured Loan Fund LLC(7)(17)	Investment partnership	Subordinated certificates ($172,796 par due 12/2015)	(Libor + 8.00%/Q)	10/30/2009	165,000	165,000	
Trivergance Capital Partners, LP(9)	Investment partnership	Limited partnership interest (100% interest)		6/5/2008	2,016	2,016	
					339,874	277,352	22.05%
Education							
Campus Management Corp. and Campus Management Acquisition Corp.(6)	Education software developer	Senior secured loan ($3,256 par due 8/2013)	10.00% Cash, 3.00% PIK	2/8/2008	3,256	3,256(4)(16)	
		Senior secured loan ($30,269 par due 8/2013)	10.00% Cash, 3.00% PIK	2/8/2008	30,269	30,269(2)(4)(16)	
		Senior secured loan ($8,961 par due 8/2013)	10.00% Cash, 3.00% PIK	2/8/2008	8,961	8,961(16)(4)	
		Preferred stock (493,147 shares)	8.00% PIK	2/8/2008	9,668	13,750(4)	
					52,154	56,236	
ELC Acquisition Corporation	Developer, manufacturer and retailer of educational products	Senior secured loan ($162 par due 11/2012)	3.48% (Libor + 3.25%/M)	11/30/2006	162	157(3)	
		Junior secured loan ($8,333 par due 11/2013)	7.23% (Libor + 7.00%/M)	11/30/2006	8,333	8,167(3)	
					8,495	8,324	
Instituto de Banca y Comercio, Inc. Leeds IV Advisors, Inc.(8)	Private school operator	Senior secured loan ($11,700 par due 3/2014)	8.50% (Libor + 6.00%/Q)	3/15/2007	11,700	11,700(3)(15)	
		Senior subordinated loan ($30,877 par due 6/2014)	13.00% Cash, 3.00% PIK	6/4/2008	30,877	30,877	
		Preferred stock (165,811 shares)		6/4/2008	788	2,124	
		Preferred stock (140,577 shares)		3/31/2009	668	1,801	
		Common stock (214,286 shares)		6/4/2008	54	2,745	
		Common stock (140,577 shares)		3/31/2009	35	1,801	
					44,122	51,048	
				12/31/2009	31,250	31,250(15)	

JTC Education Holdings, Inc.	Postsecondary school operator	Senior secured loan ($31,250 par due 12/2014)	12.50% (Libor + 9.50%/M)			
Lakeland Finance, LLC	Private school operator	Junior secured loan	11.50%	12/13/2005	2,423	2,423
		($2,423 par due 12/2012) Junior secured loan ($24,231 par due 12/2012)	11.50%	12/13/2005	24,231	24,231(2)
					26,654	26,654
R3 Education, Inc. (formerly known as Equinox EIC Partners, LLC and MUA Management Company)(7)(8)	Medical school operator	Senior secured loan ($791 par due 6/2010)	9.00% (Libor + 6.00%/M)	4/24/2009	791	1,101(15)
		Senior secured loan ($7,275 par due 4/2013)	9.00% (Libor + 6.00%/M)	4/3/2007	7,275	10,127(3)(15)
		Senior secured loan ($5,041 par due 4/2013)	13.00% PIK	12/8/2009	1,244	3,186
		Senior secured loan ($14,113 par due 4/2013)	9.00% (Libor + 6.00%/M)	9/21/2007	14,113	19,646(15)

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Company(1)	Industry	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
		Preferred stock (8,800 shares)			2,200	1,100	
		Warrants to purchase 27,890 shares					
		Common membership interest (26.27% interest)		9/21/2007	15,800	11,515	
					41,423	46,675	
					204,098	220,187	17.50%
Services Other							
American Residential Services, LLC	Plumbing, heating and air-conditioning services	Junior secured loan ($20,608 par due 4/2015)	10.00% Cash, 2.00% PIK	4/17/2007	20,608	20,195(2)(4)	
Diversified Collection Services, Inc.	Collections services	Senior secured loan ($10,529 par due 2/2011)	9.50% (Libor + 6.75%/M)	2/2/2005	9,280	10,529(2)(15)	
		Senior secured loan ($3,747 par due 2/2011)	9.50% (Libor + 6.75%/M)	2/2/2005	3,747	3,747(3)(15)	
		Senior secured loan ($1,931 par due 8/2011)	13.75% (Libor + 11.00%/M)	2/2/2005	1,931	1,931(2)(15)	
		Senior secured loan ($7,492 par due 8/2011)	13.75% (Libor + 11.00%/M)	2/2/2005	7,492	7,492(3)(15)	
		Preferred stock (14,927 shares)		5/18/2006	169	269	
		Common stock (114,004 shares)		2/2/2005	295	402	
					22,914	24,370	
GCA Services Group, Inc.	Custodial services	Senior secured loan $(13,255 par due 12/2011)	12.00%	12/15/2006	13,171	13,255	
		Senior secured loan $(14,768 par due 12/2011)	12.00%	12/15/2006	14,765	14,768(2)	
		Senior secured loan $(9,866 par due 12/2011)	12.00%	12/15/2006	9,866	9,866(3)	
					37,802	37,889	
Growing Family, Inc. and GFH Holdings, LLC	Photography services	Senior secured loan $(11,188 par due 8/2011)		3/16/2007	11,188	2,238(4)(14)	
		Senior secured loan $(372 par due 8/2011)		3/16/2007	372	74(4)(14)	
		Senior secured revolving loan $(2,500 par due 8/2011)		3/16/2007	1,513	303(4)(14)	
		Senior secured loan $(3,575 par due 8/2011)		3/16/2007	3,575	715(4)(14)	
		Senior secured loan $(147 par due 8/2011)		3/16/2007	147	29(4)(14)	
		Common stock (552,430 shares)		3/16/2007	872		
					17,667	3,359	
NPA Acquisition, LLC	Powersport vehicle auction operator	Junior secured loan $(12,000 par due 2/2013)	6.98% (Libor + 6.75%/M)	8/23/2006	12,000	12,000(3)	
		Common units (1,709 units)		8/23/2006	1,000	2,570	

					13,000	14,570	
PODS Funding Corp.	Storage and warehousing provider	Senior subordinated loan $(25,125 par due 6/2015)	15.00%	12/23/2009	25,125	25,125	
		Subordinated loan $(6,500 par due 12/2015)	16.64%	12/23/2009	5,079	5,070	
					30,204	30,195	
Web Services Company, LLC	Laundry service and equipment provider	Senior secured loan $(4,938 par due 8/2014)	7.00% (Base Rate + 3.75%/Q)	6/15/2009	4,607	4,938(3)	
		Senior subordinated loan $(18,219 par due 8/2016)	11.50% Cash, 2.50% PIK	8/29/2008	18,219	17,308(4)	
		Senior subordinated loan $(25,804 par due 8/2016)	11.50% Cash, 2.50% PIK	8/29/2008	25,804	24,513(2)(4)	
					48,630	46,759	
					190,825	177,337	14.10%

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Company(1)	Industry	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Restaurants and Food Services							
ADF Capital, Inc. & ADF Restaurant Group, LLC	Restaurant owner and operator	Senior secured revolving loan $(3,592 par due 11/2012)	6.50% (Libor + 3.00% Cash, 0.50% PIK/S)	11/27/2006	2,010	2,010(4)(15)	
		Senior secured revolving loan $(1,408 par due 11/2012)	6.50% (Base Rate + 2.50%/Q)	11/27/2006	1,408	1,408(4)(15)	
		Senior secured loan $(23,574 par due 11/2013)	12.50% (Libor + 6.50% Cash, 3.00% PIK/Q)	11/27/2006	23,580	23,574(2)(4)(15)	
		Senior secured loan $(11,049 par due 11/2013)	12.50% (Libor + 6.50% Cash, 3.00% PIK/Q)	11/27/2006	11,049	11,049(3)(4)(15)	
		Promissory note $(13,105 par due 11/2016)	12.00% PIK	6/1/2006	13,093	13,105(4)	
		Warrants to purchase 0.61 shares		6/1/2006		2,719	
					51,140	53,865	
Encanto Restaurants, Inc.(8)	Restaurant owner and operator	Junior secured loan $(20,997 par due 8/2013)	7.50% Cash, 3.50% PIK	8/16/2006	20,997	19,947(2)(4)	
		Junior secured loan $(3,999 par due 8/2013)	7.50% Cash + 3.50% PIK	8/16/2006	3,999	3,799(3)(4)	
					24,996	23,746	
OTG Management, Inc.	Airport restaurant operator	Senior secured loan $(16,149 par due 6/2013)	20.500% (Libor + 11.00% Cash, 6.50% PIK/M)	6/19/2008	16,149	16,149(4)(15)	
		Warrants to purchase up to 88,991 shares of common stock				1,102	
		Warrants to purchase up to 9 shares of common stock					
					16,149	17,251	
Vistar Corporation and Wellspring Distribution Corp.	Food service distributor	Senior subordinated loan $(43,625 par due 5/2015)	13.50%	5/23/2008	43,625	41,444	
		Senior subordinated loan $(30,000 par due 5/2015)	13.50%	5/23/2008	30,000	28,500(2)	
		Class A non-voting common stock (1,366,120 shares)		5/23/2008	7,500	4,050	
					81,125	73,994	
					173,410	168,856	13.42%
Food and Beverage							
3091779 Nova Scotia Inc.(8)	Baked goods manufacturer	Senior secured revolving loan $(5,485 par due 1/2010)	8.00%	11/2/2007	1,385	1,494(4)(12)	
		Senior secured revolving loan $(1,016 par due 1/2010)	8.00%	11/2/2007	1,016	969	
		Junior secured loan $(14,386 par due 1/2010)	10.00% Cash, 4.00% PIK	11/2/2007	15,147	10,292(4)(12)	

		Warrants to purchase 57,545 shares				
					17,548	12,755
Apple & Eve, LLC and US Juice Partners, LLC(6)	Juice manufacturer	Senior secured revolving loan $(10,000 par due 10/2013)	12.00% (Libor + 9.00%/M)	10/5/2007	3,000	3,000(15)
		Senior secured loan $(17,963 par due 10/2013)	12.00% (Libor + 9.00%/M)	10/5/2007	17,963	17,963(15)
		Senior secured loan $(15,937 par due 10/2013)	12.00% (Libor + 9.00%/M)	10/5/2007	15,937	15,937(3)(15)
		Senior units (50,000 units)			5,000	5,000
					41,900	41,900
Best Brands Corporation	Baked goods manufacturer	Senior secured loan $(324 par due 12/2012)	7.48% (Libor + 7.25%/M)	2/15/2008	324	324(4)
		Senior secured loan $(13,034 par due 12/2012)	7.48% (Libor + 7.25%/M)	2/15/2008	11,035	13,034(2)(4)

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Company(1)	Industry	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
		Junior secured loan $(28,692 par due 6/2013)	12.00% Cash, 4.00% PIK	12/14/2006	28,112	28,692(4)	
		Junior secured loan $(11,733 par due 6/2013)	12.00% Cash, 4.00% PIK	12/14/2006	11,733	11,733(2)(4)	
		Junior secured loan $(8,611 par due 6/2013)	12.00% Cash, 4.00% PIK	12/14/2006	8,531	8,611(3)(4)	
					59,735	62,394	
Bumble Bee Foods, LLC and BB Co-Invest LP	Canned seafood manufacturer	Common stock (4,000 shares)		11/18/2008	4,000	6,760	
Charter Baking Company, Inc.	Baked goods manufacturer	Senior subordinated loan $(5,883 par due 2/2013)	13.00% PIK	2/6/2008	5,883	5,883(4)	
		Preferred stock (6,258 shares)		9/1/2006	2,500	1,725	
					12,383	14,368	
					131,566	131,417	10.45%
Retail							
Apogee Retail, LLC	For-profit thrift retailer	Senior secured loan $(1,859 par due 3/2012)	5.23% (Libor + 5.00%/M)	3/27/2007	1,859	1,747	
		Senior secured loan $(2,969 par due 3/2012)	5.23% (Libor + 5.00%/M)	3/27/2007	2,969	2,791(2)	
		Senior secured loan $(26,670 par due 3/2012)	5.23% (Libor + 5.00%/M)	3/27/2007	26,670	25,070(2)	
		Senior secured loan $(11,670 par due 3/2012)	5.23% (Libor + 5.00%/M)	3/27/2007	11,670	10,970(3)	
		Senior secured loan $(11,069 par due 9/2012)	12.00% Cash, 4.00% PIK	5/28/2008	11,069	11,069(4)	
		Senior secured loan $(11,411 par due 9/2012)	12.00% Cash, 4.00% PIK	5/28/2008	11,411	11,411(4)	
					65,648	63,058	
Dufry AG(8)	Retail newsstand operator	Common stock (39,056 shares)		3/28/2008	3,000	2,638	
Savers, Inc. and SAI Acquisition Corporation	For-profit thrift retailer	Senior subordinated loan $(5,524 par due 8/2014)	10.00% Cash, 2.00% PIK	8/8/2006	5,524	5,524(4)	
		Senior subordinated loan $(20,323 par due 8/2014)	10.00% Cash, 2.00% PIK	8/8/2006	20,323	20,323(2)(4)	
		Common stock (1,170,182 shares)		8/8/2006	4,500	5,840	
					30,347	31,687	
Things Remembered, Inc. and TRM Holdings Corporation	Personalized gifts retailer	Senior secured loan $(11 par due 9/2012)	5.50% Cash, 1.00% PIK Option	9/28/2006	11	9(3)(4)	
		Senior secured loan $(3,626 par due 9/2012)	5.50% Cash, 1.00% PIK Option	9/28/2006	3,624	2,901(3)(4)	
		Senior secured loan $(68 par due 9/2012)	5.50% Cash, 1.00% PIK Option	9/28/2006	68	55(4)	
		Senior secured loan $(18 par due 9/2012)	5.50% Cash, 1.00% PIK Option	9/28/2006	18	14(3)	
		Senior secured loan $(28,402 par due	5.50% Cash, 1.00% PIK Option	9/28/2006	28,388	22,722	

		9/2012)					
		Senior secured loan $(7,303 par due 9/2012)	5.50% Cash, 1.00% PIK Option	9/28/2006	7,300	5,843(3)	
		Preferred stock (73 shares)		3/19/2009			
		Preferred stock (80 shares)		9/28/2006	1,800		
		Warrants to purchase 859 shares of preferred shares		3/19/2009			
		Common stock (800 shares)		9/28/2006	200		
					41,409	31,544	
					140,404	128,927	10.25%
Business Services							
Booz Allen Hamilton, Inc.	Strategy and technology consulting services	Senior secured loan $(741 par due 7/2015)	7.50% (Libor + 4.50%/S)	7/31/2008	727	741(3)(15)	
		Senior subordinated loan $(250 par due 7/2016)	11.00% Cash, 2.00% PIK	7/31/2008	245	250(4)	

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Company(1)	Industry	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
		Senior subordinated loan $(12,400 par due 7/2016)	11.00% Cash, 2.00% PIK	7/31/2008	12,296	12,400(2)(4)	
					13,268	13,391	
Investor Group Services, LLC(6)	Financial services	Limited liability company membership interest (10.00% interest)		6/22/2006		500	
Pillar Holdings LLC and PHL Holding Co.(6)	Mortgage services	Senior secured revolving loan $(3,750 par due 11/2013)	5.78% (Libor + 5.50%/B)	11/20/2007	1,313	1,313	
		Senior secured loan $(16,752 par due 11/2013)	5.78% (Libor + 5.50%/B)	11/20/2007	16,752	16,752(2)	
		Senior secured loan $(10,456 par due 11/2013)	5.78% (Libor + 5.50%/B)	11/20/2007	10,456	10,456(3)	
		Senior secured loan $(1,875 par due 5/2014)	14.50%	7/31/2008	1,875	1,875	
		Senior secured loan $(5,500 par due 5/2014)	14.50%	7/31/2008	5,500	5,500(2)	
		Common stock (84.78 shares)		11/20/2007	3,768	7,818	
					39,664	43,714	
Primis Marketing Group, Inc. and Primis Holdings, LLC(6)	Database marketing services	Senior subordinated loan $(10,222 par due 2/2013)		8/24/2006	10,222	511(4)(14)	
		Preferred units (4,000 units)		8/24/2006	3,600		
		Common units (4,000,000 units)		8/24/2006	400		
					14,222	511	
Prommis Solutions, LLC, E-Default Services, LLC,	Bankruptcy and foreclosure processing services	Senior subordinated loan $(26,526 par due 2/2014)	11.50% Cash, 2.00% PIK	2/8/2007	26,526	26,526(4)	
Statewide Tax and Title Services, LLC & Statewide Publishing Services, LLC (formerly known as MR Processing Holding Corp.)		Senior subordinated loan $(26,630 par due 2/2014)	11.50% Cash, 2.00% PIK	2/8/2007	26,630	26,630(2)(4)	
		Preferred stock (30,000 shares)		4/11/2006	3,000	6,221	
					56,156	59,377	
R2 Acquisition Corp.	Marketing services	Common stock (250,000 shares)		5/29/2007	250	250	
Summit Business Media, LLC	Business media consulting services	Junior secured loan $(11,078 par due 7/2014)		8/3/2007	10,018	554(3)(4)(14)	
VSS-Tranzact Holdings, LLC(6)	Management consulting services	Common membership interest (8.51% interest)		10/26/2007	10,000	7,850	
					143,578	126,147	10.03%

Manufacturing

Arrow Group Industries, Inc.	Residential and outdoor shed manufacturer	Senior secured loan $(5,616 par due 4/2010)	5.25% (Libor + 5.00%/Q)	3/28/2005	5,653	4,437(3)
Emerald Performance Materials, LLC	Polymers and performance materials manufacturer	Senior secured loan $(536 par due 5/2011)	8.25% (Libor + 4.25%/M)	5/16/2006	536	531(3)(15)
		Senior secured loan $(8,392 par due 5/2011)	8.25% (Libor + 4.25%/M)	5/16/2006	8,392	8,308(3)(15)
		Senior secured loan $(626 par due 5/2011)	8.50% (Base Rate + 5.25%/M)	5/16/2006	626	620(3)
		Senior secured loan $(1,604 par due 5/2011)	10.00% (Libor + 6.00%/M)	5/16/2006	1,604	1,556(3)(15)
		Senior secured loan $(4,937 par due 5/2011)	13.00% Cash, 3.00% PIK	5/16/2006	4,937	4,838(2)(4)
					16,095	15,853
Reflexite Corporation(7)	Developer and manufacturer of high-visibility reflective products	Senior subordinated loan $(16,785 par due 11/2014)	12.50% Cash, 5.50% PIK	2/26/2008	16,785	16,785(4)
		Common stock (1,821,860 shares)		3/28/2006	27,435	24,595
					44,220	41,380

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Company(1)	Industry	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Saw Mill PCG Partners LLC	Precision components manufacturer	Common units (1,000 units)		2/2/2007	1,000		
UL Holding Co., LLC	Petroleum product manufacturer	Senior secured loan $(2,978 par due 12/2012)	14.00%	2/13/2009	2,978	2,829(2)	
		Senior secured loan $(993 par due 12/2012)	14.00%	2/13/2009	993	943(3)	
		Senior secured loan $(848 par due 12/2012)	14.00%	2/13/2009	848	805(3)	
		Senior secured loan $(2,130 par due 12/2012)	9.15% (Libor + 8.88%/Q)	2/13/2009	2,130	2,023	
		Senior secured loan $(2,130 par due 12/2012)	14.00%	2/13/2009	2,130	2,023	
		Senior secured loan $(848 par due 12/2012)	9.15% (Libor + 8.88%/Q)	2/13/2009	848	805(3)	
		Senior secured loan $(10,918 par due 12/2012)	9.15% (Libor + 8.88%/Q)	2/13/2009	10,918	10,372(3)	
		Common units (50,000 units)		4/25/2008	500	500	
		Common units (50,000 units)		4/25/2008			
					21,345	20,300	
Universal Trailer Corporation(6)	Livestock and specialty trailer manufacturer	Common stock (74,920 shares)		10/8/2004	7,930		
					96,243	81,970	6.52%
Financial Services							
Carador PLC(6)(8)(9)	Investment company	Ordinary shares (7,110,525 shares)		12/15/2006	9,033	2,489	
Imperial Capital Group, LLC and Imperial	Investment banking services	Common units (2,526 units)		5/10/2007	3	3	
Capital Private Opportunities, LP(6)(9)		Common units (315 units)		5/10/2007			
		Common units (7,710 units)		5/10/2007	14,997	18,400	
		Limited partnership interest (80% interest)		5/10/2007	6,094	5,663	
					21,094	24,066	
Ivy Hill Asset Management, L.P.(7)	Asset management services	Member interest		6/15/2009	37,176	48,321	
VSC Investors LLC(9)	Investment company	Membership interest (4.63% interest)		1/24/2008	648	648	
					67,951	75,524	6.00%
Consumer Products Non-Durable							
Blacksmith Brands Holdings, Inc. and Blacksmith Brands, Inc.	Consumer products and personal care manufacturer	Senior secured loan $(32,500 par due 12/2014)	12.50% (Base Rate + 8.50%/Q)	10/23/2009	32,500	32,500(15)	
Innovative Brands, LLC	Consumer products and personal care manufacturer	Senior secured loan $(8,881 par due 9/2011)	15.50%	10/12/2006	8,881	8,881(2)	
			15.50%	10/12/2006	8,198	8,198(3)	

		Senior secured loan $(8,198 par due 9/2011)					
					17,079	17,079	
Making Memories Wholesale, Inc.(6)	Scrapbooking branded products manufacturer	Senior secured loan $(9,750 par due 8/2014)	10.00% (Base Rate + 5.50%/Q)	8/21/2009	7,770	9,750(15)	
		Senior secured loan $(5,138 par due 8/2014)	15.00% (7.50% Cash, 7.50% PIK/Q)	8/21/2009	4,062	514(4)	
		Common stock (100 shares)		8/21/2009			
					11,832	10,264	
The Thymes, LLC(7)	Cosmetic products manufacturer	Preferred stock (6,283 shares)	8.00% PIK	6/21/2007	6,785	6,107(4)	
		Common stock (5,400 shares)		6/21/2007			
					6,785	6,107	
					68,196	65,950	5.24%

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Company(1)	Industry	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Aerospace & Defense							
AP Global Holdings, Inc.	Safety and security equipment manufacturer	Senior secured loan $(7,414 par due 10/2013)	4.74% (Libor + 4.50%/M)	11/8/2007	7,295	6,969(3)	
ILC Industries, Inc.	Industrial products provider	Junior secured loan $(12,000 par due 6/2014)	11.50%	6/27/2006	12,000	12,000(3)	
Thermal Solutions LLC and TSI Group, Inc.	Thermal management and electronics packaging manufacturer	Senior secured loan $(462 par due 3/2011)	4.00% (Libor + 3.75%/Q)	3/28/2005	462	444(3)	
		Senior secured loan $(2,732 par due 3/2012)	4.50% (Libor + 4.25%/Q)	3/28/2005	2,732	2,486(3)	
		Senior subordinated loan $(2,747 par due 3/2013)	11.50% Cash, 2.50% PIK	3/21/2006	2,747	2,554(4)	
		Senior subordinated loan $(2,165 par due 3/2013)	11.50% Cash, 2.75% PIK	3/28/2005	2,165	2,013(4)	
		Senior subordinated loan $(3,418 par due 3/2013)	11.50% Cash, 2.75% PIK	3/28/2005	3,418	3,178(4)	
		Preferred stock (71,552 shares)		3/28/2005	716	529	
		Common stock (1,460,246 shares)		3/28/2005	15	11	
					12,255	11,215	
Wyle Laboratories, Inc. and Wyle Holdings, Inc.	Provider of specialized engineering, scientific and technical services	Junior secured loan $(16,000 par due 1/2015)	15.00%	1/17/2008	16,000	16,000(2)	
		Junior secured loan $(12,000 par due 1/2015)	15.00%	1/17/2008	12,000	12,000(3)	
		Senior preferred stock (775 shares)	8.00% PIK	1/17/2008	96	80(4)	
		Common stock (1,616,976 shares)		1/17/2008	2,004	1,600	
					30,100	29,680	
					61,650	59,864	4.76%
Printing, Publishing and Media							
Canon Communications LLC	Print publications services	Junior secured loan $(11,968 par due 11/2011)	13.75% (Libor + 8.75% Cash, 2.00% PIK/Q)	5/25/2005	11,957	9,574(2)(4)(15)	
		Junior secured loan $(12,197 par due 11/2011)	13.75% (Libor + 8.75% Cash, 2.00% PIK/Q)	5/25/2005	12,190	9,757(3)(4)(15)	
					24,147	19,331	
LVCG Holdings LLC(7)	Commercial printer	Membership interests (56.53% interest)		10/12/2007	6,600	330	
National Print Group, Inc.	Printing management services	Senior secured revolving loan $(3,926 par due 3/2012)	9.00% (Libor + 6.00%/S)	3/2/2006	1,428	771(15)	
		Senior secured revolving loan $(183 par due 3/2012)	9.00% (Libor + 5.00%/M)	3/2/2006	183	99(15)	

		Senior secured loan $(7,119 par due 3/2012)	16.00% (Libor + 9.00% Cash, 4.00% PIK/Q)	3/2/2006	7,024	3,844(3)(15)(4)
		Senior secured loan $(1,071 par due 3/2012)	16.00% (Base Rate + 8.00% Cash, 4.00% PIK/M)	3/2/2006	1,071	578(3)(15)(4)
		Preferred stock (9,344 shares)		3/2/2006	2,000	
					11,706	5,292
The Teaching Company, LLC and The Teaching Company Holdings, Inc.(11)	Education publications provider	Senior secured loan $(18,000 par due 9/2012)	10.50%	9/29/2006	18,000	18,000(2)(11)
		Senior secured loan $(10,000 par due 9/2012)	10.50%	9/29/2006	10,000	10,000(3)(11)
		Preferred stock (29,969 shares)	8.00%	9/29/2006	2,997	3,872

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Company(1)	Industry	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
		Common stock (15,393 shares)		9/29/2006	3	4	
					31,000	31,876	
					73,453	56,829	4.52%
Telecommunications							
American Broadband Communications, LLC and	Broadband communication services	Senior subordinated loan $(31,902 par due 11/2014)	18.00% (10.00% Cash, 8.00% PIK/Q)	2/8/2008	31,902	31,902(2)(4)	
American Broadband Holding Company		Senior subordinated loan $(8,050 par due 11/2014)	18.00% (10.00% Cash, 8.00% PIK/Q)	11/7/2007	8,050	8,050(4)	
		Warrants to purchase 166 shares		11/7/2007			
					39,952	39,952	
					39,952	39,952	3.18%
Environmental Services							
AWTP, LLC	Water treatment services	Junior secured loan $(4,755 par due 12/2012)		12/23/2005	4,755	1,902(14)	
		Junior secured loan $(2,086 par due 12/2012)		12/23/2005	2,086	834(3)(14)	
		Junior secured loan $(4,755 par due 12/2012)		12/23/2005	4,755	1,902(14)	
		Junior secured loan $(2,086 par due 12/2012)		12/23/2005	2,086	834(3)(14)	
					13,682	5,472	
Mactec, Inc.	Engineering and	Class B-4 stock (16 shares)		11/3/2004			
	environmental services	Class C stock (5,556 shares)		11/3/2004		150	
					0	150	
Sigma International Group, Inc.	Water treatment parts manufacturer	Junior secured loan $(917 par due 10/2013)	16.00% (Libor + 8.00%/Q)	11/6/2007	917	642(15)	
		Junior secured loan $(2,750 par due 10/2013)	16.00% (Libor + 8.00%/Q)	11/1/2007	2,750	1,925(15)	
		Junior secured loan $(1,833 par due 10/2013)	16.00% (Libor + 8.00%/Q)	10/11/2007	1,833	1,283(15)	
		Junior secured loan ($2,000 par due 10/2013)	16.00% (Libor + 8.00%/Q)	11/6/2007	2,000	1,400(3)(15)	
		Junior secured loan ($6,000 par due 10/2013)	16.00% (Libor + 8.00%/Q)	11/1/2007	6,000	4,200(3)(15)	
		Junior secured loan ($4,000 par due 10/2013)	16.00% (Libor + 8.00%/Q)	10/11/2007	4,000	2,800(3)(15)	
					17,500	12,250	
Waste Pro USA, Inc.	Waste management services	Preferred Class A common stock (611,615 shares)	14.00% PIK	11/9/2006	12,263	13,263(4)	

Wastequip, Inc.(6)	Waste management equipment manufacturer	Senior subordinated loan ($13,121 par due 2/2015)	10.00% Cash, 2.50% PIK	2/5/2007	13,030	1,968(4)	
		Common stock (13,889 shares)		2/2/2007	1,389		
					14,419	1,968	
					57,864	33,103	2.63%
Computers and Electronics							
RedPrairie Corporation	Software manufacturer	Junior secured loan ($3,300 par due 1/2013)	6.78% (Libor + 6.50%/Q)	7/13/2006	3,300	3,135(2)	
		Junior secured loan ($12,000 par due 1/2013)	6.78% (Libor + 6.50%/Q)	7/13/2006	12,000	11,400(3)	
					15,300	14,535	
TZ Merger Sub, Inc.	Computers and Electronics	Senior secured loan ($4,818 par due 7/2015)	7.50% (Libor + 4.50%/Q)	6/15/2009	4,711	4,818(3)(15)	
X-rite, Incorporated	Artwork software manufacturer	Junior secured loan ($3,074 par due 7/2013)	14.38% (Libor + 11.38%/Q)	7/6/2006	3,074	3,074(15)	
		Junior secured loan ($7,685 par due 7/2013)	14.38% (Libor + 11.38%/Q)	7/6/2006	7,685	7,685(3)(15)	
		Junior secured loan ($42 par due 7/2013)	14.38% (Base Rate + 10.38%/Q)	7/6/2006	42	42(15)	

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Company(1)	Industry	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
		Junior secured loan ($105 par due 7/2013)	14.38% (Base Rate + 10.38%/Q)	7/6/2006	105	105(3)(15)	
					10,906	10,906	
					30,917	30,259	2.41%
Cargo Transport							
The Kenan Advantage Group, Inc.	Fuel transportation provider	Senior secured loan ($2,400 par due 12/2011)	2.98% (Libor + 2.75%/M)	12/15/2005	2,400	2,304(3)(4)	
		Senior subordinated loan ($26,125 par due 12/2013)	9.50% Cash, 3.50% PIK	12/15/2005	26,125	25,603(2)(4)	
		Preferred stock (10,984 shares)	8.00% PIK	12/15/2005	1,454	1,932(4)	
		Common stock (30,575 shares)		12/15/2005	31	41	
					30,010	29,880	
					30,010	29,880	2.38%
Health Clubs							
Athletic Club Holdings, Inc.	Premier health club operator	Senior secured loan ($1,750 par due 10/2013)	4.73% (Libor + 4.50%/M)	10/11/2007	1,750	1,540(2)(13)	
		Senior secured loan ($1,000 par due 10/2013)	4.73% (Libor + 4.50%/M)	10/11/2007	1,000	880(2)(13)	
		Senior secured loan ($17 par due 10/2013)	6.75% (Base Rate + 3.50%/Q)	10/11/2007	17	15(2)(13)	
		Senior secured loan ($16 par due 10/2013)	6.75% (Base Rate + 3.50%/Q)	10/11/2007	16	14(3)(13)	
		Senior secured loan ($11,484 par due 10/2013)	4.73% (Libor + 4.50%/M)	10/11/2007	11,484	10,106(3)(13)	
		Senior secured loan ($12,483 par due 10/2013)	6.75% (Base Rate + 3.50%/Q)	10/11/2007	12,483	10,985(2)(13)	
					26,750	23,540	
					26,750	23,540	1.87%
Containers Packaging							
Industrial Container Services, LLC(6)	Industrial container manufacturer, reconditioner and servicer	Senior secured revolving loan ($15,696 par due 9/2011)	5.75% (Base Rate + 2.50%/M)	6/21/2006	950	922	
		Senior secured loan ($322 par due 9/2011)	4.23% (Libor + 4.00%/M)	6/21/2006	322	312(2)	
		Senior secured loan ($134 par due 9/2011)	4.23% (Libor + 4.00%/M)	6/21/2006	134	130(2)	
		Senior secured loan $(4,926 par due 9/2011)	4.23% (Libor + 4.00%/M)	6/21/2006	4,926	4,778(3)	
		Senior secured loan ($2,052 par due 9/2011)	4.23% (Libor + 4.00%/M)	6/21/2006	2,052	1,991(3)	
		Senior secured loan ($268 par due 9/2011)	4.25% (Libor + 4.00%/M)	6/21/2006	268	260(2)	
		Senior secured loan ($4,105 par due 9/2011)	4.25% (Libor + 4.00%/M)	6/21/2006	4,105	3,982(3)	
		Senior secured loan ($27 par due 9/2011)	5.75% (Base Rate + 2.50%/M)	6/21/2006	27	26(2)	
		Senior secured loan ($410 par due 9/2011)	5.75% (Base Rate + 2.50%/M)	6/21/2006	410	398(3)	

		Common stock (1,800,000 shares)		9/29/2005	1,800	8,550	
					14,994	21,349	
					14,994	21,349	1.70%
Grocery							
Planet Organic Health Corp.(8)	Organic grocery store operator	Junior secured loan ($876 par due 7/2013)	15.00% (Libor + 12.00%/Q)	7/3/2007	874	832(15)	
		Junior secured loan ($10,436 par due 7/2013)	15.00% (Libor + 12.00%/Q)	7/3/2007	10,414	9,914(3)(15)	
		Senior subordinated loan ($12,724 par due 7/2012)	13.00% Cash, 4.00% PIK	7/3/2007	12,572	9,416(4)	
					23,860	20,162	
					23,863	20,162	1.60%

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Company(1)	Industry	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Consumer Products Durable							
Direct Buy Holdings, Inc. and Direct Buy Investors, LP(6)	Membership-based buying club franchisor and operator	Senior secured loan ($23 par due 11/2012)	6.75% (Libor + 5.00%/M)	12/14/2007	22	19(2)(15)	
		Senior secured loan ($2,099 par due 11/2012)	6.75% (Libor + 5.00%/M)	12/14/2007	2,030	1,784(2)(15)	
		Partnership interests (19.31% interest)		11/30/2007	10,000	3,000	
					12,052	4,803	
					12,052	4,803	0.38%
Housing Building Materials							
HB&G Building Products	Synthetic and wood product manufacturer	Senior subordinated loan ($8,956 par due 3/2011)		10/8/2004	8,991	448(2)(4)(14)	
		Warrants to purchase 4,464 shares		10/8/2004	653		
		Common stock (2,743 shares)		10/8/2004	753		
					10,397	448	
					10,397	448	0.04%
					2,376,384	2,171,814	

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(1) Other than our investments listed in Note 7 below, we do not "Control" any of our portfolio companies, as defined in the Investment Company Act. In general, under the Investment Company Act, we would "Control" a portfolio company if we owned more than 25% of its outstanding voting securities and/or had the power to exercise control over the management or policies of such portfolio company. All of our portfolio company investments are subject to legal restrictions on sales which as of December 31, 2009 represented 173% of the Company's net assets or 94% of the Company's total assets.

(2) These assets are owned by the Company's wholly owned subsidiary Ares Capital CP, are pledged as collateral for the Revolving Funding Facility and, as a result, are not directly available to the creditors of the Company to satisfy any obligations of the Company other than Ares Capital CP's obligations under the Revolving Funding Facility (see Note 5 to the consolidated financial statements). Unless otherwise noted, as of December 31, 2009, all other investments were pledged as collateral for the Revolving Credit Facility (see Note 5 to the consolidated financial statements).

(3) Pledged as collateral for the ARCC CLO. Unless otherwise noted, as of December 31, 2009, all other investments were pledged as collateral for the Revolving Credit Facility (see Note 5 to the consolidated financial statements).

(4) Has a payment-in-kind interest feature (see Note 2 to the consolidated financial statements).

(5) Investments without an interest rate are non-income producing.

(6) As defined in the Investment Company Act, we are an "Affiliated Person" of this portfolio company because we own 5% or more of the portfolio company's outstanding voting securities or we have the power to exercise control over the management or policies of such portfolio company (including through a management agreement). Transactions during the period for the year ended December 31, 2009 in which the issuer was an Affiliated company (but not a portfolio company that we "Control") are as follows:

Company	Purchases

		Redemptions (cost)	Sales (cost)	Interest income	Capital structuring service fees	Dividend Income	Other income	Net realized gains (losses)	Net unrealized gains (losses)
Apple & Eve, LLC and US Juice Partners, LLC	$ 7,500	$ 15,019	$ 9,800	$ 5,335	$	$	$ 37	$	$ 12,283
Carador, PLC	$	$	$	$	$	$ 285	$	$	$ (1,778)
Campus Management Corp. and Campus Management Acquisition Corp.	$	$ 2,953	$ 15,000	$ 6,518	$	$	$ 90	$ (482)	$ 442
CT Technologies Intermediate Holdings, Inc. and CT Technologies Holdings, LLC	$	$	$	$ 1,040	$	$	$ 9	$	$ 2,052
Direct Buy Holdings, Inc. and Direct Buy Investors LP	$	$ 152	$	$ 147	$	$	$	$ 6	$ (3,218)
Firstlight Financial Corporation	$	$	$	$ 2,936	$	$	$ 1,442	$	$ (11,055)
Imperial Capital Group, LLC	$ 5,210	$	$	$	$	$	$	$	$ 2,972
Industrial Container Services, LLC	$ 7,517	$ 12,621	$	$ 709	$	$	$ 153	$	$ (341)
Investor Group Services, LLC	$	$ 750	$	$	$	$	$ 26	$	$
Making Memories Wholesale, Inc.	$	$	$	$	$	$	$	$	$ (240)
Pillar Holdings LLC and PHL Holding Co.	$	$ 3,179	$	$ 2,874	$	$	$ 33	$	$ 2,551
Primis Marketing Group, Inc. and Primis Holdings, LLC	$	$	$	$	$	$	$	$	$ (511)
R3 Education, Inc.	$ 24,000	$ 31,600	$	$ 697	$	$	$ 29	$	$ 87
VSS-Tranzact Holdings, LLC	$	$	$	$	$	$	$	$	$ 1,850
Wastequip, Inc.	$	$	$	$ 1,535	$	$	$	$	$ (5,787)
Wear Me Apparel, LLC	$	$ 34,110	$	$ 75	$	$	$	$ (15,002)	$ 22,055

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(7)

As defined in the Investment Company Act, we are an "Affiliated Person" of this portfolio company because we own 5% or more of the portfolio company's outstanding voting securities or we have the power to exercise control over the management or policies of such portfolio company (including through a management agreement). In addition, as defined in the Investment Company Act, we "Control" this portfolio company because we own more than 25% of the portfolio company's outstanding voting securities or we have the power to exercise control over the management or policies of such portfolio company (including through a management agreement). Transactions during the period for the year ended December 31, 2009 in which the issuer was both an Affiliated company and a portfolio company that we Control are as follows:

Company	Purchases	Redemptions (cost)	Sales (cost)	Interest income	Capital structuring service fees	Dividend Income	Other income	Net realized gains (losses)	Net unrealized gains (losses)
HCP Acquisition Holdings, LLC	$ 1,495	$	$ 18	$	$	$	$	$	$ (3,721)
Ivy Hill Asset Management, L.P.	$ 37,406	$	$ 236	$	$	$ 2,391	$	$ 494	$ 11,145
Ivy Hill Middle Market Credit Fund, Ltd.	$	$	$ 131	$ 5,742	$	$	$ 1,265	$	$ 1,284
LVCG Holdings, LLC	$	$	$	$	$	$	$ 66	$	$ (8,170)
Making Memories Wholesale, Inc.	$	$ 199	$ 14,224	$ 518	$	$	$ 5	$ (14,173)	$ 12,822
R3 Education, Inc.	$ 15,613	$ 6,050	$	$ 651	$	$	$ 17	$	$ (3,696)
Reflexite Corporation	$ 7,800	$	$ 2,000	$ 2,830	$ 194	$	$ 71	$	$ (10,925)
Senior Secured Loan Fund LLC*	$ 165,000	$	$	$ 4,831	$	$	$ 640	$	$
The Thymes, LLC	$	$	$	$ 502	$	$	$	$	$ 455

*

Together with GE Commercial Finance Investment Advisory Services LLC ("GE"), we serve as co-managers of the SSLP (as defined below). Investments and portfolio decisions made by the SSLP must be approved by both the Company and GE; therefore, although the Company owns more than 25% of the voting securities of the LLC, the Company does not believe that it has control over the SSLP (for purposes of the Investment Company Act of 1940 or otherwise).

(8)

Non-U.S. company or principal place of business outside the U.S. and as a result is not a qualifying asset under Section 55(a) of the Investment Company Act. Under the Investment Company Act, we may not acquire any non-qualifying asset unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets.

(9)

Non-registered investment company. Under the Investment Company Act, we may not acquire any non-qualifying asset unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets.

(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 annually (A), semi-annually (S), quarterly (Q), bi-monthly (B), monthly (M) or daily (D). For each such loan, we have provided the interest rate in effect on the date presented.

(11)

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 $18.4 million aggregate principal amount outstanding of the portfolio company's senior term debt previously syndicated by us.

(12)

Principal amount denominated in Canadian dollars has been translated into U.S. dollars (see Note 2 to the consolidated financial statements).

(13)

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 $25.0 million aggregate principal amount of the portfolio company's senior term debt previously syndicated by us.

(14)

Loan was on non-accrual status.

(15)

Loan includes interest rate floor feature.

(16)

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 2.98% on $15.0 million aggregate principal amount outstanding of the portfolio company's senior term debt previously syndicated by us.

(17) In addition to the interest earned based on the stated interest rate of this security, the notes entitle us to receive a portion of the excess cash flow from the SSLP's loan portfolio, which may result in a return greater than the contractual rate.

See accompanying notes to consolidated financial statements.

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ARES CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(in thousands, except per share data)

	Common Stock						
	Shares	**Amount**	**Capital in Excess of Par Value**	**Accumulated (Overdistributed) Undistributed Net Investment Income**	**Accumulated Net Realized Gain (Loss) on Investments, Foreign Currency Transactions, Extinguishment of Debt, Other Assets and Acquisitions**	**Net Unrealized Gain (Loss) on Investments and Foreign Currency Transactions**	**Total Stockholders' Equity**
Balance at December 31, 2007	72,684	$ 73	$ 1,136,599	$ 7,005	$ 1,471	$ (20,597)	$ 1,124,551
Issuance of common stock from transferable rights offering (net of offering and dealer manager costs)	24,228	24	259,777				259,801
Shares issued in connection with dividend reinvestment plan	241		2,922				2,922
Net decrease in stockholders' equity resulting from operations				126,992	6,371	(272,818)	(139,455)
Dividend declared ($1.68 per share)				(145,098)	(7,842)		(152,940)
Tax reclassification of stockholders' equity in accordance with generally accepted accounting principles			(3,340)	3,464	(124)		
Balance at December 31, 2008	97,153	$ 97	$ 1,395,958	$ (7,637)	$ (124)	$ (293,415)	$ 1,094,879
Issuance of common stock from August add-on offering (net of offering and underwriting costs)	12,440	13	109,073				109,086
Shares issued in connection with dividend reinvestment plan	352		4,025				4,025
Net increase in stockholders' equity resulting from operations				133,406	(19,420)	88,707	202,693
Dividend declared ($1.47 per share)				(128,210)	(24,585)		(152,795)
Tax reclassification of stockholders' equity in accordance with generally accepted accounting principles			(18,598)	5,584	13,014		
Balance at December 31, 2009	109,945	$ 110	$ 1,490,458	$ 3,143	$ (31,115)	$ (204,708)	$ 1,257,888
Issuance of common stock in add-on offerings (net of offering and underwriting costs)	34,458	34	457,815				457,849
Shares issued in connection with dividend reinvestment plan	1,523	2	22,529				22,531
Issuance of common stock in the acquisition of Allied Capital Corporation	58,493	58	872,669				872,727
Gain on the acquisition of Allied Capital Corporation					195,876		195,876
Net increase in stockholders' equity resulting from operations (excluding gain on the acquisition of Allied Capital Corporation)				215,816	49,399	230,743	495,958
Dividend declared ($1.40 per share)				(252,296)			(252,296)
Tax reclassification of stockholders' equity in accordance with generally accepted accounting principles			361,855	22,001	(383,856)		

Balance at December 31, 2010	204,419	$ 204	$ 3,205,326	$ (11,336)	$ (169,696)	$ 26,035	$ 3,050,533

See accompanying notes to consolidated financial statements.

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ARES CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)

	For the Year Ended December 31,		
	2010	**2009**	**2008**
OPERATING ACTIVITIES:			
Net increase (decrease) in stockholders' equity resulting from operations	$ 691,834	$ 202,693	$ (139,455)
Adjustments to reconcile net increase (decrease) in stockholders' equity resulting from operations:			
Gain on the acquisition of Allied Capital Corporation	(195,876)		
Realized loss (gain) from extinguishment of debt	1,961	(26,543)	
Realized (gain) on sale of intangible asset	(5,882)		
Net realized (gains) losses from investment and foreign currency transactions	(45,478)	45,963	(6,371)
Net unrealized (gains) losses from investment and foreign currency transactions	(230,743)	(88,707)	272,818
Net accretion of discount on securities	(12,594)	(2,554)	(1,307)
Increase in accrued payment-in-kind interest and dividends	(45,002)	(40,761)	(32,816)
Collections of payment-in-kind interest and dividends	32,668	6,371	272
Amortization of debt issuance costs	8,992	4,198	2,210
Accretion of discount on the Allied Unsecured Notes	8,201		
Depreciation	923	672	503
Proceeds from sales and repayments of investments	1,562,356	455,437	496,827
Purchases of investments	(1,559,819)	(575,046)	(925,945)
Acquisition of Allied Capital Corporation, net of cash acquired	(774,190)		
Changes in operating assets and liabilities:			
Interest receivable	(4,076)	(8,165)	6,183
Other assets	12,379	(709)	(2,009)
Management and incentive fees payable	(14,098)	33,506	19,948
Accounts payable and accrued expenses	(93,484)	7,126	1,035
Interest and facility fees payable	5,437	(1,224)	(900)
Net provided by (used in) operating activities	(656,491)	12,257	(309,007)
FINANCING ACTIVITIES:			
Net proceeds from issuance of common stock	1,330,577	109,086	259,801
Borrowings on debt	1,737,264	477,403	951,000
Repayments and repurchases of debt	(2,154,884)	(392,136)	(721,200)
Debt issuance costs	(25,176)	(7,192)	(3,139)
Dividends paid in cash	(229,765)	(189,574)	(109,214)
Net cash provided by (used in) financing activities	658,016	(2,413)	377,248
CHANGE IN CASH AND CASH EQUIVALENTS	1,525	9,844	68,241
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	99,227	89,383	21,142
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 100,752	$ 99,227	$ 89,383

Supplemental Information:			
Interest paid during the period	$ 53,117	$ 19,963	$ 34,421
Taxes paid during the period	$ 1,323	$ 818	$ 1,601
Dividends declared during the period	$ 252,296	$ 152,795	$ 152,940

See accompanying notes to consolidated financial statements.

ARES CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2010

(dollar amounts in thousands, except per share data and as otherwise indicated; for example, with the words "million," "billion" or otherwise)

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. We have elected to be regulated as a business development company under the Investment Company Act of 1940 (the "Investment Company 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. On the same date, we commenced substantial investment operations.

On April 1, 2010, we consummated our acquisition (the "Allied Acquisition") of Allied Capital Corporation ("Allied Capital"), in an all stock merger where each existing share of common stock of Allied Capital was exchanged for 0.325 shares of our common stock. The Allied Acquisition was valued at approximately $908 million as of April 1, 2010. In connection therewith, we issued approximately 58.5 million shares of our common stock to Allied Capital's then-existing stockholders, thereby resulting in our then-existing stockholders owning approximately 69% of the combined company and then-existing Allied Capital stockholders owning approximately 31% of the combined company (see Note 17).

The Company has elected to be treated as a regulated investment company, or a "RIC", under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code") and operates in a manner so as to qualify for the tax treatment applicable to RICs. 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. To a lesser extent, we also make equity investments. Also, as a result of the Allied Acquisition, Allied Capital's equity investments, including equity investments larger than those we have traditionally made and controlled portfolio company equity investments became part of our portfolio.

We are externally managed by Ares Capital Management LLC ("Ares Capital Management" or our "investment adviser"), an affiliate of Ares Management LLC ("Ares Management"), a global alternative asset manager and a Securities and Exchange Commission ("SEC") registered investment adviser. Ares Operations LLC ("Ares Operations" or our "administrator"), 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 Generally Accepted Accounting Principles ("GAAP"), and include the accounts of the Company and its wholly owned subsidiaries. The consolidated financial statements reflect all adjustments and reclassifications that, in the opinion of management, are necessary for the fair presentation of the results of the operations and financial condition as of and for the periods presented. All significant intercompany balances and transactions have been eliminated.

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Cash and Cash Equivalents

Cash and cash equivalents include funds from time to time deposited with financial institutions and short-term, liquid investments in a money market fund. Cash and cash equivalents are carried at cost which approximates fair value.

Concentration of Credit Risk

The Company places its cash and cash equivalents with financial institutions and, at times, cash held in money market accounts may exceed the Federal Deposit Insurance Corporation insured limit.

Investments

Investment transactions are recorded on the trade date. Realized gains or losses are measured by the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment without regard to unrealized gains or losses previously recognized, and include investments charged off during the period, net of recoveries. Unrealized gains or losses primarily reflect the change in investment values, including the reversal of previously recorded unrealized gains or losses when gains or losses are realized.

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

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

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

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

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

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

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

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

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

Effective January 1, 2008, the Company adopted Accounting Standards Codification ("ASC") 820-10 (previously Statement of Financial Accounting Standards ("SFAS") No. 157, Fair Value Measurements), which expands the application of fair value accounting for investments (see Note 8). Investments acquired as part of the Allied Acquisition were accounted for in accordance with ASC 805-10 (previously Statement of Financial Accounting Standards No. 141(R), Business Combinations), which requires that all assets be recorded at fair value. As a result, the initial amortized cost basis and fair value for the acquired investments were the same at April 1, 2010 (see Note 17).

Interest and Dividend Income Recognition

Interest income is recorded on an accrual basis and includes the accretion of discounts and amortization of premiums. Discounts and premiums to par value on securities purchased are accreted/amortized into interest income over the life of the respective security using the effective yield method. The amortized cost of investments represents the original cost adjusted for the accretion of discounts and amortization of premiums, if any.

Loans are generally placed on non-accrual status when principal or interest payments are past due 30 days or more or when there is reasonable doubt that principal or interest will be collected in full. Accrued and unpaid interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment regarding collectability. Non-accrual loans are restored to accrual status when past due principal and interest is paid and, in management's judgment, are likely to remain current. The Company may make exceptions to this if the loan has sufficient collateral value and is in the process of collection.

Dividend income on preferred equity securities is recorded as dividend income on an accrual basis to the extent that such amounts are payable by the portfolio company and are expected to be collected. Dividend income on common equity securities is recorded on the record date for private portfolio companies or on the ex-dividend date for publicly traded portfolio companies.

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Payment-in-Kind Interest

The Company has loans in its portfolio that contain payment-in-kind ("PIK") provisions. The PIK interest, computed at the contractual rate specified in each loan agreement, is added to the principal balance of the loan and recorded as interest income. To maintain the Company's status as a RIC, this non-cash source of income must be paid out to stockholders in the form of dividends, even though the Company has not yet collected the cash. For the years ended December 31, 2010, 2009 and 2008, $45,002, $40,761 and $32,816, respectively, in PIK income were recorded. Of the PIK income recorded for the year ended December 31, 2010, $13,513 was PIK income from investments acquired as part of the Allied Acquisition. For the years ended December 31, 2010, 2009 and 2008, $32,668, $6,371 and $272 of PIK income was collected. Of the PIK income collected for the year ended December 31, 2010, $2,895 was from investments acquired as part of the Allied Acquisition.

Capital Structuring Service Fees and Other Income

The Company's investment adviser seeks to provide assistance to our portfolio companies in connection with the Company's investments and in return the Company may receive fees for capital structuring services. These fees are generally only available to the Company as a result of the Company's underlying investments, are normally paid at the closing of the investments, are generally non-recurring and are recognized as revenue when earned upon closing of the investment. The services that the Company's investment adviser provides vary by investment, but generally include reviewing existing credit facilities, arranging bank financing, arranging equity financing, structuring financing from multiple lenders, structuring financing from multiple equity investors, restructuring existing loans, raising equity and debt capital, and providing general financial advice, which concludes upon closing of the investment. Any services of the above nature subsequent to the closing would generally generate a separate fee payable to the Company. In certain instances where the Company is invited to participate as a co-lender in a transaction and does not provide significant services in connection with the investment, a portion of loan fees paid to the Company in such situations will be deferred and amortized over the estimated life of the loan. The Company's investment adviser may also take a seat on the board of directors of a portfolio company, or observe the meetings of the board of directors without taking a formal seat.

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

Foreign Currency Translation

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

(1) Fair value of investment securities, other assets and liabilities at the exchange rates prevailing at the end of the period.

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

Results of operations based on changes in foreign exchange rates are separately disclosed in the statement of operations. Foreign security and currency translations may involve certain considerations and risks not typically associated with investing in U.S. companies and U.S. government securities. These risks include, but are not limited to, currency fluctuation and revaluations and future adverse political, social and economic developments, which could cause investments in foreign markets to be less liquid and prices more volatile than those of comparable U.S. companies or U.S. government securities.

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Accounting for Derivative Instruments

The Company does not utilize hedge accounting and marks its derivatives to market through unrealized gains (losses) in the accompanying statement of operations.

Equity Offering Expenses

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

Debt Issuance Costs

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

U.S. Federal Income Taxes

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

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

Dividends to Common Stockholders

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

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

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of actual and contingent assets and

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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.

New Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board issued Accounting Standard Update 2010-06, Fair Value Measurements and Disclosures (Topic 820), Improving Disclosures About Fair Value Measurements ("ASU 2010-06"). ASU 2010-06 adds new requirements for disclosures about transfers into and out of Level 1 and 2 inputs and separate disclosures about fair value measurements (see Note 8), particularly with respect to purchases, sales, issuances and settlements relating to Level 3 inputs. It also clarifies existing fair value disclosures about the level of disaggregation, will require that entities provide fair value measurement disclosures for each class of assets and liabilities, and adds requirements relating to inputs and valuation techniques used to measure fair value. Generally, ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, however, the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 inputs will not be required until fiscal years beginning after December 15, 2010. The adoption of ASU 2010-06 did not have a significant impact on the Company's financial condition and results of operations.

3. AGREEMENTS

Investment Advisory and Management Agreement

The Company is party to an investment advisory and management agreement (the "investment advisory and management agreement") with Ares Capital Management. Subject to the overall supervision of our board of directors, Ares Capital Management provides investment advisory and management services to the Company. For providing these services, Ares Capital Management receives a fee from us, consisting of two components a base management fee and an incentive fee. Ares Capital Management has committed to defer up to $15,000 in base management and incentive fees for each of the first two fiscal years following the Allied Acquisition if certain earnings targets are not met.

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

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

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

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example, if we receive pre-incentive fee net investment income in excess of the hurdle rate (as defined below) for a quarter, we will pay the applicable incentive fee even if we have incurred a loss in that quarter due to realized and/or unrealized capital losses.

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

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

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

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

- 20% of the amount of our pre-incentive fee net investment income, if any, that exceeds 2.5% in any calendar quarter.

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

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

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

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

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

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We defer cash payment of any incentive fee otherwise earned by our investment adviser if during the most recent four full calendar quarter period ending on or prior to the date such payment is to be made the sum of (a) the aggregate distributions to our stockholders and (b) the change in net assets (defined as total assets less indebtedness and before taking into account any incentive fees payable during the period) is less than 8.0% of our net assets at the beginning of such period.

The Capital Gains Fee due to our investment adviser as calculated under the investment advisory and management agreement (as described above) for the year ended December 31, 2010 was $0. However, in accordance with GAAP, the Company accrued a capital gains incentive fee of $15,609 for the year ended December 31, 2010. This GAAP accrual is calculated using the aggregate cumulative realized capital gains and losses and aggregate cumulative unrealized capital depreciation included in the calculation of the Capital Gains Fee plus the aggregate cumulative unrealized capital appreciation. If such amount is positive at the end of a period, then GAAP requires us to record a capital gains incentive fee equal to 20% of such amount, less the aggregate amount of actual Capital Gains Fees paid in all prior years. If such amount is negative, then there is no accrual for such year. GAAP requires that the capital gains incentive fee accrual consider the cumulative aggregate unrealized capital appreciation in the calculation, as a capital gains incentive fee would be payable if such unrealized capital appreciation were realized. There can be no assurance that such unrealized capital appreciation will be realized in the future. There was no similar GAAP accrual for the years ended December 31, 2009 and 2008.

For the year ended December 31, 2010, base management fees were $51,998, incentive management fees related to pre-incentive fee net investment income were $61,286 and incentive management fees related to capital gains were $15,609. As of December 31, 2010, $52,397 was included in "management and incentive fees payable" in the accompanying consolidated balance sheet, of which $36,788 is currently payable to the Company's investment adviser under the investment advisory and management agreement.

For the year ended December 31, 2009, base management fees were $30,409, incentive management fees related to pre-incentive fee net investment income were $33,332 and there were no incentive management fees related to capital gains. As of December 31, 2009, $66,495 was unpaid and included in "management and incentive fees payable" in the accompanying consolidated balance sheet, including $49,019 of incentive management fees that had been previously deferred pursuant to the investment and advisory agreement. The payment of incentive management fees that were deferred as of December 31, 2009 pursuant to the investment advisory and management agreement, were paid in the first quarter of 2010.

For the year ended December 31, 2008, base management fees were $30,463, incentive management fees related to pre-incentive fee net investment income were $31,748 and there were no incentive management fees related to capital gains.

Administration Agreement

We are party to a separate administration agreement, referred to herein as the "administration agreement", with our administrator, Ares Operations. Pursuant to the administration agreement, Ares Operations furnishes us with office equipment and clerical, bookkeeping and record keeping services. Under the administration agreement, Ares Operations also performs, or oversees the performance of, our required administrative services, which include, among other things, being responsible for the financial records that we are required to maintain and preparing reports to our stockholders and reports filed with the SEC. In addition, Ares Operations assists us in determining and publishing our net asset value, oversees the preparation and filing of our tax returns and the printing and dissemination of reports to our stockholders, and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. Payments under

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our administration agreement are equal to an amount based upon our allocable portion of Ares Operations' overhead and other expenses (including travel expenses) incurred by Ares Operations in performing its obligations under the administration agreement, including our allocable portion of the cost of certain of our officers (including our chief compliance officer, chief financial officer, general counsel, secretary and treasurer) and their respective staffs. The administration agreement may be terminated by either party without penalty upon 60 days' written notice to the other party.

For the years ended December 31, 2010, 2009 and 2008, we incurred $8,721, $4,009 and $2,701, respectively, in administrative fees. As of December 31, 2010, $2,470 was unpaid and included in "accounts payable and accrued expenses" in the accompanying consolidated balance sheet.

4. INVESTMENTS

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

	2010		2009	
	Amortized Cost(1)	**Fair Value**	**Amortized Cost(1)**	**Fair Value**
Senior term debt	1,722,130	1,695,532	1,152,462	1,072,149
Senior subordinated debt	1,055,441	1,014,514	658,787	595,668
Subordinated certificates of the SSLP	537,438	561,674	165,000	165,000
Collateralized loan obligations(2)	219,324	261,156	55,681	51,383
Equity securities	716,601	751,202	344,454	287,614
Commercial real estate	41,021	33,912		
Total	$ 4,291,955	$ 4,317,990	$ 2,376,384	$ 2,171,814

(1) The amortized cost represents the original cost adjusted for the accretion of discounts and amortization of premiums on debt investments using the effective interest method.

(2) See Note 19.

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

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

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

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

As of December 31, 2010, 3.8% of total investments at amortized cost (or 1.3% of total investments at fair value), were on non-accrual status, including 1.5% of total investments at amortized cost (or 1.0% of total investments at fair value) of investments acquired as part of the Allied Acquisition. As of December 31, 2009, 2.5% of total investments at amortized cost (or 0.5% at fair value), were on non-accrual status.

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SSLP

In October 2009, the Company completed its acquisition of subordinated certificates (the "SSLP Certificates") issued by the Senior Secured Loan Program (the "SSLP") from Allied Capital. The SSLP was formed in December 2007 to invest in "stretch senior" or "unitranche" loans (loans that combine both senior and subordinated debt, generally in a first lien position) of middle-market companies. The amortized cost and fair value of the SSLP Certificates was $537,439 and $561,674, respectively, at December 31, 2010, and $165,000 and $165,000, respectively, at December 31, 2009. The SSLP Certificates pay a coupon of LIBOR plus 8.0% and also entitle the Company to receive a portion of the excess cash flow from the loan portfolio, which may result in a return greater than the contractual coupon. The Company is also entitled to certain other sourcing and management fees in connection with the SSLP. The Company's yield on its investment in the SSLP at fair value was 15.8% and 17.0% at December 31, 2010 and December 31, 2009, respectively. For the years ended December 31, 2010 and 2009, the Company earned interest income of $50,013 and $4,831, respectively, on the SSLP Certificates.

As of December 31, 2010 and December 31, 2009, the SSLP had total assets of $2.6 billion and $0.9 billion, respectively, in aggregate principal amount outstanding. The senior debt obligations of the SSLP were $1.9 billion and $0.7 billion in aggregate principal amount outstanding at December 31, 2010 and December 31, 2009, respectively. The SSLP Certificates owned by the Company are junior to the senior debt obligations of the fund and the Company owned 88.6% and 87.5% of the outstanding class of such certificates as of December 31, 2010 and 2009, respectively.

The SSLP's portfolio consisted of 20 and 11 different issuers as of December 31, 2010 and 2009, respectively. At December 31, 2010 and 2009, the portfolio was comprised of all first lien senior secured debt issued by U.S. middle-market companies and none of the loans were on non-accrual status. At December 31, 2010 and 2009, the single largest issuer in the SSLP's portfolio in aggregate principal amount was $270.0 million and $179.9 million, respectively, and the top five issuers totaled $1.1 billion and $535.3 million, respectively. The portfolio companies in the SSLP are in industries similar to the companies in Ares Capital's portfolio.

5. BORROWINGS

In accordance with the Investment Company Act, with certain limited exceptions, the Company is only allowed to borrow amounts such that its asset coverage, as defined in the Investment Company Act, is at least 200% after such borrowing. As of December 31, 2010 our asset coverage for borrowed amounts was 321%.

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The Company's outstanding debt as of December 31, 2010 and 2009 was as follows:

	2010		2009	
	Carrying Value(1)	Total Available(2)	Carrying Value(1)	Total Available(2)
Revolving Funding Facility	$ 242,050	$ 400,000	$ 221,569	$ 221,569
Revolving Credit Facility	146,000	810,000(6)	474,144	525,000
Revolving Funding II Facility(3)				200,000
Debt Securitization	155,297	183,190	273,752	274,981
2011 Notes (principal amount outstanding of $300,584)	296,258(4)	300,584		
2012 Notes (principal amount outstanding of $161,210)	158,108(4)	161,210		
2040 Notes	200,000	200,000		
2047 Notes (principal amount outstanding of $230,000)	180,795(4)	230,000		
	$ 1,378,508(5)	$ 2,284,984	$ 969,465	$ 1,221,550

(1) Except for the Allied Unsecured Notes (as defined below), all carrying values are the same as the principal amounts outstanding.

(2) Subject to borrowing base and leverage restrictions.

(3) The Revolving Funding II Facility was combined with the Revolving Funding Facility on January 22, 2010. In connection therewith, the Revolving Funding II Facility was terminated.

(4) Represents the aggregate principal amount outstanding of the applicable series of notes less the unaccreted discount initially recorded as a part of the Allied Acquisition. The total unaccreted discount on the Allied Unsecured Notes (as defined below) was $56,633 at December 31, 2010.

(5) Total principal amount of debt outstanding totaled $1,435,141.

(6) Includes an "accordion" feature that allows us, under certain circumstances, to increase the size of the facility to a maximum of $1,050,000.

The weighted average stated interest rate of all our debt obligations at principal as of December 31, 2010 and December 31, 2009 was 5.2% and 2.1%, respectively.

Revolving Funding Facility

In October 2004, we formed Ares Capital CP Funding LLC ("Ares Capital CP"), a wholly owned subsidiary of the Company, through which we established a revolving facility (as amended, the "Revolving Funding Facility") that, as amended at such time, allowed Ares Capital CP to issue up to $350,000 of variable funding certificates ("VFC"). On May 7, 2009, the Company and Ares Capital CP entered into an amendment that, among other things, converted the Revolving Funding Facility from a revolving facility to an amortizing facility, extended the maturity from July 21, 2009 to May 7, 2012, reduced the availability from $350,000 to $225,000 (with a reduction in the outstanding balance required by each of December 31, 2010 and December 31, 2011) and decreased the advance rates applicable to certain types of eligible loans. In addition, the interest rate charged on the Revolving Funding Facility was increased from the commercial paper rate plus 2.50% to the commercial paper, Eurodollar or adjusted Eurodollar rate, as applicable, plus 3.50% and the commitment fee requirement was removed. The Company paid a renewal fee of 1.25% of the total facility amount, or $2,813.

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On July 21, 2009, the Company and Ares Capital CP entered into an agreement with Wells Fargo N.A. ("Wells Fargo") to establish an additional revolving facility (the "Revolving Funding II Facility") whereby Wells Fargo agreed to extend credit to us in an aggregate principal amount not exceeding $200,000 at any one time outstanding. The Revolving Funding II Facility was scheduled to expire on July 21, 2012.

On January 22, 2010, the Company and Ares Capital CP combined the Revolving Funding II Facility into the Revolving Funding Facility, creating a single $400,000 revolving securitized facility. In connection with the combination, we terminated the Revolving Funding II Facility and entered into an Amended and Restated Purchase and Sale Agreement with Ares Capital CP Funding Holdings LLC, our wholly owned subsidiary ("CP Holdings"), pursuant to which we may sell to CP Holdings certain loans that we have originated or acquired (the "Loans") from time to time, which CP Holdings will subsequently sell to Ares Capital CP, which is a wholly owned subsidiary of CP Holdings. The Revolving Funding Facility is secured by all of the assets held by, and the membership interest in, Ares Capital CP. The Revolving Funding Facility, among other things, extended the maturity date of the facility to January 22, 2013 (with two one-year extension options, subject to mutual consent, see Note 19).

As part of the Revolving 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 Revolving Funding Facility and limit further advances under the Revolving Funding Facility and in some cases could be an event of default. The Revolving Funding Facility is also subject to a borrowing base that applies different advance rates to assets held in Ares Capital CP. Such limitations, requirements, and associated defined terms are as provided for in the documents governing the Revolving Funding Facility. The Company and Ares Capital CP continue to be in material compliance with all of the limitations and requirements of the Revolving Funding Facility.

As of December 31, 2010 and 2009, there was $242,050 and $221,569 outstanding under the Revolving Funding Facility, respectively. The Revolving Funding Facility is secured by all of the assets held by Ares Capital CP, which as of December 31, 2010 consisted of 34 investments.

Prior to January 22, 2010, the interest rate charged on the Revolving Funding Facility was based on the commercial paper, Eurodollar or adjusted Eurodollar rate plus 3.50%. After January 22, 2010, subject to certain exceptions, the interest charged on the Revolving Funding Facility is based on LIBOR plus an applicable spread of between 2.25% and 3.75% or on a "base rate" (which is the higher of a prime rate, or the federal funds rate plus 0.50%) plus an applicable spread of between 1.25% to 2.75%, in each case, based on a pricing grid depending upon our credit rating. As of December 31, 2010 and for the period from January 22, 2010 through December 31, 2010, the effective LIBOR spread under the Revolving Funding Facility was 2.75%. As of December 31, 2010, the rate in effect was one month LIBOR, which was 0.26%. As of December 31, 2009, the rate in effect was the adjusted Eurodollar rate, which was 0.23%.

We are also required to pay a commitment fee of between 0.50% and 2.00% depending on the usage level on any unused portion of the Revolving Funding Facility. Prior to May 7, 2009, we were required to pay a commitment fee for any unused portion of the Revolving Funding Facility equal to 0.50% per annum for any unused portion of the Revolving Funding Facility. Prior to January 22, 2010, we were also required to pay a commitment fee on any unused portion of the Revolving Funding II Facility of between 0.50% and 2.00% depending on the usage level.

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The components of interest and credit facility fees expense, cash paid for interest expense, average interest rates (i.e., rate in effect plus the spread) and average outstanding balances for the Revolving Funding Facility were as follows:

	For the Year Ended December 31,		
	2010	2009	2008
Stated Interest Expense	$ 7,458	$ 6,751	$ 4,280
Facility Fees(1)	1,453	899	625
Amortization of Debt Issuance Costs	1,787	2,716	1,269
Total Interest and Credit Facility Fees Expense	$ 10,698	$ 10,366	$ 6,174
Cash Paid for Interest Expense	$ 7,224	$ 6,501	$ 3,754
Average Stated Interest Rate	3.0%	3.8%	5.2%
Average Outstanding Balance	$ 247,490	$ 179,443	$ 82,540

(1) Includes facility fees incurred related to the Revolving Funding II Facility.

Revolving Credit Facility

In December 2005, we entered into a senior secured revolving credit facility (as amended and restated, the "Revolving Credit Facility"), under which, as amended, the lenders agreed to extend credit to the Company. On January 22, 2010, we entered into an agreement to amend and restate the Revolving Credit Facility. The amendment and restatement of the Revolving Credit Facility, among other things, increased the size of the facility from $525,000 to $690,000 (comprised of $615,000 in commitments on a stand-alone basis and an additional $75,000 in commitments contingent upon the closing of the Allied Acquisition), extended the maturity date from December 28, 2010 to January 22, 2013 and modified pricing. The Revolving Credit Facility also includes an "accordion" feature that allows, under certain circumstances, for an increase in the size of the facility to a maximum of $1,050,000. During the year ended December 31, 2010, we exercised this "accordion" feature and increased the size of the facility by $120,000 to bring the total facility size to $810,000. The Revolving Credit Facility generally requires payments of interest at the end of each LIBOR interest period, but no less frequently than quarterly, on LIBOR-based loans, and monthly payments of interest on other loans. All principal is due upon maturity.

Under the Revolving Credit Facility, we 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. The Company continues to be in material compliance with all of the limitations and requirements of the Revolving Credit Facility.

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.

As of December 31, 2010 and 2009, there was $146,000 and $474,144, respectively, outstanding under the Revolving Credit Facility. The Revolving Credit Facility also provides for a sub-limit for the issuance of letters of credit for up to an aggregate amount of $100,000 and $25,000 as of December 31, 2010 and 2009, respectively. As of December 31, 2010 and 2009, the Company had $7,281 and $24,000

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in standby letters of credit issued through the Revolving Credit Facility. The amount available for borrowing under the Revolving Credit Facility is reduced by any standby letters of credit issued. At December 31, 2010, there was $656,719 available for borrowing under the Revolving Credit Facility.

Prior to January 22, 2010, subject to certain exceptions, pricing on the Revolving Credit Facility was based on LIBOR plus 1.00% or on an "alternate base rate" (which was the highest of a prime rate, the federal funds rate plus 0.50%, or one month LIBOR plus 1.00%). After January 22, 2010, subject to certain exceptions, pricing under the Revolving Credit Facility is based on LIBOR plus an applicable spread of between 2.50% and 4.00% or on the "alternate base rate" plus an applicable spread of between 1.50% and 3.00%, in each case, based on a pricing grid depending upon our credit rating. As of December 31, 2010 and for the period from January 22, 2010 through December 31, 2010, the effective LIBOR spread under the Revolving Credit Facility was 3.00%. As of December 31, 2010, the one, two, three and six month LIBOR was 0.26%, 0.28%, 0.30% and 0.46%, respectively. As of December 31, 2009, the one, two, three and six month LIBOR was 0.23%, 0.24%, 0.25% and 0.43%, respectively.

In addition to the stated interest expense on the Revolving Funding Facility, the Company is required to pay a commitment fee of 0.50% per annum on any unused portion of the Revolving Credit Facility and a letter of credit fee of 3.25% per annum on letters of credit issued, both of which are payable quarterly. In connection with the expansion and extension of the Revolving Credit Facility in January 2010, we paid arrangement fees totaling approximately $15,600.

With certain exceptions, the Revolving Credit Facility is secured by substantially all of the assets in our portfolio (other than investments held by Ares Capital CP under the Revolving Funding Facility, those held as a part of the Debt Securitization, discussed below, and certain other investments). As of December 31, 2010, the Revolving Credit Facility was secured by 298 investments.

The components of interest and credit facility fees expense, cash paid for interest expense, average interest rates (i.e., rate in effect plus the spread) and average outstanding balances for the Revolving Credit Facility were as follows:

	For the Year Ended December 31,		
	2010	**2009**	**2008**
Stated Interest Expense(1)	$ 10,370	$ 8,855	$ 17,610
Facility Fees	3,158	396	224
Amortization of Debt Issuance Costs	6,635	723	601
Total Interest and Credit Facility Fees Expense	$ 20,163	$ 9,974	$ 18,435
Cash Paid for Interest Expense(1)	$ 10,301	$ 9,758	$ 18,787
Average Stated Interest Rate(1)	4.3%	2.1%	4.2%
Average Outstanding Balance	$ 244,254	$ 410,947	$ 422,614

(1) The stated interest expense, cash paid for interest expense and average stated interest rate reflect the impact of the interest rate swap agreement entered into by the Company in October 2008 and terminated in December 2010 whereby the Company paid a fixed interest rate of 2.985% and received a floating rate based on the prevailing three-month LIBOR. See Note 6 for more information on the interest rate swap agreement.

With certain exceptions, the Revolving Credit Facility is secured by substantially all of the assets in our portfolio (other than investments held by Ares Capital CP under the Revolving Funding Facility, those held as a part of the Debt Securitization, discussed below and certain other investments). As of December 31, 2010, the Revolving Credit Facility was secured by 298 investments.

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The amount available for borrowing under the Revolving Credit Facility is reduced by any standby letters of credit issued through the Revolving Credit Facility. As of December 31, 2010, the Company had $7,281 in standby letters of credit issued through the Revolving Credit Facility. As of December 31, 2009, the Company had $24,000 in standby letters of credit issued through the Revolving Credit Facility.

Debt Securitization

In July 2006, through ARCC Commercial Loan Trust 2006, a vehicle serviced by our wholly owned subsidiary, ARCC CLO 2006 LLC ("ARCC CLO"), the Company completed a $400,000 debt securitization (the "Debt Securitization") and issued approximately $314,000 aggregate principal amount of asset-backed notes (including an aggregate amount of up to $50,000 of revolving notes, $22,107 of which was drawn down as of December 31, 2010) (the "CLO Notes") to third parties that are secured by a pool of middle-market loans that were purchased or originated by the Company. The Company initially retained approximately $86,000 of aggregate principal amount of certain "BBB" and non-rated securities in the Debt Securitization. The CLO Notes are included in the consolidated balance sheet.

During the year ended December 31, 2010, we repaid $39,996, $26,665 and $51,795 of the Class A-1-A, Class A-1A-VFN and Class A-2A Notes, respectively. During the year ended December 31, 2009, we repurchased, in several open market transactions, $34,790 of CLO Notes consisting of $14,000 of Class B Notes and $20,790 of Class C Notes for a total purchase price of $8,247. As a result of these purchases, we recognized a $26,543 gain on the extinguishment of debt during the year ended December 31, 2009. As of December 31, 2010, we held an aggregate principal amount of $120,790 of CLO Notes (the "Retained Notes") in total. The CLO Notes mature on December 20, 2019, and, as of December 31, 2010, there was $155,297 outstanding under the Debt Securitization (excluding the Retained Notes).

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. This reinvestment period ends on June 21, 2011.

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 $308,100 as of the closing date, which were sold to the trust by the Company, the originator and servicer of the assets. As of December 31, 2010, there were 42 investments securing the CLO Notes. Additional commercial loans have been purchased by the trust from the Company primarily using the proceeds from the Class A-1A VFN Notes as well as proceeds from loan repayments. 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. Under the terms of the securitization, up to 15% of the collateral may be subordinated loans that are neither first nor second lien loans.

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The classes, amounts and interest rates (expressed as a spread to LIBOR) of the CLO Notes as of December 31, 2010 and 2009 are as follows:

	2010		2009	
Class	Amount (millions)	LIBOR Spread (basis points)	Amount (millions)	LIBOR Spread (basis points)
A-1A	$ 33,161	25	$ 73,157	25
A-1A VFN(1)	22,107	28	48,772	28
A-1B	14,000	37	14,000	37
A-2A	20,819	22	72,614	22
A-2B	33,000	35	33,000	35
B	9,000	43	9,000	43
C	23,210	70	23,210	70
Total	$ 155,297		$ 273,753	

(1) Revolving Notes, in an aggregate amount of up to $50,000.

The interest charged under the Debt Securitization is based on 3-month LIBOR, which as of December 31, 2010 was 0.30% and as of December 31, 2009 was 0.25%. The blended pricing of the CLO Notes, excluding fees, at December 31, 2010, was approximately 3-month LIBOR plus 36 basis points.

The Company is also required to pay a commitment fee of 0.175% for any unused portion of the Class A-1A VFN Notes through June 21, 2011.

The components of interest and credit facility fees expense, cash paid for interest expense, average interest rates (i.e., rate in effect plus the spread) and average outstanding balances for the Debt Securitization are as follows:

	For the Year Ended December 31,		
	2010	2009	2008
Stated Interest Expense	$ 1,534	$ 3,568	$ 11,556
Facility Fees	21		
Amortization of Debt Issuance Costs	358	354	350
Total Interest and Credit Facility Fees Expense	$ 1,913	$ 3,922	$ 11,906
Cash Paid for Interest Expense	$ 1,536	$ 3,704	$ 11,881
Average Stated Interest Rate	0.7%	1.3%	3.7%
Average Outstanding Balance	$ 228,252	$ 282,856	$ 314,000

Unsecured Notes Payable

Allied Unsecured Notes

As part of the Allied Acquisition, the Company assumed all outstanding debt obligations of Allied Capital, including Allied Capital's unsecured notes which consisted of 6.625% Notes due on July 15, 2011 (the "2011 Notes"), 6.000% Notes due on April 1, 2012 (the "2012 Notes") and 6.875% Notes due on April 15, 2047 (the "2047 Notes" and, together with the 2011 Notes and the 2012 Notes, the "Allied Unsecured Notes").

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As of December 31, 2010, the Company had the following outstanding Allied Unsecured Notes:

	Outstanding Principal	Carrying Value(1)
2011 Notes	$ 300,584	$ 296,258
2012 Notes	161,210	158,108
2047 Notes	230,000	180,795
Total	$ 691,794	$ 635,161

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

The 2011 Notes bear interest at a rate of 6.625% and mature on July 15, 2011. The 2012 Notes bear interest at a rate of 6.000% and mature on April 1, 2012. The 2011 Notes and 2012 Notes require payment of interest semi-annually, and all principal is due upon maturity. The Company has the option to redeem these notes in whole or in part, together with a redemption premium, as stipulated in the notes (see Note 19).

The 2047 Notes bear interest at a rate of 6.875% and mature on April 15, 2047. The 2047 Notes require payment of interest quarterly, and all principal is due upon maturity. The 2047 Notes may be redeemed in whole or in part at any time or from time to time on or after April 15, 2012, at a par redemption price of $25 per security plus accrued and unpaid interest and upon the occurrence of certain tax events as stipulated in the notes. For the year ended December 31, 2010, the Company incurred $35,314 of stated interest expense in connection with the Allied Unsecured Notes, respectively, and the cash paid for interest on the Allied Unsecured Notes was $34,056. In accordance with ASC 805-10, the initial carrying value of the Allied Unsecured Notes was equal to the fair value as of April 1, 2010 resulting in an initial unaccreted discount from the principal value of the Allied Unsecured Notes of approximately $65,800. For the year ended December 31, 2010, we recorded $8,201 of accretion expense related to this discount which was included in "interest and credit facility fees" in the accompanying statement of operations.

The Company may purchase the Allied Unsecured Notes in the market to the extent permitted by the Investment Company Act. During the year ended December 31, 2010, the Company purchased $19,350 principal amount of the 2011 Notes and $34,400 principal amount of the 2012 Notes. As a result of these transactions, the Company recognized a realized loss of $1,961 during the year ended December 31, 2010.

2040 Notes

On October 21, 2010, we issued $200,000 of senior unsecured notes that mature on October 15, 2040 (the "2040 Notes"). The 2040 Notes may be redeemed in whole or in part at our option at any time or from time to time on or after October 15, 2015, at a par redemption price of $25 per security plus accrued and unpaid interest. The 2040 Notes bear interest at a rate of 7.75% per annum, payable quarterly commencing on January 15, 2011, and all principal is due upon maturity. Total proceeds from the issuance of the 2040 Notes, net of underwriters' discount and offering costs, were approximately $193,000. For the year ended December 31, 2010, the Company incurred $3,014 of interest expense on the 2047 Notes and no cash was paid for interest. Also for the year ended December 31, 2010, the Company incurred $44 in amortization of debt issuance costs related to the 2040 Notes.

The Allied Unsecured Notes and the 2040 Notes contain certain covenants, including covenants requiring Ares Capital to comply with Section 18(a)(1)(A) as modified by Section 61(a)(1) of the Investment Company Act and to provide financial information to the holders of such notes under certain circumstances. These covenants are subject to important limitations and exceptions. The Company continues to be in material compliance with all of the limitations and requirements of the Allied Unsecured Notes and the 2040 Notes.

6. DERIVATIVE INSTRUMENTS

In October 2008, we entered into an interest rate swap agreement that terminated on December 20, 2010 to mitigate our exposure to adverse fluctuations in interest rates for a total notional amount of $75,000. Under the interest rate swap agreement, we paid a fixed interest rate of 2.985% and receive a floating rate based on the prevailing three-month LIBOR. For the years ended December 31, 2010, 2009 and 2008, we recognized $1,741, $423 and $(2,164), in unrealized appreciation (depreciation) related to this swap agreement. As of December 31, 2009, this swap agreement had a fair value of $(1,741), which is included in the "accounts payable and other liabilities" in the accompanying consolidated balance sheet. Upon termination of this swap agreement in 2010, no realized gain or loss was recognized.

7. COMMITMENTS AND CONTINGENCIES

Portfolio Company Commitments

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

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

	As of December 31,	
	2010	**2009**
Total revolving commitments	$ 260,691	$ 136,800
Less: funded commitments	(59,980)	(37,200)
Total unfunded commitments	200,711	99,600
Less: commitments substantially at discretion of the Company	(19,922)	(4,000)
Less: unavailable commitments due to borrowing base or other covenant restrictions	(6,738)	(16,200)
Total net adjusted unfunded revolving commitments	$ 174,051	$ 79,400

Of the total net adjusted unfunded commitments as of December 31, 2010, $33,837 are from commitments for investments acquired as part of the Allied Acquisition. Also, as of December 31, 2010, $147,341 of the total revolving commitments extend beyond the maturity date for our Revolving Credit Facility. Included within the total revolving commitments as of December 31, 2010 are commitments to issue up to $10,900 in standby letters of credit through a financial intermediary on behalf of certain portfolio companies. Under these arrangements, if the standby letters of credit were to be issued, the Company would be required to make payments to third parties if the portfolio companies were to default on their related payment obligations. As of December 31, 2010, the Company had $8,600 in standby letters of credit issued and outstanding on behalf of the portfolio companies, of which no amounts were recorded as a liability on our balance sheet as such letters of credit are considered in the valuation of the investments in the portfolio company. Of these letters of credit, $100 expire in February 2011, $100 expire in April 2011, $2,300 expire in September 2011, $200 expire in December 2011, $900 expire in January 2012, and $5,000 expire in December 2012.

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

	As of December 31,	
	2010	2009
Total SSLP commitments	$ 975,000	$ 525,000
Less: funded SSLP commitments	(564,000)	(184,000)
Total unfunded SSLP commitments	411,000	341,000
Less: SSLP commitments substantially at discretion of the Company(1)	(411,000)	(341,000)
Total net adjusted unfunded SSLP commitments	$	$

(1) Investments made by the SSLP must be approved by both GE Commercial Finance Investment Advisory Services LLC ("GE") and the Company.

See Notes 4 and 14 for more information on the Company's commitment to the SSLP.

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

	As of December 31,	
	2010	2009
Total private equity commitments	$ 537,600	$ 428,300
Less: funded private equity commitments	(104,300)	(12,900)
Total unfunded private equity commitments	433,300	415,400
Less: private equity commitments substantially at discretion of the Company	(400,400)	(391,900)
Total net adjusted unfunded private equity commitments	$ 32,900	$ 23,500

Of the total net adjusted unfunded private equity commitments as of December 31, 2010, $11,500 are for investments acquired as part of the Allied Acquisition.

In the ordinary course of business, Allied Capital had issued guarantees on behalf of certain portfolio companies. Under these arrangements, payments would be required to be made to third parties if the portfolio companies were to default on their related payment. As part of the Allied Acquisition, the Company assumed such outstanding guarantees or similar obligations. As a result, as of December 31, 2010, the Company had outstanding guarantees or similar obligations totaling $800.

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

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Lease Commitments

The Company is obligated under a number of operating leases for office spaces with terms ranging from less than one year to more than 15 years. Rent expense for the years ended December 31, 2010, 2009 and 2008 was $5,167, $1,803 and $1,426 respectively.

The following table shows future minimum payments under the Company's operating leases:

For the year ending December 31,	Amount
2011	$ 4,918
2012	6,852
2013	7,007
2014	6,567
2015	5,208
Thereafter	54,133
Total	$ 84,685

For certain of its operating leases, the Company has entered into subleases including ones with Ares Management and Ivy Hill Asset Management, L.P. ("IHAM") (see Note 13).

The following table shows future expected rental payments to be received under the Company's subleases:

For the year ending December 31,	Amount
2011	$ 1,806
2012	2,389
2013	2,411
2014	2,200
2015	1,567
Thereafter	17,738
Total	$ 28,111

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

Effective January 1, 2008, the Company adopted ASC 825-10 (previously SFAS No. 159, the Fair Value Option for Financial Assets and Liabilities), which provides companies the option to report selected financial assets and liabilities at fair value. ASC 825-10 also 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. ASC 825-10 also requires entities to display the fair value of the selected assets and liabilities on the face of the balance sheet. The Company has not elected the ASC 8 25-10 option to report selected financial assets and liabilities at fair value. With the exception of the line items entitled "other assets" and "debt," which are reported at amortized cost, all assets and liabilities approximate fair value on the balance sheet. The carrying value of the line items entitled "interest receivable," "receivable for open trades," "payable for open trades," "accounts payable and accrued expenses," "management and incentive fees payable" and "interest and facility fees payable" approximate fair value due to their short maturity.

Effective January 1, 2008, the Company adopted ASC 820-10 (previously SFAS No. 157, Fair Value Measurements), which expands the application of fair value accounting. ASC 820-10 defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosure of fair value measurements. ASC 820-10 determines fair value to be the price that would be

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received for an investment in a current sale, which assumes an orderly transaction between market participants on the measurement date. ASC 820-10 requires the Company to assume that the portfolio investment is sold in its principal market to market participants or, in the absence of a principal market, the most advantageous market, which may be a hypothetical market. Market participants are defined as buyers and sellers in the principal or most advantageous market that are independent, knowledgeable, and willing and able to transact. In accordance with ASC 820-10, the Company has considered its principal market as the market in which the Company exits its portfolio investments with the greatest volume and level of activity. ASC 820-10 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. In accordance with ASC 820-10, these inputs are summarized in the three broad levels listed below:

Level 1 Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2 Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

In addition to using the above inputs in investment valuations, we continue to employ the net asset valuation policy approved by our board of directors that is consistent with ASC 820-10 (see Note 2). Consistent with our valuation policy, we evaluate the source of inputs, including any markets in which our investments are trading (or any markets in which securities with similar attributes are trading), in determining fair value. Our valuation policy considers the fact that because there is not a readily available market value for most of the investments in our portfolio, the fair value of the investments must typically be determined using unobservable inputs.

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

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

The following table presents fair value measurements of cash and cash equivalents and investments as of December 31, 2010:

		Fair Value Measurements Using		
	Total	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	$ 100,752	$ 100,752	$	$
Investments	$ 4,317,990	$	$ 5,333	$ 4,312,657

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The following tables present changes in investments that use Level 3 inputs for the year ended December 31, 2010:

	For the Year Ended December 31, 2010	
Balance as of December 31, 2009	$	2,166,687
Net unrealized gains		272,940
Net purchases, sales or redemptions (including investments acquired as part of the Allied Acquisition)		1,873,030
Net transfers in and/or out of Level 3		
Balance as of December 31, 2010	$	4,312,657

As of December 31, 2010, the net unrealized gain on the investments that use Level 3 inputs was $29,735.

The following table presents fair value measurements of cash and cash equivalents and investments as of December 31, 2009:

	Fair Value Measurements Using							
		Total		Level 1		Level 2		Level 3
Cash and cash equivalents	$	99,227	$	99,227	$		$	
Investments	$	2,171,814	$		$	5,127	$	2,166,687

The following tables present changes in investments that use Level 3 inputs for the year ended December 31, 2009:

	For the Year Ended December 31, 2009	
Balance as of December 31, 2008	$	1,862,462
Net unrealized gains		41,229
Net purchases, sales or redemptions		164,105
Net transfers in and/or out of Level 3		98,891
Balance as of December 31, 2009	$	2,166,687

As of December 31, 2009, the net unrealized loss on the investments that use Level 3 inputs was $198,895.

Following are the carrying and fair values of our debt instruments as of December 31, 2010 and December 31, 2009. Fair value is estimated by discounting remaining payment using applicable

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current market rates which take into account changes in the Company's marketplace credit ratings or market quotes, if available.

	December 31, 2010		December 31, 2009	
	Carrying Value(1)	Fair Value	Carrying Value(1)	Fair Value
Revolving Funding Facility	$ 242,050	$ 242,000	$ 221,569	$ 226,000
Revolving Credit Facility	146,000	146,000	474,144	447,000
Debt Securitization	155,297	133,000	273,752	217,000
2011 Notes (principal amount outstanding of $300,584)	296,258(2)	297,290		
2012 Notes (principal amount outstanding of $161,210)	158,108(2)	164,595		
2040 Notes (principal amount outstanding of $200,000)	200,000	184,986		
2047 Notes (principal amount outstanding of $230,000)	180,795(2)	197,314		
	$ 1,378,508(3)	$ 1,365,185	$ 969,465	$ 890,000

(1) Except for the Allied Unsecured Notes, all carrying values are the same as the principal amounts outstanding.

(2) Represents the aggregate principal amount of the applicable series of notes less the unaccreted discount initially recorded as a part of the Allied Acquisition.

(3) Total principal amount of debt outstanding totaled $1,435,141.

9. STOCKHOLDERS' EQUITY

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

	Shares issued	Offering price per share	Proceeds net of underwriting and offering costs
2010			
November 2010 public offering	11,500	$ 16.50	$ 180,642
February 2010 public offering	22,958	$ 12.75	$ 277,207
Total for the year ended December 31, 2010	34,458		$ 457,849
2009			
August 2009 public offering	12,440	$ 9.25	$ 109,086
Total for the year ended December 31, 2009	12,440		$ 109,086
2008			
April 2008 public offering	24,228	$ 11.00	$ 259,801
Total for the year ended December 31, 2008	24,228		$ 259,801

For the years ended December 31, 2010, 2009 and 2008, the Company incurred approximately $1,440, $806 and $1,414 in offering costs, respectively.

In connection with the Allied Acquisition, on April 1, 2010, the Company issued 58,493 shares valued at approximately $872,727.

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In November 2010, the Company completed a public add-on equity offering (the "November Add-on Offering") of 11,500 shares of common stock (including 1,500 shares purchased pursuant to the underwriters' over-allotment option) at a price of $16.50 per share, less an underwriting discount totaling approximately $0.7425 per share. Total proceeds received from the November Add-on Offering, net of underwriters' discount and offering costs, were approximately $180,642.

In February 2010, the Company completed a public add-on equity offering (the "February Add-on Offering") of approximately 22,958 shares of common stock (including approximately 1,958 shares purchased pursuant to the partial exercise by the underwriters of their over-allotment option) at a price of $12.75 per share, less an underwriting discount totaling approximately $0.6375 per share. Total proceeds received from the February Add-on Offering, net of underwriters' discount and offering costs, were approximately $277,207.

In August 2009, the Company completed a public add-on equity offering (the "August Add-on Offering") of approximately 12,440 shares of common stock (including approximately 1,440 shares purchased pursuant to the underwriters' over-allotment option) at a price of $9.25 per share, less an underwriting discount totaling approximately $0.42 per share. The shares were offered at a discount from the then most recently determined net asset value per share of $11.21 pursuant to authority granted by our common stockholders at the annual meeting of stockholders held on May 4, 2009. Total proceeds received from the August Add-on Offering, net of underwriters' discount and offering costs, were approximately $109,086.

In April 2008, the Company completed a transferable rights offering, issuing approximately 24,228 shares at a subscription price of $11.0016 per share, less dealer manager fees of $0.22 per share. Net proceeds after deducting the dealer manager fees and estimated offering expenses were approximately $259,801. Ares Investments LLC, an affiliate of our investment adviser, purchased 1,553 shares in the rights offering.

10. EARNINGS PER SHARE

The following information sets forth the computations of basic and diluted net increase (decrease) in stockholders' equity resulting from operations per share for the years ended December 31, 2010, 2009 and 2008:

	2010	2009	2008
Net increase (decrease) in stockholders' equity resulting from operations available to common stockholders:	$ 691,834	$ 202,693	$ (139,455)
Weighted average shares of common stock outstanding basic and diluted:	176,732	101,720	89,666
Basic and diluted net increase (decrease) in stockholders' equity resulting from operations per share:	$ 3.91	$ 1.99	$ (1.56)

In accordance with ASC 260-10 (previously SFAS No, 128, Earnings per Share), the weighted average shares of common stock outstanding used in computing basic and diluted net decrease in stockholders' equity resulting from operations per share for the year ended December 31, 2008 has been adjusted retroactively by a factor of 1.02% to recognize the bonus element associated with rights to acquire shares of common stock that we issued to stockholders of record as of March 24, 2008 in connection with a transferable rights offering.

11. INCOME AND EXCISE TAXES

For income tax purposes, dividends and distributions paid to stockholders are reported as ordinary income, capital gains, non-taxable return of capital, or a combination thereof. Dividends or distributions paid per common share for the years ended December 31, 2010, 2009 and 2008 were taxable as follows (unaudited):

	For the years ended December 31,		
	2010	2009	2008
Ordinary income(1)(2)	$ 1.40	$ 1.36	$ 1.60
Capital gains			0.08
Return of capital		0.11	
Total	$ 1.40	$ 1.47	$ 1.68

(1) For the years ended December 31, 2010, 2009 and 2008, ordinary income included dividend income of approximately $0.0164, $0.0107 and $0.0184, per share, respectively, that qualified to be taxed at the 15% maximum capital gains rate.

(2) For certain eligible corporate shareholders, dividends eligible for the dividend received deduction for 2010, 2009 and 2008, was approximately $0.0164, $0.0107 and $0.0184, per share, respectively.

The following reconciles net increase (decrease) in stockholders' equity resulting from operations to taxable income for the years ended December 31, 2010, 2009, and 2008:

	For the years ended December 31,		
	2010 (Estimated)(1)	2009	2008
Net increase (decrease) in stockholders' equity resulting from operations	$ 691,834	$ 202,693	$ (139,455)
Adjustments:			
Net unrealized (gain) loss on investments	(230,743)	(88,707)	272,818
Items related to the Allied Acquisition:			
Gain on the Allied Acquisition	(195,876)		
Other merger-related items	(4,463)		
Other income not currently taxable	(36,486)	(21,310)	(7,136)
Other income for tax but not book	64,404	51,218	6,307
Expenses not currently deductible	29,200	10,545	29,921
Other deductible expenses	(786)	(29,636)	(3,561)
Other realized gain/loss differences	(2,778)		
Taxable income	$ 314,306	$ 124,803	$ 158,894

(1) 2010 taxable income is an estimate and will not be finally determined until the 2010 tax return is filed in 2011.

Taxable income generally differs from net increase (decrease) in stockholders' equity resulting from operations for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses, and generally excludes net unrealized gains or losses, as unrealized gains or losses are generally not included in taxable income until they are realized. Additionally, on April 1, 2010, the Company acquired Allied Capital in a tax free exchange and recorded a book gain of $195,876, which is not a realized event for tax purposes. Similarly, there were certain merger-related items that vary in their deductibility for GAAP and tax.

Capital losses in excess of capital gains earned in a tax year may generally be carried forward and used to offset capital gains, subject to certain limitations. As of December 31, 2009, the Company

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had a capital loss carryforward of $37 million. In addition, Allied Capital had a capital loss carryforward of $111 million as of the merger date. As of December 31, 2010, the Company estimates that it will have a capital loss carryforward of approximately $148 million available for use in later tax years. Because of the loss limitation rules of the Code, some of the tax basis losses may be limited in their use. The unused balance will be carried forward and utilized as gains are realized, subject to such limitations. In addition to the capital loss carryforwards, the Company realized net losses of approximately $0.2 billion from the Allied portfolio for the year ended December 31, 2010, however, these losses have not yet been deducted for tax purposes as their deductibility in 2010 was limited by the Code.

For 2010, the Company had taxable income in excess of the distributions made from such taxable income during the year, and therefore, the Company has elected to carry forward the excess for distribution to shareholders in 2011. The amount carried forward to 2011 is estimated to be $62,000, although this amount will not be finalized until the 2010 tax returns are filed in 2011. We have accrued $2,229 of federal excise tax related to this carried over amount for the year ended December 31, 2010. For the years ended December 31, 2009 and 2008, a net benefit of $30 and a net expense of $100, respectively, were recorded for U.S. federal excise tax.

As of December 31, 2010, the cost basis of investments for tax purposes was $5.4 billion resulting in estimated gross unrealized gains and losses of $300 million and $1.4 billion, respectively. As of December 31, 2010, the cost of investments for tax purposes was greater than the amortized cost of investments for book purposes of $4.3 billion, primarily as a result of the Allied Acquisition. The Allied Acquisition qualified as a tax free exchange, which resulted in the acquired assets retaining Allied Capital's cost basis at the merger date. As of December 31, 2009, the cost of investments for tax purposes was $2.4 billion resulting in gross unrealized gains and losses of $0.1 billion and $0.3 billion, respectively.

In general, the Company may make certain adjustments to the classification of stockholders' equity as a result of permanent book-to-tax differences, which may include merger-related items, differences in the book and tax basis of certain assets and liabilities, and nondeductible federal taxes, among other items. During the year ended December 31, 2010, as a result of these permanent book-to-tax differences, including the nontaxability of the book gain on the Allied Acquisition and the nondeductibility of certain merger-related expenses, the Company increased accumulated undistributed net investment income by $22,001, increased accumulated net realized loss on sale of investments by $383,856 and increased capital in excess of par value by $361,855. During the year ended December 31, 2009, the Company increased accumulated undistributed net investment income by $5,584, decreased accumulated net realized loss on sale of investments by $13,014 and decreased capital in excess of par value by $18,598. During the year ended December 31, 2008, the Company increased accumulated undistributed net investment income by $3,464, increased accumulated net realized loss on sale of investments by $124 and decreased capital in excess of par value by $3,340. Aggregate stockholders' equity was not affected by these reclassifications.

Certain of our wholly owned subsidiaries are subject to U.S. federal and state income taxes. For the year ended December 31, 2010, we recorded a tax expense of $3,163 for these subsidiaries. For the year ended December 31, 2009 and 2008 we recorded a tax expense of approximately $600 and $100, respectively, for these subsidiaries.

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12. DIVIDENDS AND DISTRIBUTIONS

The following table summarizes our dividends declared for the years ended December 31, 2010, 2009 and 2008:

Date declared	Record date	Payment date	Per share amount	Total amount
November 4, 2010	December 15, 2010	December 31, 2010	$ 0.35	$ 71,423
August 5, 2010	September 15, 2010	September 30, 2010	$ 0.35	67,266
May 10, 2010	June 15, 2010	June 30, 2010	$ 0.35	67,091
February 25, 2010	March 15, 2010	March 31, 2010	$ 0.35	46,516
Total declared for 2010			$ 1.40	$ 252,296
November 5, 2009	December 15, 2009	December 31, 2009	$ 0.35	$ 39,630
August 6, 2009	September 15, 2009	September 30, 2009	$ 0.35	38,357
May 7, 2009	June 15, 2009	June 30, 2009	$ 0.35	34,004
March 2, 2009	March 16, 2009	March 31, 2009	$ 0.42	40,804
Total declared for 2009			$ 1.47	$ 152,795
November 6, 2008	December 15, 2008	January 2, 2009	$ 0.42	$ 40,803
August 7, 2008	September 15, 2008	September 30, 2008	$ 0.42	40,804
May 8, 2008	June 16, 2008	June 30, 2008	$ 0.42	40,805
February 28, 2008	March 17, 2008	March 31, 2008	$ 0.42	30,528
Total declared for 2008			$ 1.68	$ 152,940

The Company has a dividend reinvestment plan, whereby the Company may buy shares of its common stock in the open market or issue new shares in order to satisfy dividend reinvestment requests. If the Company issues new shares, the issue price is equal to closing price on the record date. Dividend reinvestment plan activity for the years ended December 31, 2010, 2009, and 2008, was as follows:

	2010	2009	2008
Shares issued	1,523	352	241
Average price per share	$ 14.79	$ 11.43	$ 12.12
Shares purchased by plan agent for shareholders		1,629	1,277
Average price per share		$ 6.85	$ 9.27

13. RELATED PARTY TRANSACTIONS

In accordance with the investment advisory and management agreement, we bear all costs and expenses of the operation of the Company and reimburse our investment adviser for certain of such costs and expenses incurred in the operation of the Company. For the years ended December 31, 2010, 2009 and 2008 our investment adviser incurred such expenses for which it was reimbursed by the Company totaling $3,264, $2,461 and $2,292, respectively. As of December 31, 2010, $341 was unpaid and such payable is included in "accounts payable and accrued expenses" in the accompanying consolidated balance sheet.

We rented office space directly from a third party pursuant to a lease that expired on February 27, 2011. In connection with such leases, we entered into a sublease agreement with Ares Management whereby Ares Management subleased approximately 25% of such office space for a fixed rent equal to 25% of the basic annual rent payable by us under this lease, plus certain additional costs and expenses. For the years ended December 31, 2010, 2009 and 2008, such amounts payable to the Company totaled $253, $652 and $253, respectively.

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

As of December 31, 2010, Ares Investments, an affiliate of Ares Management, (the sole member of our investment adviser) owned approximately 2.9 million shares of the Company's common stock representing approximately 1.40% of the total shares outstanding as of December 31, 2010.

See Notes 3 and 14 for descriptions of other related party transactions.

14. IVY HILL ASSET MANAGEMENT, L.P. AND OTHER MANAGED FUNDS

Ivy Hill Asset Management, L.P.

In November 2007, the Company established IHAM to serve as a manager for a middle-market credit fund, Ivy Hill Middle Market Credit Fund, Ltd. ("Ivy Hill I"), an unconsolidated investment vehicle focusing on investments in middle-market loans. From inception until the second quarter of 2009, IHAM's financial results were consolidated with those of the Company. In June 2009, because of a shift in activity from being primarily a manager, with no dedicated employees, of funds in which the Company has invested debt and equity, to a manager with individuals dedicated to managing an increasing number of third party funds, the Company concluded that GAAP requires the financial results of IHAM to be reported as a portfolio company in the schedule of investments rather than as a consolidated subsidiary in the Company's financial results. The Company made an initial equity investment of $3,816 into IHAM in June 2009. As of December 31, 2010, the total investment in IHAM at fair value was $136,235, including an unrealized gain of $32,777. As of December 31, 2009, the total investment in IHAM at fair value was $48,321, including an unrealized gain of $11,145. For the years ended December 31, 2010 and 2009, the Company received distributions from IHAM of $12,154 and $3,120, respectively. The distributions for the year ended December 31, 2010 and 2009 included dividend income of $7,320 and $2,390, respectively.

For the years ended December 31, 2009 and 2008, the Company earned $900 and $1,482, respectively, in management fees from IHAM's management of Ivy Hill I prior to IHAM's conversion to a portfolio company in June 2009. Ivy Hill I primarily invests in first and second lien bank debt of middle-market companies. Ivy Hill I was initially funded with $404,000 of capital including a $56,000 investment by the Company, consisting of $40,000 of Class B notes and $16,000 of subordinated notes. For the years ended December 31, 2010, 2009 and 2008, the Company earned $6,859, $5,742 and $5,427, respectively, from its investments in Ivy Hill I.

Ivy Hill I purchased investments from the Company of $12,000, $18,000 and $68,000 during the years ended December 31, 2010, 2009 and 2008, respectively, and may from time to time purchase additional investments from the Company. Any such purchases require approval by third parties unaffiliated with the Company or IHAM. There was no realized gain or loss recognized by the Company on these transactions.

In November 2008, the Company established a second middle-market credit fund, Ivy Hill Middle Market Credit Fund II, Ltd. ("Ivy Hill II" and, together with Ivy Hill I and Ivy Hill SDF (as defined below), the "Ivy Hill Funds"), which is also managed by IHAM. Ivy Hill II purchased $86,500 and $28,000 of investments from the Company during the years, ended December 31, 2010 and 2009, respectively, and may from time to time purchase additional investments from the Company. Any such purchases require approval by third parties unaffiliated with the Company or IHAM. A realized loss of $1,218 and $1,388 was recorded on these transactions for the years ended December 31, 2010 and 2009,

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respectively. For the year ended December 31, 2009, the Company earned $365 in management fees from IHAM's management of Ivy Hill II prior to IHAM's conversion to a portfolio company in June 2009.

In December 2009, the Company made an additional cash investment of approximately $33,000 in IHAM to facilitate IHAM's acquisition of Allied Capital's management rights in respect of, and interests in, the Allied Capital Senior Debt Fund, L.P. (now referred to as Ivy Hill Senior Debt Fund, L.P. or the "Ivy Hill SDF"). In October 2010, the Company made an additional cash investment of approximately $4,000 in IHAM to facilitate IHAM's acquisition of an equity interest in Ivy Hill SDF.

In March 2010, the Company made an additional cash investment of approximately $48,000 in IHAM to facilitate IHAM's acquisition of Allied Capital's management rights in respect of, and equity interests in, the Knightsbridge CLO 2007-1, Ltd. and Knightsbridge CLO 2008-1, Ltd. (the "Knightsbridge Funds"). At the time, the Company also acquired from Allied Capital certain debt investments of the Knightsbridge Funds for approximately $52,000. The Knightsbridge Funds purchased $8,800 of investments from the Company during the year ended December 31, 2010. A realized loss of $31 was recognized by the Company on these transactions.

As part of the Allied Acquisition, the Company acquired, through the Company's wholly owned subsidiary, A.C. Corporation, the management rights for three unconsolidated loan funds: Emporia Preferred Funding I, Ltd., Emporia Preferred Funding II, Ltd. and Emporia Preferred Funding III, Ltd. (collectively, the "Emporia Funds"). In November 2010, the Company made an additional cash investment of $7,900 in IHAM, which IHAM then used to purchase these management rights and related receivables from A.C. Corporation for $7,900, which represented the fair value of those management rights as of the date of the sale. A realized gain of $5,882 was recognized on this transaction. In August 2010, the Company made an additional cash investment of approximately $8,000 in IHAM to facilitate IHAM's acquisition of an equity interest in Emporia Preferred Funding III, Ltd. The Emporia Funds purchased $4,600 of investments from the Company during the year ended December 31, 2010. A realized loss of $46 was recognized by the Company on these transactions

In addition to the Ivy Hill Funds and the Knightsbridge Funds, IHAM also serves as the sub-adviser/sub-manager to six other funds: CoLTS 2005-1 Ltd., CoLTS 2005-2 Ltd., CoLTS 2007-1 Ltd. (collectively, the "CoLTS Funds") and FirstLight Funding I, Ltd., which is affiliated with the Company's portfolio company, Firstlight Financial Corporation, Ares Private Debt Strategies Fund II, L.P. and Ares Private Debt Strategies Fund III, L.P. The CoLTs Funds purchased $1,200 of investments from the Company during the year ended December 31, 2010. A realized loss of $12 was recognized by the Company on these transactions. The funds managed by IHAM may, from time to time, buy additional loans from the Company.

Beginning in November 2008, IHAM was party to a separate services agreement, referred to herein as the "services agreement," with Ares Capital Management. Pursuant to the services agreement, Ares Capital Management provided IHAM with office facilities, equipment, clerical, bookkeeping and record keeping services, services of investment professionals and others to perform investment advisory, research and related services, services of, and oversight of, custodians, depositories, accountants, attorneys, underwriters and such other persons in any other capacity deemed to be necessary. Under the services agreement, IHAM reimbursed Ares Capital Management for all of the actual costs associated with such services, including Ares Capital Management's allocable portion of overhead and the cost of its officers and respective staff in performing its obligations under the services agreement. The services agreement was terminated effective June 30, 2010 and replaced with a different services agreement with similar terms between IHAM and the Company's administrator. Prior to IHAM's conversion to a portfolio company in June 2009, for the years ended December 31, 2009 and 2008, IHAM incurred such expenses payable to Ares Capital Management of $538 and $244, respectively.

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SSLP

In October 2009, the Company completed the acquisition of the SSLP Certificates for $165,000. At December 31, 2010, the Company's investment in the SSLP was $561,674 at fair value, including an unrealized gain of $24,235. The SSLP was formed in December 2007 to invest in "stretch senior" or "unitranche" loans (loans that combine both senior and subordinated debt, generally in a first lien position) of middle-market companies and currently has approximately $5.1 billion of total committed capital under management, approximately $2.5 billion in aggregate principal amount of which was funded at December 31, 2010. At December 31, 2010, the Company's total commitment to the SSLP was $975,000, of which $410,633 was unfunded. The SSLP is capitalized as transactions are completed. Together with GE Commercial Finance Investment Advisory Services LLC ("GE"), the Company and GE serve as co-managers of the SSLP and both investment and portfolio management decisions made by the SSLP must be approved by both the Company and GE. The Company's investment entitles it to a coupon of LIBOR plus 8.0% and also to receive a portion of the excess cash flow from the loan portfolio, which may result in a return greater than the contractual coupon. The Company is also entitled to certain other sourcing and management fees in connection with the SSLP. See Note 4 for additional information on the Company's investment in the SSLP.

Other Managed Funds

Also as part of the Allied Acquisition, the Company acquired the management rights for an unconsolidated fund, the AGILE Fund I, LLC, which had $68.1 million of total committed capital under management as of December 31, 2010. The Company's investment in AGILE Fund I, LLC was $217 at fair value, including an unrealized loss of $47 as of December 31, 2010.

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15. FINANCIAL HIGHLIGHTS

The following is a schedule of financial highlights as of and for the years ended December 31, 2010, 2009 and 2008:

Per Share Data:	As of and for the year ended December 31, 2010	As of and for the year ended December 31, 2009	As of and for the year ended December 31, 2008
Net asset value, beginning of period(1)	$ 11.44	$ 11.27	$ 15.47
Issuance of common stock	0.95	(0.35)	(0.96)
Net investment income for period(2)	1.23	1.32	1.42
Gain on the Allied Acquisition	1.11		
Net realized and unrealized gains (loss) for period(2)	1.59	0.67	(2.98)
Net increase (decrease) in stockholders' equity	4.88	1.64	(1.56)
Distributions from net investment income	(1.40)	(1.35)	(1.58)
Distributions from net realized gains		(0.12)	(0.10)
Total distributions to stockholders	(1.40)	(1.47)	(1.68)
Net asset value at end of period(1)	$ 14.92	$ 11.44	$ 11.27
Per share market value at end of period	$ 16.48	$ 12.45	$ 6.33
Total return based on market value(3)	43.61%	119.91%	(45.25)%
Total return based on net asset value(4)	31.61%	17.84%	(11.17)%
Shares outstanding at end of period	204,419	109,945	97,153
Ratio/Supplemental Data:			
Net assets at end of period	$ 3,050,533	$ 1,257,888	$ 1,094,879
Ratio of operating expenses to average net assets(5)(6)	11.02%	9.78%	9.09%
Ratio of net investment income to average net assets(5)(7)	9.07%	11.72%	10.22%
Portfolio turnover rate(5)	45%	26%	24%

(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 year ended December 31, 2010, the total return based on market value for the year ended December 31, 2010 equals the increase of the ending market value at December 31, 2010 of $16.48 per share over the ending market value at December 31, 2009 of $12.45 per share plus the declared dividends of $1.40 per share for the year ended December 31, 2010, divided by the market value at December 31, 2009. For the year ended December 31, 2009, the total return based on market value for the year ended December 31, 2009 equals the increase of the ending market value at December 31, 2009 of $12.45 per share over the ending market value at December 31, 2008 of $6.33 per share plus the declared dividends of $1.47 per share for the year ended December 31, 2009, divided by the market value at December 31, 2008. For the year ended December 31, 2008, the total return based on market value for the year ended December 31, 2008 equals the decrease of the ending market value at December 31, 2008 of $6.33 per share from the ending market value at December 31, 2007 of $14.63 per share plus the declared dividends of $1.68 per share for the year ended December 31, 2008, divided by the market value at December 31, 2007. 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.

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(4) For the year ended December 31, 2010, the total return based on net asset value equals the change in net asset value during the period plus the declared dividends of $1.40 per share for the year ended December 31, 2010 divided by the beginning net asset value for the period. For the year ended December 31, 2009, the total return based on net asset value equals the change in net asset value during the period plus the declared dividends of $1.47 per share for the year ended December 31, 2009 divided by the beginning net asset value for the period. For the year ended December 31, 2008, the total return based on net asset value equals the change in net asset value during the period plus the declared dividends of $1.68 per share for the year ended December 31, 2008 divided by the beginning net asset value for the period. These calculations are adjusted for shares issued in connection with the dividend reinvestment plan and the issuance of common stock in connection with any equity offerings. 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.

(6) For the year ended December 31, 2010, the ratio of operating expenses to average net assets consisted of 2.19% of base management fees, 3.23% of incentive management fees, 3.34% of the cost of borrowing and other operating expenses of 2.27%. For the year ended December 31, 2009, the ratio of operating expenses to average net assets consisted of 2.67% of base management fees, 2.93% of incentive management fees, 2.13% of the cost of borrowing and other operating expenses of 2.05%. For the year ended December 31, 2008, the ratio of operating expenses to average net assets consisted of 2.45% of base management fees, 2.55% of incentive management fees, 2.93% of the cost of borrowing and other operating expenses of 1.16%. These ratios reflect annualized amounts.

(7) The ratio of net investment income to average net assets excludes income taxes related to realized gains.

16. SELECTED QUARTERLY DATA (Unaudited)

	2010			
	Q4	Q3	Q2	Q1
Total investment income	$ 157,170	$ 138,126	$ 121,590	$ 66,510
Net investment income before net realized and unrealized gain (losses) and incentive compensation	$ 99,323	$ 89,025	$ 64,514	$ 39,849
Incentive compensation	$ 35,973	$ 17,805	$ 14,973	$ 8,144
Net investment income before net realized and unrealized gain (losses)	$ 63,350	$ 71,220	$ 49,541	$ 31,705
Net realized and unrealized gains (losses)	$ 93,538	$ 57,157	$ 280,613(1)	$ 44,710
Net increase in stockholders' equity resulting from operations	$ 156,888	$ 128,377	$ 330,154	$ 76,415
Basic and diluted earnings per common share	$ 0.79	$ 0.67	$ 1.73	$ 0.61
Net asset value per share as of the end of the quarter	$ 14.92	$ 14.43	$ 14.11	$ 11.78

(1) Includes gain on the Allied Acquisition of $195,876.

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	2009			
	Q4	Q3	Q2	Q1
Total investment income	$ 69,264	$ 60,881	$ 59,111	$ 56,016
Net investment income before net realized and unrealized gain (losses) and incentive compensation	$ 47,920	$ 41,133	$ 39,935	$ 37,750
Incentive compensation	$ 9,568	$ 8,227	$ 7,987	$ 7,550
Net investment income before net realized and unrealized gain (losses)	$ 38,352	$ 32,906	$ 31,948	$ 30,200
Net realized and unrealized gains (losses)	$ 31,278	$ 30,370	$ 2,805	$ 4,834
Net increase in stockholders' equity resulting from operations	$ 69,630	$ 63,276	$ 34,753	$ 35,034
Basic and diluted earnings per common share	$ 0.64	$ 0.62	$ 0.36	$ 0.36
Net asset value per share as of the end of the quarter	$ 11.44	$ 11.16	$ 11.21	$ 11.20

	2008			
	Q4	Q3	Q2	Q1
Total investment income	$ 62,723	$ 62,067	$ 63,464	$ 52,207
Net investment income before net realized and unrealized gain (losses) and incentive compensation	$ 40,173	$ 41,025	$ 45,076	$ 32,466
Incentive compensation	$ 8,035	$ 8,205	$ 9,015	$ 6,493
Net investment income before net realized and unrealized gain (losses)	$ 32,138	$ 32,820	$ 36,061	$ 25,973
Net realized and unrealized gains (losses)	$ (142,638)	$ (74,213)	$ (32,789)	$ (16,807)
Net (decrease) increase in stockholders' equity resulting from operations	$ (110,500)	$ (41,393)	$ 3,272	$ 9,166
Basic and diluted (loss) earnings per common share	$ (1.14)	$ (0.43)	$ 0.04	$ 0.12
Net asset value per share as of the end of the quarter	$ 11.27	$ 12.83	$ 13.67	$ 15.17

17. ALLIED ACQUISITION

On April 1, 2010, the Company completed the Allied Acquisition by acquiring the outstanding shares of Allied Capital in exchange for shares of our common stock in a transaction valued at approximately $908 million as of the closing date. Concurrently with the completion of the Allied Acquisition, we repaid in full the $137 million of remaining principal amounts outstanding on Allied Capital's $250 million senior secured term loan. We also assumed all of Allied Capital's other outstanding debt obligations, including approximately $745 million in aggregate principal amount outstanding of the Allied Unsecured Notes.

Under the terms of the Allied Acquisition each Allied Capital stockholder received 0.325 shares of our common stock for each share of Allied Capital common stock then owned by such stockholder. In connection with the Allied Acquisition, approximately 58.5 million shares of our common stock (including the effect of outstanding in-the money Allied Capital stock options) were issued to Allied Capital's then-existing stockholders, resulting in our then-existing stockholders owning approximately 69% of the combined company and the then-existing Allied Capital stockholders owning approximately 31% of the combined company.

The Allied Acquisition was accounted for in accordance with the acquisition method of accounting as detailed in ASC 805-10 (previously SFAS No. 141(R)), Business Combinations. The acquisition method of accounting requires an acquirer to recognize the assets acquired, the liabilities assumed and any noncontrolling interest in the acquired entity based on their fair values as of the date of acquisition. As described in more detail in ASC 805-10, if the total acquisition date fair value of the identifiable net assets acquired exceeds the fair value of the consideration transferred, the excess will be recognized as a gain. Upon completion of our determination of the fair value of Allied Capital's

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identifiable net assets as of April 1, 2010, the fair value of such net assets exceeded the fair value of the consideration transferred, resulting in the recognition of a gain. The valuation of the investments acquired as part of the Allied Acquisition was done in accordance with Ares Capital's valuation policy (see Notes 2 and 8).

Following is the allocation of the purchase price to the assets acquired and liabilities assumed as a result of the Allied Acquisition:

Common stock issued	$	872,727
Payments to holders of "in-the-money" Allied Capital stock options		35,011(1)
Total purchase price	$	907,738
Assets acquired:		
Investments	$	1,833,766
Cash and cash equivalents		133,548
Other assets		80,078
Total assets acquired		2,047,392
Debt and other liabilities assumed		(943,778)
Net assets acquired		1,103,614
Gain on Allied Acquisition		(195,876)
	$	907,738

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

The following pro forma condensed combined financial information does not purport to be indicative of actual financial position or results of our operations had the Allied Acquisition actually been consummated at the beginning of each period presented. Certain one-time charges have been eliminated. For year ended December 31, 2010, we recognized $19,833 in professional fees and other costs related to the Allied Acquisition. The pro forma adjustments reflecting the allocation of the purchase price of Allied Capital and the gain of $195,876 recognized on the Allied Acquisition have been eliminated from all periods presented. The pro forma condensed combined financial information does not reflect the potential impact of possible synergies and does not reflect any impact of additional accretion which would have been recognized on the transaction, except for that which was recorded after the transaction was consummated on April 1, 2010.

	Year Ended December 31,			
		2010		**2009**
Total investment income	$	537,488	$	563,958
Net investment income	$	238,982	$	184,641
Net increase (decrease) in stockholders' equity resulting from operations	$	479,979	$	(323,133)
Net increase (decrease) in stockholders' equity resulting from operations per share	$	2.51	$	(2.02)

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

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18. LITIGATION

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

19. SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of issuance of these consolidated financial statements. There have been no subsequent events that occurred during such period that would require disclosure in the financial statements as of the time they were initially filed in the Company's Form 10-K for the year ended December 31, 2010 or would be required to be recognized in the Consolidated Financial Statements as of and for the years ended December 31, 2010, except as disclosed below.

On January 18, 2011, we and Ares Capital CP amended the Revolving Funding Facility to, among other things, provide for a three year reinvestment period until January 18, 2014 (with two one-year extension options, subject to our and the lenders' consent) and extend the stated maturity date to January 18, 2016 (with two one-year extension options, subject to our and the lenders consent).

In January 2011, we issued an aggregate principal amount outstanding of $575,000 of unsecured convertible senior notes (the "2016 Convertible Notes") that mature on February 1, 2016 (the "Maturity Date"), unless previously converted or repurchased in accordance with their terms. The 2016 Convertible Notes bear interest at rate of 5.75% per year, payable semiannually. In certain circumstances, the 2016 Convertible Notes will be convertible into cash, shares of Ares Capital's common stock or a combination of cash and shares of Ares Capital's common stock, at Ares Capital's election, at an initial conversion rate of 52.2766 shares of common stock per one thousand dollar principal amount of the 2016 Convertible Notes, which is equivalent to an initial conversion price of approximately $19.13 per share of Ares Capital's common stock, subject to customary anti-dilution adjustments. The initial conversion price is approximately 17.5% above the $16.28 per share closing price of Ares Capital's common stock on January 19, 2011. Ares Capital will not have the right to redeem the 2016 Convertible Notes prior to maturity.

The 2016 Convertible Notes are Ares Capital's senior unsecured obligations and rank senior in right of payment to Ares Capital's existing and future indebtedness that is expressly subordinated in right of payment to the 2016 Convertible Notes; equal in right of payment to Ares Capital's existing and future unsecured indebtedness that is not so subordinated; effectively junior in right of payment to any of Ares Capital's secured indebtedness (including existing unsecured indebtedness that Ares Capital later secures) to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness (including trade payables) incurred by Ares Capital's subsidiaries, financing vehicles or similar facilities.

Prior to the close of business on the business day immediately preceding August 15, 2015, holders may convert their 2016 Convertible Notes only under certain circumstances set forth in the indenture governing the terms of the 2016 Convertible Notes (the "Indenture"). On or after August 15, 2015 until the close of business on the scheduled trading day immediately preceding the Maturity Date, holders may convert their 2016 Convertible Notes at any time. Upon conversion, Ares Capital will pay or deliver, as the case may be, at its election, cash, shares of its common stock or a combination of cash and shares of its common stock. The conversion rate will be subject to adjustment in some events but will not be adjusted for any accrued and unpaid interest. In addition, if certain corporate events occur prior to the Maturity Date, the conversion rate will be increased for converting holders.

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Ares Capital may not redeem the 2016 Convertible Notes prior to maturity. No sinking fund is provided for the 2016 Convertible Notes. In addition, if certain corporate events occur in respect of Ares Capital, holders of the 2016 Convertible Notes may require Ares Capital to repurchase for cash all or part of their 2016 Convertible Notes at a repurchase price equal to 100% of the principal amount of the 2016 Convertible Notes to be repurchased, plus accrued and unpaid interest through, but excluding, the required repurchase date.

The Indenture contains certain covenants, including covenants requiring Ares Capital to comply with Section 18(a)(1)(A) as modified by Section 61(a)(1) of the Investment Company Act and to provide financial information to the holders of the 2016 Convertible Notes under certain circumstances. These covenants are subject to important limitations and exceptions that are described in the Indenture.

In accounting for the 2016 Convertible Notes, the Company estimated at the time of issuance that the values of the debt and equity components of the notes were approximately 93% and 7%, respectively. The original issue discount equal to the estimated equity component of 7% of the 2016 Convertible Notes will initially be recorded in "capital in excess of par value" in the balance sheet. As a result, the Company will record interest expense comprised of both stated interest expense as well as accretion of the original issue discount resulting in an estimated effective interest rate of approximately 7.5%.

On February 24, 2011 the Company notified the holders of our 2011 Notes that the Company was redeeming the $300,584 aggregate principal amount of our 2011 Notes remaining outstanding, together with a redemption premium, in accordance with the terms of the indenture governing the 2011 Notes. The Company expects the redemption to be completed on March 16, 2011.

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

In February 2011, the Company sold certain collateralized loan obligations that were originally acquired as part of the Allied Acquisition. Total proceeds from these investments sold were $207,670 including a realized gain of $99,055.

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ARES CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(in thousands, except per share data)

	As of June 30, 2011 (unaudited)	As of December 31, 2010
ASSETS		
Investments at fair value		
Non-controlled/non-affiliate investments	$ 2,564,369	$ 2,482,642
Non-controlled affiliate company investments	470,372	380,396
Controlled affiliate company investments	1,608,422	1,454,952
Total investments at fair value (amortized cost of $4,584,902 and $4,291,955, respectively)	4,643,163	4,317,990
Cash and cash equivalents	84,889	100,752
Receivable for open trades	26,492	8,876
Interest receivable	78,695	72,548
Other assets	78,292	62,380
Total assets	$ 4,911,531	$ 4,562,546
LIABILITIES		
Debt	$ 1,620,142	$ 1,378,509
Management and incentive fees payable	89,883	52,397
Accounts payable and other liabilities	39,703	34,742
Interest and facility fees payable	25,579	21,763
Payable for open trades	1,943	24,602
Total liabilities	1,777,250	1,512,013
Commitments and contingencies (Note 7)		
STOCKHOLDERS' EQUITY		
Common stock, par value $.001 per share, 400,000 and 300,000 common shares authorized, respectively, 205,130 and 204,419 common shares issued and outstanding, respectively	205	204
Capital in excess of par value	3,271,594	3,205,326
Accumulated overdistributed net investment income	(62,960)	(11,336)
Accumulated net realized loss on investments, foreign currency transactions, extinguishment of debt and other assets	(132,819)	(169,696)
Net unrealized gain on investments and foreign currency transactions	58,261	26,035
Total stockholders' equity	3,134,281	3,050,533
Total liabilities and stockholders' equity	$ 4,911,531	$ 4,562,546
NET ASSETS PER SHARE	$ 15.28	$ 14.92

See accompanying notes to consolidated financial statements.

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ARES CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS

(in thousands, except per share data)

	For the three months ended June 30, 2011	For the three months ended June 30, 2010	For the six months ended June 30, 2011	For the six months ended June 30, 2010
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
INVESTMENT INCOME:				
From non-controlled/non-affiliate company investments:				
Interest from investments	$ 60,435	$ 64,891	$ 122,242	$ 110,966
Capital structuring service fees	13,041	5,786	18,406	7,136
Dividend income	521	1,918	2,036	1,918
Management fees	474	2,347	628	2,675
Interest from cash & cash equivalents	41	17	94	28
Other income	880	1,759	2,116	2,554
Total investment income from non-controlled/non-affiliate company investments	75,392	76,718	145,522	125,277
From non-controlled affiliate company investments:				
Interest from investments	8,759	15,375	18,891	19,995
Dividend income	1,255	88	3,631	191
Management fees	188	150	376	288
Other income	62	364	638	422
Total investment income from non-controlled affiliate company investments	10,264	15,977	23,536	20,896
From controlled affiliate company investments:				
Interest from investments	42,079	23,796	80,700	34,637
Capital structuring service fees	7,113	1,906	12,706	2,657
Dividend income	4,901	1,418	9,801	1,796
Management fees	3,939	1,632	7,046	2,653
Other income	619	143	687	184
Total investment income from controlled affiliate company investments	58,651	28,895	110,940	41,927
Total investment income	144,307	121,590	279,998	188,100
EXPENSES:				
Interest and credit facility fees	28,593	23,110	58,768	31,698
Incentive management fees	41,746	14,973	72,687	23,117
Base management fees	17,414	11,682	34,144	20,138
Professional fees	4,781	3,454	7,246	5,958
Administrative fees	2,459	2,378	4,884	3,609
Professional fees and other costs related to the acquisition of Allied Capital Corporation	733	12,534	900	16,323
Other general and administrative	2,911	3,232	5,829	5,487
Total expenses	98,637	71,363	184,458	106,330
NET INVESTMENT INCOME BEFORE INCOME TAXES	45,670	50,227	95,540	81,770
Income tax expense, including excise tax	1,907	686	3,954	524
NET INVESTMENT INCOME	43,763	49,541	91,586	81,246
REALIZED AND UNREALIZED GAINS (LOSSES) ON INVESTMENTS AND FOREIGN CURRENCIES:				

Net realized gains (losses):				
Non-controlled/non-affiliate company investments	(14,223)	7,512	58,189	9,773
Non-controlled affiliate company investments	1,580	3,925	(2,016)	(3,734)
Controlled affiliate company investments	6,269	870	22	1,302
Foreign currency transactions				85
Net realized gains (losses)	(6,374)	12,307	56,195	7,426
Net unrealized gains (losses):				
Non-controlled/non-affiliate company investments	(7,372)	65,107	(20,426)	96,081
Non-controlled affiliate company investments	(9,453)	7,243	(2,906)	19,088
Controlled affiliate company investments	26,817	463	55,558	7,387
Foreign currency transactions				(152)
Net unrealized gains	9,992	72,813	32,226	122,404
Net realized and unrealized gains from investments and foreign currencies	3,618	85,120	88,421	129,830
GAIN ON THE ACQUISITION OF ALLIED CAPITAL CORPORATION		195,876		195,876
REALIZED LOSS ON EXTINGUISHMENT OF DEBT	(10,458)	(383)	(19,318)	(383)
NET INCREASE IN STOCKHOLDERS' EQUITY RESULTING FROM OPERATIONS	$ 36,923	$ 330,154	$ 160,689	$ 406,569
BASIC AND DILUTED EARNINGS PER COMMON SHARE (Note 10)	$ 0.18	$ 1.73	$ 0.79	$ 2.57
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING BASIC AND DILUTED (Note 10)	204,752	191,045	204,586	157,978

See accompanying notes to consolidated financial statements.

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ARES CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

As of June 30, 2011

(dollar amounts in thousands)

Company(1)	Business Description	Investment	Interest(5)(12)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Investment Funds and Vehicles							
AGILE Fund I, LLC(7)(9)	Investment partnership	Member interest (0.50% interest)		4/1/2010	$ 252	$ 150	
CIC Flex, LP(9)	Investment partnership	Limited partnership units (0.94 unit)		9/7/2007	2,533	2,512	
Covestia Capital Partners, LP(9)	Investment partnership	Limited partnership interest (47.00% interest)		6/17/2008	1,059	1,065	
Dynamic India Fund IV, LLC(9)	Investment company	Member interest (5.44% interest)		4/1/2010	4,822	4,728	
Firstlight Financial Corporation(6)(9)	Investment company	Senior subordinated loan ($74,177 par due 12/2016)	1.00% PIK	12/31/2006	73,893	57,377(4)	
		Class A common stock (10,000 shares)		12/31/2006	10,000		
		Class B common stock (30,000 shares)		12/31/2006	30,000		
					113,893	57,377	
HCI Equity, LLC(7)(8)(9)	Investment company	Member interest (100.00% interest)		4/1/2010	808	972	
Imperial Capital Private Opportunities, LP(6)(9)	Investment partnership	Limited partnership interest (80.00% interest)		5/10/2007	6,643	5,300	
Ivy Hill Middle Market Credit Fund, Ltd.(7)(8)(9)	Investment company	Class B deferrable interest notes ($40,000 par due 11/2018)	6.25% (Libor + 6.00%/Q)	11/20/2007	40,000	37,600	
		Subordinated notes ($16 par due 11/2018)	15.00%	11/20/2007	15,515	16,000	
					55,515	53,600	
Knightsbridge CLO 2007-1 Ltd.(7)(8)(9)	Investment company	Class E notes ($20,350 par due 1/2022)	9.29% (Libor + 9.00%/Q)	3/24/2010	14,852	18,575	
Knightsbridge CLO 2008-1 Ltd.(7)(8)(9)	Investment company	Class C notes ($14,400 par due 6/2018)	7.75% (Libor + 7.50%/Q)	3/24/2010	14,400	14,400	
		Class D notes ($9,000 par due 6/2018)	8.75% (Libor + 8.50%/Q)	3/24/2010	9,000	9,000	
		Class E notes ($14,850 par due 6/2018)	5.25% (Libor + 5.00%/Q)	3/24/2010	13,596	13,844	
					36,996	37,244	
Kodiak Funding, LP(9)				4/1/2010	891	817	

	Investment partnership	Limited partnership interest (1.52% interest)					
Novak Biddle Venture Partners III, L.P.(9)	Investment partnership	Limited partnership interest (2.47% interest)		4/1/2010	221	216	
Partnership Capital Growth Fund I, LP(9)	Investment partnership	Limited partnership interest (25.00% interest)		6/16/2006	2,635	4,558	
Senior Secured Loan Fund LLC(7)(11)(17)	Co-investment vehicle	Subordinated certificates ($731,733 par due 12/2015)	8.29% (Libor + 8.00%/Q)	10/30/2009	721,010	740,623	
VSC Investors LLC(9)	Investment company	Membership interest (1.95% interest)		1/24/2008	975	975	
					963,105	**928,712**	**29.63%**

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Company(1)	Business Description	Investment	Interest(5)(12)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Healthcare-Services							
Axium Healthcare Pharmacy, Inc.	Specialty pharmacy provider	Senior subordinated loan ($3,160 par due 3/2015)	8.00%	4/1/2010	2,938	3,160	
CCS Group Holdings, LLC	Correctional facility healthcare operator	Class A units (601,937 units)		8/19/2010	602	878	
CT Technologies Intermediate Holdings, Inc. and CT Technologies Holdings, LLC(6)	Healthcare analysis services	Senior secured loan ($7,281 par due 3/2017)	7.75% (Libor + 6.50%/Q)	3/15/2011	7,281	7,281(2)(16)	
		Senior secured loan ($7,681 par due 3/2017)	7.75% (Libor + 6.50%/Q)	3/15/2011	7,681	7,681(3)(16)	
		Class A common stock (9,679 shares)		6/15/2007	4,000	10,828	
		Class C common stock (1,546 shares)		6/15/2007		1,730	
					18,962	27,520	
DSI Renal Inc.(6)	Dialysis provider	Senior secured loan ($9,307 par due 3/2013)	8.50% (Libor + 6.50%/M)	4/4/2006	9,248	9,307(16)	
		Senior subordinated loan ($69,009 par due 4/2014)	16.00%	4/4/2006	68,523	69,009	
		Common units (19,726 units)		4/4/2006	19,684	43,125	
					97,455	121,441	
GG Merger Sub I, Inc.	Drug testing services	Senior secured loan ($11,330 par due 12/2014)	4.25% (Libor + 4.00%/Q)	12/14/2007	10,988	11,103(2)	
		Senior secured loan ($12,000 par due 12/2014)	4.25% (Libor + 4.00%/Q)	12/14/2007	11,633	11,760(3)	
					22,621	22,863	
HCP Acquisition Holdings, LLC(7)	Healthcare compliance advisory services	Class A units (10,372,026 units)		6/26/2008	10,372	5,549	
INC Research, Inc.	Pharmaceutical and biotechnology consulting services	Senior subordinated loan ($10,013 par due 9/2017)	13.50%	9/27/2010	10,113	11,125	
		Common stock (1,000,000 shares)		9/27/2010	1,000	611	
					11,113	11,736	
Magnacare Holdings, Inc., Magnacare Administrative Services, LLC, and Magnacare, LLC	Healthcare professional provider	Senior secured loan ($50,342 par due 9/2016)	9.75% (Libor + 8.75%/Q)	9/15/2010	50,342	50,342(16)	
		Senior secured loan ($47,727 par due 9/2016)	9.75% (Libor + 8.75%/Q)	9/15/2010	47,727	47,727(2)(16)	
				9/15/2010	8,877	8,877(3)(16)	

		Senior secured loan ($8,877 par due 9/2016)	9.75% (Libor + 8.75%/Q)			
					106,946	106,946
MW Dental Holding Corp.	Dental services	Senior secured revolving loan ($1,700 par due 4/2017)	8.50% (Libor + 7.00%/M)	4/12/2011	1,700	1,700(16)
		Senior secured loan ($30,800 par due 4/2017)	8.50% (Libor + 7.00%/M)	4/12/2011	30,800	30,800(16)
		Senior secured loan ($50,000 par due 4/2017)	8.50% (Libor + 7.00%/M)	4/12/2011	50,000	50,000(2)(16)
		Senior secured loan ($2,700 par due 4/2017)	8.50% (Libor + 7.00%/M)	4/12/2011	2,700	2,700(3)(16)
					85,200	85,200

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Company(1)	Business Description	Investment	Interest(5)(12)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Napa Management Services Corporation	Anesthesia management services provider	Senior secured loan ($11,031 par due 4/2016)	8.50% (Libor + 7.00%/Q)	4/13/2011	10,656	11,031(16)	
		Senior secured loan ($29,813 par due 4/2016)	8.50% (Libor + 7.00%/Q)	4/13/2011	29,813	29,813(2)(16)	
		Senior secured loan ($7,851 par due 4/2016)	8.50% (Libor + 7.00%/Q)	4/13/2011	7,851	7,851(3)(16)	
		Common units (5,000 units)		4/13/2011	5,000	5,000	
					53,320	53,695	
NS Merger Sub. Inc. and NS Holdings, Inc.	Healthcare technology provider	Senior subordinated loan ($579 par due 6/2017)	13.50%	6/21/2010	579	579	
		Senior subordinated loan ($50,000 par due 6/2017)	13.50%	6/21/2010	50,000	50,000(2)	
		Common stock (2,500,000 shares)		6/21/2010	2,500	2,338	
					53,079	52,917	
OnCURE Medical Corp.	Radiation oncology care provider	Common stock (857,143 shares)		8/18/2006	3,000	3,312	
Passport Health Communications, Inc., Passport Holding Corp. and Prism Holding Corp.	Healthcare technology provider	Senior secured loan ($10,562 par due 5/2014)	8.25% (Libor + 7.00%/Q)	5/9/2008	10,562	10,562(2)(16)	
		Senior secured loan ($9,750 par due 5/2014)	8.25% (Libor + 7.00%/Q)	5/9/2008	9,750	9,750(3)(16)	
		Series A preferred stock (1,594,457 shares)		7/30/2008	11,156	8,355	
		Common stock (16,106 shares)		7/30/2008	100		
					31,568	28,667	
PG Mergersub, Inc. and PGA Holdings, Inc.	Provider of patient surveys, management reports and national databases for the integrated healthcare delivery system	Senior secured loan ($1,095 par due 11/2015)	6.75% (Libor + 5.00%/Q)	11/3/2010	1,093	1,095(16)	
		Senior secured loan ($9,154 par due 11/2015)	6.75% (Libor + 5.00%/Q)	11/3/2010	9,128	9,154(3)(16)	
		Senior subordinated loan ($4,000 par due 3/2016)	12.50%	3/12/2008	3,952	4,000	
		Preferred stock (333 shares)		3/12/2008	125	14	
		Common stock (16,667 shares)		3/12/2008	167	693	
					14,465	14,956	
Reed Group, Ltd.	Medical disability	Senior secured revolving loan ($1,250 par due		4/1/2010	1,097	1,063(15)	

	management services provider	12/2013)				
		Senior secured loan ($10,755 par due 12/2013)		4/1/2010	9,129	9,142(15)
		Senior subordinated loan ($20,382 par due 12/2013)		4/1/2010	15,918	11,387(15)
		Equity interests		4/1/2010	203	
					26,347	21,592
Soteria Imaging Services, LLC(6)	Outpatient medical imaging provider	Junior secured loan ($1,356 par due 11/2010)	14.50%	4/1/2010	1,205	973

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Company(1)	Business Description	Investment	Interest(5)(12)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
		Junior secured loan ($1,937 par due 11/2010)	12.50%	4/1/2010	1,744	1,391	
		Preferred member units (1,823,179 units)		4/1/2010			
					2,949	2,364	
Sunquest Information Systems, Inc.	Laboratory software solutions provider	Junior secured loan ($75,000 par due 6/2017)	9.75% (Libor + 8.50%/Q)	12/16/2010	75,000	75,000(16)	
		Junior secured loan ($50,000 par due 6/2017)	9.75% (Libor + 8.50%/Q)	12/16/2010	50,000	50,000(2)(16)	
					125,000	125,000	
U.S. Renal Care, Inc.	Dialysis provider	Senior secured loan ($7,481 par due 12/2016)	5.50% (Libor + 4.00%/Q)	6/9/2011	7,444	7,481	
		Senior subordinated loan ($50,058 par due 6/2017)	11.25% Cash, 2.00% PIK	5/24/2010	50,058	50,058(2)(4)	
					57,502	57,539	
Vantage Oncology, Inc.	Radiation oncology care provider	Common stock (62,157 shares)		2/3/2011	4,670	6,218	
					728,109	**751,553**	**23.98%**
Business Services							
Aviation Properties Corporation(7)	Aviation services	Common stock (100 shares)		4/1/2010			
BenefitMall Holdings Inc.(7)	Employee benefits broker services company	Senior subordinated loan ($40,326 par due 6/2014)	18.00%	4/1/2010	40,326	40,326	
		Common stock (39,274,290 shares)		4/1/2010	53,510	54,430	
		Warrants		4/1/2010			
					93,836	94,756	
CitiPostal Inc.(7)	Document storage and management services	Senior secured revolving loan ($1,950 par due 12/2013)	6.50% (Libor + 4.50%/M)	4/1/2010	1,950	1,950(16)	
		Senior secured revolving loan ($1,250 par due 12/2013)	6.75% (Base Rate + 3.25%/M)	4/1/2010	1,250	1,250(16)	
		Senior secured loan ($486 par due 12/2013)	8.50% Cash, 5.50% PIK	4/1/2010	486	486(4)	
		Senior secured loan ($49,745 par due 12/2013)	8.50% Cash, 5.50% PIK	4/1/2010	49,745	49,745(2)(4)	
		Senior subordinated loan ($13,560 par due 12/2015)		4/1/2010	13,038	5,897(15)	
		Common stock (37,024 shares)		4/1/2010			

					66,469	59,328
Cook Inlet Alternative Risk, LLC	Risk management services	Senior secured loan ($87,000 par due 4/2013)	8.50%	4/1/2010	51,789	37,500
		Member interest (3.17%)		4/1/2010		
					51,789	37,500
Coverall North America, Inc.(7)	Commercial janitorial service provider	Subordinated notes ($9,338 par due 2/2016)	10.00% Cash, 2.00% PIK	2/22/2011	9,338	9,338(4)
Digital Videostream, LLC	Media content supply chain services company	Senior secured loan ($250 par due 2/2012)	10.00% Cash, 1.00% PIK	4/1/2010	250	250(4)

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Company(1)	Business Description	Investment	Interest(5)(12)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
		Senior secured loan ($10 par due 2/2012)	10.00% Cash, 1.00% PIK	4/1/2010	10	10(2)(4)	
		Senior secured loan ($3,950 par due 2/2012)	10.00% Cash, 1.00% PIK	4/1/2010	3,939	3,950(2)(4)	
		Convertible subordinated loan ($5,818 par due 2/2016)	10.00% PIK	4/1/2010	6,258	5,818(4)	
					10,457	10,028	
Diversified Collections Services, Inc.	Collections services	Senior secured loan ($6,175 par due 3/2012)	7.50% (Libor + 5.50%/Q)	6/25/2010	6,175	6,175(3)(16)	
		Senior secured loan ($34,000 par due 9/2012)	13.75% (Libor + 11.75%/Q)	6/25/2010	34,000	34,000(2)(16)	
		Senior secured loan ($2,000 par due 9/2012)	13.75% (Libor + 11.75%/Q)	6/25/2010	2,000	2,000(3)(16)	
		Preferred stock (14,927 shares)		5/18/2006	169	299	
		Common stock (478,816 shares)		4/1/2010	1,478	1,980	
		Common stock (114,004 shares)		2/5/2005	295	555	
					44,117	45,009	
Diversified Mercury Communications, LLC	Business media consulting services	Senior secured loan ($1,407 par due 3/2013)	10.00% (Base Rate + 6.50%/Q)	4/1/2010	1,305	1,407(16)	
Impact Innovations Group, LLC	IT consulting and outsourcing services	Member interest (50.00% interest)		4/1/2010		200	
Interactive Technology Solutions, LLC	IT services provider	Senior secured loan ($7,451 par due 6/2015)	9.50% (Base Rate + 5.50%/Q)	10/21/2010	7,451	7,451(16)	
		Senior secured loan ($8,348 par due 6/2015)	9.50% (Base Rate + 5.50%/Q)	10/21/2010	8,348	8,348(3)(16)	
					15,799	15,799	
Investor Group Services, LLC(6)	Business consulting for private equity and corporate clients	Limited liability company membership interest (10.00% interest)		6/22/2006		594	
Multi-Ad Services, Inc.(6)	Marketing services and software provider	Preferred units (1,725,280 units)		4/1/2010	788	1,827	
		Common units (1,725,280 units)		4/1/2010			
					788	1,827	
MVL Group, Inc.(7)	Marketing research provider	Senior secured loan ($22,772 par due 7/2012)	12.00%	4/1/2010	22,772	22,772	
		Senior subordinated loan ($35,395 par due 7/2012)	12.00% Cash, 2.50% PIK	4/1/2010	34,656	35,395(4)	
		Junior subordinated loan ($144 par due 7/2012)	10.00%	4/1/2010		144	

		Common stock (560,716 shares)		4/1/2010		1,225
					57,428	59,536
Pillar Processing LLC and PHL Holding Co.(6)	Mortgage services	Senior secured loan ($1,875 par due 5/2014)	14.50%	7/31/2008	1,875	1,875
		Senior secured loan ($5,500 par due 5/2014)	14.50%	7/31/2008	5,500	5,500(2)
		Senior secured loan ($9,540 par due 11/2013)	5.75% (Libor + 5.50%/Q)	11/20/2007	9,540	9,540(2)

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Company(1)	Business Description	Investment	Interest(5)(12)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
		Senior secured loan ($5,955 par due 11/2013)	5.75% (Libor + 5.50%/Q)	11/20/2007	5,955	5,955(3)	
		Common stock (85 shares)		11/20/2007	3,768	3,814	
					26,638	26,684	
Primis Marketing Group, Inc. and Primis Holdings, LLC(6)	Database marketing services	Senior subordinated loan ($11,223 par due 2/2013)		8/24/2006	10,222	102(15)	
		Preferred units (4,000 units)		8/24/2006	3,600		
		Common units (4,000,000 units)		8/24/2006	400		
					14,222	102	
Prommis Solutions, LLC, E-Default Services, LLC, Statewide Tax and Title Services, LLC & Statewide Publishing Services, LLC	Bankruptcy and foreclosure processing services	Senior subordinated loan ($17,041 par due 2/2014)		2/9/2007	16,788	9,798(15)	
		Senior subordinated loan ($27,439 par due 2/2014)		2/9/2007	27,032	15,777(2)(15)	
		Preferred units (30,000 units)		4/11/2006	3,000		
					46,820	25,575	
Promo Works, LLC	Marketing services	Senior secured loan ($8,655 par due 12/2013)		4/1/2010	4,706	3,419(15)	
R2 Acquisition Corp.	Marketing services	Common stock (250,000 shares)		5/29/2007	250	263	
Summit Business Media Parent Holding Company LLC	Business media consulting services	Limited liability company membership interest (45.98% interest)		5/20/2011		563	
Tradesmen International, Inc.	Construction labor support	Junior secured loan ($14,000 par due 5/2014)	14.00%	4/1/2010	10,496	14,000	
		Warrants to purchase up to 771,036 shares		4/1/2010		3,448	
					10,496	17,448	
Tripwire, Inc.	IT security software provider	Senior secured loan ($30,000 par due 5/2018)	10.50% (Libor + 9.25%/Q)	5/23/2011	30,000	30,000(16)	
		Senior secured loan ($50,000 par due 5/2018)	10.50% (Libor + 9.25%/Q)	5/23/2011	50,000	50,000(2)(16)	
		Class A common stock (2,970 shares)		5/23/2011	2,970	2,970	
		Class B common stock (2,655,638 shares)		5/23/2011	30	30	
					83,000	83,000	
Venturehouse-Cibernet Investors, LLC	Financial settlement services for intercarrier wireless	Equity interest		4/1/2010			

	roaming						
VSS-Tranzact Holdings, LLC(6)	Management consulting services	Common membership interest (8.51% interest)		10/26/2007	10,204	1,991	
					547,662	**494,367**	**15.77%**
Manufacturing							
Anthony, Inc.	Manufacturer of refrigeration glass doors and related products	Senior secured revolving loan ($3,000 par due 6/2017)	5.13% (Libor + 4.00%/M)	6/15/2011	3,000	3,000(16)	
		Senior secured revolving loan ($3,400 par due 6/2017)	6.25% (Base Rate + 3.00%/Q)	6/15/2011	3,400	3,400(16)	

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Company(1)	Business Description	Investment	Interest(5)(12)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
		Senior secured loan ($245,000 par due 6/2017)	8.25% (Base Rate + 5.00%/Q)	6/15/2011	245,000	245,000(16)	
					251,400	251,400	
Component Hardware Group, Inc.	Commercial equipment manufacturer	Junior secured loan ($3,060 par due 12/2014)	7.00% Cash, 3.00% PIK	8/4/2010	3,060	3,060(4)	
		Senior subordinated loan ($10,333 par due 12/2014)	7.50% Cash, 5.00% PIK	4/1/2010	6,322	10,333(4)	
		Warrants to purchase up to 1,462,500 shares of common stock		8/4/2010		2,360	
					9,382	15,753	
Emerald Performance Materials, LLC	Polymers and performance materials manufacturer	Senior secured loan ($716 par due 11/2013)	8.25% (Libor + 4.25%/M)	5/22/2006	717	717(16)	
		Senior secured loan ($35 par due 11/2013)	8.50% (Base Rate + 1.75%/Q)	5/22/2006	35	35(16)	
		Senior secured loan ($7,840 par due 11/2013)	8.25% (Libor + 4.25%/M)	5/22/2006	7,840	7,840(3)(16)	
		Senior secured loan ($387 par due 11/2013)	8.50% (Base Rate + 1.75%/Q)	5/22/2006	387	387(3)(16)	
		Senior secured loan ($6,639 par due 11/2013)	10.00% (Libor + 6.00%/M)	6/29/2011	6,639	6,639(16)	
		Senior secured loan ($9,967 par due 11/2013)	10.25% (Base Rate + 3.50%/Q)	6/29/2011	9,967	9,967(16)	
		Senior secured loan ($610 par due 11/2013)	10.00% (Libor + 6.00%/M)	6/29/2011	610	610(3)(16)	
		Senior secured loan ($915 par due 11/2013)	10.25% (Base Rate + 3.50%/Q)	6/29/2011	915	915(3)(16)	
		Senior secured loan ($3,555 par due 11/2013)	13.00% Cash, 3.00% PIK	5/22/2006	3,555	3,555(4)	
		Senior secured loan ($5,167 par due 11/2013)	13.00% Cash, 3.00% PIK	5/22/2006	5,167	5,167(2)(4)	
					35,832	35,832	
HOPPY Holdings Corp.	Manufacturer of automotive and recreational vehicle aftermarket products	Senior secured loan ($15,000 par due 6/2016)	5.25% (Libor + 4.00%/Q)	6/3/2011	15,000	15,000(16)	
Industrial Air Tool, LP and Affiliates d/b/a Industrial Air Tool(7)	Industrial products	Class B common units (37,125 units)		4/1/2010	6,000	15,312	
		Member units (375 units)		4/1/2010	7,419	155	
					13,419	15,467	
NetShape Technologies, Inc.	Metal precision engineered components manufacturer	Senior secured revolving loan ($907 par due 2/2013)	4.00% (Libor + 3.75%/M)	4/1/2010	456	564	
		Common units (1,000 units)		1/30/2007	1,000		

					1,456	564
Protective Industries, Inc.	Manufacturer of plastic protection products	Senior secured loan ($25,667 par due 5/2017)	5.75% (Libor + 4.25%/M)	5/23/2011	25,667	25,667(16)
		Senior subordinated loan ($693 par due 5/2018)	15.25%	5/23/2011	693	693
		Preferred equity (2,379,361 shares)		5/23/2011	2,307	2,307
					28,667	28,667

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Company(1)	Business Description	Investment	Interest(5)(12)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Reflexite Corporation(7)	Developer and manufacturer of high-visibility reflective products	Senior subordinated loan ($3,282 par due 11/2014)	18.00% (Libor + 13.50%/Q)	2/26/2008	3,282	3,282(16)	
		Senior subordinated loan ($5,999 par due 11/2014)	18.00% (Libor + 13.50%/Q)	2/26/2008	5,999	5,999(3)(16)	
		Common stock (1,821,860 shares)		3/28/2006	27,435	64,826	
					36,716	74,107	
UL Holding Co., LLC	Petroleum product manufacturer	Junior secured loan ($2,000 par due 12/2012)	14.00%	6/17/2011	2,000	2,000	
		Junior secured loan ($2,000 par due 12/2012)	9.12% (Libor + 8.88%/Q)	6/17/2011	2,000	2,000	
		Junior secured loan ($5,000 par due 12/2012)	15.00%	8/13/2010	5,000	5,000	
		Junior secured loan ($2,098 par due 12/2012)	9.15% (Libor + 8.88%/Q)	12/21/2007	2,098	2,098	
		Junior secured loan ($835 par due 12/2012)	9.15% (Libor + 8.88%/Q)	12/21/2007	835	835(3)	
		Junior secured loan ($2,109 par due 12/2012)	14.00%	12/21/2007	2,109	2,109	
		Junior secured loan ($840 par due 12/2012)	14.00%	12/21/2007	840	840(3)	
		Junior secured loan ($983 par due 12/2012)	14.00%	12/21/2007	983	983(3)	
		Junior secured loan ($10,755 par due 12/2012)	9.14% (Libor + 8.88%/Q)	12/21/2007	10,755	10,755(3)	
		Junior secured loan ($2,948 par due 12/2012)	14.00%	12/21/2007	2,948	2,948(2)	
		Class A common units (8,982 units)		6/17/2011	90	47	
		Class B-4 common units (50,000 units)		4/25/2008	500	264	
		Class B-5 common units (499,000 units)		6/17/2011	4,990	2,636	
		Class C common units (549,491 units)		4/25/2008		2,903	
					35,148	35,418	
					427,020	**472,208**	**15.07%**
Restaurants and Food Services							
ADF Capital, Inc. & ADF Restaurant Group, LLC	Restaurant owner and operator	Senior secured revolving loan ($2,010 par due 11/2013)	6.50% (Libor + 3.50%/Q)	11/27/2006	2,010	2,010(16)	
		Senior secured revolving loan ($108 par due 11/2013)	6.50% (Base Rate + 2.50%/Q)	11/27/2006	108	108(16)	
		Senior secured loan ($13,692 par due 11/2013)	6.50% (Libor + 3.50%/Q)	11/27/2006	13,692	13,692(16)	
		Senior secured loan ($85 par due 11/2013)	6.50% (Base Rate + 2.50%/Q)	11/27/2006	85	85(16)	
		Senior secured loan ($11,353 par due 11/2014)	12.50% (Libor + 9.50%/Q)	11/27/2006	11,356	11,353(2)(16)	

		Senior secured loan ($9,466 par due 11/2014)	12.50% (Libor + 9.50%/Q)	11/27/2006	9,466	9,466(3)(16)
		Promissory note ($14,897 par due 11/2016)		6/1/2006	14,886	12,560
		Warrants to purchase up to 0.61 shares		6/1/2006		
					51,603	49,274
Fulton Holdings Corp.	Airport restaurant operator	Senior secured loan ($40,000 par due 5/2016)	12.50%	5/28/2010	40,000	40,000(2)(13)

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Company(1)	Business Description	Investment	Interest(5)(12)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
		Common stock (19,672 shares)		5/28/2010	1,967	2,062	
					41,967	42,062	
Huddle House, Inc.(7)	Restaurant owner and operator	Senior subordinated loan ($20,607 par due 12/2015)	12.00% Cash, 3.00% PIK	4/1/2010	20,323	18,077(4)	
		Common stock (358,279 shares)		4/1/2010			
					20,323	18,077	
Orion Foods, LLC (fka Hot Stuff Foods, LLC)(7)	Convenience food service retailer	Senior secured revolving loan ($3,300 par due 9/2014)	10.75% (Base Rate + 7.50%/M)	4/1/2010	3,300	3,300(16)	
		Senior secured loan ($34,137 par due 9/2014)	10.00% (Libor + 8.50%/Q)	4/1/2010	34,137	34,137(16)	
		Junior secured loan ($37,552 par due 9/2014)	14.00%	4/1/2010	25,674	31,529	
		Preferred units (10,000 units)		10/28/2010			
		Class A common units (25,001 units)		4/1/2010			
		Class B common units (1,122,452 units)		4/1/2010			
					63,111	68,966	
OTG Management, Inc.	Airport restaurant operator	Junior secured loan ($20,274 par due 6/2013)	16.00% (Libor + 11.00% Cash, 2.00% PIK/M)	6/19/2008	20,274	20,274(4)(16)	
		Junior secured loan ($42,882 par due 6/2013)	18.00% (Libor + 11.00% Cash, 4.00% PIK/M)	6/19/2008	42,882	42,882(4)(16)	
		Common units (3,000,000 units)		1/5/2011	3,000	3,099	
		Warrants to purchase up to 189,857 shares of common stock		6/19/2008	100	5,395	
					66,256	71,650	
PMI Holdings, Inc.	Restaurant owner and operator	Senior secured loan ($9,117 par due 5/2015)	10.00% (Libor + 8.00%/M)	5/5/2010	9,117	9,117(2)(16)	
		Senior secured loan ($9,117 par due 5/2015)	10.00% (Libor + 8.00%/M)	5/5/2010	9,117	9,117(3)(16)	
		Senior secured loan ($9 par due 5/2015)	10.25% (Base Rate + 7.00%/M)	5/5/2010	9	9(2)(16)	
		Senior secured loan ($9 par due 5/2015)	10.25% (Base Rate + 7.00%/M)	5/5/2010	9	9(3)(16)	
					18,252	18,252	
S.B. Restaurant Company	Restaurant owner and operator	Senior secured loan ($34,884 par due 7/2012)	13.00% (Libor + 9.00% Cash, 2.00% PIK/Q)	4/1/2010	28,816	34,884(4)(16)	
		Preferred stock (46,690 shares)		4/1/2010		117	
		Warrants to purchase up to 257,429 shares of		4/1/2010			

		common stock					
					28,816	35,001	
Vistar Corporation and Wellspring Distribution Corp.	Food service distributor	Senior subordinated loan ($31,625 par due 5/2015)	13.50%	5/23/2008	31,625	31,625	
		Senior subordinated loan ($30,000 par due 5/2015)	13.50%	5/23/2008	30,000	30,000(2)	
		Class A non-voting common stock (1,366,120 shares)		5/3/2008	7,500	7,431	
					69,125	69,056	
					359,453	**372,338**	**11.88%**

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Company(1)	Business Description	Investment	Interest(5)(12)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Financial Services							
AllBridge Financial, LLC (7)	Asset management services	Equity interests		4/1/2010	11,395	16,081	
Callidus Capital Corporation (7)	Asset management services	Common stock (100 shares)		4/1/2010	6,000	2,712	
Ciena Capital LLC (7)	Real estate and small business loan servicer	Senior secured revolving loan ($14,000 par due 12/2013)	6.00%	11/29/2010	14,000	14,000	
		Senior secured loan ($2,000 par due 12/2015)	12.00%	11/29/2010	2,000	2,000	
		Senior secured loan ($20,000 par due 12/2015)	12.00%	11/29/2010	20,000	20,000	
		Senior secured loan ($10,000 par due 12/2015)	12.00%	11/29/2010	10,000	10,000	
		Equity interests		11/29/2010	53,374	30,424	
					99,374	76,424	
Commercial Credit Group, Inc.	Commercial equipment finance and leasing company	Senior subordinated loan ($6,000 par due 6/2015)	15.00%	4/1/2010	6,000	6,000	
		Senior subordinated loan ($4,000 par due 6/2015)	15.00%	4/1/2010	4,000	4,000	
		Senior subordinated loan ($9,500 par due 6/2015)	15.00%	4/1/2010	9,500	9,500	
					19,500	19,500	
Compass Group Diversified Holdings, LLC (10)	Middle market business manager	Senior secured revolving loan ($1,103 par due 12/2012)	2.69% (Libor + 2.50%/M)	4/1/2010	1,103	1,103	
Financial Pacific Company	Commercial finance leasing	Preferred stock (6,500 shares)	8.00% PIK	10/13/2010	6,880	7,665(4)	
		Common stock (650,000 shares)		10/13/2010			
					6,880	7,665	
Imperial Capital Group, LLC (6)	Investment services	Class A common units (7,710 units)		5/10/2007	14,997	14,347	
		2007 Class B common units (315 units)		5/10/2007		586	
		2006 Class B common units (2,526 units)		5/10/2007	3	4,700	
					15,000	19,633	
				6/15/2009	112,876	177,452	

Ivy Hill Asset Management, L.P. (7)(9)	Asset management services	Member interest (100.00% interest)					
					272,128	**320,570**	**10.23%**
Education							
American Academy Holdings, LLC	Provider of education, training, certification, networking, and consulting services to medical coders and other healthcare professionals	Senior secured revolving loan ($1,000 par due 3/2016)	9.50% (Libor + 8.50%/Q)	3/17/2011	1,000	1,000(16)	
		Senior secured loan ($31,783 par due 3/2016)	9.50% (Libor + 8.50%/Q)	3/17/2011	31,783	31,783(16)	
		Senior secured loan ($49,506 par due 3/2016)	9.50% (Libor + 8.50%/Q)	3/17/2011	49,506	49,506(2)(16)	
					82,289	82,289	
Campus Management Corp. and Campus Management Acquisition Corp. (6)	Education software developer	Preferred stock (485,159 shares)		2/8/2008	10,520	14,431	

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Company(1)	Business Description	Investment	Interest(5)(12)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Community Education Centers, Inc.	Offender re-entry and in-prison treatment services provider	Senior secured loan ($19,231 par due 12/2014)	6.25% (Libor + 5.25%/Q)	12/10/2010	19,231	19,231(16)	
		Senior secured loan ($769 par due 12/2014)	7.50% (Base Rate + 4.25%/Q)	12/10/2010	769	769(16)	
		Junior secured loan ($31,191 par due 12/2015)	15.28% (Libor + 11.00% Cash, 4.00% PIK/M)	12/10/2010	31,191	31,191(4)	
		Junior secured loan ($9,389 par due 12/2015)	15.26% (Libor + 11.00%Cash, 4.00% PIK/M)	12/10/2010	9,389	9,389(4)	
		Warrants to purchase up to 578,427 shares		12/10/2010		925	
					60,580	61,505	
eInstruction Corporation	Developer, manufacturer and retailer of educational products	Junior secured loan ($17,000 par due 7/2014)	7.69% (Libor + 7.50%/Q)	4/1/2010	15,002	13,260	
		Senior subordinated loan ($25,190 par due 1/2015)	16.00% PIK	4/1/2010	23,132	18,893(4)	
		Common stock (2,406 shares)		4/1/2010	926	72	
					39,060	32,225	
ELC Acquisition Corporation	Developer, manufacturer and retailer of educational products	Senior secured loan ($127 par due 11/2012)	3.44% (Libor + 3.25%/M)	11/30/2006	127	127(3)	
		Junior secured loan ($8,333 par due 11/2013)	7.19% (Libor + 7.00%/M)	11/30/2006	8,333	8,333(3)	
					8,460	8,460	
Instituto de Banca y Comercio, Inc. & Leeds IV Advisors, Inc.	Private school operator	Series B preferred stock (1,750,000 shares)		8/5/2010	5,000	5,707	
		Series C preferred stock (2,512,586 shares)		6/7/2010	689	1,918	
		Common stock (20 shares)		6/7/2010			
					5,689	7,625	
JTC Education Holdings, Inc.	Postsecondary school operator	Senior secured loan ($18,338	12.50% (Libor + 9.50%/M)	12/31/2009	18,338	18,338(16)	

		par due 12/2014)					
		Senior secured loan ($9,961 par due 12/2014)	12.50% (Libor + 9.50%/M)	12/31/2009	9,961	9,961(3)(16)	
					28,299	28,299	
R3 Education, Inc. and EIC Acquisitions Corp. (8)	Medical school operator	Senior secured loan ($10,113 par due 4/2013)	9.00% (Libor + 6.00%/Q)	9/21/2007	10,113	15,968(16)	
		Senior secured loan ($5,275 par due 4/2013)	9.00% (Libor + 6.00%/Q)	5/24/2007	5,275	8,329(3)(16)	
		Senior secured loan ($4,000 par due 4/2013)	9.00% (Libor + 6.00%/Q)	9/21/2007	4,000	6,316(3)(16)	
		Senior secured loan ($6,104 par due 4/2013)	13.00% PIK	12/8/2009	3,098	9,639(4)	
		Preferred stock (8,800 shares)		7/30/2008	2,200	1,100	
		Common membership interest (26.27% interest)		9/21/2007	15,800	19,824	
		Warrants to purchase up to 27,890 shares		12/8/2009			
					40,486	61,176	
					275,383	**296,010**	**9.44%**

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Company(1)	Business Description	Investment	Interest(5)(12)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Consumer Products-Non-durable							
Augusta Sportswear, Inc.	Manufacturer of athletic apparel	Senior secured loan ($9,137 par due 7/2015)	8.50% (Libor + 7.50%/Q)	9/3/2010	9,137	9,137(3)(16)	
Gilchrist & Soames, Inc.	Personal care manufacturer	Senior secured revolving loan ($1,250 par due 10/2013)	3.94% (Libor + 3.75%/S)	4/1/2010	1,250	1,250	
		Senior secured loan ($22,902 par due 10/2013)	13.44%	4/1/2010	22,244	22,902	
					23,494	24,152	
Insight Pharmaceuticals Corporation (6)	OTC drug products manufacturer	Senior subordinated loan ($25,809 par due 12/2017)	13.00% Cash, 2.00% PIK	4/1/2010	25,809	25,809(4)	
		Common stock (155,000 shares)		4/1/2010	12,070	17,645	
					37,879	43,454	
Making Memories Wholesale, Inc. (7)	Scrapbooking branded products manufacturer	Senior secured revolving loan ($2,250 par due 8/2014)		8/21/2009	2,229	2,045(15)	
		Senior secured loan ($9,625 par due 8/2014)		8/21/2009	7,193	(15)	
		Senior secured loan ($5,751 par due 8/2014)		8/21/2009	3,874	(15)	
		Common stock (100 shares)		8/21/2009			
					13,296	2,045	
Matrixx Initiatives, Inc.	Developer and marketer of OTC healthcare products	Senior secured revolving loan ($1,000 par due 6/2016)	13.00% (Libor + 12.00%/Q)	6/30/2011	1,000	1,000(16)	
		Senior secured loan ($42,500 par due 6/2016)	13.00% (Libor + 12.00%/Q)	6/30/2011	42,213	42,500(16)	
		Warrants to purchase up to 1,823,271 shares		6/30/2011		157	
					43,213	43,657	
The Step2 Company, LLC	Toy manufacturer	Junior secured loan ($27,000 par due 4/2015)	10.00%	4/1/2010	25,626	27,000	
		Junior secured loan ($30,392 par due 4/2015)	10.00% Cash, 5.00% PIK	4/1/2010	28,788	28,568(4)	
		Common units (1,116,879 units)		4/1/2010	24	79	
		Warrants to purchase up to 3,157,895 units		4/1/2010		225	

					54,438	55,872	
The Thymes, LLC (7)	Cosmetic products manufacturer	Preferred units (6,283 units)	8.00% PIK	6/21/2007	6,076	6,907(4)	
		Common units (5,400 units)		6/21/2007		298	
					6,076	7,205	
Woodstream Corporation	Pet products manufacturer	Senior subordinated loan ($45,000 par due 2/2015)	12.00%	1/22/2010	39,916	43,650	
		Common stock (4,254 shares)		1/22/2010	1,222	2,081	
					41,138	45,731	
					228,671	**231,253**	**7.38%**
Services Other							
Growing Family, Inc. and GFH Holdings, LLC (6)	Photography services	Senior secured revolving loan ($231 par due 8/2011)	9.00% (Libor + 2.00% Cash, 4.00% PIK/M)	3/16/2007	226	187(4)(16)	
		Senior secured revolving loan ($2,252 par due 8/2011)	9.00% (Base Rate + 1.75% Cash, 4.00% PIK/M)	3/16/2007	2,197	1,818(4)(16)	

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Company(1)	Business Description	Investment	Interest(5)(12)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
		Senior secured loan ($7,164 par due 3/2013)	9.00% (Libor + 2.00% Cash, 4.00% PIK/M)	3/16/2007	7,003	5,782(4)(16)	
		Preferred stock (17,500 shares)		3/16/2007			
		Common stock (552,430 shares)		3/16/2007	872		
		Warrants to purchase up to 22,627,356 Class B units		3/16/2007			
					10,298	7,787	
PODS Funding Corp.	Storage and warehousing	Senior subordinated loan ($25,125 par due 6/2015)	15.00%	12/23/2009	25,125	25,125	
		Senior subordinated loan ($7,582 par due 12/2015)	16.64% PIK	12/23/2009	6,364	7,582(4)	
					31,489	32,707	
The Dwyer Group (6)	Operator of multiple franchise concepts primarily related to home maintenance or repairs	Senior subordinated loan ($27,100 par due 12/2016)	14.50%	12/22/2010	27,100	27,100	
		Series A preferred units (13,292,377 units)	8.00% PIK	12/22/2010	13,853	15,390(4)	
					40,953	42,490	
United Road Towing, Inc.	Towing company	Warrants to purchase up to 607 shares		4/1/2010			
Wash Multifamily Laundry Systems, LLC (fka Web Services Company, LLC)	Laundry service and equipment provider	Senior secured loan ($4,863 par due 8/2014)	7.00% (Base Rate + 3.75%/Q)	6/15/2009	4,714	4,863(3)	
		Junior secured loan ($51,900 par due 8/2015)	10.88% (Libor + 9.38%/Q)	1/25/2011	51,900	51,900(16)	
		Junior secured loan ($50,000 par due 8/2015)	10.88% (Libor + 9.38%/Q)	1/25/2011	50,000	50,000(2)(16)	
		Junior secured loan ($3,100 par due 8/2015)	10.88% (Libor + 9.38%/Q)	1/25/2011	3,100	3,100(3)(16)	
					109,714	109,863	
					192,454	**192,847**	**6.15%**
Telecommunications							
American Broadband Communications, LLC	Broadband communication	Senior secured loan ($517 par	7.50% (Libor + 5.50%/M)	9/1/2010	548	517(16)	

and American Broadband Holding Company	services	due 9/2013)				
		Senior secured loan ($17,325 par due 9/2013)	7.50% (Libor + 5.50%/M)	9/1/2010	16,582	17,325(2)(16)
		Senior secured loan ($9,048 par due 9/2013)	7.50% (Libor + 5.50%/M)	9/1/2010	9,048	9,047(3)(16)
		Senior subordinated loan ($33,096 par due 11/2014)	12.00% Cash, 2.00% PIK	2/8/2008	33,096	33,096(2)(4)
		Senior subordinated loan ($10,424 par due 11/2014)	12.00% Cash, 2.00% PIK	11/7/2007	10,424	10,424(4)
		Senior subordinated loan ($26,400 par due 11/2014)	10.00% Cash, 4.00% PIK	9/1/2010	26,400	26,400(4)
		Warrants to purchase up to 378 shares		11/7/2007		5,492
		Warrants to purchase up to 200 shares		9/1/2010		2,906
					96,098	105,207
Dialog Telecom LLC	Broadband communication services	Senior secured loan ($16,018 par due 12/2012)	8.50% (Libor + 4.00% Cash, 4.00% PIK/Q)	6/20/2011	16,018	16,018(4)(16)

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Company(1)	Business Description	Investment	Interest(5)(12)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Startec Equity, LLC (7)	Communication services	Member interest		4/1/2010			
					112,116	**121,225**	**3.87%**
Environmental Services							
AWTP, LLC (7)	Water treatment services	Junior secured loan ($4,008 par due 6/2015)	5.00% Cash, 5.00% PIK	4/18/2011	4,008	4,008(4)	
		Junior secured loan ($832 par due 6/2015)	15.00% PIK	4/18/2011	832	832(4)	
		Junior secured loan ($4,196 par due 6/2015)	15.00% PIK	4/18/2011	4,196	4,196(3)(4)	
		Membership interests (90% interest)		4/18/2011		49	
					9,036	9,085	
RE Community Holdings II, Inc. and Pegasus Community Energy, LLC.	Operator of municipal recycling facilities	Senior secured loan ($36,700 par due 3/2016)	11.50% (Libor + 9.75%/M)	3/1/2011	36,700	36,700(2)(16)	
		Senior secured loan ($8,300 par due 3/2016)	11.50% (Libor + 9.75%/M)	3/1/2011	8,300	8,300(3)(16)	
		Senior Secured Loan ($5,000 par due 3/2016)	11.50% (Libor + 9.75%/Q)	3/1/2011	5,000	5,000(16)	
		Preferred stock (1,000 shares)	12.50% PIK	3/1/2011	7,815	7,815(4)	
					57,815	57,815	
Sigma International Group, Inc. (8)	Water treatment parts manufacturer	Junior secured loan ($5,597 par due 10/2013)	16.00% (Base Rate + 6.50%/M)	10/11/2007	5,537	3,918(16)	
		Junior secured loan ($12,214 par due 10/2013)	16.00% (Base Rate + 6.50%/M)	10/11/2007	12,079	8,549(3)(16)	
					17,616	12,467	
Waste Pro USA, Inc	Waste management services	Preferred Class A Common Equity (611,615 shares)		11/9/2006	12,263	18,701	
Wastequip, Inc.	Waste management equipment manufacturer	Senior subordinated loan ($14,774 par due 2/2015)		2/5/2007	12,239	443(15)	
		Common stock (13,889 shares)		2/2/2007	1,389		
					25,891	19,144	
					110,358	**98,511**	**3.14%**
Retail							
				8/8/2006	4,909	10,713	

Savers, Inc. and SAI Acquisition Corporation	For-profit thrift retailer	Common stock (1,218,481 shares)					
Things Remembered, Inc. and TRM Holdings Corporation	Personalized gifts retailer	Senior secured loan ($36,433 par due 3/2014)	9.00% (Libor + 7.00%/M)	9/28/2006	36,400	36,433(16)	
		Senior secured loan ($915 par due 3/2014)	9.00% (Libor + 7.00%/M)	9/28/2006	913	915(3)(16)	
		Senior secured loan ($7,311 par due 3/2014)	9.00% (Libor + 7.00%/M)	9/28/2006	7,389	7,311(3)(16)	
		Preferred stock (80 shares)		9/28/2006	1,800	2,255	
		Class B Preferred stock (73 shares)		3/19/2009		2,062	
		Common stock (800 shares)		9/28/2006	200	43	
		Warrants to purchase up to 859 shares of preferred stock		3/19/2009		46	
					46,702	49,065	
					51,611	**59,778**	**1.91%**

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Company(1)	Business Description	Investment	Interest(5)(12)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Wholesale Distribution							
BECO Holding Company, Inc.	Wholesale distributor of first response fire protection equipment and related parts	Common stock (25,000 shares)		7/30/2010	2,500	2,536	
Stag-Parkway, Inc. (7)	Automotive aftermarket components supplier	Senior secured loan ($34,500 par due 12/2014)	12.50% (Libor + 11.00%/Q)	9/30/2010	34,500	34,500(16)	
		Preferred stock (4,200 shares)	16.50%	9/30/2010	2,363	4,200	
		Common stock (10,200 shares)		9/30/2010		14,980	
					36,863	53,680	
					39,363	**56,216**	**1.79%**
Food and Beverage							
Apple & Eve, LLC and US Juice Partners, LLC (6)	Juice manufacturer	Senior secured loan ($13,401 par due 10/2013)	12.00% (Libor + 9.00%/M)	10/5/2007	13,401	13,401(16)	
		Senior secured loan ($14,100 par due 10/2013)	12.00% (Libor + 9.00%/M)	10/5/2007	14,100	14,100(3)(16)	
		Senior units (50,000 units)		10/5/2007	5,000	4,806	
					32,501	32,307	
Charter Baking Company, Inc.	Baked goods manufacturer	Senior subordinated loan ($7,111 par due 2/2013)	16.00% PIK	2/6/2008	7,111	7,111(4)	
		Preferred stock (6,258 shares)		9/1/2006	2,500	1,500	
					9,611	8,611	
Distant Lands Trading Co.	Coffee manufacturer	Class A common stock (1,294 shares)		4/1/2010	980	786	
		Class A-1 common stock (2,157 shares)		4/1/2010			
					980	786	
Fleischmann's Vinegar Company, Inc.	Leading manufacturer, supplier, and distributer of industrial vinegar products	Senior secured loan ($12,628 par due 5/2016)	8.75% (Libor + 7.25%/Q)	6/1/2011	12,628	12,628(16)	
Ideal Snacks Corporation	Snacks manufacturer	Senior secured revolving loan ($1,084 par due 6/2011)	8.50% (Base Rate + 4.00%/M)	4/1/2010	1,084	1,030(16)	

					56,804	**55,362**	**1.77%**
Commercial Real Estate Finance							
10th Street, LLC (6)	Real estate holding company	Senior subordinated loan ($23,723 par due 11/2014)	8.93% Cash, 4.07% PIK	4/1/2010	23,723	23,723(4)	
		Member interest (10.00% interest)		4/1/2010	594	552	
		Option (25,000 units)		4/1/2010	25	25	
					24,342	24,300	
Allied Capital REIT, Inc. (7)	Real estate investment trust	Real estate equity interests		4/1/2010		429	
		Real estate equity interests		4/1/2010	50		
					50	429	
American Commercial Coatings, Inc.	Real estate property	Commercial mortgage loan ($2,000 par due 12/2025)		4/1/2010	1,723	1,776(15)	
Aquila Binks Forest Development, LLC	Real estate developer	Commercial mortgage loan ($12,942 par due 6/2011)		4/1/2010	11,365	4,957(15)	
		Real estate equity interests		4/1/2010			
					11,365	4,957	

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Company(1)	Business Description	Investment	Interest(5)(12)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Cleveland East Equity, LLC	Hotel operator	Real estate equity interests		4/1/2010	1,026	2,647	
Commons R-3, LLC	Real estate developer	Real estate equity interests		4/1/2010			
Crescent Hotels & Resorts, LLC and affiliates (7)	Hotel operator	Senior secured loan ($433 par due 6/2010)	10.00%	4/1/2010	433	444	
		Senior subordinated loan ($8,719 par due 1/2012)		4/1/2010	1,475	459(15)	
		Senior subordinated loan ($12,407 par due 6/2017)		4/1/2010	2,410	801(15)	
		Senior subordinated loan ($10,968 par due 9/2012)		4/1/2010	2,051	673(15)	
		Senior subordinated loan ($261 par due 3/2013)		4/1/2010	263	29(15)	
		Senior subordinated loan ($2,236 par due 9/2011)		4/1/2010		(15)	
		Preferred equity interest		4/1/2010		34	
		Common equity interest		4/1/2010	35		
		Member interests		4/1/2010			
					6,667	2,440	
DI Safford, LLC	Hotel operator	Commercial mortgage loan ($5,423 par due 5/2032)		4/1/2010	2,682	2,400(15)	
Hot Light Brands, Inc. (7)	Real estate holding company	Senior secured loan ($35,239 par due 2/2011)		4/1/2010	3,945	3,663(15)	
		Common stock (93,500 shares)		4/1/2010			
					3,945	3,663	
MGP Park Place Equity, LLC	Office building operator	Commercial mortgage loan ($6,500 par due 5/2011)		4/1/2010		(15)	
NPH, Inc.	Hotel property	Real estate equity interests		4/1/2010	5,291	7,960	
					57,091	**50,572**	**1.61%**
Consumer Products Durable							
Bushnell Inc.				4/1/2010	32,016	36,366	

	Sports optics manufacturer	Junior secured loan ($41,325 par due 2/2014)	6.80% (Libor + 6.50%/Q)				
Carlisle Wide Plank Floors, Inc.	Hardwood floor manufacturer	Member interest (345,056 shares)		4/1/2010			
Direct Buy Holdings, Inc. and Direct Buy Investors, LP(6)	Membership based buying club franchisor and operator	Junior secured note ($32,000 par due 2/2017)	12.00%	1/21/2011	31,069	13,120	
		Partnership interests (83,333 shares)		11/30/2007	8,333		
		Limited partnership interest (66,667 shares)		4/1/2010	2,594		
					41,996	13,120	
					74,012	**49,486**	**1.58%**
Automotive Services							
Driven Brands, Inc.(6)	Automotive aftermarket car care franchisor	Senior secured loan ($3,480 par due 10/2014)	6.50% (Libor + 5.00%/M)	5/12/2010	3,400	3,480(3)(16)	
		Senior secured loan ($164 par due 10/2014)	7.00% (Base Rate + 3.75%/M)	5/12/2010	160	164(3)(16)	
		Common stock (3,772,098 shares)		4/1/2010	4,939	7,377	
					8,499	11,021	
Penn Detroit Diesel Allison, LLC(7)	Diesel engine manufacturer	Member interest (70,249 shares)		4/1/2010	15,993	19,340	
					24,492	**30,361**	**0.97%**

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Company(1)	Business Description	Investment	Interest(5)(12)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Containers Packaging							
Industrial Container Services, LLC(6)	Industrial container manufacturer, reconditioner and servicer	Senior secured revolving loan ($909 par due 9/2011)	5.75% (Base Rate + 2.50%/Q)	9/30/2005	909	909	
		Senior secured loan ($54 par due 9/2011)	5.75% (Base Rate + 2.50%/Q)	6/21/2006	54	54(2)	
		Senior secured loan ($821 par due 9/2011)	5.75% (Base Rate + 2.50%/Q)	6/21/2006	821	821(3)	
		Common units (1,800,000 units)		9/29/2005	1,800	20,145	
					3,584	21,929	
					3,584	**21,929**	**0.70%**
Health Clubs							
Athletic Club Holdings, Inc.	Premier health club operator	Senior secured loan ($7,250 par due 10/2013)	4.69% (Libor + 4.50%/M)	10/11/2007	7,250	7,033(2)(14)	
		Senior secured loan ($11,500 par due 10/2013)	4.69% (Libor + 4.50%/M)	10/11/2007	11,500	11,155(3)(14)	
					18,750	18,188	
					18,750	**18,188**	**0.58%**
Printing, Publishing and Media							
EarthColor, Inc.(7)	Printing management services	Common stock (89,435 shares)		4/1/2010			
LVCG Holdings LLC(7)	Commercial printer	Membership interests (56.53% interest)		10/12/2007	6,600		
National Print Group, Inc.	Printing management services	Senior secured revolving loan ($1,141 par due 10/2012)	9.00% (Libor + 6.00%/Q)	3/2/2006	1,141	982(16)	
		Senior secured revolving loan ($1,468 par due 10/2012)	9.00% (Base Rate + 5.00%/Q)	3/2/2006	1,468	1,262(16)	
		Senior secured loan ($7,629 par due 10/2012)	14.00% (Libor + 6.00% Cash, 5.00% PIK/Q)	3/2/2006	7,311	7,171(3)(4)(16)	
		Senior secured loan ($129 par due 10/2012)	14.00% (Base Rate + 5.00% Cash, 5.00% PIK/Q)	3/2/2006	123	121(3)(4)(16)	
		Preferred stock (9,344 shares)		3/2/2006	2,000		
					12,043	9,536	
The Teaching Company, LLC and	Education publications	Preferred stock (21,711 shares)		9/29/2006	2,171	3,475	

The Teaching Company Holdings, Inc.	provider						
		Common stock (15,393 shares)		9/29/2006	3	8	
					2,174	3,483	
					20,817	**13,019**	**0.42%**
Aerospace and Defense							
AP Global Holdings, Inc.	Safety and security equipment manufacturer	Senior secured loan ($6,274 par due 10/2013)	3.94% (Libor + 3.75%/M)	11/18/2007	6,248	6,274(3)	
Wyle Laboratories, Inc. and Wyle Holdings, Inc.	Provider of specialized engineering, scientific and technical services	Senior preferred stock (775 shares)	8.00% PIK	1/17/2008	91	91(4)	
		Common stock (1,885,195 shares)		1/17/2008	2,291	2,114	
					2,382	2,205	
					8,630	**8,479**	**0.27%**

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Company(1)	Business Description	Investment	Interest(5)(12)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Housing Building Materials							
HB&G Building Products, Inc.	Synthetic and wood product manufacturer	Senior subordinated loan ($9,479 par due 3/2013)		10/8/2004	8,991	179(15)	
		Common stock (2,743 shares)		10/8/2004	753		
		Warrants to purchase up to 4,464 shares of common stock		10/8/2004	653		
					10,397	179	
					10,397	**179**	**0.01%**
Oil and Gas							
Geotrace Technologies, Inc.	Reservoir processing, development	Warrants to purchase up to 80,063 shares of preferred stock		4/1/2010	1,738		
		Warrants to purchase up to 130,390 shares of preferred stock		4/1/2010	1,067		
		Warrants to purchase up to 43,356 shares of common stock		4/1/2010	54		
		Warrants to purchase up to 26,622 shares of common stock		4/1/2010	33		
					2,892		
					2,892		**0.00%**
					$ 4,584,902	**$ 4,643,163**	**148.14%**

(1) Other than our investments listed in footnote 7 below, we do not "Control" any of our portfolio companies, as defined in the Investment Company Act of 1940 (the "Investment Company Act"). In general, under the Investment Company Act, we would "Control" a portfolio company if we owned more than 25% of its outstanding voting securities and/or had the power to exercise control over the management or policies of such portfolio company. All of our portfolio company investments are subject to legal restrictions on sales which as of June 30, 2011 represented 148% of the Company's net assets or 95% of the Company's total assets.

The investments not otherwise pledged as collateral in respect of the Debt Securitization (as defined below) or the Revolving Funding Facility (as defined below) by the respective obligors thereunder are pledged as collateral by the Company and certain of its other subsidiaries for the Revolving Credit Facility (as defined below)(except for a limited number of exceptions as provided in the credit agreement governing the Revolving Credit Facility).

(2) These assets are owned by the Company's wholly owned subsidiary Ares Capital CP Funding LLC ("Ares Capital CP"), are pledged as collateral for the Revolving Funding Facility and, as a result, are not directly available to the creditors of the Company to satisfy any obligations of the Company other than Ares Capital CP's obligations under the Revolving Funding Facility (see Note 5 to the consolidated financial statements).

(3) Pledged as collateral for the Debt Securitization.

(4) Has a payment-in-kind interest feature (see Note 2 to the consolidated financial statements).

(5) Investments without an interest rate are non-income producing.

(6) As defined in the Investment Company Act, we are deemed to be an "Affiliated Person" of this portfolio company because we own 5% or more of the portfolio company's outstanding voting securities or we have the power to exercise control over the management or policies of such portfolio company

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(including through a management agreement). Transactions during the six months ended June 30, 2011 in which the issuer was an Affiliated company (but not a portfolio company that we "Control") are as follows:

Company	Purchases	Redemptions (cost)	Sales (cost)	Interest income	Capital structuring service fees	Dividend Income	Other income	Net realized gains (losses)	Net unrealized gains (losses)
10th Street, LLC	$	$	$	$ 1,530	$	$	$	$	$ (25)
Apple & Eve, LLC and US Juice Partners, LLC	$	$ 2,761	$	$ 1,692	$	$	$ 25	$	$ (230)
BB&T Capital Partners/Windsor Mezzanine Fund, LLC	$	$ 2,640	$ 9,260	$	$	$	$	$ 4,154	$ (3,804)
Carador, PLC	$	$	$ 9,033	$	$	$ 160	$	$ (2,989)	$ 3,700
Campus Management Corp. and Campus Management Acquisition Corp.	$ 571	$	$	$	$	$	$	$	$ 27
CT Technologies Intermediate Holdings, Inc. and CT Technologies Holdings, LLC	$	$ 38	$ 8,763	$ 351	$	$ 2,589	$	$ 1,562	$ 1,798
Direct Buy Holdings, Inc. and Direct Buy Investors, LP	$ 38,800	$ 79,995	$ 9,946	$ 2,637	$	$	$	$ 2,770	$ (27,305)
Driven Brands, Inc.	$	$	$	$ 136	$	$	$	$ 7	$ 1,050
DSI Renal, Inc.	$	$	$	$ 5,966	$	$	$ 23	$	$ 2,423
The Dwyer Group	$	$	$ 1,708	$ 1,949	$	$ 576	$	$	$ 1,536
Firstlight Financial Corporation	$	$	$	$ 324	$	$	$ 125	$	$ 3,003
Growing Family, Inc. and GFH Holdings, LLC	$	$	$	$ 389	$	$	$	$	$ 3,476
Imperial Capital Group, LLC	$	$	$	$	$	$ 172	$	$	$ (146)
Industrial Container Services, LLC	$ 3,304	$ 6,708	$	$ 64	$	$	$ 54	$	$ 4,941
Insight Pharmaceuticals Corporation	$	$ 30,139	$	$ 2,627	$	$	$ 765	$	$ 4,212
Investor Group Services, LLC	$	$	$	$	$	$ 134	$ 7	$	$ 31
Multi-Ad Services, Inc.	$	$	$	$	$	$	$	$	$ 462
Pillar Processing LLC and PHL Holding Co.	$	$ 8,429	$	$ 1,110	$	$	$ 15	$	$ (1,887)
Primis Marketing Group, Inc. and Primis Holdings, LLC	$	$	$	$	$	$	$	$	$
Regency Healthcare Group, LLC	$	$	$ 2,007	$	$	$	$	$ 380	$ 335
Soteria Imaging Services, LLC	$	$ 1,056	$	$ 116	$	$	$	$ 30	$ 51
VSS-Tranzact Holdings, LLC	$	$	$	$	$	$	$	$	$ (4,484)
Universal Environmental Services, LLC	$	$	$	$	$	$	$	$	$
Universal Trailer Corporation	$	$	$ 7,930	$	$	$	$	$ (7,930)	$ 7,930

(7) As defined in the Investment Company Act, we are deemed to be an "Affiliated Person" of this portfolio company because we own 5% or more of the portfolio company's outstanding voting securities or we have the power to exercise control over the management or policies of such portfolio company (including through a management agreement). In addition, as defined in the Investment Company Act, we "Control" this portfolio company because we own more than 25% of the portfolio company's outstanding voting securities or we have the power to exercise control over the management or policies of such

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portfolio company (including through a management agreement). Transactions during the period for the six months ended June 30, 2011 in which the issuer was both an Affiliated company and a portfolio company that we Control are as follows:

Company	Purchases	Redemptions (cost)	Sales (cost)	Interest income	Capital structuring service fees	Dividend Income	Other income	Net realized gains (losses)	Net unrealized gains (losses)
AGILE Fund I, LLC	$	$	$	$	$	$ 4	$	$	$ (55)
Allied Capital REIT, Inc.	$	$ 115	$	$	$	$	$	$ 585	$ (190)
AllBridge Financial, LLC	$	$	$	$	$	$	$	$	$ 2,969
Aviation Properties Corporation	$	$	$	$	$	$	$	$	$
AWTP, LLC	$ 2,926	$	$	$ 148	$	$	$	$	$ 49
BenefitMall Holdings, Inc.	$	$	$	$ 3,650	$	$	$ 250	$	$ 3,980
Border Foods, Inc.	$	$ 28,526	$ 34,818	$ 1,401	$	$	$	$ 5,174	$ 3,601
Callidus Capital Corporation	$ 6,000	$	$	$	$	$	$	$	$ (3,534)
Ciena Capital LLC	$	$	$	$ 2,353	$	$	$	$	$ (16,639)
Citipostal, Inc.	$ 2,850	$ 2,802	$	$ 3,578	$	$	$ 177	$	$ (6,638)
Coverall North America, Inc.	$	$ 30,907	$	$ 356	$	$	$ 75	$ (6,832)	$ 7,624
Crescent Hotels & Resorts, LLC and affiliates	$	$	$	$ 191	$	$	$	$	$ (1,298)
EarthColor, Inc.	$	$	$	$	$	$	$	$	$
HCI Equity, LLC	$	$	$	$	$	$	$	$	$ (22)
HCP Acquisition Holdings, LLC	$ 328	$	$	$	$	$	$	$	$ 151
Hot Light Brands, Inc.	$	$ 929	$	$	$	$	$	$	$ (37)
Huddle House Inc.	$	$	$	$ 1,529	$	$	$ 375	$	$ 1,583
Industrial Air Tool, LP and affiliates	$	$	$	$	$	$	$ 185	$	$ 531
Ivy Hill Asset Management, L.P.	$ 9,419	$	$	$	$	$ 9,524	$	$	$ 31,798
Ivy Hill Middle Market Credit Fund, Ltd.	$	$	$	$ 2,333	$	$	$	$	$ 1,499
Knightsbridge CLO 2007-1 Ltd.	$	$	$	$ 946	$	$	$	$	$ 4,031
Knightsbridge CLO 2008-1 Ltd.	$	$	$	$ 1,359	$	$	$	$	$ 3,357
LVCG Holdings, LLC	$	$	$	$	$	$	$	$	$
Making Memories Wholesale, Inc.	$ 1,750	$ 345	$	$ 23	$	$	$ 2	$	$ (5,886)
MVL Group, Inc.	$	$	$	$ 4,249	$	$	$	$	$ 1,022
Orion Foods, LLC	$ 3,300	$ 110	$	$ 5,218	$	$	$ 410	$	$ (5,349)
Penn Detroit Diesel Allison, LLC	$	$ 4,077	$	$	$	$	$ 250	$ 1,095	$ 1,361
Reflexite Corporation	$	$	$	$ 874	$	$	$ 25	$	$ 34,304
Senior Secured Loan Fund LLC*	$ 183,572	$	$	$ 50,324	$ 12,706	$	$ 5,859	$	$ (4,623)
Stag-Parkway, Inc.	$	$	$	$ 2,168	$	$ 35	$ 125	$	$ 958
Startec Equity, LLC	$	$	$	$	$	$	$	$	$
The Thymes, LLC	$	$ 947	$	$	$	$ 238	$	$	$ 1,011

*
Together with GE Global Sponsor Finance LLC and General Electric Capital Corporation (together, "GE"), we co-invest through the Senior Secured Loan Fund LLC d/b/a the "Senior Secured Loan Program" (the "SSLP"). The SSLP is capitalized as transactions are completed and all portfolio decisions and generally all other decisions in respect of the SSLP must be approved by GE and the Company; therefore, although the Company owns more than 25% of the voting securities of the SSLP, the Company does not believe that it has control over the SSLP (for purposes of the Investment Company Act or otherwise).

(8)
Non-U.S. company or principal place of business outside the U.S. and as a result is not a qualifying asset under Section 55(a) of the Investment Company Act. Under the Investment Company Act, we may not acquire any non-qualifying asset unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets.

(9)
Non-registered investment company under Section 3(c) of the Investment Company Act and as a result is not a qualifying asset under Section 55(a) of the Investment Company Act. Under the Investment Company Act, we may not acquire any non-qualifying asset unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets.

(10)
Public company with outstanding equity with a market value in excess of $250 million and as a result is not a qualifying asset under Section 55(a) of the Investment Company Act. Under the Investment Company Act, we may not acquire any non-qualifying asset unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets.

(11) In the first quarter of 2011, the staff of the Securities and Exchange Commission (the "Staff") informally communicated to certain business development companies the Staff's belief that certain entities, which would be classified as an "investment company" under the Investment Company Act but for the exception from the definition of "investment company" set forth in Rule 3a-7 promulgated under the Investment Company Act, could not be treated as eligible portfolio companies (as defined in Section 2(a)(46) of the Investment Company Act). Ares Capital continues to believe that the language of Section 2(a)(46) of the Investment Company Act permits a business development company to treat as "eligible portfolio companies" entities that rely on the 3a-7 exception. However, given the current uncertainty in this area, Ares Capital has, solely for purposes of calculating the composition of its portfolio pursuant to Section 55(a) of the Investment Company Act, identified these entities in our schedule of investments as "non-qualifying assets" should the Staff ultimately disagree with Ares Capital's position.

(12) 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 interest rate in effect on the date presented.

(13) 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 5.00% on $40 million aggregate principal amount outstanding of the portfolio company's senior term debt previously syndicated by us.

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(14) 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 $25 million aggregate principal amount outstanding of the portfolio company's senior term debt previously syndicated by us.

(15) Loan was on non-accrual status as of June 30, 2011.

(16) Loan includes interest rate floor feature.

(17) In addition to the interest earned based on the contractual stated interest rate of this security, the notes entitle us to receive a portion of the excess cash flow from the SSLP's loan portfolio, which may result in a return to the Company greater than the contractual stated interest rate.

See accompanying notes to consolidated financial statements.

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ARES CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

As of December 31, 2010

(dollar amounts in thousands)

Company(1)	**Industry**	**Investment**	**Interest(5)(11)**	**Acquisition Date**	**Amortized Cost**	**Fair Value**	**Percentage of Net Assets**
Investment Funds and Vehicles							
AGILE Fund I, LLC(7)(9)	Investment partnership	Member interest (0.50% interest)		4/1/2010	$ 264	$ 217	
BB&T Capital Partners/Windsor Mezzanine Fund, LLC(6)(9)	Investment company	Member interest (32.59% interest)		4/1/2010	11,900	15,704	
Callidus Debt Partners CDO Fund I, Ltd.(8)(9)	Investment company	Class C notes ($18,800 par due 12/2013)		4/1/2010	2,669	1,239	
		Class D notes ($9,400 par due 12/2013)		4/1/2010			(14)
					2,669	1,239	
Callidus Debt Partners CLO Fund III, Ltd.(8)(9)	Investment company	Preferred shares (23,600,000 shares)	7.18%	4/1/2010	4,343	7,324	
Callidus Debt Partners CLO Fund IV, Ltd.(8)(9)	Investment company	Class D notes ($3,000 par due 4/2020)	4.84% (Libor + 4.55%/Q)	4/1/2010	1,824	1,817	
		Subordinated notes ($17,500 par due 4/2020)	14.92%	4/1/2010	6,935	11,720	
					8,759	13,537	
Callidus Debt Partners CLO Fund V, Ltd.(8)(9)	Investment company	Subordinated notes ($14,150 par due 11/2020)	23.49%	4/1/2010	8,586	11,995	
Callidus Debt Partners CLO Fund VI, Ltd.(8)(9)	Investment company	Class D notes ($9,000 par due 10/2021)	6.29% (Libor + 6.00%/Q)	4/1/2010	4,039	5,538	
		Subordinated notes ($25,500 par due 10/2021)	20.14%	4/1/2010	11,572	22,711	
					15,611	28,249	
Callidus Debt Partners CLO Fund VII, Ltd.(8)(9)	Investment company	Subordinated notes ($28,000 par due 1/2021)	11.94%	4/1/2010	10,216	17,197	
Callidus MAPS CLO Fund I LLC	Investment company	Class E notes ($17,000 par due 12/2017)	5.79% (Libor + 5.5%/Q)	4/1/2010	11,863	11,535	
		Subordinated notes ($47,900 par due 12/2017)	8.62%	4/1/2010	12,652	19,156	
					24,515	30,691	
Callidus MAPS CLO Fund II, Ltd.(8)(9)	Investment company	Class D notes ($7,700 par due 7/2022)	4.54% (Libor + 4.25%/Q)	4/1/2010	3,428	4,364	
			18.41%	4/1/2010	8,857	13,624	

		Subordinated notes ($17,900 par due 7/2022)				
					12,285	17,988
Carador PLC(6)(8)(9)(10)	Investment company	Ordinary shares (7,110,525 shares)		12/15/2006	9,033	5,333
CIC Flex, LP(9)	Investment partnership	Limited partnership units (0.94 unit)		9/7/2007	2,553	2,500
Covestia Capital Partners, LP(9)	Investment partnership	Limited partnership interest (47.00% interest)		6/17/2008	1,059	1,041
Dryden XVIII Leveraged Loan 2007 Limited(8)(9)	Investment company	Class B notes ($9,000 par due 10/2019)	4.79% (Libor + 4.50%/Q)	4/1/2010	3,816	4,823

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Company(1)	Industry	Investment	Interest(5)(11)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
		Subordinated notes ($21,164 par due 10/2019)	23.01%	4/1/2010	12,266	19,436	
Dynamic India Fund IV, LLC(9)	Investment company	Member interest (5.44% interest)		4/1/2010	4,822	4,822	
Fidus Mezzanine Capital, L.P.(9)	Investment partnership	Limited partnership interest (29.12% interest)		4/1/2010	9,206	7,499	
Firstlight Financial Corporation(6)(9)	Investment company	Senior subordinated loan ($73,811 par due 12/2016)	1.00% PIK	12/31/2006	73,569	54,050(4)	
		Common stock (10,000 shares)		12/31/2006	10,000		
		Common stock (30,000 shares)		12/31/2006	30,000		
					113,569	54,050	
HCI Equity, LLC(7)(8)(9)	Investment company	Member interest (100% interest)		4/1/2010	808	993	
Imperial Capital Private Opportunities, LP(6)(9)	Investment partnership	Limited partnership interest (80% interest)		5/10/2007	6,643	5,300	
Ivy Hill Middle Market Credit Fund, Ltd.(7)(8)(9)	Investment company	Class B deferrable interest notes ($40,000 par due 11/2018)	6.25% (Libor + 6.00%/Q)	11/20/2007	40,000	37,200	
		Subordinated notes ($15,351 par due 11/2018)	15.50%	11/20/2007	15,351	14,737	
					55,351	51,937	
Knightsbridge CLO 2007-1 Ltd.(7)(8)(9)	Investment company	Class E notes ($20,350 par due 1/2022)	9.29% (Libor + 9.00%/Q)	3/24/2010	14,852	14,545	
Knightsbridge CLO 2008-1 Ltd.(7)(8)(9)	Investment company	Class C notes ($14,400 par due 6/2018)	7.80% (Libor + 7.50%/Q)	3/24/2010	14,400	14,400	
		Class D notes ($9,000 par due 6/2018)	8.79% (Libor + 8.50%/Q)	3/24/2010	9,000	9,000	
		Class E notes ($14,850 par due 6/2018)	5.29% (Libor + 5.00%/Q)	3/24/2010	13,596	10,488	
					36,996	33,888	
Kodiak Funding, LP(9)	Investment partnership	Limited partnership interest (1.52% interest)		4/1/2010	918	788	
Novak Biddle Venture Partners III, L.P.(9)	Investment partnership	Limited partnership interest (2.47% interest)		4/1/2010	221	254	
Pangaea CLO 2007-1 Ltd.(8)(9)	Investment company	Class D notes ($15,000 par due 1/2021)	5.04% (Libor + 4.75%/Q)	4/1/2010	9,061	8,307	
Partnership Capital Growth Fund I, LP(9)	Investment partnership	Limited partnership interest (25% interest)		6/16/2006	2,370	2,393	
Senior Secured Loan Fund LLC(7)(16)	Co-investment vehicle	Subordinated certificates ($548,161 par due 12/2015)	8.30% (Libor + 8.00%/Q)	10/30/2009	537,439	561,674	
Trivergance Capital Partners, LP(9)	Investment partnership	Limited partnership interest (100% interest)		6/5/2008	3,162		

VSC Investors LLC(9)	Investment company	Membership interest (4.63% interest)		1/24/2008	994	699	
					924,287	924,423	30.30%
Healthcare Services							
Axium Healthcare Pharmacy, Inc.	Specialty pharmacy provider	Senior subordinated loan ($3,160 par due 3/2015)	8.00%	4/1/2010	2,915	3,002(4)	

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

MPBP Holdings, Inc., Cohr Holdings, Inc. and MPBP Acquisition Co., Inc.	Healthcare equipment services	Junior secured loan ($18,851 par due 1/2014)		1/31/2007	18,851	943(14)
		Junior secured loan ($11,310 par due 1/2014)		1/31/2007	11,310	566(3)(14)
		Common stock (50,000 shares)		1/31/2007	5,000	
					35,161	1,509
MWD Acquisition Sub, Inc.	Dental services	Junior secured loan ($5,000 par due 5/2013)	6.51% (Libor + 6.25%/M)	5/3/2007	5,000	4,800(3)

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Company(1)	Industry	Investment	Interest(5)(11)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
NS Merger Sub. Inc. and NS Holdings, Inc.	Healthcare technology provider	Senior subordinated loan ($579 par due 6/2017)	13.50%	6/21/2010	579	579	
		Senior subordinated loan ($50,000 par due 6/2017)	13.50%	6/21/2010	50,000	50,000(2)	
		Common stock (2,500,000 shares)		6/21/2010	2,500	2,500	
					53,079	53,079	
OnCURE Medical Corp.	Radiation oncology care provider	Common stock (857,143 shares)		8/18/2006	3,000	2,910	
Passport Health Communications, Inc., Passport Holding Corp. and Prism Holding Corp.	Healthcare technology provider	Senior secured loan ($11,287 par due 5/2014)	8.25% (Libor + 7.0%/Q)	5/9/2008	11,287	11,287(2)(15)	
		Senior secured loan ($10,419 par due 5/2014)	8.25% (Libor + 7.0%/Q)	5/9/2008	10,419	10,419(3)(15)	
		Series A preferred stock (1,594,457 shares)		7/30/2008	11,156	10,978(4)	
		Common stock (16,106 shares)		7/30/2008	100		
					32,962	32,684	
PG Mergersub, Inc.	Provider of patient surveys, management reports and national databases for integrated healthcare delivery system	Senior secured loan ($1,100 par due 11/3/2015)	6.75% (Libor + 5.0%/Q)	11/3/2010	1,098	1,100(15)	
		Senior secured loan ($9,200 par due 11/3/2015)	6.75% (Libor + 5.0%/Q)	11/3/2010	9,171	9,200(3)(15)	
		Senior subordinated loan ($4,000 par due 3/2016)	12.50%	3/12/2008	3,948	4,000	
		Preferred stock (333 shares)		3/12/2008	125	9	
		Common stock (16,667 shares)		3/12/2008	167	471	
					14,509	14,780	
Reed Group, Ltd.	Medical disability management services provider	Senior secured loan ($10,755 par due 12/2013)		4/1/2010	9,129	9,142(14)	
		Senior secured revolving loan ($1,250 par due 12/2013)		4/1/2010	1,097	1,063(14)	
		Senior subordinated loan ($19,625 par due 12/2013)		4/1/2010	15,918	10,714(14)	
		Equity interests		4/1/2010	203		
					26,347	20,919	
				4/1/2010	2,007	1,672	

Regency Healthcare Group, LLC(6)	Hospice provider	Preferred member interest (1,293,960 shares)			
Soteria Imaging Services, LLC(6)	Outpatient medical imaging provider	Junior secured loan ($1,687 par due 11/2010)	4/1/2010	1,644	1,383(14)
		Junior secured loan ($2,422 par due 11/2010)	4/1/2010	2,361	1,986(14)
		Preferred member interest (1,881,234 units)	4/1/2010		
				4,005	3,369

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Company(1)	Industry	Investment	Interest(5)(11)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Sunquest Information Systems, Inc.	Laboratory software solutions provider	Junior secured loan ($95,000 par due 6/2017)	9.75% (Libor + 8.50%/M)	12/16/2010	95,000	95,000(15)	
		Junior secured loan ($50,000 par due 6/2017)	9.75% (Libor + 8.50%/M)	12/16/2010	50,000	50,000(2)(15)	
					145,000	145,000	
U.S. Renal Care, Inc.	Dialysis provider	Senior subordinated loan ($20,235 par due 5/2017)	11.25% Cash, 2.00% PIK	5/24/2010	20,235	20,235(4)	
Univita Health Inc.	Outsourced services provider	Senior subordinated loan ($21,094 par due 12/2014)	12.00% Cash, 3.00% PIK	12/22/2009	21,094	21,094(4)	
VOTC Acquisition Corp.	Radiation oncology care provider	Senior secured loan ($7,580 par due 7/2012)	11.00% Cash, 2.00% PIK	6/30/2008	7,580	7,580(4)	
		Preferred stock (3,888,222 shares)		7/14/2008	8,748	11,624	
					16,328	19,204	
					687,929	674,356	22.11%
Business Services							
Aviation Properties Corporation(7)	Aviation services	Common stock (100 shares)		4/1/2010			
BenefitMall Holdings Inc.(7)	Employee benefits broker services	Senior subordinated loan ($40,326 par due 6/2014)	18.00%	4/1/2010	40,326	40,326	
		Common stock (39,274,290 shares)		4/1/2010	53,510	50,450	
		Warrants		4/1/2010			
					93,836	90,776	
Booz Allen Hamilton, Inc.	Strategy and technology consulting services	Senior secured loan ($733 par due 7/2015)	7.50% (Libor + 4.50%/M)	7/31/2008	721	733(3)(15)	
		Senior subordinated loan ($101 par due 7/2016)	13.00%	7/31/2008	90	104	
		Senior subordinated loan ($5,007 par due 7/2016)	13.00%	7/31/2008	4,983	5,157(2)	
					5,794	5,994	
CitiPostal Inc.(7)	Document storage and management services	Senior secured revolving loan ($691 par due 12/2013)	6.50% (Libor + 4.50%/M)	4/1/2010	691	691(15)	
		Senior secured revolving loan ($700 par due 12/2013)	6.50% (Libor + 4.50%/Q)	4/1/2010	700	700(15)	
		Senior secured revolving loan ($1,250 par due 12/2013)	6.75% (Base Rate + 3.25%/Q)	4/1/2010	1,250	1,250(15)	
				4/1/2010	49,333	49,333(2)(4)	

Senior secured loan ($49,333 par due 12/2013)	11.00% Cash, 2.00% PIK			
Senior secured loan ($482 par due 12/2013)	11.00% Cash, 2.00% PIK	4/1/2010	482	482(4)
Senior subordinated loan ($12,526 par due 12/2015)	16.00% PIK	4/1/2010	12,526	12,022(4)
Common stock (37,024 shares)		4/1/2010		
			64,982	64,478

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Company(1)	Industry	Investment	Interest(5)(11)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Cook Inlet Alternative Risk, LLC	Risk management services	Senior secured loan ($40,000 par due 4/2013)	8.50%	4/1/2010	25,124	26,083	
		Senior secured loan ($44,346 par due 4/2013)	8.50%	4/1/2010	26,622	28,917	
		Member interest (3.17%)		4/1/2010			
					51,746	55,000	
Coverall North America, Inc.(7)	Commercial janitorial service provider	Senior secured loan ($15,763 par due 7/2011)	12.00%	4/1/2010	15,763	15,763(2)	
		Senior secured loan ($15,864 par due 7/2011)	12.00%	4/1/2010	15,864	15,864(2)	
		Senior subordinated loan ($5,557 par due 7/2011)		4/1/2010	5,554	928(14)	
		Common stock (763,333 shares)		4/1/2010	2,999		
					40,180	32,555	
Digital Videostream, LLC	Media content supply chain services company	Senior secured loan ($256 par due 2/2012)	10.00% Cash, 1.00% PIK	4/1/2010	256	256(4)	
		Senior secured loan ($9 par due 2/2012)	10.00% Cash, 1.00% PIK	4/1/2010	9	9(2)(4)	
		Senior secured loan ($10,403 par due 2/2012)	10.00% Cash, 1.00% PIK	4/1/2010	10,345	10,403(2)(4)	
		Convertible subordinated loan ($5,538 par due 2/2016)	10.00% PIK	4/1/2010	5,978	6,025(4)	
					16,588	16,693	
Diversified Collections Services, Inc.	Collections services	Senior secured loan ($6,921 par due 3/2012)	7.50% (Libor + 5.50%/Q)	4/1/2010	6,921	6,921(3)(15)	
		Senior secured loan ($79 par due 3/2012)	7.50% (Libor + 5.50%/Q)	4/1/2010	79	79(3)(15)	
		Senior secured loan ($34,000 par due 9/2012)	13.75% (Libor + 11.75%/Q)	4/1/2010	34,000	34,000(2)(15)	
		Senior secured loan ($2,000 par due 9/2012)	13.75% (Libor + 11.75%/Q)	4/1/2010	2,000	2,000(2)(15)	
		Preferred stock (14,927 shares)		5/18/2006	169	289	
		Common stock (114,004 shares)		2/5/2005	295	445	
		Common stock (478,816 shares)		4/1/2010	1,478	1,586	
					44,942	45,320	
Diversified Mercury Communications, LLC	Business media consulting services	Senior secured loan ($1,774 par due 3/2013)	8.00% (Base Rate + 4.50%/M)	4/1/2010	1,613	1,596(15)	
Impact Innovations Group, LLC(7)	IT consulting and outsourcing services	Member interest (50% interest)		4/1/2010			
				10/21/2010	7,944	7,944(15)	

Interactive Technology Solutions, LLC	IT services provider	Senior secured loan ($7,944 par due 6/2015)	9.50% (Libor + 6.50%/Q)			
		Senior secured loan ($8,900 par due 6/2015)	9.50% (Libor + 6.50%/Q)	10/21/2010	8,900	8,900(3)(15)
					16,844	16,844

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Company(1)	Industry	Investment	Interest(5)(11)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Investor Group Services, LLC(6)	Business consulting for private equity and corporate clients	Limited liability company membership interest (10.00% interest)		6/22/2006		564	
Multi-Ad Services, Inc.(6)	Marketing services and software provider	Preferred units (1,725,280 units)		4/1/2010	788	1,366	
		Common units (1,725,280 units)		4/1/2010			
					788	1,366	
MVL Group, Inc.(7)	Marketing research provider	Senior secured loan ($22,772 par due 7/2012)	12.00%	4/1/2010	22,772	22,772	
		Senior subordinated loan ($34,937 par due 7/2012)	12.00% Cash, 2.50% PIK	4/1/2010	33,884	34,937(4)	
		Junior subordinated loan ($144 par due 7/2012)	10.00%	4/1/2010		33	
		Common stock (554,091 shares)		4/1/2010			
		Common stock (560,716 shares)		4/1/2010			
					56,656	57,742	
PC Helps Support, LLC	Technology support provider	Senior secured loan ($7,153 par due 12/2013)	3.54% (Libor + 3.25%/Q)	4/1/2010	7,153	7,153(3)	
		Senior subordinated loan ($23,377 par due 12/2013)	12.76%	4/1/2010	23,377	23,377	
					30,530	30,530	
Pillar Processing LLC and PHL Holding Co.(6)	Mortgage services	Senior secured loan ($1,875 par due 5/2014)	14.50%	7/31/2008	1,875	1,875	
		Senior secured loan ($5,500 par due 5/2014)	14.50%	7/31/2008	5,500	5,500(2)	
		Senior secured loan ($14,730 par due 11/2013)	5.80% (Libor + 5.50%/Q)	11/20/2007	14,730	14,730(2)	
		Senior secured loan ($9,194 par due 11/2013)	5.80% (Libor + 5.50%/Q)	11/20/2007	9,194	9,194(3)	
		Common stock (85 shares)		11/20/2007	3,768	5,701	
					35,067	37,000	
Primis Marketing Group, Inc. and Primis Holdings, LLC(6)	Database marketing services	Senior subordinated loan ($10,222 par due 2/2013)		8/24/2006	10,222	102(14)	
		Preferred units (4,000 units)		8/24/2006	3,600		
		Common units (4,000,000 units)		8/24/2006	400		
					14,222	102	
Prommis Solutions, LLC, E-Default Services, LLC, Statewide Tax and Title Services, LLC &	Bankruptcy and foreclosure processing services	Senior subordinated loan ($16,788 par due 2/2014)	11.50% Cash, 2.00% PIK	2/9/2007	16,788	16,788(4)	

Statewide Publishing Services, LLC (formerly known as MR Processing Holding Corp.)					
	Senior subordinated loan ($27,032 par due 2/2014)	11.50% Cash, 2.00% PIK	2/9/2007	27,032	27,032(2)(4)
	Preferred units (30,000 units)		4/11/2006	3,000	4,661
				46,820	48,481

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Company(1)	Industry	Investment	Interest(5)(11)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Promo Works, LLC	Marketing services	Senior secured loan ($8,655 par due 12/2013)	11.00%	4/1/2010	5,105	5,438	
R2 Acquisition Corp.	Marketing services	Common stock (250,000 shares)		5/29/2007	250	257	
Summit Business Media, LLC	Business media consulting services	Junior secured loan ($11,930 par due 7/2014)		8/3/2007	10,276	239(3)(14)	
Summit Energy Services, Inc.	Energy management consulting services	Common stock (38,778 shares)		4/1/2010	222	287	
		Common stock (385,608 shares)		4/1/2010	2,336	2,850	
					2,558	3,137	
Tradesmen International, Inc.	Construction labor support	Senior subordinated loan ($20,000 par due 5/2014)	10.00%	4/1/2010	14,364	20,000	
		Warrants to purchase up to 771,036 shares		4/1/2010		2,086	
					14,364	22,086	
VSS-Tranzact Holdings, LLC(6)	Management consulting services	Common membership interest (8.51% interest)		10/26/2007	10,204	6,475	
Venturehouse-Cibernet Investors, LLC	Financial settlement services for intercarrier wireless roaming	Equity interest		4/1/2010			
		Equity interest		4/1/2010			
					563,365	542,673	17.79%
Restaurants and Food Services							
ADF Capital, Inc. & ADF Restaurant Group, LLC	Restaurant owner and operator	Senior secured revolving loan ($2,010 par due 11/2012)	6.50% (Libor + 3.50%/Q)	11/27/2006	2,010	2,010(15)	
		Senior secured revolving loan ($108 par due 11/2012)	6.50% (Base Rate + 2.50%/Q)	11/27/2006	108	108(15)	
		Senior secured loan ($22,839 par due 11/2013)	12.50% (Libor + 9.50%/Q)	11/27/2006	22,845	22,839(2)(15)	
		Senior secured loan ($10,705 par due 11/2013)	12.50% (Libor + 9.50%/Q)	11/27/2006	10,705	10,705(3)(15)	
		Promissory note ($14,897 par due 11/2016)		6/1/2006	14,886	10,957(4)	
		Warrants to purchase up to 0.61 shares		6/1/2006			

					50,554	46,619
Encanto Restaurants, Inc.	Restaurant owner and operator	Junior secured loan ($20,997 par due 8/2013)	11.00%	8/2/2006	20,997	19,947(2)
		Junior secured loan ($3,999 par due 8/2013)	11.00%	8/2/2006	3,999	3,799(3)
					24,996	23,746
Fulton Holdings Corp	Airport restaurant operator	Senior secured loan ($40,000 par due 5/2016)	12.50%	5/28/2010	40,000	40,000(2)(12)

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Company(1)	Industry	Investment	Interest(5)(11)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
		Common stock (19,672 shares)		5/28/2010	1,967	2,430	
					41,967	42,430	
Orion Foods, LLC (fka Hot Stuff Foods, LLC)(7)	Convenience food service retailer	Senior secured loan ($34,357 par due 9/2014)	10.00% (Libor + 8.50%/Q)	4/1/2010	34,357	34,357(15)	
		Junior secured loan ($37,552 par due 9/2014)	14.00%	4/1/2010	24,881	36,085	
		Preferred stock ($10,000 par due)		4/1/2010			
		Class A common units (25,001 units)		4/1/2010			
		Class B common units (1,122,452 units)		4/1/2010			
					59,238	70,442	
Huddle House, Inc.(7)	Restaurant owner and operator	Senior subordinated loan ($20,300 par due 12/2015)	12.00% Cash, 3.00% PIK	4/1/2010	20,032	16,202(4)	
		Common stock (358,428 shares)		4/1/2010			
					20,032	16,202	
OTG Management, Inc.	Airport restaurant operator	Junior secured loan ($12,603 par due 6/2013)	16.00% (Libor + 11.00% Cash, 2.00% PIK/M)	6/19/2008	12,603	12,603(4)(15)	
		Junior secured loan ($42,030 par due 6/2013)	18.00% (Libor + 11.00% Cash, 4.00% PIK/M)	6/19/2008	42,030	42,030(4)(15)	
		Warrants to purchase up to 100,857 shares of common stock		6/19/2008	100	4,939	
		Warrants to purchase up to 9 shares of common stock		6/19/2008			
					54,733	59,572	
PMI Holdings, Inc.	Restaurant owner and operator	Senior secured revolving loan ($575 par due 5/2015)	10.00% (Libor + 8.00%/Q)	5/5/2010	575	575(15)	
		Senior secured loan ($9,918 par due 5/2015)	10.00% (Libor + 8.00%/M)	5/5/2010	9,918	9,918(2)(15)	
		Senior secured loan ($9,918 par due 5/2015)	10.00% (Libor + 8.00%/M)	5/5/2010	9,918	9,918(3)(15)	
		Senior secured loan ($7 par due 5/2015)	10.25% (Base Rate + 7.00%/M)	5/5/2010	7	7(2)	
		Senior secured loan ($7 par due 5/2015)	10.25% (Base Rate + 7.00%/M)	5/5/2010	7	7(3)	
					20,425	20,425	
S.B. Restaurant Company	Restaurant owner and operator	Senior secured loan ($35,406 par due 7/2012)	13.00% (Libor + 11.00%/Q)	4/1/2010	26,872	33,635(15)	
		Preferred stock (46,690 shares)		4/1/2010			
				4/1/2010			

		Warrants to purchase up to 257,429 shares of common stock				
					26,872	33,635
Vistar Corporation and Wellspring Distribution Corp.	Food service distributor	Senior subordinated loan ($31,625 par due 5/2015)	13.50%	5/23/2008	31,625	31,625
		Senior subordinated loan ($30,000 par due 5/2015)	13.50%	5/23/2008	30,000	30,000(2)

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Company(1)	Industry	Investment	Interest(5)(11)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
		Class A non-voting common stock (1,366,120 shares)		5/3/2008	7,500	5,287	
					69,125	66,912	
					367,942	379,983	12.46%
Financial Services							
AllBridge Financial, LLC(7)	Asset management services	Equity interests		4/1/2010	11,395	13,112	
Callidus Capital Corporation(7)	Asset management services	Common stock (100 shares)		4/1/2010		246	
Ciena Capital LLC(7)	Real estate and small business loan servicer	Senior secured loan ($14,000 par due 12/2013)	6.00%	11/23/2010	14,000	14,000	
		Senior secured loan ($2,000 par due 12/2015)	12.00%	11/29/2010	2,000	2,000	
		Senior secured loan ($20,000 par due 12/2015)	12.00%	11/29/2010	20,000	20,000	
		Senior secured loan ($10,000 par due 12/2015)	12.00%	11/29/2010	10,000	10,000	
		Equity interests		11/29/2010	53,374	47,063	
					99,374	93,063	
Commercial Credit Group, Inc.	Commercial equipment finance and leasing company	Senior subordinated loan ($6,000 par due 6/2015)	15.00%	4/1/2010	6,000	6,000	
		Senior subordinated loan ($4,000 par due 6/2015)	15.00%	4/1/2010	4,000	4,000	
		Senior subordinated loan ($9,500 par due 6/2015)	15.00%	4/1/2010	9,500	9,500	
					19,500	19,500	
Compass Group Diversified Holdings, LLC(10)	Middle market business manager	Senior secured revolving loan ($735 par due 12/2012)	2.76% (Libor + 2.50%/M)	4/1/2010	735	735	
		Senior secured revolving loan ($882 par due 12/2012)	2.76% (L ibor + 2.50%/M)	4/1/2010	882	882	
					1,617	1,617	
Financial Pacific Company(7)	Commercial finance leasing	Preferred stock (6,500 shares)	8.00% PIK	10/13/2010	6,500	6,543	
		Common stock (650,000 shares)		10/13/2010			
					6,500	6,543	

Imperial Capital Group, LLC(6)	Investment services	Common units (2,526 units)		5/10/2007	3	4,735	
		Common units (315 units)		5/10/2007		590	
		Common units (7,710 units)		5/10/2007	14,997	14,453	
					15,000	19,778	
Ivy Hill Asset Management, L.P.(7)	Asset management services	Member interest (100% interest)		6/15/2009	103,458	136,235	
					256,844	290,094	9.51%
Consumer Products Non-durable							
Augusta Sportswear, Inc.	Manufacturer of athletic apparel	Senior secured loan ($6,556 par due 7/2015)	8.50% (Libor + 7.50%/Q)	9/3/2010	6,556	6,556(2)(15)	

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Company(1)	Industry	Investment	Interest(5)(11)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
		Senior secured loan ($9,353 par due 7/2015)	8.50% (Libor + 7.50%/Q)	9/3/2010	9,353	9,353(3)(15)	
					15,909	15,909	
Gilchrist & Soames, Inc.	Personal care manufacturer	Senior subordinated loan ($22,902 par due 10/2013)	13.44%	4/1/2010	22,128	22,902	
Insight Pharmaceuticals Corporation(6)	OTC drug products manufacturer	Senior subordinated loan ($50,255 par due 9/2012)	13.00% Cash, 2.00% PIK	4/1/2010	50,255	50,255(2)(4)(15)	
		Senior subordinated loan ($5,298 par due 9/2012)	13.00% Cash, 2.00% PIK	4/1/2010	5,298	5,298(4)(15)	
		Common stock (155,000 shares)		4/1/2010	12,070	13,432	
					67,623	68,985	
Making Memories Wholesale, Inc.(7)	Scrapbooking branded products manufacturer	Senior secured revolving loan ($250 par due 8/2014)	10.00% (Libor + 6.50%/Q)	8/21/2009	250	250(15)	
		Senior secured revolving loan ($250 par due 8/2014)	10.00% (Libor + 6.50%/Q)	8/21/2009	250	250(15)	
		Senior secured loan ($9,388 par due 8/2014)		8/21/2009	7,433	6,048(14)(15)	
		Senior secured loan ($5,129 par due 8/2014)		8/21/2009	3,979	(14)	
		Common stock (100 shares)		8/21/2009			
					11,912	6,548	
The Step2 Company, LLC	Toy manufacturer	Senior secured loan ($27,000 par due 4/2015)	10.00%	4/1/2010	25,557	27,000(4)	
		Senior subordinated loan ($30,000 par due 4/2015)	15.00%	4/1/2010	28,396	30,000(4)	
		Common units (1,114,343 units)		4/1/2010	24	1,010	
		Warrants to purchase up to 3,157,895 shares		4/1/2010			
					53,977	58,010	
The Thymes, LLC(7)	Cosmetic products manufacturer	Preferred units (6,283 units)	8.00% PIK	6/21/2007	6,784	6,902(4)	
		Common units (5,400 units)		6/21/2007			
					6,784	6,902	
Woodstream Corporation	Pet products manufacturer	Senior subordinated loan ($4,743 par due 2/2015)	12.00%	1/22/2010	4,772	4,505	
		Senior subordinated loan ($50,257 par due 2/2015)	12.00%	1/22/2010	43,287	47,745	
		Common stock (4,254 shares)		1/22/2010	1,222	2,194	
					49,281	54,444	

					227,614	233,700	7.66%
Education							
Campus Management Corp. and Campus Management Acquisition Corp.(6)	Education software developer	Preferred stock (465,509 shares)		2/8/2008	9,949	13,834	
Community Education Centers, Inc.	Offender re-entry and in-prison treatment services provider	Senior secured loan ($20,000 par due 12/2014)	6.25% (Libor + 5.25%/M)	12/10/2010	20,000	20,000(15)	

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Company(1)	Industry	Investment	Interest(5)(11)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
		Junior secured loan ($9,231 par due 12/2015)	15.28% (Libor + 15.00%/M)	12/10/2010	9,231	9,231	
		Junior secured loan ($30,769 par due 12/2015)	15.30% (Libor + 15.00%/M)	12/10/2010	30,769	30,769	
		Warrants to purchase up to 578,407 shares		12/13/2010		1,009	
					60,000	61,009	
eInstruction Corporation	Developer, manufacturer and retailer of educational products	Senior subordinated loan ($23,270 par due 1/2015)	16.00% PIK	4/1/2010	21,290	22,106(4)	
		Junior secured loan ($17,000 par due 7/2014)	7.80% (Libor + 7.50%/Q)	4/1/2010	14,881	14,960	
		Common stock (2,406 shares)		4/1/2010	926	1,326	
					37,097	38,392	
ELC Acquisition Corporation	Developer, manufacturer and retailer of educational products	Senior secured loan ($160 par due 11/2012)	3.51% (Libor + 3.25%/M)	11/30/2006	160	160(3)	
		Junior secured loan ($8,333 par due 11/2013)	7.26% (Libor + 7.00%/M)	11/30/2006	8,333	8,333(3)	
					8,493	8,493	
Instituto de Banca y Comercio, Inc. & Leeds IV Advisors, Inc.	Private school operator	Series B preferred stock (1,401,385 shares)		8/5/2010	4,004	4,244	
		Series B preferred stock (348,615 shares)		8/5/2010	996	1,056	
		Series C preferred stock (1,994,644 shares)		6/7/2010	547	2,586	
		Series C preferred stock (517,942 shares)		6/7/2010	142	672	
		Common stock (16 shares)		6/7/2010			
		Common stock (4 shares)		6/7/2010			
					5,689	8,558	
JTC Education Holdings, Inc.	Postsecondary school operator	Senior secured loan ($19,997 par due 12/2014)	12.50% (Libor + 9.50%/M)	12/31/2009	19,997	19,997(15)	
		Senior secured loan ($10,863 par due 12/2014)	12.50% (Libor + 9.50%/M)	12/31/2009	10,863	10,863(3)(15)	
					30,860	30,860	
R3 Education, Inc. (formerly known as Equinox EIC Partners, LLC and MUA Management Company) and EIC Acquisitions Corp.(8)	Medical school operator	Senior secured loan ($6,275 par due 4/2013)	9.00% (Libor + 6.00%/Q)	4/3/2007	6,275	9,652(3)(15)	
		Senior secured loan ($10,113 par due 4/2013)	9.00% (Libor + 6.00%/Q)	9/21/2007	10,113	15,555(15)	

Senior secured loan ($4,000 par due 4/2013)	9.00% (Libor + 6.00%/Q)	9/21/2007	4,000	6,153(3)(15)
Senior secured loan ($5,727 par due 4/2013)	13.00% PIK	12/8/2009	2,335	8,809(4)
Preferred stock (800 shares)		7/30/2008	200	100
Preferred stock (8,000 shares)		7/30/2008	2,000	1,000
Common membership interest (26.27% interest)		9/21/2007	15,800	20,734

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Company(1)	Industry	Investment	Interest(5)(11)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
		Warrants to purchase up to 27,890 shares		12/8/2009			
					40,723	62,003	
					192,811	223,149	7.32%
Manufacturing							
Component Hardware Group, Inc.	Commercial equipment manufacturer	Senior secured loan ($3,014 par due 12/2014)	7.00% Cash, 3.00% PIK	8/4/2010	3,014	3,014(4)	
		Senior subordinated loan ($10,078 par due 12/2014)	7.50% Cash, 5.00% PIK	4/1/2010	5,775	10,078(4)	
		Warrants to purchase up to 1,462,500 shares of common stock		8/4/2010		1,240	
					8,789	14,332	
Emerald Performance Materials, LLC	Polymers and performance materials manufacturer	Senior secured loan ($375 par due 5/2011)	8.25% (Libor + 4.25%/M)	5/22/2006	375	375(15)	
		Senior secured loan ($5,801 par due 5/2011)	8.25% (Libor + 4.25%/M)	5/22/2006	5,801	5,801(15)	
		Senior secured loan ($536 par due 5/2011)	8.25% (Libor + 4.25%/M)	5/22/2006	536	536(3)(15)	
		Senior secured loan ($8,296 par due 5/2011)	8.25% (Libor + 4.25%/M)	5/22/2006	8,296	8,296(3)(15)	
		Senior secured loan ($3,806 par due 5/2011)	10.00% (Libor + 6.00%/M)	5/22/2006	3,806	3,806(15)	
		Senior secured loan ($1,579 par due 5/2011)	10.00% (Libor + 6.00%/M)	5/22/2006	1,579	1,579(3)(15)	
		Senior secured loan ($3,558 par due 5/2011)	13.00% Cash, 3.00% PIK	5/22/2006	3,558	3,558(4)	
		Senior secured loan ($5,089 par due 5/2011)	13.00% Cash, 3.00% PIK	5/22/2006	5,089	5,089(2)(4)	
					29,040	29,040	
Industrial Air Tool, LP and Affiliates d/b/a Industrial Air Tool(7)	Industrial products	Class B common units (37,125 units)		4/1/2010	6,000	14,787	
		Member interest (375 units)		4/1/2010	7,419	149	
					13,419	14,936	
NetShape Technologies, Inc.	Metal precision engineered components manufacturer	Senior secured revolving loan ($972 par due 2/2013)	4.06% (Libor + 3.75%/M)	4/1/2010	521	602	
		Common units (1,000 units)		1/30/2007	1,000		
					1,521	602	
Reflexite Corporation(7)	Developer and manufacturer of high-visibility	Senior subordinated loan ($3,282 par due 11/2014)	20.00% (Base Rate + 12.25% Cash, 7.50% PIK/Q)	2/26/2008	3,282	3,282(4)(15)	

reflective products					
	Senior subordinated loan ($5,999 par due 11/2014)	20.00% (Base Rate + 12.25% Cash, 7.50% PIK/Q)	2/26/2008	5,999	5,999(3)(4)(15)
	Common stock (1,821,860 shares)		3/28/2006	27,435	30,523
				36,716	39,804

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Company(1)	Industry	Investment	Interest(5)(11)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
STS Operating, Inc.	Hydraulic systems equipment and supplies provider	Senior subordinated loan ($30,386 par due 1/2013)	11.00%	4/1/2010	29,461	30,386(2)	
Bundy Refrigeration International Holding B.V. (aka Tyde Group Worldwide)(8)	Refrigeration and cooling systems parts manufacturer	Senior secured loan ($9,010 par due 4/2012)	13.13% (Base Rate + 9.88%/Q)	12/15/2010	9,010	9,010	
		Senior secured loan ($15,592 par due 4/2012)	15.38% (Base Rate + 12.13%/Q)	12/15/2010	15,592	15,592	
					24,602	24,602	
UL Holding Co., LLC	Petroleum product manufacturer	Senior secured loan ($5,000 par due 12/2012)	15.00%	8/13/2010	5,000	5,000	
		Junior secured loan ($2,108 par due 12/2012)	9.66% (Libor + 9.38%/Q)	12/21/2007	2,108	2,108	
		Junior secured loan ($839 par due 12/2012)	9.66% (Libor + 9.38%/Q)	12/21/2007	839	839(3)	
		Junior secured loan ($2,119 par due 12/2012)	14.50%	12/21/2007	2,119	2,119	
		Junior secured loan ($844 par due 12/2012)	14.50%	12/21/2007	844	844(3)	
		Junior secured loan ($10,809 par due 12/2012)	9.66% (Libor + 9.38%/Q)	12/21/2007	10,809	10,809(3)	
		Junior secured loan ($2,963 par due 12/2012)	14.50%	12/21/2007	2,963	2,963(2)	
		Junior secured loan ($988 par due 12/2012)	14.50%	12/21/2007	988	988(3)	
		Common units (50,000 units)		4/25/2008	500	97	
		Common units (207,843 units)		4/25/2008		403	
					26,170	26,170	
Universal Trailer Corporation(6)	Livestock and specialty trailer manufacturer	Common stock (74,920 shares)		10/8/2004	7,930		
					177,648	179,872	5.90%
Services Other							
The Dwyer Group	Operator of multiple franchise concepts primarily related to home maintenance or repairs	Senior subordinated loan ($27,100 par due 12/2016)	14.50%	12/22/2010	27,100	27,100	
		Series A preferred units (15,000,000 units)	8.00% PIK	12/22/2010	15,000	15,000	
					42,100	42,100	

Growing Family, Inc. and GFH Holdings, LLC(6)	Photography services	Senior secured revolving loan ($182 par due 8/2011)	9.00% (Base Rate + 1.75% Cash, 4.00% PIK/M)	3/16/2007	178	80(4)(15)
		Senior secured revolving loan ($2,252 par due 8/2011)	9.00% (Base Rate + 1.75% Cash, 4.00% PIK/M)	3/16/2007	2,207	991(4)(15)
		Senior secured loan ($524 par due 3/2013)	9.00% (Base Rate + 1.75% Cash, 4.00% PIK/M)	3/16/2007	514	230(4)(15)

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Company(1)	Industry	Investment	Interest(5)(11)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
		Senior secured loan ($6,498 par due 3/2013)	9.00% (Base Rate + 1.75% Cash, 4.00% PIK/M)	3/16/2007	6,378	2,859(4)(15)	
		Preferred stock (8,750 shares)		3/16/2007			
		Common stock (552,430 shares)		3/16/2007	872		
		Warrants to purchase up to 11,313,678 Class B units		3/16/2007			
					10,149	4,160	
PODS Funding Corp.	Storage and warehousing	Senior subordinated loan ($25,125 par due 6/2015)	15.00%	12/23/2009	25,125	25,125	
		Senior subordinated loan ($7,582 par due 12/2015)	16.64% PIK	12/23/2009	6,290	7,430(4)	
					31,415	32,555	
United Road Towing, Inc.	Towing company	Junior secured loan ($18,840 par due 1/2014)	14.75% (Libor + 11.25% Cash, 1.00% PIK/Q)	4/1/2010	18,606	18,840(4)(15)	
		Warrants to purchase up to 607 shares		4/1/2010		4	
					18,606	18,844	
Web Services Company, LLC	Laundry service and equipment provider	Senior secured loan ($4,888 par due 8/2014)	7.00% (Base Rate + 3.75%/Q)	6/15/2009	4,718	4,888(3)	
		Senior subordinated loan ($13,563 par due 8/2016)	11.50% Cash, 2.50% PIK	8/29/2008	13,563	13,563(4)	
		Senior subordinated loan ($26,462 par due 8/2016)	11.50% Cash, 2.50% PIK	8/29/2008	26,462	26,462(2)(4)	
					44,743	44,913	
					147,013	142,572	4.67%
Consumer Products Durable							
Bushnell Inc.	Sports optics manufacturer	Senior subordinated loan ($41,325 par due 2/2014)	6.80% (Libor + 6.50%/Q)	4/1/2010	30,708	30,994	
Carlisle Wide Plank Floors, Inc.	Hardwood floor manufacturer	Senior secured loan ($1,545 par due 6/2011)		4/1/2010	1,449	773(4)(14)	
		Common stock (345,056 shares)		4/1/2010			
					1,449	773	
Direct Buy Holdings, Inc. and Direct Buy Investors, LP(6)	Membership based buying club franchisor and operator	Senior secured loan ($1,897 par due 11/2012)	8.25% (Base Rate + 5.00%/Q)	12/14/2007	1,858	1,897(2)(15)	
		Senior subordinated loan ($81,634 par due 5/2013)	12.00% Cash, 4.00% PIK	4/1/2010	77,892	81,634(4)	
		Limited partnership interest (80,000 shares)		4/1/2010	3,112	3,414	

		Partnership interests (100,000 shares)		11/30/2007	10,000	4,347	
					92,862	91,292	
					125,019	123,059	4.03%
Telecommunications							
American Broadband Communications, LLC and American Broadband Holding Company	Broadband communication services	Senior secured loan ($5,530 par due 9/2013)	7.50% (Libor + 5.50%/Q)	9/1/2010	5,861	5,530(15)	

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Company(1)	Industry	Investment	Interest(5)(11)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
		Senior secured loan ($17,775 par due 9/2013)	7.50% (Libor + 5.50%/Q)	9/1/2010	16,924	17,775(2)(15)	
		Senior secured loan ($9,283 par due 9/2013)	7.50% (Libor + 5.50%/Q)	9/1/2010	9,283	9,283(3)(15)	
		Senior subordinated loan ($30,594 par due 11/2014)	12.00% Cash, 4.00% PIK	9/1/2010	30,594	30,594(4)	
		Senior subordinated loan ($32,768 par due 11/2014)	12.00% Cash, 4.00% PIK	2/8/2008	32,768	32,768(2)(4)	
		Senior subordinated loan ($10,321 par due 11/2014)	12.00% Cash, 4.00% PIK	11/7/2007	10,321	10,321(4)	
		Warrants to purchase up to 200 shares		11/7/2007		3,915	
		Warrants to purchase up to 208 shares		9/1/2010			
					105,751	110,186	
Startec Equity, LLC(7)	Communication services	Member interest		4/1/2010			
					105,751	110,186	3.59%
Food and Beverage							
Apple & Eve, LLC and US Juice Partners, LLC(6)	Juice manufacturer	Senior secured revolving loan ($1,200 par due 10/1/2013)	12.00% (Base Rate + 8.00%/Q)	10/5/2007	1,200	1,200(15)	
		Senior secured loan ($14,162 par due 10/2013)	12.00% (Libor + 9.00%/M)	10/5/2007	14,162	14,162(15)	
		Senior secured loan ($14,900 par due 10/2013)	12.00% (Libor + 9.00%/M)	10/5/2007	14,900	14,900(3)(15)	
		Senior units (50,000 units)		10/5/2007	5,000	5,036	
					35,262	35,298	
Border Foods, Inc.(7)	Green chile and jalapeno products manufacturer	Senior secured loan ($28,526 par due 3/2012)	13.50%	4/1/2010	28,526	28,526	
		Preferred stock (100,000 shares)		4/1/2010	21,346	22,801	
		Common stock (148,838 shares)		4/1/2010	13,472	4,809	
		Common stock (87,707 shares)		4/1/2010		2,834	
		Common stock (23,922 shares)		4/1/2010		773	
					63,344	59,743	
Charter Baking Company, Inc.	Baked goods manufacturer	Senior subordinated loan ($6,673 par due 2/2013)	13.00% PIK	2/6/2008	6,673	6,673(4)	
		Preferred stock (6,258 shares)		9/1/2006	2,500	1,650	
					9,173	8,323	

Distant Lands Trading Co.	Coffee manufacturer	Common stock (1,294 shares)		4/1/2010	980	1,048	
		Common stock (2,157 shares)		4/1/2010			
					980	1,048	
Ideal Snacks Corporation	Snacks manufacturer	Senior secured revolving loan ($1,084 par due 6/2011)	8.50% (Base Rate + 4.00%/M)	4/1/2010	1,084	922(15)	
					109,843	105,334	3.45%

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Company(1)	Industry	Investment	Interest(5)(11)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Retail							
Apogee Retail, LLC	For-profit thrift retailer	Senior secured revolving loan ($780 par due 3/2012)	7.25% (Base Rate + 4.00%/Q)	3/27/2007	780	765	
		Senior secured loan ($11,523 par due 9/2012)	12.00% Cash, 4.00% PIK	5/28/2008	11,523	11,523(4)	
		Senior secured loan ($2,939 par due 3/2012)	5.51% (Libor + 5.25%/M)	3/27/2007	2,939	2,880(2)	
		Senior secured loan ($3,420 par due 9/2012)	12.00% Cash, 4.00% PIK	5/28/2008	3,420	3,420(4)	
		Senior secured loan ($25,841 par due 3/2012)	5.51% (Libor + 5.25%/M)	3/27/2007	25,841	25,324(2)	
		Senior secured loan ($11,307 par due 3/2012)	5.51% (Libor + 5.25%/M)	3/27/2007	11,307	11,081(3)	
					55,810	54,993	
Savers, Inc. and SAI Acquisition Corporation	For-profit thrift retailer	Common stock (1,170,182 shares)		8/8/2006	4,500	7,238	
Things Remembered, Inc. and TRM Holdings Corporation	Personalized gifts retailer	Senior secured loan ($2,413 par due 9/2012)	6.50% (Base Rate + 1.25% Cash, 1.00% PIK/M)	9/28/2006	2,409	2,364(3)(4)(15)	
		Senior secured loan ($28,122 par due 9/2012)	6.50% (Base Rate + 1.25% Cash, 1.00% PIK/M)	9/28/2006	28,089	27,560(4)(15)	
		Senior secured loan ($7,110 par due 9/2012)	6.50% (Base Rate + 1.25% Cash, 1.00% PIK/M)	9/28/2006	7,188	6,968(3)(4)(15)	
		Preferred stock (73 shares)		3/19/2009		1,939	
		Preferred stock (80 shares)		9/28/2006	1,800	2,121	
		Common stock (800 shares)		9/28/2006	200		
		Warrants to purchase up to 859 shares of preferred stock		3/19/2009			
					39,686	40,952	
					99,996	103,183	3.38%
Commercial Real Estate Finance							
10th Street, LLC(6)			8.93% Cash, 4.07% PIK	4/1/2010	23,247	23,247(4)	

	Real estate holding company	Senior subordinated loan ($23,247 par due 11/2014)				
		Member interest (10.00% interest)	4/1/2010	594	578	
		Option (25,000 units)	4/1/2010	25	25	
				23,866	23,850	
Allied Capital REIT, Inc.(7)	Real estate investment trust	Real estate equity interests	4/1/2010	50	35	
		Real estate equity interests	4/1/2010	115	699	
				165	734	
American Commercial Coatings, Inc.	Real estate property	Commercial mortgage loan ($2,000 par due 12/2025)	4/1/2010	1,927	1,875(14)	
Aquila Binks Forest Development, LLC	Real estate developer	Commercial mortgage loan ($12,870 par due 6/2011)	4/1/2010	11,293	4,812(14)	
		Real estate equity interest	4/1/2010			
				11,293	4,812	
Cleveland East Equity, LLC	Hotel operator	Real estate equity interest (2,522,748 shares)	4/1/2010	1,026	2,051	
Commons R-3, LLC	Real estate developer	Real estate equity interest	4/1/2010			

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Company(1)	Industry	Investment	Interest(5)(11)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Crescent Hotels & Resorts, LLC and affiliates(7)	Hotel operator	Senior subordinated loan ($433 par due 6/2010)		4/1/2010	433	444(14)	
		Senior subordinated loan ($4,124 par due 1/2012)		4/1/2010	1,475	(14)	
		Senior subordinated loan ($4,348 par due 6/2017)		4/1/2010	1,482	1,288(14)	
		Senior subordinated loan ($2,722 par due 6/2017)		4/1/2010	928	1,963(14)	
		Senior subordinated loan ($5,974 par due 9/2012)		4/1/2010	2,051	(14)	
		Senior subordinated loan ($263 par due 3/2013)		4/1/2010	263	(14)	
		Senior subordinated loan ($2,112 par due 9/2011)		4/1/2010		(14)	
		Senior subordinated loan ($3,078 par due 1/2012)		4/1/2010		(14)	
		Senior subordinated loan ($2,926 par due 6/2017)		4/1/2010		(14)	
		Senior subordinated loan ($2,050 par due 6/2017)		4/1/2010		(14)	
		Senior subordinated loan ($4,826 par due 9/2012)		4/1/2010		(14)	
		Preferred equity interest		4/1/2010			
		Preferred equity interest		4/1/2010		43	
		Common equity interest		4/1/2010	35		
		Member interests		4/1/2010			
					6,667	3,738	
DI Safford, LLC	Hotel operator	Commercial mortgage loan ($5,311 par due 5/2032)		4/1/2010	2,757	2,750(14)	
Holiday Inn West Chester	Hotel property	Real estate owned		4/1/2010	3,513	3,330	
Hot Light Brands, Inc.(7)	Real estate holding company	Senior secured loan ($27,393 par due		4/1/2010	4,875	4,629(14)	

		2/2011)					
		Common stock (93,500 shares)		4/1/2010			
					4,875	4,629	
MGP Park Place Equity, LLC	Office building operator	Commercial mortgage loan ($6,170 par due 5/2011)		4/1/2010	320	163(14)	
NPH, Inc.	Hotel property	Real estate equity interest		4/1/2010	5,291	6,907	
Van Ness Hotel, Inc.	Hotel operator	Commercial mortgage loan ($3,750 par due 8/2013)		4/1/2010	1,027	(14)	
		Commercial mortgage loan ($13,702 par due 12/2011)	5.50%	4/1/2010	13,702	11,291	
		Real estate equity interests		4/1/2010			
					14,729	11,291	
					76,429	66,130	2.17%
Wholesale Distribution							
BECO Holding Company, Inc.	Wholesale distributor of first response fire protection equipment and related parts	Common stock (25,000 shares)		7/30/2010	2,500	2,500	

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Company(1)	Industry	Investment	Interest(5)(11)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Stag-Parkway, Inc.(7)	Automotive aftermarket components supplier	Senior secured loan ($34,500 par due 12/2014)	12.50% (Libor + 11.00%/Q)	9/30/2010	34,500	34,500(15)	
		Preferred stock (4,200 shares)	16.50%	9/30/2010	2,328	4,200	
		Common stock (10,200 shares)		9/30/2010		13,987	
					36,828	52,687	
					39,328	55,187	1.81%
Computers and Electronics							
Network Hardware Resale, Inc.	Networking equipment resale provider	Senior subordinated loan ($12,343 par due 12/2011)	12.00% (Base Rate + 6.00%/A)	4/1/2010	12,343	12,343(2)(15)	
		Convertible junior subordinated loan ($17,518 par due 12/2015)	9.75% PIK	4/1/2010	17,680	21,039(4)	
					30,023	33,382	
TZ Merger Sub, Inc.	Healthcare enterprise software developer	Senior secured loan ($4,678 par due 8/2015)	6.75% (Base Rate + 3.50%/Q)	6/15/2009	4,597	4,678(3)	
					34,620	38,060	1.25%
Environmental Services							
AWTP, LLC	Water treatment services	Junior secured loan ($4,755 par due 12/2012)		12/21/2005	4,755	1,517(14)	
		Junior secured loan ($2,086 par due 12/2012)		12/21/2005	2,086	666(3)(14)	
		Junior secured loan ($4,755 par due 12/2012)		12/21/2005	4,755	1,517(14)	
		Junior secured loan ($2,086 par due 12/2012)		12/21/2005	2,086	666(3)(14)	
					13,682	4,366	
Mactec, Inc.	Engineering and environmental services	Class B-4 stock (16 shares)		11/3/2004			

		Class C stock (5,556 shares)		11/3/2004		162
						162
Sigma International Group, Inc.(8)	Water treatment parts manufacturer	Junior secured loan ($1,833 par due 10/2013)	16.00% (Libor + 8.00%/Q)	10/11/2007	1,833	1,283(15)
		Junior secured loan ($917 par due 10/2013)	16.00% (Libor + 8.00%/Q)	10/11/2007	917	642(15)
		Junior secured loan ($2,778 par due 10/2013)	16.00% (Libor + 8.00%/Q)	10/11/2007	2,778	1,944(15)
		Junior secured loan ($4,000 par due 10/2013)	16.00% (Libor + 8.00%/Q)	10/11/2007	4,000	2,800(3)(15)
		Junior secured loan ($2,000 par due 10/2013)	16.00% (Libor + 8.00%/Q)	10/11/2007	2,000	1,400(3)(15)
		Junior secured loan ($6,060 par due 10/2013)	16.00% (Libor + 8.00%/Q)	10/11/2007	6,060	4,242(3)(15)
					17,588	12,311

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Company(1)	Industry	Investment	Interest(5)(11)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Universal Environmental Services, LLC	Hydrocarbon recycling and related waste management services and products	Preferred member interest (15.00% interest)		4/1/2010			
		Preferred member interest (850,242 shares)		4/1/2010			
		Preferred member interest (7,099 shares)		4/1/2010			
		Preferred member interest (763,889 shares)		4/1/2010			
Waste Pro USA, Inc	Waste management services	Preferred Class A Common Equity (611,615 shares)		11/9/2006	12,263	16,861	
Wastequip, Inc.(6)	Waste management equipment manufacturer	Senior subordinated loan ($12,669 par due 2/2015)		2/5/2007	12,581	760(14)	
		Common stock (13,889 shares)		2/2/2007	1,389		
					13,970	760	
					57,503	34,460	1.13%
Automotive Services							
Driven Brands, Inc.(6)	Automotive aftermarket car care franchisor	Senior secured loan ($3,200 par due 10/2014)	6.50% (Libor + 5.00%/M)	5/12/2010	3,116	3,200(3)(15)	
		Senior secured loan ($520 par due 10/2014)	6.50% (Libor + 5.00%/M)	4/1/2010	506	520(3)(15)	
		Senior secured loan ($213 par due 10/2014)	7.00% (Base Rate + 3.75%/M)	4/1/2010	207	213(3)	
		Common stock (3,772,098 shares)		4/1/2010	4,939	6,308	
					8,768	10,241	
Penn Detroit Diesel Allison, LLC(7)	Diesel engine manufacturer	Member interest (70,249 shares)		4/1/2010	20,069	22,057	

	28,837	32,298	1.06%

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Company(1)	Industry	Investment	Interest(5)(11)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Containers Packaging							
Industrial Container Services, LLC(6)	Industrial container manufacturer, reconditioner and servicer	Senior secured loan ($1,033 par due 9/2011)	5.75% (Base Rate + 2.50%/Q)	9/30/2005	1,033	1,033	
		Senior secured loan ($20 par due 9/2011)	4.26% (Libor + 4.00%/Q)	6/21/2006	20	20(2)	
		Senior secured loan ($101 par due 9/2011)	4.26% (Libor + 4.00%/Q)	6/21/2006	101	101(2)	
		Senior secured loan ($308 par due 9/2011)	4.26% (Libor + 4.00%/Q)	6/21/2006	308	308(3)	
		Senior secured loan ($1,539 par due 9/2011)	4.26% (Libor + 4.00%/Q)	6/21/2006	1,539	1,539(3)	
		Senior secured loan ($107 par due 9/2011)	4.26% (Libor + 4.00%/Q)	6/21/2006	107	107(2)	
		Senior secured loan ($1,642 par due 9/2011)	4.26% (Libor + 4.00%/Q)	6/21/2006	1,642	1,642(3)	
		Senior secured loan ($27 par due 9/2011)	5.75% (Base Rate + 2.50%/Q)	6/21/2006	27	27(2)	
		Senior secured loan ($410 par due 9/2011)	5.75% (Base Rate + 2.50%/Q)	6/21/2006	410	410(3)	
		Common units (1,800,000 units)		9/29/2005	1,800	15,203	
					6,987	20,390	
					6,987	20,390	0.67%
Health Clubs							
Athletic Club Holdings, Inc.	Premier health club operator	Senior secured loan ($7,250 par due 10/2013)	4.76% (Libor + 4.50%/M)	10/11/2007	7,250	6,453(2)(13)	
		Senior secured loan ($11,500 par due 10/2013)	4.76% (Libor + 4.50%/M)	10/11/2007	11,500	10,235(3)(13)	
					18,750	16,688	
					18,750	16,688	0.55%

Printing, Publishing and Media						
EarthColor, Inc.(7)	Printing management services	Common stock (89,435 shares)		4/1/2010		
LVCG Holdings LLC(7)	Commercial printer	Membership interests (56.53% interest)		10/12/2007	6,600	
National Print Group, Inc.	Printing management services	Senior secured revolving loan ($1,141 par due 10/2012)	9.00% (Libor + 6.00%/Q)	3/2/2006	1,141	965(15)
		Senior secured revolving loan ($1,250 par due 10/2012)	9.00% (Base Rate + 5.00%/Q)	3/2/2006	1,250	1,057(15)
		Senior secured loan ($7,685 par due 10/2012)	14.00% (Libor + 6.00% Cash, 5.00% PIK/Q)	3/2/2006	7,359	7,091(3)(4)(15)
		Senior secured loan ($187 par due 10/2012)	14.00% (Base Rate + 5.00% Cash, 5.00% PIK/Q)	3/2/2006	179	173(3)(4)(15)
		Preferred stock (9,344 shares)		3/2/2006	2,000	
					11,929	9,286

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Company(1)	Industry	Investment	Interest(5)(11)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
The Teaching Company, LLC and The Teaching Company Holdings, Inc.	Education publications provider	Preferred stock (29,969 shares)		9/29/2006	2,997	3,851	
		Common stock (15,393 shares)		9/29/2006	3	4	
					3,000	3,855	
					21,529	13,141	0.43%
Aerospace and Defense							
AP Global Holdings, Inc.	Safety and security equipment manufacturer	Senior secured loan ($6,274 par due 10/2013)	4.02% (Libor + 3.75%/M)	11/18/2007	6,243	6,274(3)	
Wyle Laboratories, Inc. and Wyle Holdings, Inc.	Provider of specialized engineering, scientific and technical services	Senior preferred stock (775 shares)	8.00%	1/17/2008	87	87	
		Common stock (1,885,195 shares)		1/17/2008	2,291	1,968	
					2,378	2,055	
					8,621	8,329	0.27%
Oil and Gas							
Geotrace Technologies, Inc.	Reservoir processing, development	Warrants to purchase up to 43,356 shares of common stock		4/1/2010	54		
		Warrants to purchase up to 26,622 shares of common stock		4/1/2010	33		
		Warrants to purchase up to 80,063 shares of preferred stock		4/1/2010	1,738	207	
		Warrants to purchase up to 130,390 shares of preferred stock		4/1/2010	1,067	337	
					2,892	544	
					2,892	544	0.02%
Housing Building Materials							
HB&G Building Products	Synthetic and wood product manufacturer	Senior subordinated loan ($8,956 par due 3/2013)		10/8/2004	8,991	179(14)	

	Common stock (2,743 shares)	10/8/2004	753		
	Warrants to purchase up to 4,464 shares of common stock	10/8/2004	653		
			10,397	179	
			10,397	179	0.01%
			$ 4,291,955	$ 4,317,990	141.55%

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(1)

Other than our investments listed in footnote 7 below, we do not "Control" any of our portfolio companies, as defined in the Investment Company Act of 1940 (the "Investment Company Act"). In general, under the Investment Company Act, we would "Control" a portfolio company if we owned more than 25% of its outstanding voting securities and/or had the power to exercise control over the management or policies of such portfolio company. All of our portfolio company investments are subject to legal restrictions on sales which as of December 31, 2010 represented 142% of the Company's net assets or 95% of the Company's total assets.

The investments not otherwise pledged as collateral in respect of the Debt Securitization (as defined below) or the Revolving Funding Facility (as defined below) by the respective obligors thereunder are pledged as collateral by the Company and certain of its other subsidiaries for the Revolving Credit Facility (as defined below) (except for a limited number of exceptions as provided in the credit agreement governing the Revolving Credit Facility).

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(2)

These assets are owned by the Company's wholly owned subsidiary Ares Capital CP Funding LLC ("Ares Capital CP"), are pledged as collateral for the Revolving Funding Facility and, as a result, are not directly available to the creditors of the Company to satisfy any obligations of the Company other than Ares Capital CP's obligations under the Revolving Funding Facility (see Note 5 to the consolidated financial statements).

(3)

Pledged as collateral for the Debt Securitization.

(4)

Has a payment-in-kind interest feature (see Note 2 to the consolidated financial statements).

(5)

Investments without an interest rate are non-income producing.

(6)

As defined in the Investment Company Act, we are deemed to be an "Affiliated Person" of this portfolio company because we own 5% or more of the portfolio company's outstanding voting securities or we have the power to exercise control over the management or policies of such portfolio company (including through a management agreement). Transactions during the year ended December 31, 2010 in which the issuer was an Affiliated company (but not a portfolio company that we "Control") are as follows:

Company	Purchases	Redemptions (cost)	Sales (cost)	Interest income	Capital structuring service fees	Dividend Income	Other income	Net realized gains (losses)	Net unrealized gains (losses)
10th Street, LLC	$ 23,171	$	$	$ 2,465	$	$	$	$	$ (16)
Air Medical Group	$ 30,065	$ 11,955	$ 18,205	$ 106	$	$	$ 13	$ 14,909	$
Apple & Eve, LLC and US Juice Partners, LLC	$ 3,500	$ 5,022	$ 2,816	$ 3,753	$	$	$ 47	$	$ 36
BB&T Capital Partners/Windsor Mezzanine Fund, LLC	$ 13,943	$ 2,043	$	$	$	$	$	$	$ 3,804
Carador PLC	$	$	$	$	$	$ 616	$	$	$ 2,844
Campus Management Corp. and Campus Management Acquisition Corp.	$	$ 43,462	$	$ 4,829	$	$	$ 1	$	$ (197)
CT Technologies Intermediate Holdings, Inc. and CT Technologies Holdings, LLC	$	$	$	$ 297	$	$	$	$	$ 3,070
Direct Buy Holdings, Inc. and Direct Buy Investors, LP	$ 78,350	$ 219	$	$ 10,767	$	$	$	$ 6	$ 826
Driven Brands, Inc.	$ 103,157	$ 41	$ 96,643	$ 3,032	$	$	$	$ 843	$ 1,473
DSI Renal, Inc.	$ 1,505	$ 5,346	$ 7,991	$ 13,449	$	$	$ 57	$ 3,863	$ 24,699
The Dwyer Group	$ 42,100	$	$	$ 97	$ 813	$	$	$	$
Firstlight Financial Corporation	$	$	$	$ 545	$	$	$ 312	$	$ (1,295)
Growing Family, Inc. and GFH Holdings, LLC	$	$	$	$ 1,097	$	$	$	$ (7,659)	$ 1,668
Imperial Capital Group, LLC	$	$	$ 151	$	$	$ 1,509	$	$	$ 464
Industrial Container Services, LLC	$ 1,446	$ 10,692	$	$ 391	$	$	$ 148	$	$ 7,049
Insight Pharmaceuticals Corporation	$ 66,790	$	$	$ 6,325	$	$	$ 375	$	$ 1,362
Investor Group Services, LLC	$ 100	$ 100	$	$ 203	$	$	$ 20	$	$ 64
Multi-Ad Services, Inc.	$ 2,666	$ 1,886	$	$ 149	$	$	$ 17	$	$ 578
Pillar Processing LLC and PHL Holding Co.	$	$ 4,597	$	$ 2,564	$	$	$ 36	$	$ (2,116)
Primis Marketing Group, Inc. and Primis Holdings, LLC	$	$	$	$	$	$	$	$	$ (409)
Regency Healthcare Group, LLC	$ 2,007	$	$	$	$	$	$	$	$ (335)
Service Champ, Inc.	$ 28,463	$ 26,585	$ 28,463	$ 969	$	$	$ 75	$	$
Soteria Imaging Services, LLC	$ 4,080	$	$ 142	$ 348	$	$	$	$	$ (636)
VSS-Tranzact Holdings, LLC	$ 204	$	$	$	$	$	$	$	$ (1,579)
Universal Corporation	$	$	$	$	$	$	$	$	$
Universal Trailer Corporation	$	$	$	$	$	$	$	$	$
Wastequip, Inc.	$	$	$ 449	$	$	$	$ 281	$ 3	$ (759)

(7)

As defined in the Investment Company Act, we are deemed to be an "Affiliated Person" of this portfolio company because we own 5% or more of the portfolio company's outstanding voting securities or we have the power to exercise control over the management or policies of such portfolio company (including through a management agreement). In addition, as defined in the Investment Company Act, we "Control" this portfolio company because we own more than 25% of the portfolio company's outstanding voting securities or we have the power to exercise control over the management or policies of such

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portfolio company (including through a management agreement). Transactions during the period for the year ended December 31, 2010 in which the issuer was both an Affiliated company and a portfolio company that we Control are as follows:

Company	Purchases	Redemptions (cost)	Sales (cost)	Interest income	Capital structuring service fees	Dividend Income	Other income	Net realized gains (losses)	Net unrealized gains (losses)
AGILE Fund I, LLC	$ 264	$	$	$	$	$ 124	$	$	$ (47)
Allied Capital REIT, Inc.	$ 765	$ 600	$	$	$	$ 40	$	$	$ 569
AllBridge Financial, LLC	$ 11,370	$	$	$	$	$	$ 29	$	$ 1,717
Avborne, Inc.	$ 39	$	$ 39	$	$	$	$	$ 41	$
Aviation Properties Corporation	$	$	$	$	$	$	$	$	$
BenefitMall Holdings, Inc.	$ 93,837	$	$	$ 5,525	$	$	$ 375	$	$ (3,060)
Border Foods, Inc.	$ 68,944	$ 5,600	$	$ 3,107	$	$	$ 25	$	$ (3,601)
Callidus Capital Corporation	$ 20,120	$ 16,000	$ 4,120	$	$	$	$	$ 2,580	$ (2,354)
Ciena Capital LLC	$ 98,012	$	$	$ 429	$	$	$	$	$ (6,058)
Citipostal, Inc.	$ 63,961	$ 1,020	$	$ 7,308	$	$	$ 282	$	$ (504)
Coverall North America, Inc.	$ 40,189	$	$	$ 3,541	$	$	$ 225	$	$ (7,624)
Crescent Hotels & Resorts, LLC and affiliates	$ 6,653	$	$	$ 532	$	$	$	$ 216	$ (2,894)
Direct Capital Corporation	$ 10,109	$	$	$	$	$	$	$ (31)	$
EarthColor, Inc.	$	$	$	$	$	$	$	$	$
Financial Pacific Company	$ 32,800	$	$ 32,899	$ 3,191	$	$	$ 500	$ 1,592	$ 1,543
HCI Equity, LLC	$ 808	$	$	$	$	$	$	$	$ 186
HCP Acquisition Holdings, LLC	$	$	$	$	$	$	$	$	$ 814
Hot Light Brands, Inc.	$ 6,746	$ 1,896	$	$ 2	$	$	$	$ 266	$ (246)
Hot Stuff Foods, LLC	$ 69,167	$ 10,230	$	$ 3,201	$	$	$ 71	$	$ 11,203
Huddle House Inc.	$ 19,607	$	$	$ 2,265	$	$	$ 564	$	$ (3,830)
Industrial Air Tool, LP and affiliates	$ 13,419	$	$	$	$	$	$ 130	$	$ 1,432
Ivy Hill Asset Management, L.P.	$ 71,116	$ 4,834	$	$	$	$ 7,320	$	$	$ 21,633
Ivy Hill Middle Market Credit Fund, Ltd.	$	$	$ 330	$ 6,859	$	$	$	$	$ 884
Knightsbridge CLO 2007-1 Ltd.	$ 14,852	$	$	$ 1,823	$	$	$	$	$ (307)
Knightsbridge CLO 2008-1 Ltd.	$ 36,996	$	$	$ 2,189	$	$	$	$	$ (3,108)
LVCG Holdings, LLC	$	$	$	$	$	$	$	$	$ (330)
Making Memories Wholesale, Inc.	$ 1,250	$ 1,007	$	$ 1,062	$	$	$ 188	$ 73	$ (3,883)
MVL Group, Inc.	$ 60,707	$ 4,837	$	$ 6,686	$	$	$	$ 80	$ 1,086
Penn Detroit Diesel Allison LLC	$ 20,069	$	$	$	$	$	$ 375	$	$ 1,987
Reflexite Corporation	$	$	$ 8,450	$ 3,568	$	$	$ 141	$ 950	$ 5,928
Senior Secured Loan Fund LLC*	$ 391,571	$ 15,410	$	$ 50,013	$ 29,946	$	$ 6,096	$ 796	$ 24,235
Stag-Parkway, Inc.	$ 36,810	$	$	$ 2,131	$	$ 18	$ 229	$	$ 15,513
Startec Equity, LLC	$	$	$	$	$	$	$	$	$
The Thymes, LLC	$	$	$	$ 421	$	$ 401	$	$	$ 797

*

Together with GE Global Sponsor Finance LLC and General Electric Capital Corporation (together, "GE"), we co-invest through the Senior Secured Loan Fund LLC d/b/a the "Senior Secured Loan Program" (the "SSLP"). The SSLP is capitalized as transactions are completed and all portfolio decisions and generally all other decisions in respect of the SSLP must be approved by GE and the Company; therefore, although the Company owns more than 25% of the voting securities of the SSLP, the Company does not believe that it has control over the SSLP (for purposes of the Investment Company Act or otherwise).

(8)

Non-U.S. company or principal place of business outside the U.S. and as a result is not a qualifying asset under Section 55(a) of the Investment Company Act. Under the Investment Company Act, we may not acquire any non-qualifying asset unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets.

(9)

Non-registered investment company under Section 3(c) of the Investment Company Act and as a result is not a qualifying asset under Section 55(a) of the Investment Company Act. Under the Investment Company Act, we may not acquire any non-qualifying asset unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets.

(10) Public company with outstanding equity with a market value in excess of $250 million and as a result is not a qualifying asset under Section 55(a) of the Investment Company Act. Under the Investment Company Act, we may not acquire any non-qualifying asset unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets.

(11) 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 interest rate in effect on the date presented.

(12) 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 5% on $40 million aggregate principal amount outstanding of the portfolio company's senior term debt previously syndicated by us.

(13) 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 $25 million aggregate principal amount outstanding of the portfolio company's senior term debt previously syndicated by us.

(14) Loan was on non-accrual status as of December 31, 2010.

(15) Loan includes interest rate floor feature.

(16) In addition to the interest earned based on the stated contractual interest rate of this security, the notes entitle us to receive a portion of the excess cash flow from the SSLP's loan portfolio, which may result in a return to the Company greater than the contractual stated interest rate.

See accompanying notes to consolidated financial statements.

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ARES CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

For the Six Months Ended June 30, 2011 (unaudited)

(in thousands, except per share data)

	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Accumulated Overdistributed Net Investment Income	Accumulated Net Realized Loss on Investments, Foreign Currency Transactions, Extinguishment of Debt and Other Assets	Net Unrealized Gain on Investments and Foreign Currency Transactions	Total Stockholders' Equity
Balance at December 31, 2010	204,419	$ 204	$ 3,205,326	$ (11,336)	$ (169,696)	$ 26,035	$ 3,050,533
Shares issued in connection with dividend reinvestment plan	711	1	11,551				11,552
Issuance of the Convertible Notes (see Note 5)			54,717				54,717
Net increase in stockholders' equity resulting from operations				91,586	36,877	32,226	160,689
Dividends declared ($0.70 per share)				(143,210)			(143,210)
Balance at June 30, 2011	205,130	$ 205	$ 3,271,594	$ (62,960)	$ (132,819)	$ 58,261	$ 3,134,281

See accompanying notes to consolidated financial statements.

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ARES CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)

	For the six months ended	
	June 30, 2011 (unaudited)	June 30, 2010 (unaudited)
OPERATING ACTIVITIES:		
Net increase in stockholders' equity resulting from operations	$ 160,689	$ 406,569
Adjustments to reconcile net increase in stockholders' equity resulting from operations:		
Gain on the acquisition of Allied Capital Corporation		(195,876)
Realized loss on extinguishment of debt	19,318	383
Net realized gains from investments	(56,195)	(7,426)
Net unrealized gains from investments and foreign currency transactions	(32,226)	(122,404)
Net accretion of discount on securities	(7,850)	(5,223)
Increase in accrued payment-in-kind interest and dividends	(18,719)	(20,772)
Collections of payment-in-kind interest and dividends	18,610	25,399
Amortization of debt issuance costs	6,227	4,704
Accretion of discount on the Allied Unsecured Notes	2,525	2,676
Accretion of discount on the Convertible Notes	3,603	
Depreciation	477	410
Proceeds from sales and repayments of investments	966,449	919,517
Purchase of investments	(1,232,544)	(580,676)
Acquisition of Allied Capital, net of cash acquired		(774,190)
Changes in operating assets and liabilities:		
Interest receivable	(6,282)	(8,155)
Other assets	1,561	3,799
Management and incentive fees payable	37,486	(39,840)
Accounts payable and accrued expenses	4,961	(57,192)
Interest and facility fees payable	977	2,573
Net cash used in operating activities	(130,933)	(445,724)
FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock		1,149,771
Borrowings on debt	1,403,888	635,000
Repayments and repurchases of debt	(1,132,983)	(1,179,088)
Debt issuance costs	(24,177)	(17,508)
Dividends paid in cash	(131,658)	(102,900)
Net cash provided by financing activities	115,070	485,275
CHANGE IN CASH AND CASH EQUIVALENTS	(15,863)	39,551
	100,752	99,227

CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD				
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	84,889	$	138,778
Supplemental Information:				
Interest paid during the period	$	38,356	$	20,331
Taxes, including excise tax, paid during the period	$	8,306	$	242
Dividends declared during the period	$	143,210	$	113,607

See accompanying notes to consolidated financial statements.

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ARES CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of June 30, 2011 (unaudited)

(in thousands, except per share data, percentages and as otherwise indicated; for example, with the words "million," "billion," or otherwise)

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. We have elected to be regulated as a business development company under the Investment Company Act of 1940 (the "Investment Company 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. On the same date, we commenced substantial investment operations.

On April 1, 2010, we consummated our acquisition of Allied Capital Corporation ("Allied Capital"), in an all stock merger where each existing share of common stock of Allied Capital was exchanged for 0.325 shares of our common stock (the "Allied Acquisition"). The Allied Acquisition was valued at approximately $908 million as of April 1, 2010. In connection therewith, we issued approximately 58.5 million shares of our common stock to Allied Capital's then-existing stockholders, thereby resulting in our then-existing stockholders owning approximately 69% of the combined company and then-existing Allied Capital stockholders owning approximately 31% of the combined company (see Note 15).

The Company has elected to be treated as a regulated investment company, or a "RIC", under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code") and operates in a manner so as to qualify for the tax treatment applicable to RICs. 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. To a lesser extent, we also make equity investments. Also, as a result of the Allied Acquisition, Allied Capital's equity investments, including equity investments larger than those we have historically made and controlled portfolio company equity investments, became part of our portfolio.

We are externally managed by Ares Capital Management LLC ("Ares Capital Management" or our "investment adviser"), a wholly owned subsidiary of Ares Management LLC ("Ares Management"), a global alternative asset manager and a Securities and Exchange Commission ("SEC") registered investment adviser. Ares Operations LLC ("Ares Operations" or our "administrator"), a wholly owned subsidiary of Ares Management, provides the administrative services necessary for us to operate.

Interim financial statements are prepared in accordance with United States generally accepted accounting principles ("GAAP") for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Articles 6 or 10 of Regulation S-X. 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 presented, 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, 2011.

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

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owned subsidiaries. The consolidated financial statements reflect all adjustments and reclassifications that, in the opinion of management, are necessary for the fair presentation of the results of the operations and financial condition as of and for the periods presented. All significant intercompany balances and transactions have been eliminated.

Cash and Cash Equivalents

Cash and cash equivalents include funds from time to time deposited with financial institutions and short-term, liquid investments in a money market fund. Cash and cash equivalents are carried at cost which approximates fair value.

Concentration of Credit Risk

The Company places its cash and cash equivalents with financial institutions and, at times, cash held in money market accounts may exceed the Federal Deposit Insurance Corporation insured limit.

Investments

Investment transactions are recorded on the trade date. Realized gains or losses are measured by the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment without regard to unrealized gains or losses previously recognized, and include investments charged off during the period, net of recoveries. Unrealized gains or losses primarily reflect the change in investment values, including the reversal of previously recorded unrealized gains or losses when gains or losses are realized.

Investments for which market quotations are readily available are typically valued at such market quotations. In order to validate market quotations, we look at a number of factors to determine if the quotations are representative of fair value, including the source and nature of the quotations. Debt and equity securities that are not publicly traded or whose market prices are not readily available (i.e., substantially all of our investments) are valued at fair value as determined in good faith by our board of directors, based on, among other things, the input of our investment adviser, audit committee and independent third-party valuation firms that have been engaged at the direction of our board of directors to assist in the valuation of each portfolio investment without a readily available market quotation at least once during a trailing 12 month period and under a valuation policy and a consistently applied valuation process. The valuation process is conducted at the end of each fiscal quarter, and a minimum of 50% of our portfolio at fair value is subject to review by an independent valuation firm each quarter. In addition, our independent accountants review our valuation process as part of their overall integrated audit.

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

Because there is not a readily available market value for most of the investments in our portfolio, we value substantially all of our portfolio investments at fair value as determined in good faith by our board of directors, as described herein. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our

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investments may fluctuate from period to period. Additionally, the fair value of our investments may differ significantly from the values that would have been used had a ready market existed for such investments and may differ materially from the values that we may ultimately realize. Further, such investments are generally subject to legal and other restrictions on resale or otherwise are less liquid than publicly traded securities. If we were required to liquidate a portfolio investment in a forced or liquidation sale, we could realize significantly less than the value at which we have recorded it.

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

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

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

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

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

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

Effective January 1, 2008, the Company adopted Accounting Standards Codification ("ASC") 820-10 (previously Statement of Financial Accounting Standards ("SFAS") No. 157, Fair Value Measurements), which expands the application of fair value accounting for investments (see Note 8). Investments acquired as part of the Allied Acquisition were accounted for in accordance with ASC 805-10 (previously SFAS No. 141(R), Business Combinations), which requires that all assets be recorded at fair value. As a result, the initial amortized cost basis and fair value for the acquired investments were the same at April 1, 2010 (see Note 15).

Interest and Dividend Income Recognition

Interest income is recorded on an accrual basis and includes the accretion of discounts and amortization of premiums. Discounts and premiums to par value on securities purchased are accreted/amortized into interest income over the life of the respective security using the effective yield method. The amortized cost of investments represents the original cost adjusted for the accretion of discounts and amortization of premiums, if any.

Loans are generally placed on non-accrual status when principal or interest payments are past due 30 days or more or when there is reasonable doubt that principal or interest will be collected in full. Accrued and unpaid interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment regarding collectability. Non-accrual loans are restored to accrual status when past due principal and interest is paid and, in management's judgment, are likely to remain current. The Company may make exceptions to this if the loan has sufficient collateral value and is in the process of collection.

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Dividend income on preferred equity securities is recorded as dividend income on an accrual basis to the extent that such amounts are payable by the portfolio company and are expected to be collected. Dividend income on common equity securities is recorded on the record date for private portfolio companies or on the ex-dividend date for publicly traded portfolio companies.

Payment-in-Kind Interest

The Company has loans in its portfolio that contain payment-in-kind ("PIK") provisions. The PIK interest, computed at the contractual rate specified in each loan agreement, is added to the principal balance of the loan and recorded as interest income. To maintain the Company's status as a RIC, this non-cash source of income must be paid out to stockholders in the form of dividends, even though the Company has not yet collected the cash. For the three and six months ended June 30, 2011, $7,681 and $18,719, respectively, in PIK income were recorded. For the three and six months ended June 30, 2011, $4,338 and $18,610, respectively, of PIK income were collected. For the three and six months ended June 30, 2010, $13,556 and $20,690, respectively, in PIK income were recorded. For the three and six months ended June 30, 2010, $17,241 and $25,399, respectively, of PIK income were collected.

Capital Structuring Service Fees and Other Income

The Company's investment adviser seeks to provide assistance to our portfolio companies in connection with the Company's investments and in return the Company may receive fees for capital structuring services. These fees are generally only available to the Company as a result of the Company's underlying investments, are normally paid at the closing of the investments, are generally non-recurring and are recognized as revenue when earned upon closing of the investment. The services that the Company's investment adviser provides vary by investment, but generally include reviewing existing credit facilities, arranging bank financing, arranging equity financing, structuring financing from multiple lenders, structuring financing from multiple equity investors, restructuring existing loans, raising equity and debt capital, and providing general financial advice, which concludes upon closing of the investment. Any services of the above nature subsequent to the closing would generally generate a separate fee payable to the Company. In certain instances where the Company is invited to participate as a co-lender in a transaction and does not provide significant services in connection with the investment, a portion of loan fees paid to the Company in such situations will be deferred and amortized over the estimated life of the loan. The Company's investment adviser may also take a seat on the board of directors of a portfolio company, or observe the meetings of the board of directors without taking a formal seat.

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

Foreign Currency Translation

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

(1) Fair value of investment securities, other assets and liabilities at the exchange rates prevailing at the end of the period.

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

Results of operations based on changes in foreign exchange rates are separately disclosed in the statement of operations. Foreign security and currency translations may involve certain

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considerations and risks not typically associated with investing in U.S. companies and U.S. government securities. These risks include, but are not limited to, currency fluctuation and revaluations and future adverse political, social and economic developments, which could cause investments in foreign markets to be less liquid and prices more volatile than those of comparable U.S. companies or U.S. government securities.

Accounting for Derivative Instruments

The Company does not utilize hedge accounting and marks its derivatives to market through unrealized gains (losses) in the accompanying statement of operations.

Equity Offering Expenses

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

Debt Issuance Costs

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

U.S. Federal Income Taxes

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

Depending on the level of taxable income earned in a tax year, we may choose to carry forward taxable income in excess of current year dividend distributions from such income into the next tax year and pay a 4% excise tax on such income, as required. To the extent that the Company determines that its estimated current year annual taxable income will be in excess of estimated current year dividend distributions, the Company accrues excise tax, if any, on estimated excess taxable income. For the three and six months ended June 30, 2011 a net expense of $1,000 and $1,770, respectively, were recorded for U.S. federal excise tax. For the three and six months ended June 30, 2010, no amounts were recorded for U.S. federal excise tax.

Certain of our wholly owned subsidiaries are subject to U.S. federal and state income taxes. For the three and six months ended June 30, 2011, we recorded a tax expense of approximately $907 and $2,184, respectively, for these subsidiaries. For the three and six months ended June 30, 2010, we recorded a tax expense of approximately $686 and $524, respectively, for these subsidiaries.

Dividends to Common Stockholders

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

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

Use of Estimates in the Preparation of Financial Statements

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

New Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs ("ASU 2011-04"). ASU 2011-04 was issued concurrently with International Financial Reporting Standards No.13 ("IFRS 13"), Fair Value Measurements, to provide largely identical guidance about fair value measurement and disclosure requirements as is currently required under ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820). The new standards do not extend the use of fair value but, rather, provide guidance about how fair value should be applied where it already is required or permitted under IFRS or GAAP. For GAAP, most of the changes are clarifications of existing guidance or wording changes to align with IFRS 13. ASU 2011-04 eliminates the concepts of in-use and in-exchange when measuring fair value of all financial instruments. For Level 3 fair value measurements, the ASU requires that our disclosure include quantitative information about significant unobservable inputs, a qualitative discussion about the sensitivity of the fair value measurement to changes in the unobservable inputs and the interrelationship between inputs, and a description of our valuation process. Public companies are required to apply ASU 2011-04 prospectively for interim and annual periods beginning after December 15, 2011. Upon adoption of ASU 2011-04, it is not expected that it will have a significant impact on the Company's financial statements and the Company is currently evaluating the impact on its disclosures.

3. AGREEMENTS

Investment Advisory and Management Agreement

The Company is party to an investment advisory and management agreement (the "investment advisory and management agreement") with Ares Capital Management. Subject to the overall supervision of our board of directors, Ares Capital Management provides investment advisory and management services to the Company. For providing these services, Ares Capital Management receives a fee from us consisting of two components a base management fee and an incentive fee. In connection with the Allied Acquisition, Ares Capital Management has committed to defer up to $15,000 in base management and incentive fees for each of the fiscal years ending December 31, 2010 and 2011 if certain earnings targets are not met.

The base management fee is calculated at an annual rate of 1.5% based on the average value of our total assets (other than cash or cash equivalents but including assets purchased with borrowed

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funds) at the end of the two most recently completed calendar quarters. The base management fee is payable quarterly in arrears.

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

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

Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets (defined as total assets less indebtedness and before taking into account any incentive fees payable during the period) at the end of the immediately preceding calendar quarter, is compared to a fixed "hurdle rate" of 1.75% per quarter. If market credit spreads rise, we may be able to invest our funds in debt instruments that provide for a higher return, which may increase our pre-incentive fee net investment income and make it easier for our investment adviser to surpass the fixed hurdle rate and receive an incentive fee based on such net investment income. To the extent we have retained pre-incentive fee net investment income that has been used to calculate this part of the incentive fee, it is also included in the amount of our total assets (other than cash and cash equivalents but including assets purchased with borrowed funds) used to calculate the 1.5% base management fee.

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

- no incentive fee in any calendar quarter in which 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 2.1875% 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 2.1875%) 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 2.1875% in any calendar quarter; and

- 20% of the amount of our pre-incentive fee net investment income, if any, that exceeds 2.1875% in any calendar quarter.

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

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

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

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

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

Notwithstanding the foregoing, as a result of an amendment to the capital gains portion of the incentive fee under the investment advisory and management agreement (the "Capital Gains Amendment") that was adopted on June 6, 2011, if we are required by GAAP to record an investment at its fair value as of the time of acquisition instead of at the actual amount paid for such investment by us (including, for example, as a result of the application of the acquisition method of accounting), then solely for the purposes of calculating the Capital Gains Fee, the "accreted or amortized cost basis" of an investment shall be an amount (the "Contractual Cost Basis") equal to (1) (x) the actual amount paid by the Company for such investment plus (y) any amounts recorded in the Company's financial statements as required by GAAP that are attributable to the accretion of such investment plus (z) any other adjustments made to the cost basis included in the Company's financial statements, including payment-in-kind interest or additional amounts funded (net of repayments) minus (2) any amounts recorded in the Company's financial statements as required by GAAP that are attributable to the amortization of such investment, whether such calculated Contractual Cost Basis is higher or lower than the fair value of such investment (as determined in accordance with GAAP) at the time of acquisition.

We defer cash payment of any incentive fee otherwise earned by our investment adviser if during the most recent four full calendar quarter period ending on or prior to the date such payment is to be made the sum of (a) the aggregate distributions to our stockholders and (b) the change in net assets (defined as total assets less indebtedness and before taking into account any incentive fees payable during the period) is less than 7.0% of our net assets (defined as total assets less indebtedness) at the beginning of such period. Any deferred incentive fees are carried over for payment in subsequent calculation periods to the extent such payment is payable under the investment advisory and management agreement.

The Capital Gains Fee due to our investment adviser as calculated under the investment advisory and management agreement (as described above) for the three and six months ended June 30, 2011 was $0. However, in accordance with GAAP, the Company accrued a capital gains incentive fee of $24,644 and $39,759, including $26,012 recognized in the second quarter of 2011 as a result of the application of the Capital Gains Amendment described above with respect to the assets purchased in the Allied Acquisition, for the three and six months ended June 30, 2011, respectively, bringing the

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total GAAP accrual related to the capital gains incentive fee to $55,367 as of June 30, 2011. GAAP requires that the capital gains incentive fee accrual consider the cumulative aggregate unrealized capital appreciation in the calculation, as a capital gains incentive fee would be payable if such unrealized capital appreciation were realized, even though such unrealized capital appreciation is not permitted to be considered in calculating the fee actually payable under the investment advisory and management agreement. This GAAP accrual is calculated using the aggregate cumulative realized capital gains and losses and aggregate cumulative unrealized capital depreciation included in the calculation of the Capital Gains Fee plus the aggregate cumulative unrealized capital appreciation. If such amount is positive at the end of a period, then GAAP requires us to record a capital gains incentive fee equal to 20% of such cumulative amount, less the aggregate amount of actual Capital Gains Fees paid or capital gains incentive fees accrued under GAAP in all prior periods. The resulting accrual for any capital gains incentive fee under GAAP in a given period may result in an additional expense if such cumulative amount is greater than in the prior period or a reversal of previously recorded expense if such cumulative amount is less than in the prior period. If such cumulative amount is negative, then there is no accrual. There can be no assurance that such unrealized capital appreciation will be realized in the future. There was no similar GAAP expense for the three or six months ended June 30, 2010.

For the three and six months ended June 30, 2011, base management fees were $17,414 and $34,144, respectively, incentive management fees related to pre-incentive fee net investment income were $17,102 and $32,928, respectively, and incentive management fees related to the capital gains incentive fee were $24,644 and $39,759, respectively.

As of June 30, 2011, $89,883 was included in "management and incentive fees payable" in the accompanying consolidated balance sheet, of which $34,516 is currently payable to the Company's investment adviser under the investment advisory and management agreement.

For the three and six months ended June 30, 2010, base management fees were $11,682 and $20,138, respectively, incentive management fees related to realized pre-incentive fee net investment income were $14,973 and $23,117, respectively, and there were no incentive management fees related to capital gains.

Administration Agreement

We are party to a separate administration agreement, referred to herein as the "administration agreement", with our administrator, Ares Operations an affiliate of our investment adviser and a wholly owned subsidiary of Ares Management. Pursuant to the administration agreement, Ares Operations furnishes us with office equipment and clerical, bookkeeping and record keeping services at our office facilities. Under the administration agreement, Ares Operations also performs, or oversees the performance of, our required administrative services, which include, among other things, providing assistance in accounting, legal, compliance, operations, technology, and investor relations, being responsible for the financial records that we are required to maintain and preparing reports to our stockholders and reports filed with the SEC. In addition, Ares Operations assists us in determining and publishing our net asset value, oversees the preparation and filing of our tax returns and the printing and dissemination of reports to our stockholders, and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. Payments under our administration agreement are equal to an amount based upon our allocable portion of Ares Operations' overhead and other expenses (including travel expenses) incurred by Ares Operations in performing its obligations under the administration agreement, including our allocable portion of the compensation of certain of our officers (including our chief compliance officer, chief financial officer, general counsel, treasurer and assistant treasurer) and their respective staffs. The administration agreement may be terminated by either party without penalty upon 60 days' written notice to the other party.

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For the three and six months ended June 30, 2011, we incurred $2,459 and $4,884, respectively, in fees under the administrative agreement. For the three and six months ended June 30, 2010, we incurred $2,378 and $3,609, respectively, in administrative fees. As of June 30, 2011, $2,405 was unpaid and included in "accounts payable and accrued expenses" in the accompanying consolidated balance sheet.

4. INVESTMENTS

As of June 30, 2011 and December 31, 2010, investments consisted of the following:

	June 30, 2011		December 31, 2010	
	Amortized Cost(1)	**Fair Value**	**Amortized Cost(1)**	**Fair Value**
Senior term debt	$ 2,273,961	$ 2,255,653	$ 1,722,130	$ 1,695,532
Subordinated Certificates of the SSLP(2)	721,010	740,623	537,439	561,674
Senior subordinated debt	811,091	738,910	1,055,440	1,014,514
Collateralized loan obligations	107,362	109,420	219,324	261,156
Equity securities	649,340	778,388	716,601	751,202
Commercial real estate	22,138	20,169	41,021	33,912
Total	$ 4,584,902	$ 4,643,163	$ 4,291,955	$ 4,317,990

(1) The amortized cost represents the original cost adjusted for the accretion of discounts and amortization of premiums on debt investments using the effective interest method.

(2) The proceeds from these certificates were applied to co-investments with GE Global Sponsor Finance LLC and General Electric Capital Corporation to fund first lien senior secured loans to 23 different borrowers.

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The industrial and geographic compositions of our portfolio at fair value at June 30, 2011 and December 31, 2010 were as follows:

	As of	
	June 30, 2011	December 31, 2010
Industry		
Investment Funds and Vehicles(1)	20.0%	21.4%
Healthcare Services	16.2	15.6
Business Services	10.7	12.6
Manufacturing	10.2	4.2
Restaurants and Food Services	8.0	8.8
Financial Services	6.9	6.7
Education	6.4	5.2
Consumer Products	6.1	8.3
Other Services	4.2	3.3
Telecommunications	2.6	2.5
Environmental Services	2.1	0.8
Retail	1.3	2.4
Food and Beverage	1.2	2.4
Wholesale Distribution	1.2	1.3
Commercial Real Estate	1.1	1.5
Other	1.8	3.0
Total	100.0%	100.0%

(1) Includes our investment in the SSLP (as defined below), which represented 16.0% and 13.0% of the Company's total portfolio at fair value as of June 30, 2011 and December 31, 2010, respectively. The SSLP had issued loans to 23 and 20 different issuers as of June 30, 2011 and December 31, 2010, respectively. The portfolio companies in the SSLP are in industries similar to the companies in our portfolio.

	As of	
	June 30, 2011	December 31, 2010
Geographic Region		
West	43.6%	34.5%
Southeast	17.6	16.5
Midwest	17.2	20.2
Mid-Atlantic	16.4	24.4
Northeast	3.6	1.4
International	1.6	3.0
Total	100.0%	100.0%

As of June 30, 2011, 3.5% of total investments at amortized cost (or 1.6% of total investments at fair value), were on non-accrual status, including 1.6% of total investments at amortized cost (or 1.0% of total investments at fair value) of investments acquired as part of the Allied Acquisition. As of December 31, 2010, 3.8% of total investments at amortized cost (or 1.3% of total investments at fair value), were on non-accrual status, including 1.5% of total investments at amortized cost (or 1.0% of total investments at fair value) of investments acquired as part of the Allied Acquisition.

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SSLP

In October 2009, the Company completed its acquisition from Allied Capital of subordinated certificates (the "SSLP Certificates") issued by the Senior Secured Loan Fund LLC, now called the "Senior Secured Loan Program" (the "SSLP"), an unconsolidated vehicle. The SSLP was formed in December 2007 to co-invest in "stretch senior" and "unitranche" loans (loans that combine both senior and subordinated debt, generally in a first lien position) of middle-market companies with GE Global Sponsor Finance LLC and General Electric Capital Corporation (together, "GE"). The SSLP is capitalized as transactions are completed and all portfolio decisions and generally all other decisions in respect of the SSLP must be approved by both the Company and GE.

The SSLP has available capital of approximately $5.1 billion, approximately $3.5 billion in aggregate principal amount of which was funded at June 30, 2011. At June 30, 2011, the Company had agreed to make available to the SSLP $958,794, of which $227,061 was unfunded. The amortized cost and fair value of the SSLP Certificates was $721,010 and $740,623, respectively, at June 30, 2011, and $537,439 and $561,674, respectively, at December 31, 2010. The SSLP Certificates pay a weighted average coupon of approximately LIBOR plus 8.0% and also entitle the Company to receive a portion of the excess cash flow from the loan portfolio, which may result in a return greater than the contractual coupon. The Company is also entitled to certain other sourcing and management fees in connection with the SSLP. The Company's yield on its investment in the SSLP at fair value was 15.6% and 15.8% at June 30, 2011 and December 31, 2010, respectively. For the three and six months ended June 30, 2011, the Company earned interest income of $27,003 and $50,324, respectively, in respect of its SSLP investment.

As of June 30, 2011 and December 31, 2010, the SSLP had total assets of $3.3 billion and $2.6 billion, respectively. GE's investment in the SSLP consisted of senior notes of $2.6 billion and $1.9 billion and subordinated certificates of $108 million and $78 million at June 30, 2011 and December 31, 2010, respectively. The SSLP certificates are junior to the senior notes invested by GE and the Company owned 87.5% of the outstanding subordinated certificates as of June 30, 2011.

The SSLP's portfolio consisted of senior and unitranche loans to 23 and 20 different issuers as of June 30, 2011 and December 31, 2010, respectively. At June 30, 2011 and December 31, 2010, the portfolio was comprised of all first lien senior secured loans to U.S. middle-market companies and none of these loans were on non-accrual status. At June 30, 2011 and December 31, 2010, the largest loan to a single issuer in the SSLP's portfolio in aggregate principal amount was $287.6 million and $270.0 million, respectively, and loans to the top five issuers totaled $1.3 billion and $1.1 billion, respectively. The portfolio companies in the SSLP are in industries similar to the companies in Ares Capital's portfolio.

5. BORROWINGS

In accordance with the Investment Company Act, with certain limited exceptions, the Company is only allowed to borrow amounts such that its asset coverage, as defined in the Investment Company Act, is at least 200% after such borrowing. As of June 30, 2011 our asset coverage was 293%.

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Our debt obligations consisted of the following as of June 30, 2011 and December 31, 2010:

	As of			
	June 30, 2011		December 31, 2010	
	Carrying Value(1)	Total Available(2)	Carrying Value(1)	Total Available(2)
Revolving Funding Facility	$ 348,679	$ 400,000	$ 242,050	$ 400,000
Revolving Credit Facility		810,000(3)	146,000	810,000(3)
Debt Securitization	138,320	138,320	155,297	183,190
2011 Notes (principal amount outstanding of $0 and $300,584, respectively)			296,258(4)	300,584
2012 Notes (principal amount outstanding of $0 and $161,210, respectively)			158,108(4)	161,210
February 2016 Convertible Notes (principal amount outstanding of $575,000)	537,668(5)	575,000		
June 2016 Convertible Notes (principal amount outstanding of $230,000)	214,585(5)	230,000		
2040 Notes (principal amount outstanding of $200,000)	200,000	200,000	200,000	200,000
2047 Notes (principal amount outstanding of $230,000)	180,890(4)	230,000	180,796(4)	230,000
	$ 1,620,142(6)	$ 2,583,320	$ 1,378,509(6)	$ 2,284,984

(1) Except for the Allied Unsecured Notes and the Convertible Notes (as defined below), all carrying values are the same as the principal amounts outstanding.

(2) Subject to borrowing base and leverage restrictions. Represents the total aggregate amount available under such instrument.

(3) Includes an "accordion" feature that allows us, under certain circumstances, to increase the size of the facility to a maximum of $1,050,000.

(4) Represents the aggregate principal amount outstanding of the applicable series of notes less the unaccreted discount initially recorded as a part of the Allied Acquisition. The total unaccreted discount on the Allied Unsecured Notes was $49,110 and $56,633 at June 30, 2011 and December 31, 2010, respectively.

(5) Represents the aggregate principal amount outstanding of the Convertible Notes (as defined below) less the unaccreted discount initially recorded upon issuance of the Convertible Notes. The total unaccreted discount for the February 2016 Convertible Notes and the June 2016 Convertible Notes was $37,332 and $15,415, respectively, at June 30, 2011.

(6) Total principal amount of debt outstanding totaled $1,721,999 and $1,435,141 at June 30, 2011 and December 31, 2010, respectively.

The weighted average stated interest rate of all our debt obligations at principal as of June 30, 2011 and December 31, 2010 was 5.1% and 5.2%, respectively.

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Revolving Funding Facility

In October 2004, we formed Ares Capital CP Funding LLC ("Ares Capital CP"), a wholly owned subsidiary of the Company, through which we established a revolving securitized facility (as amended, the "Revolving Funding Facility"). The Revolving Funding Facility allows Ares Capital CP to borrow up to $400 million. In connection with the January 22, 2010 amendment, we entered into an Amended and Restated Purchase and Sale Agreement with Ares Capital CP Funding Holdings LLC, our wholly owned subsidiary ("CP Holdings"), pursuant to which we may sell to CP Holdings certain loans that we have originated or acquired (the "Loans") from time to time, which CP Holdings will subsequently sell to Ares Capital CP, which is a wholly owned subsidiary of CP Holdings. The Revolving Funding Facility is secured by all of the assets held by, and the membership interest in, Ares Capital CP.

The January 22, 2010 amendment to the Revolving Funding Facility, among other things, extended the maturity date of the facility to January 22, 2013. On January 18, 2011, we and Ares Capital CP amended the Revolving Funding Facility to, among other things, provide for a three year reinvestment period until January 18, 2014 (with two one-year extension options, subject to our and our lenders' consent) and extend the stated maturity date to January 18, 2016 (with two one-year extension options, subject to our and our lenders' consent).

As part of the Revolving Funding Facility, we and Ares Capital CP 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 that we may borrow 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 Revolving Funding Facility and limit further advances under the Revolving Funding Facility and in some cases could be an event of default. The Revolving Funding Facility is also subject to a borrowing base that applies different advance rates to assets held in Ares Capital CP. Such limitations, requirements, and associated defined terms are as provided for in the documents governing the Revolving Funding Facility. As of June 30, 2011, the Company and Ares Capital CP were in material compliance with the terms of the Revolving Funding Facility.

As of June 30, 2011, there was $348,679 outstanding under the Revolving Funding Facility and as of December 31, 2010, there was $242,050 outstanding under the Revolving Funding Facility.

Prior to the January 22, 2010 amendment, the interest rate charged on the Revolving Funding Facility was the commercial paper rate plus 3.50%. After January 22, 2010, subject to certain exceptions, the interest charged on the Revolving Funding Facility is based on LIBOR plus an applicable spread of between 2.25% and 3.75% or on a "base rate" (which is the higher of a prime rate, or the federal funds rate plus 0.50%) plus an applicable spread of between 1.25% to 2.75%, in each case, based on a pricing grid depending upon our credit rating. As of June 30, 2011, for the six months ended June 30, 2011 and for the period from January 22, 2010 through June 30, 2010, the effective LIBOR spread under the Revolving Funding Facility was 2.75%. As of June 30, 2011 and December 31, 2010, the rate in effect was one month LIBOR, which was 0.19% and 0.26%, respectively.

We are also required to pay a commitment fee of between 0.50% and 2.00% depending on the usage level on any unused portion of the Revolving Funding Facility which is included in facility fees below.

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The components of interest and credit facility fees expense, cash paid for interest expense, average stated interest rates (i.e., rate in effect plus the spread) and average outstanding balances for the Revolving Funding Facility were as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2011	**2010**	**2011**	**2010**
Stated interest expense	$ 448	$ 1,277	$ 1,125	$ 2,987
Facility fees	1,127	377	2,139	1,034
Amortization of debt issuance costs	545	448	1,070	876
Total interest and credit facility fees expense	$ 2,120	$ 2,102	$ 4,334	$ 4,987
Cash paid for interest expense	$ 677	$ 1,490	$ 3,029	$ 3,609
Average stated interest rate	2.97%	2.64%	3.00%	2.92%
Average outstanding balance	$ 60,276	$ 193,310	$ 75,016	$ 204,859

Revolving Credit Facility

In December 2005, we entered into a senior secured revolving credit facility (as amended and restated, the "Revolving Credit Facility"), under which, as amended, the lenders agreed to extend credit to the Company. The Revolving Credit Facility matures on January 22, 2013 and has commitments totaling $810,000. The Revolving Credit Facility also includes an "accordion" feature that allows the Company under certain circumstances, to increase the size of the facility to a maximum of $1,050,000. The Revolving Credit Facility generally requires payments of interest at the end of each LIBOR interest period, but no less frequently than quarterly, on LIBOR-based loans, and monthly payments of interest on other loans. All principal is due upon maturity.

Under the Revolving Credit Facility, we 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. As of June 30, 2011, the Company was in material compliance with the terms of the Revolving Credit Facility.

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.

As of June 30, 2011, there were no amounts outstanding under the Revolving Credit Facility and December 31, 2010, there was $146,000 outstanding under the Revolving Credit Facility. The Revolving Credit Facility also provides for a sub-limit for the issuance of letters of credit for up to an aggregate amount of $100,000 as of June 30, 2011 and December 31, 2010. As of June 30, 2011 and December 31, 2010, the Company had $10,094 and $7,281 in standby letters of credit issued through the Revolving Credit Facility. The amount available for borrowing under the Revolving Credit Facility is reduced by any standby letters of credit issued. At June 30, 2011, subject to borrowing base availability, there was $799,906 available for borrowing (net of standby letters of credit issued) under the Revolving Credit Facility.

Prior to amending and restating the Revolving Credit Facility on January 22, 2010, subject to certain exceptions, pricing on the Revolving Credit Facility was based on LIBOR plus 1.00% or on an

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"alternate base rate" (which was the highest of a prime rate, the federal funds rate plus 0.50%, or one month LIBOR plus 1.00%). After January 22, 2010, subject to certain exceptions, pricing under the Revolving Credit Facility is based on LIBOR plus an applicable spread of between 2.50% and 4.00% or on the "alternate base rate" plus an applicable spread of between 1.50% and 3.00%, in each case, based on a pricing grid depending upon our credit rating. As of June 30, 2011, for the six months ended June 30, 2011 and for the period from January 22, 2010 through June 30, 2010, the effective LIBOR spread under the Revolving Credit Facility was 3.00%. As of June 30, 2011, the one, two, three and six month LIBOR was 0.19%, 0.22%, 0.25% and 0.40%, respectively. As of December 31, 2010, the one, two, three and six month LIBOR was 0.26%, 0.28%, 0.30% and 0.46%, respectively.

In addition to the stated interest expense on the Revolving Credit Facility, the Company is required to pay a commitment fee of 0.50% per annum on any unused portion of the Revolving Credit Facility and a letter of credit fee of 3.25% per annum on letters of credit issued, both of which are payable quarterly and included in facility fees below. In connection with the expansion and extension of the Revolving Credit Facility in January 2010, we paid arrangement fees totaling approximately $15,600.

With certain exceptions, the Revolving Credit Facility is secured by substantially all of the assets in our portfolio (other than investments held by Ares Capital CP under the Revolving Funding Facility, those held as a part of the Debt Securitization, discussed below, and certain other investments).

The components of interest and credit facility fees expense, cash paid for interest expense, average stated interest rates (i.e., rate in effect plus the spread) and average outstanding balances for the Revolving Credit Facility were as follows:

	For the three months ended June 30,		**For the six months ended June 30,**	
	2011	**2010**	**2011**	**2010**
Stated interest expense(1)	$	$ 3,431	$ 222	$ 6,063
Facility fees	1,068	789	2,118	1,491
Amortization of debt issuance costs	1,639	1,480	3,233	3,470
Total interest and credit facility fees expense	$ 2,707	$ 5,700	$ 5,573	$ 11,024
Cash paid for interest expense(1)	$	$ 3,518	$ 563	$ 5,959
Average stated interest rate(1)		4.67%	3.34%	3.92%
Average outstanding balance	$	$ 293,902	$ 13,254	$ 309,523

(1) The stated interest expense, cash paid for interest expense and average stated interest rate for the three and six months ended June 30, 2010 reflect the impact of the interest rate swap agreement entered into by the Company in October 2008 and terminated in December 2010 whereby the Company paid a fixed interest rate of 2.985% and received a floating rate based on the prevailing three-month LIBOR. See Note 6 for more information on the interest rate swap agreement.

Debt Securitization

In July 2006, through ARCC Commercial Loan Trust 2006, a vehicle serviced by our wholly owned subsidiary, ARCC CLO 2006 LLC, the Company completed a $400,000 debt securitization (the "Debt Securitization") and issued approximately $314,000 aggregate principal amount of asset-backed notes (the "CLO Notes") to third parties that were secured by a pool of middle-market loans purchased or originated by the Company. The Company initially retained approximately $86,000 of aggregate principal amount of certain "BBB" and non-rated securities in the Debt Securitization and

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has subsequently repurchased $34,790 of the CLO Notes, bringing our total holdings of CLO Notes to $120,790 (the "Retained Notes"). The CLO Notes are included in the consolidated balance sheet.

During the six months ended June 30, 2011, we repaid $16,420, $10,947, $20,819 and $444 of the Class A-1-A, Class A-1A-VFN, Class A-2A Notes and Class A-2B Notes, respectively. The CLO Notes mature on December 20, 2019, and, as of June 30, 2011, there was $138,320 outstanding under the Debt Securitization (excluding the Retained Notes).

During the first five years from the closing date, principal collections received on the underlying collateral could be used to purchase new collateral, allowing us to maintain the initial leverage in the securitization for the entire five-year period. This reinvestment period expired on June 17, 2011. Because the reinvestment period expired, all principal collections received on the underlying collateral will be used to paydown the CLO Notes outstanding in their order of legal priority.

All of the CLO Notes are secured by the assets of ARCC Commercial Loan Trust 2006, including commercial loans totaling $308,100 as of the closing date, which were sold to the trust by the Company, the originator and servicer of the assets. Additional commercial loans have been purchased by the trust from the Company primarily using the proceeds from the Class A-1A VFN Notes as well as proceeds from loan repayments. 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. Under the terms of the Debt Securitization, up to 15% of the collateral may be subordinated loans that are neither first nor second lien loans. As of June 30, 2011, the Company was in material compliance with the terms of the Debt Securitization.

The classes, amounts and interest rates (expressed as a spread to LIBOR) of the CLO Notes as of June 30, 2011 and December 31, 2010 are as follows:

	As of			
	June 30, 2011		December 31, 2010	
Class	Amount	LIBOR Spread (basis points)	Amount	LIBOR Spread (basis points)
A-1A	$ 16,741	25	$ 33,161	25
A-1A VFN	42,813	28	22,107	28
A-1B	14,000	37	14,000	37
A-2A		22	20,819	22
A-2B	32,556	35	33,000	35
B	9,000	43	9,000	43
C	23,210	70	23,210	70
Total	$ 138,320		$ 155,297	

The interest charged under the Debt Securitization is based on 3-month LIBOR, which as of June 30, 2011 was 0.25% and as of December 31, 2010 was 0.30%. The blended pricing of the CLO Notes, excluding fees, at June 30, 2011, was approximately 3-month LIBOR plus 38 basis points and at December 31, 2010, was approximately 3-month LIBOR plus 36 basis points.

The Company was also required to pay a commitment fee of 0.175% for any unused portion of the Class A-1A VFN Notes through June 17, 2011 which is included in facility fees below.

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The components of interest and credit facility fees expense, cash paid for interest expense, average stated interest rates (i.e., rate in effect plus the spread) and average outstanding balances for the Debt Securitization are as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2011	2010	2011	2010
Stated interest expense	$ 235	$ 400	$ 490	$ 779
Facility fees	14	3	25	4
Amortization of debt issuance costs	89	89	177	177
Total interest and credit facility fees expense	$ 338	$ 492	$ 692	$ 960
Cash paid for interest expense	$ 239	$ 384	$ 500	$ 774
Average stated interest rate	0.72%	0.62%	0.71%	0.59%
Average outstanding balance	$ 138,561	$ 257,216	$ 145,868	$ 264,772

Unsecured Notes

Allied Unsecured Notes

As part of the Allied Acquisition, the Company assumed all outstanding debt obligations of Allied Capital, including Allied Capital's unsecured notes which consisted of 6.625% Notes due on July 15, 2011 (the "2011 Notes"), 6.000% Notes due on April 1, 2012 (the "2012 Notes") and 6.875% Notes due on April 15, 2047 (the "2047 Notes" and, together with the 2011 Notes and the 2012 Notes, the "Allied Unsecured Notes").

As of June 30, 2011 and December 31, 2010, the Company had the following outstanding Allied Unsecured Notes:

	As of			
	June 30, 2011		December 31, 2010	
	Outstanding Principal	Carrying Value(1)	Outstanding Principal	Carrying Value(1)
2011 Notes	$	$	$ 300,584	$ 296,258
2012 Notes			161,210	158,108
2047 Notes	230,000	180,890	230,000	180,795
Total	$ 230,000	$ 180,890	$ 691,794	$ 635,161

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

On March 16, 2011, we redeemed the remaining balance of the 2011 Notes for a total redemption price (including a redemption premium) of $306,800 in accordance with the terms of the indenture governing the 2011 Notes, which resulted in a loss on the extinguishment of debt of $8,860. On April 27, 2011, we redeemed the remaining balance of the 2012 Notes for a total redemption price (including a redemption premium) of $169,338 in accordance with the terms of the indenture governing the 2012 Notes, which resulted in a loss on the extinguishment of debt of $10,458.

The 2047 Notes bear interest at a rate of 6.875% and mature on April 15, 2047. The 2047 Notes require payment of interest quarterly, and all principal is due upon maturity. These notes are redeemable in whole or in part at any time or from time to time on or after April 15, 2012, at a par

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redemption price of $25 per security plus accrued and unpaid interest and upon the occurrence of certain tax events as stipulated in the notes.

For the three and six months ended June 30, 2011, the Company incurred $4,652 and $15,172 respectively, of stated interest expense in connection with the Allied Unsecured Notes, respectively, and the cash paid for interest on the Allied Unsecured Notes was $9,488 and $26,772, respectively. In accordance with ASC 805-10, the initial carrying value of the Allied Unsecured Notes was equal to the fair value as of April 1, 2010 resulting in an initial unaccreted discount from the principal value of the Allied Unsecured Notes of approximately $65,800. For the three and six months ended June 30, 2011, we recorded $222 and $2,525, respectively, of accretion expense related to this discount which was included in "interest and credit facility fees" in the accompanying consolidated statement of operations.

2040 Notes

On October 21, 2010, we issued $200,000 in aggregate principal amount of senior unsecured notes that mature on October 15, 2040 (the "2040 Notes") that may be redeemed in whole or in part at our option at any time or from time to time on or after October 15, 2015, at a par redemption price of $25 per security plus accrued and unpaid interest. The principal amount of the 2040 Notes will be payable at maturity. The 2040 Notes bear interest at a rate of 7.75% per year, payable quarterly. For the three and six months ended June 30, 2011, the Company incurred $3,875 and $7,750, respectively, of interest expense on the 2040 Notes and the cash paid for interest on the 2040 Notes was $3,875 and $7,492, respectively. Also for the three and six months ended June 30, 2011, the Company incurred $61 and $119, respectively, in amortization of debt issuance costs related to the 2040 Notes.

The 2047 Notes and the 2040 Notes contain certain covenants, including covenants requiring Ares Capital to comply with Section 18(a)(1)(A) as modified by Section 61(a)(1) of the Investment Company Act and to provide financial information to the holders of such notes under certain circumstances. These covenants are subject to important limitations and exceptions. As of June 30, 2011, the Company was in material compliance with the terms of the 2047 Notes and the 2040 Notes.

Convertible Notes

In January 2011, we issued $575,000 of unsecured convertible senior notes that mature on February 1, 2016 (the "February 2016 Convertible Notes"), unless previously converted or repurchased in accordance with their terms. In March 2011, we issued $230,000 of unsecured convertible senior notes that mature on June 1, 2016 (the "June 2016 Convertible Notes" and, together with the February 2016 Convertible Notes, the "Convertible Notes"), unless previously converted or repurchased in accordance with their terms. We do not have the right to redeem the Convertible Notes prior to maturity. The February 2016 Convertible Notes and the June 2016 Convertible Notes bear interest at a rate of 5.75% and 5.125%, respectively, per year, payable semi-annually.

In certain circumstances, the February 2016 Convertible Notes will be convertible into cash, shares of Ares Capital's common stock or a combination of cash and shares of our common stock, at our election, at an initial conversion rate of 52.2766 shares of common stock per one thousand dollar principal amount of the February 2016 Convertible Notes, which is equivalent to an initial conversion price of approximately $19.13 per share of our common stock, subject to customary anti-dilution adjustments. The initial conversion price of the February 2016 Convertible Notes was approximately 17.5% above the $16.28 per share closing price of our common stock on January 19, 2011. In certain circumstances, the June 2016 Convertible Notes will be convertible into cash, shares of Ares Capital's common stock or a combination of cash and shares of our common stock, at our election, at an initial conversion rate of 52.5348 shares of common stock per one thousand dollar principal amount of the June 2016 Convertible Notes, which is equivalent to an initial conversion price of approximately $19.04 per share of our common stock, subject to customary anti-dilution adjustments. The initial conversion price of the June 2016 Convertible Notes was approximately 17.5% above the $16.20 per share closing price of our common stock on March 22, 2011. At June 30, 2011, the principal amounts of both the February 2016 Convertible Notes and the June 2016 Convertible Notes exceeded the value of the underlying shares multiplied times the per share closing price of our common stock.

The Convertible Notes are Ares Capital's senior unsecured obligations and rank senior in right of payment to our existing and future indebtedness that is expressly subordinated in right of payment to the Convertible Notes; equal in right of payment to our existing and future unsecured indebtedness that is not so subordinated; effectively junior in right of payment to any of our secured indebtedness (including existing unsecured indebtedness that we later secure) to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness (including trade payables) incurred by our subsidiaries, financing vehicles or similar facilities.

Prior to the close of business on the business day immediately preceding August 15, 2015, holders may convert their February 2016 Convertible Notes only under certain circumstances set forth in the indenture governing the terms of the February 2016 Convertible Notes (the "February 2016 Indenture"). On or after August 15, 2015 until the close of business on the scheduled trading day immediately preceding February 1, 2016, holders may convert their February 2016 Convertible Notes at any time. Upon conversion, we will pay or deliver, as the case may be, at our election, cash, shares of our common stock or a combination of cash and shares of our common stock, subject to the requirements of the February 2016 Indenture. Prior to the close of business on the business day immediately preceding December 15, 2015, holders may convert their June 2016 Convertible Notes only under certain circumstances set forth in the indenture governing the terms of the June 2016 Convertible Notes (the "June 2016 Indenture"). On or after December 15, 2015 until the close of business on the scheduled trading day immediately preceding June 1, 2016, holders may convert their June 2016 Convertible Notes at any time. Upon conversion, we will pay or deliver, as the case may be, at our election, cash, shares of our common stock or a combination of cash and shares of our common stock, subject to the requirements of the June 2016 Indenture.

In addition, if we engage in certain corporate events as described in both the February 2016 Indenture and the June 2016 Indenture (collectively, the "Convertible Notes Indentures"), holders of the Convertible Notes may require us to repurchase for cash all or part of the Convertible Notes at a repurchase price equal to 100% of the principal amount of the Convertible Notes to be repurchased, plus accrued and unpaid interest through, but excluding, the required repurchase date.

The Convertible Notes Indentures contain certain covenants, including covenants requiring us to comply with Section 18(a)(1)(A) as modified by Section 61(a)(1) of the Investment Company Act and to provide financial information to the holders of the Convertible Notes under certain circumstances. These covenants are subject to important limitations and exceptions that are described in the Convertible Notes Indentures. As June 30, 2011, the Company was in material compliance with the terms of the Convertible Notes Indentures.

The Convertible Notes are accounted for in accordance with ASC 470-20 (previously FASB Staff Position No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)"). Upon conversion of any of the Convertible Notes, we intend to pay the outstanding principal amount in cash and to the extent that the conversion value exceeds the principal amount, we have the option to pay in cash or shares of our common stock (or a combination of cash and shares) in respect of the excess amount, subject to the requirements of the Convertible Notes Indentures. The Company has determined that the embedded conversion options in both the February 2016 Convertible Notes and the June 2016 Convertible Notes are not required to be separately accounted for as a derivative under GAAP. In accounting for the February 2016 Convertible Notes, we estimated at the time of issuance that the values of the debt and equity components of the February 2016 Convertible Notes were approximately 93% and 7%, respectively. In accounting for the June 2016 Convertible Notes, we estimated at the time of issuance that the values of the debt and equity components of the June 2016 Convertible Notes were approximately 93% and 7%, respectively. The original issue discount equal to the equity component of 7% of both the June 2016 Convertible Notes and the February 2016 Convertible Notes was recorded in "capital in excess of par value" in the accompanying consolidated balance sheet. As a result, we record interest expense comprised of both stated interest expense as well as accretion of the original issue discount. Additionally, the issuance costs associated with the Convertible Notes were allocated to the debt and equity components in proportion to the allocation of the proceeds and accounted for as debt issuance costs and equity issuance costs, respectively.

At the time of issuance, the debt issuance costs and equity issuance costs for the February 2016 Convertible Notes were $14,672 and $1,104, respectively, and for the June 2016 Convertible Notes were $5,348 and $403, respectively. At the time of issuance and as of June 30, 2011, the equity component, net of issuance costs as recorded in the "capital in excess of par value" in the consolidated balance sheet for the February 2016 Convertible Notes and the June 2016 Convertible Notes was $39,062 and $15,655, respectively.

As of June 30, 2011, the components of the carrying value of the Convertible Notes were as follows:

	February 2016 Convertible Notes	June 2016 Convertible Notes
Principal amount of debt	$ 575,000	$ 230,000
Original issue discount, net of accretion	(37,332)	(15,415)
Carrying value of debt	$ 537,668	$ 214,585

For the three and six months ended June 30, 2011, the components of interest expense and cash paid for interest expense for the February 2016 Convertible Notes were as follows:

	For the three months ended June 30, 2011	For the six months ended June 30, 2011
Stated interest expense	$ 8,266	$ 14,327
Accretion of original issue discount	1,695	2,918
Amortization of debt issuance cost	802	1,334
Total interest expense	$ 10,763	$ 18,579
Cash paid for interest expense	$	$

The estimated effective interest rate of the debt component of the February 2016 Convertible Notes, equal to the stated interest of 5.75% plus the accretion of the original issue discount, was approximately 7.49% and 7.45%, respectively, for the three and six months ended June 30, 2011.

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For the three and six months ended June 30, 2011, the components of interest expense and cash paid for interest expense for the June 2016 Convertible Notes were as follows:

	For the three months ended June 30, 2011	For the six months ended June 30, 2011
Stated interest expense	$ 2,914	$ 3,045
Accretion of original issue discount	656	685
Amortization of debt issuance cost	285	294
Total interest expense	$ 3,855	$ 4,024
Cash paid for interest expense	$	$

The estimated effective interest rate of the debt component of the June 2016 Convertible Notes equal to the stated interest of 5.125% plus the accretion of the original issue discount, was approximately 6.76% and 6.77%, respectively, for the three and six months ended June 30, 2011.

6. DERIVATIVE INSTRUMENTS

In October 2008, we entered into an interest rate swap agreement that terminated on December 20, 2010 to mitigate our exposure to adverse fluctuations in interest rates for a total notional amount of $75,000. Under the interest rate swap agreement, we paid a fixed interest rate of 2.985% and receive a floating rate based on the prevailing three-month LIBOR. For the three and six months ended June 30, 2010, we recognized $560 and $893, respectively, in unrealized appreciation related to this swap agreement. Upon termination of this swap agreement in 2010, no realized gain or loss was recognized.

7. COMMITMENTS AND CONTINGENCIES

Portfolio Company Commitments

The Company has various commitments to fund investments in its portfolio as described below.

As of June 30, 2011 and December 31, 2010, the Company had the following commitments to fund various revolving senior secured and subordinated loans, including commitments the funding of which is at (or substantially at) the Company's discretion:

	As of	
	June 30, 2011	December 31, 2010
Total revolving commitments	$ 447,432	$ 260,691
Less: funded commitments	(77,129)	(59,980)
Total unfunded commitments	370,303	200,711
Less: commitments substantially at discretion of the Company	(11,750)	(19,922)
Less: unavailable commitments due to borrowing base or other covenant restrictions	(68,398)	(6,738)
Total net adjusted unfunded revolving commitments	$ 290,155	$ 174,051

As of June 30, 2011, $375,055 of the total revolving commitments extend beyond the maturity date for our Revolving Credit Facility. Included within the total revolving commitments as of June 30, 2011 are commitments to issue up to $7,478 in standby letters of credit through a financial intermediary on behalf of certain portfolio companies. Under these arrangements, if the standby letters of credit were to be issued, the Company would be required to make payments to third parties if the portfolio

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companies were to default on their related payment obligations. As of June 30, 2011, the Company had $6,866 in standby letters of credit issued and outstanding on behalf of the portfolio companies, of which no amounts were recorded as a liability on our balance sheet as such letters of credit are considered in the valuation of the investments in the portfolio company. Of these letters of credit, $1,662 expire in September 2011, $171 expire in December 2011, $158 expire in January 2012, $50 expire in February 2012, and $4,825 expire in June 2012.

As of June 30, 2011 and December 31, 2010, the Company was party to subscription agreements to fund equity investments in private equity investment partnerships:

	As of	
	June 30, 2011	**December 31, 2010**
Total private equity commitments	$ 181,318	$ 537,600
Less: funded private equity commitments	(67,056)	(104,300)
Total unfunded private equity commitments	114,262	433,300
Less: private equity commitments substantially at discretion of the Company	(103,892)	(400,400)
Total net adjusted unfunded private equity commitments	$ 10,370	$ 32,900

As of June 30, 2011 and December 31, 2010, we had funded the SSLP with $731,733 and $548,161, respectively, which the SSLP used to fund loans to its underlying portfolio companies. As of these dates, we had also committed to make available to the SSLP an additional $227,061 and $410,633, respectively, to fund additional loans. It is within our discretion to make these additional amounts available to the SSLP. In addition, all portfolio decisions and generally all other decisions in respect of the SSLP must be approved by both GE and the Company. See Note 4 for more information on the Company's investment in the SSLP.

In the ordinary course of business, Allied Capital had issued guarantees on behalf of certain portfolio companies. Under these arrangements, payments would be required to be made to third parties if the portfolio companies were to default on their related payment. As part of the Allied Acquisition, the Company assumed such outstanding guarantees or similar obligations. As a result, as of June 30, 2011 and December 31, 2010, the Company had outstanding guarantees or similar obligations totaling $800.

Further in the ordinary course of business, we may sell certain of our investments to third party purchasers. In particular, since the Allied Acquisition we have sold and currently continue to seek opportunities to sell, certain of Allied Capital's equity investments larger than those we have historically made and controlled portfolio company equity investments. In connection with these sales (as well as certain other sales) we have, and may continue to do so in the future, agreed to indemnify such purchasers for future liabilities arising from the investments and the related sale transaction. Such indemnification provisions may give rise to future liabilities.

As of June 30, 2011, one of the Company's portfolio companies, Ciena Capital LLC ("Ciena"), had one non-recourse securitization Small Business Administration ("SBA") loan warehouse facility, which has reached its maturity date but remains outstanding. Ciena is working with the providers of the SBA loan warehouse facility with regard to the repayment of that facility. Allied Capital had previously issued a performance guaranty (which Ares Capital succeeded to as a result of the Allied Acquisition) whereby Ares Capital must indemnify the warehouse providers for any damages, losses, liabilities and related costs and expenses that they may incur as a result of Ciena's failure to perform any of its obligations as loan originator, loan seller or loan servicer under the warehouse facility. As of June 30, 2011, there are no known issues or claims with respect to this performance guaranty.

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8. FAIR VALUE OF FINANCIAL INSTRUMENTS

Effective January 1, 2008, the Company adopted ASC 825-10 (previously SFAS No. 159, the Fair Value Option for Financial Assets and Liabilities), which provides companies the option to report selected financial assets and liabilities at fair value. ASC 825-10 also 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. ASC 825-10 also requires entities to display the fair value of the selected assets and liabilities on the face of the balance sheet. The Company has not elected the ASC 825-10 option to report selected financial assets and liabilities at fair value. With the exception of the line items entitled "other assets" and "debt," which are reported at amortized cost, all assets and liabilities approximate fair value on the balance sheet. The carrying value of the line items entitled "interest receivable," "receivable for open trades," "payable for open trades," "accounts payable and accrued expenses," "management and incentive fees payable" and "interest and facility fees payable" approximate fair value due to their short maturity.

Effective January 1, 2008, the Company adopted ASC 820-10 (previously SFAS No. 157, Fair Value Measurements), which expands the application of fair value accounting. ASC 820-10 defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosure of fair value measurements. ASC 820-10 determines fair value to be the price that would be received for an investment in a current sale, which assumes an orderly transaction between market participants on the measurement date. ASC 820-10 requires the Company to assume that the portfolio investment is sold in its principal market to market participants or, in the absence of a principal market, the most advantageous market, which may be a hypothetical market. Market participants are defined as buyers and sellers in the principal or most advantageous market that are independent, knowledgeable, and willing and able to transact. In accordance with ASC 820-10, the Company has considered its principal market as the market in which the Company exits its portfolio investments with the greatest volume and level of activity. ASC 820-10 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. In accordance with ASC 820-10, these inputs are summarized in the three broad levels listed below:

Level 1 Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2 Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Transfers between levels, if any, are recognized at the beginning of the quarter in which the transfers occur. In addition to using the above inputs in investment valuations, we continue to employ the net asset valuation policy approved by our board of directors that is consistent with ASC 820-10 (see Note 2). Consistent with our valuation policy, we evaluate the source of inputs, including any markets in which our investments are trading (or any markets in which securities with similar attributes are trading), in determining fair value. Our valuation policy considers the fact that because there is not a readily available market value for most of the investments in our portfolio, the fair value of the investments must typically be determined using unobservable inputs.

Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may fluctuate from period to period. Additionally, the fair value of our investments may differ significantly from the values that would have been used had a ready market existed for such investments and may differ materially from the values that we may ultimately realize. Further, such investments are generally subject to legal and other

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restrictions on resale or otherwise are less liquid than publicly traded securities. If we were required to liquidate a portfolio investment in a forced or liquidation sale, we could realize significantly less than the value at which we have recorded it.

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

The following table presents fair value measurements of cash and cash equivalents and investments as of June 30, 2011:

	Fair Value Measurements Using			
	Total	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	$ 84,889	$ 84,889	$	$
Investments	$ 4,643,163	$	$ 13,120	$ 4,630,043

The following table presents changes in investments that use Level 3 inputs as of and for the three and six months ended June 30, 2011:

	As of and for the three months ended June 30, 2011
Balance as of March 31, 2011	$ 4,256,420
Net realized and unrealized gains (losses)	15,707
Purchases	744,455
Sales	(112,884)
Redemptions	(259,785)
Payment-in-kind interest and dividends	6,919
Accretion of discount on securities	3,851
Net transfers in and/or out of Level 3	(24,640)
Balance as of June 30, 2011	$ 4,630,043

	As of and for the six months ended June 30, 2011
Balance as of December 31, 2010	$ 4,312,657
Net realized and unrealized gains (losses)	99,231
Purchases	1,212,723
Sales	(403,433)
Redemptions	(592,302)
Payment-in-kind interest and dividends	17,957
Accretion of discount on securities	7,850
Net transfers in and/or out of Level 3	(24,640)
Balance as of June 30, 2011	$ 4,630,043

As of June 30, 2011, the net unrealized appreciation on the investments that use Level 3 inputs was $76,210.

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The following table presents changes in investments that use Level 3 inputs as of and for the three and six months ended June 30, 2010:

	As of and for the three months ended June 30, 2010
Balance as of March 31, 2010	$ 2,217,314
Net realized and unrealized gains (losses)	84,054
Net purchases, sales or redemptions	1,488,670
Net transfers in and/or out of Level 3	
Balance as of June 30, 2010	$ 3,790,038

	As of and for the six months ended June 30, 2010
Balance as of December 31, 2009	$ 2,166,687
Net realized and unrealized gains (losses)	127,899
Net purchases, sales or redemptions	1,495,452
Net transfers in and/or out of Level 3	
Balance as of June 30, 2010	$ 3,790,038

As of June 30, 2010, the net unrealized depreciation on the investments that use Level 3 inputs was $76,405.

Following are the carrying and fair values of our debt instruments as of June 30, 2011 and December 31, 2010. Fair value is estimated by discounting remaining payments using applicable current

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market rates, which take into account changes in the Company's marketplace credit ratings, or market quotes, if available.

	As of			
	June 30, 2011		December 31, 2010	
	Carrying value(1)	Fair value	Carrying value(1)	Fair value
Revolving Funding Facility	$ 348,679	348,679	$ 242,050	$ 242,000
Revolving Credit Facility			146,000	146,000
Debt Securitization	138,320	124,227	155,297	133,000
2011 Notes (principal amount outstanding of $0 and $300,584, respectively)			296,258(2)	297,290
2012 Notes (principal amount outstanding of $0 and $161,210, respectively)			158,108(2)	164,595
February 2016 Convertible Notes (principal amount outstanding of $575,000)	537,668(3)	601,732		
June 2016 Convertible Notes (principal amount outstanding of $230,000)	214,585(3)	223,770		
2040 Notes (principal amount outstanding of $200,000)	200,000	198,168	200,000	184,986
2047 Notes (principal amount outstanding of $230,000)	180,890(2)	216,542	180,796(2)	197,314
	$ 1,620,142(4)	$ 1,713,118	$ 1,378,509(4)	$ 1,365,185

(1) Except for the Allied Unsecured Notes, the 2040 Notes and the Convertible Notes, all carrying values are the same as the principal amounts outstanding.

(2) Represents the aggregate principal amount of the applicable series of notes less the unaccreted discount initially recorded as a part of the Allied Acquisition.

(3) Represents the aggregate principal amount outstanding of the Convertible Notes less the unaccreted discount initially recorded upon issuance of the Convertible Notes.

(4) Total principal amount of debt outstanding totaled $1,721,999 and $1,435,141 as of June 30, 2011 and December 31, 2010, respectively.

9. STOCKHOLDERS' EQUITY

There were no sales of our equity securities during the six months ended June 30, 2011.

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The following table summarizes the total number of shares issued and proceeds we received in an underwritten public offering of the Company's common stock net of underwriter and offering costs for the six months ended June 30, 2010:

	Shares issued	Offering price per share	Proceeds net of underwriting and offering costs
February 2010 public offering	22,958	$ 12.75	$ 277,207
Total for the six months ended June 30, 2010	22,958		$ 277,207

Part of the proceeds from the above public offering were used to repay outstanding indebtedness. The remaining unused portions of the proceeds were used to fund investments in portfolio companies in accordance with our investment objective and strategies and market conditions.

10. EARNINGS PER SHARE

The following information sets forth the computations of basic and diluted net increase in stockholders' equity per share resulting from operations for the three and six months ended June 30, 2011 and 2010:

	Three months ended		Six months ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Net increase in stockholders' equity resulting from operations available to common stockholders:	$ 36,923	$ 330,154	$ 160,689	$ 406,569
Weighted average shares of common stock outstanding basic and diluted:	204,752	191,045	204,586	157,978
Basic and diluted net increase in stockholders' equity resulting from operations per share:	$ 0.18	$ 1.73	$ 0.79	$ 2.57

For the purposes of calculating diluted earnings per share, since the average closing price of the Company's common stock for the period from the time of issuance of both the February 2016 Convertible Notes and the June 2016 Convertible Notes through June 30, 2011 was less than the current conversion price for each respective series of the Convertible Notes, the underlying shares for the intrinsic value of the embedded options had no impact.

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11. DIVIDENDS AND DISTRIBUTIONS

The following table summarizes our dividends declared during the six months ended June 30, 2011 and 2010:

Date Declared	Record Date	Payment Date	Per Share Amount	Total Amount
May 5, 2011	June 15, 2011	June 30, 2011	$ 0.35	$ 71,663
March 1, 2011	March 15, 2011	March 31, 2011	$ 0.35	$ 71,547
Total declared for the six months ended June 30, 2011			$ 0.70	$ 143,210
May 10, 2010	June 15, 2010	June 30, 2010	$ 0.35	$ 67,091
February 25, 2010	March 15, 2010	March 31, 2010	$ 0.35	$ 46,516
Total declared for the six months ended June 30, 2010			$ 0.70	$ 113,607

The Company has a dividend reinvestment plan, whereby the Company may buy shares of its common stock in the open market or issue new shares in order to satisfy dividend reinvestment requests. If the Company issues new shares, the issue price is equal to closing price on the record date. Dividend reinvestment plan activity for the six months ended June, 2011 and 2010, was as follows:

	For the six months ended June 30,	
	2011	2010
Shares issued	711	772
Average price per share	$ 16.24	$ 13.80
Shares purchased by plan agent for shareholders		
Average price per share	$	$

12. RELATED PARTY TRANSACTIONS

In accordance with the investment advisory and management agreement, we bear all costs and expenses of the operation of the Company and reimburse our investment adviser for certain of such costs and expenses incurred in the operation of the Company. For the three and six months ended June 30, 2011, the investment adviser incurred such expenses totaling $2,469 and $3,112, respectively. For the three and six months ended June 30, 2010, the investment adviser incurred such expenses totaling $847 and $1,532, respectively. As of June 30 2011, $742 was unpaid and such payable is included in "accounts payable and accrued expenses" in the accompanying consolidated balance sheet.

We have entered into separate subleases with Ares Management and Ivy Hill Asset Management, L.P. ("IHAM"), a wholly owned portfolio company, pursuant to which Ares Management and IHAM sublease approximately 15% and 20%, respectively, of the Company's New York office space for a fixed rent equal to 15% and 20%, respectively, of the base annual rent payable by us under the Company's lease for this space, plus certain additional costs and expenses. For the three and six months ended June 30, 2011, such amounts payable to the Company totaled $137. Under our previous lease that expired on February 27, 2011, we were party to a sublease agreement with Ares Management whereby Ares Management subleased approximately 25% of such office space for a fixed rent equal to 25% of the basic annual rent payable by us under this lease, plus certain additional costs and expenses. For the three and six months ended June 30, 2011, such amounts payable to the Company totaled $396. For the three and six months ended June 30, 2010, such amounts payable to the Company totaled $561 and $686, respectively.

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As of June 30, 2011, Ares Investments Holdings LLC, an affiliate of Ares Management, (the sole member of our investment adviser) owned approximately 2.9 million shares of the Company's common stock representing approximately 1.4% of the total shares outstanding as of June 30, 2011.

See Notes 3 and 13 for descriptions of other related party transactions.

13. IVY HILL ASSET MANAGEMENT, L.P. AND OTHER MANAGED FUNDS

In November 2007, the Company established IHAM to serve as a manager for a middle-market credit fund, Ivy Hill Middle Market Credit Fund, Ltd. ("Ivy Hill I"), an unconsolidated investment vehicle focusing on investments in middle-market loans. From inception until the second quarter of 2009, IHAM's financial results were consolidated with those of the Company. In June 2009, because of a shift in activity from being primarily a manager, with no dedicated employees, of funds in which the Company has invested debt and equity, to a manager with individuals dedicated to managing an increasing number of third party funds, the Company concluded that GAAP requires the financial results of IHAM to be reported as a portfolio company in the schedule of investments rather than as a consolidated subsidiary in the Company's financial results. The Company made an equity investment of $3,816 into IHAM in June 2009. As of June 30, 2011, the Company's total investment in IHAM at fair value was $177,452, including an unrealized gain of $64,576. As of December 31, 2010, the Company's total investment in IHAM at fair value was $136,235, including an unrealized gain of $32,777. For the three and six months ended June 30, 2011, the Company received distributions from IHAM consisting entirely of dividend income of $4,762 and $9,524, respectively. For the three and six months ended June 30, 2010, the Company received distributions from IHAM consisting entirely of dividend income of $1,418 and $1,796 respectively.

Ivy Hill I primarily invests in first and second lien bank debt of middle-market companies. Ivy Hill I was initially funded with $404,000 of capital including a $56,000 investment by the Company, consisting of $40,000 of Class B notes and $16,000 of subordinated notes. For the three and six months ended June 30, 2011, the Company earned $1,160 and $2,333, respectively, from its investments in Ivy Hill I. For the three and six months ended June 30, 2010, the Company earned $1,724 and $3,485, respectively, from its investments in Ivy Hill I.

Ivy Hill I purchased investments from the Company of $1,700 during the six months ended June 30, 2011, and may from time to time purchase additional investments from the Company. Any such purchases require approval by third parties unaffiliated with the Company or IHAM. A realized loss of $17 was recorded on these transactions for the six months ended June 30, 2011.

In November 2008, the Company established a second middle-market credit fund, Ivy Hill Middle Market Credit Fund II, Ltd. ("Ivy Hill II" and, together with Ivy Hill I and Ivy Hill SDF (as defined below), the "Ivy Hill Funds"), which is also managed by IHAM.

In December 2009, the Company made an additional cash investment of approximately $33,000 in IHAM to facilitate IHAM's acquisition of Allied Capital's management rights in respect of, and interests in, the Allied Capital Senior Debt Fund, L.P. (now referred to as Ivy Hill Senior Debt Fund, L.P. or the "Ivy Hill SDF"). In October 2010, the Company made an additional cash investment of approximately $4,000 in IHAM to facilitate IHAM's acquisition of an equity interest in Ivy Hill SDF.

In March 2010, the Company made an additional cash investment of approximately $48,000 in IHAM to facilitate IHAM's acquisition of Allied Capital's management rights in respect of, and equity interests in, the Knightsbridge CLO 2007-1, Ltd. and Knightsbridge CLO 2008-1, Ltd. (the "Knightsbridge Funds"). At the time, the Company also acquired from Allied Capital certain debt investments of the Knightsbridge Funds for approximately $52,000.

The Company, through its wholly owned subsidiary, A.C. Corporation, previously managed Emporia Preferred Funding I, Ltd., Emporia Preferred Funding II, Ltd. and Emporia Preferred

Funding III, Ltd. (collectively, the "Emporia Funds"). In August 2010, the Company made an additional cash investment of approximately $8,000 in IHAM to facilitate IHAM's acquisition of an equity interest in Emporia Preferred Funding III, Ltd. In November 2010, the Company made an additional cash investment of $7,900 in IHAM, which IHAM then used to purchase these management rights and related receivables in respect of the Emporia Funds from A.C. Corporation for $7,900. This amount represented the fair value of those management rights as of the date of the sale. A realized gain of $5,882 was recognized on this transaction. In January 2011, the Company made an additional cash investment, and approximately $9,400 in IHAM to facilitate IHAM's acquisition of equity interests in certain of the Emporia Funds.

In addition to the Ivy Hill Funds and the Knightsbridge Funds, IHAM also serves as the sub-adviser/sub-manager to four other funds: CoLTS 2005-1 Ltd., CoLTS 2005-2 Ltd., CoLTS 2007-1 Ltd. (collectively, the "CoLTS Funds") and FirstLight Funding I, Ltd. ("FirstLight"), which is affiliated with the Company's portfolio company, Firstlight Financial Corporation.

In addition, IHAM serves as the general partner of, and manages, Ares Private Debt Strategies Fund II, L.P. ("Ares PDS II") and Ares Private Debt Strategies Fund III, L.P. (together with Ares PDS II, the "PDS Funds"). The PDS Funds purchased $78,849 of investments from the Company during the six months ended June 30, 2011. A realized loss of $2,422 was recorded on these transactions for the six months ended June 30, 2011. Additionally, the Company purchased $3,777 of investments from FirstLight during the six months ended June 30, 2011. The funds managed by IHAM may, from time to time, buy or sell additional investments from or to the Company.

Beginning in November 2008, IHAM was party to a separate services agreement, referred to herein as the "services agreement," with Ares Capital Management. Pursuant to the services agreement, Ares Capital Management provided IHAM with office facilities, equipment, clerical, bookkeeping and record keeping services, services of investment professionals and others to perform investment advisory, research and related services, services of, and oversight of, custodians, depositories, accountants, attorneys, underwriters and such other persons in any other capacity deemed to be necessary. Under the services agreement, IHAM reimbursed Ares Capital Management for all of the actual costs associated with such services, including Ares Capital Management's allocable portion of overhead and the cost of its officers and respective staff in performing its obligations under the services agreement. The services agreement was terminated effective June 30, 2010 and replaced with a different services agreement with similar terms between IHAM and the Company's administrator.

Also as part of the Allied Acquisition, the Company acquired the management rights for an unconsolidated fund, the AGILE Fund I, LLC, which had $65.4 million of total committed capital under management as of June 30, 2011. The Company's investment in AGILE Fund I, LLC was $150 at fair value, including an unrealized loss of $102 as of June 30, 2011.

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14. FINANCIAL HIGHLIGHTS

The following is a schedule of financial highlights for the six months ended June 30, 2011 and 2010:

	For the six months ended	
Per Share Data:	**June 30, 2011**	**June 30, 2010**
Net asset value, beginning of period(1)	$ 14.92	$ 11.44
Issuance of common stock		1.14
Issuances of the Convertible Notes	0.27	
Effect of antidilution		(0.34)
Net investment income for period(2)	0.45	0.51
Gain on the acquisition of Allied Capital Corporation		1.24
Net realized and unrealized gains for period(2)	0.34	0.82
Net increase in stockholders' equity	1.06	2.57
Total distributions to stockholders	(0.70)	(0.70)
Net asset value at end of period(1)	$ 15.28	$ 14.11
Per share market value at end of period	$ 16.07	$ 12.53
Total return based on market value(3)	1.76%	6.27%
Total return based on net asset value(4)	5.26%	21.00%
Shares outstanding at end of period	205,130	192,167
Ratio/Supplemental Data:		
Net assets at end of period	$ 3,134,281	$ 2,711,273
Ratio of operating expenses to average net assets(5)(6)	11.76%	10.85%
Ratio of net investment income to average net assets(5)(7)	5.84%	8.29%
Portfolio turnover rate(5)	44%	70%

(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 six months ended June 30, 2011, the total return based on market value equals the decrease of the ending market value at June 30, 2011 of $16.07 per share from the ending market value at December 31, 2010 of $16.48 per share, plus the declared dividends of $0.70 per share for the six months ended June 30, 2011, divided by the market value at December 31, 2010. For the six months ended June 30, 2010, the total return based on market value equals the increase of the ending market value at June 30, 2010 of $12.53 per share over the ending market value at December 31, 2009 of $12.45 per share, plus the declared dividend of $0.70 per share for the six months ended June 30, 2010, divided by the market value at December 31, 2009. 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 six months ended June 30, 2011, the total return based on net asset value equals the change in net asset value during the period plus the declared dividends of $0.70 per share for the six months ended June 30, 2011, divided by the beginning net asset value at January 1, 2011. For the six months ended June 30, 2010, the total return based on net asset value equals the change in net asset value during the period plus the declared dividend of $0.70 per share for the six months ended June 30, 2010, divided by the beginning net asset value at January 1, 2010. These calculations are adjusted for shares issued in connection with the dividend reinvestment plan and the issuance of common stock in connection with any equity offerings. Total return based on net

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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.

(6) For the six months ended June 30, 2011, the ratio of operating expenses to average net assets consisted of 2.18% of base management fees, 4.63% of incentive management fees, 3.75% of the cost of borrowing and 1.20% of other operating expenses. For the six months ended June 30, 2010, the ratio of operating expenses to average net assets consisted of 2.05% of base management fees, 2.36% of incentive management fees, 3.24% of the cost of borrowing and 3.20% of other operating expenses. These ratios reflect annualized amounts.

(7) The ratio of net investment income to average net assets excludes income taxes related to realized gains.

15. ALLIED ACQUISITION

On April 1, 2010, the Company completed the Allied Acquisition by acquiring the outstanding shares of Allied Capital in exchange for shares of our common stock in a transaction valued at approximately $908 million as of the closing date. Concurrently with the completion of the Allied Acquisition, we repaid in full the $137 million of remaining principal amounts outstanding on Allied Capital's $250 million senior secured term loan. We also assumed all of Allied Capital's other outstanding debt obligations, including approximately $745 million in aggregate principal amount outstanding of the Allied Unsecured Notes.

Under the terms of the Allied Acquisition each Allied Capital stockholder received 0.325 shares of our common stock for each share of Allied Capital common stock then owned by such stockholder. In connection with the Allied Acquisition, approximately 58.5 million shares of our common stock (including the effect of outstanding in-the money Allied Capital stock options) were issued to Allied Capital's then-existing stockholders, resulting in our then-existing stockholders owning approximately 69% of the combined company and the then-existing Allied Capital stockholders owning approximately 31% of the combined company.

The Allied Acquisition was accounted for in accordance with the acquisition method of accounting as detailed in ASC 805-10 (previously SFAS No. 141(R)), Business Combinations. The acquisition method of accounting requires an acquirer to recognize the assets acquired, the liabilities assumed and any noncontrolling interest in the acquired entity based on their fair values as of the date of acquisition. As described in more detail in ASC 805-10, if the total acquisition date fair value of the identifiable net assets acquired exceeds the fair value of the consideration transferred, the excess will be recognized as a gain. Upon completion of our determination of the fair value of Allied Capital's identifiable net assets as of April 1, 2010, the fair value of such net assets exceeded the fair value of the consideration transferred, resulting in the recognition of a gain. The valuation of the investments acquired as part of the Allied Acquisition was done in accordance with Ares Capital's valuation policy (see Notes 2 and 8).

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

Common stock issued	$	872,727
Payments to holders of "in-the-money" Allied Capital stock options		35,011(1)
Total purchase price	$	907,738
Assets acquired:		
Investments	$	1,833,766
Cash and cash equivalents		133,548
Other assets		80,078
Total assets acquired		2,047,392
Debt and other liabilities assumed		(943,778)
Net assets acquired		1,103,614
Gain on Allied Acquisition		(195,876)
	$	907,738

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

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

16. LITIGATION

The Company is party to certain lawsuits in the normal course of business. In addition, Allied Capital was involved in various legal proceedings which the Company assumed in connection with the Allied Acquisition. Furthermore, third parties may try to seek to impose liability on the Company in connection with the activities of its portfolio companies. While the outcome of any such legal proceedings cannot at this time be predicted with certainty, the Company does not expect that these legal proceedings will materially affect its business, financial condition or results of operations.

17. SUBSEQUENT EVENTS

The Company's management evaluated subsequent events through the date of issuance of these consolidated financial statements. There have been no subsequent events that occurred during such period that would require disclosure in, or would be required to be recognized in, the Consolidated Financial Statements as of and for the six months ended June 30, 2011, except as disclosed below.

On October 13, 2011, we and Ares Capital CP entered into an amendment to the Revolving Funding Facility to, among other things, increase the amount of the Revolving Funding Facility from $400 million to $500 million.

In October 2011, the total available capital for the SSLP was increased from $5.1 billion to $7.7 billion. In connection with this increase, GE and Ares Capital agreed to make available to the SSLP up to $6.2 billion and $1.5 billion, respectively.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Allied Capital Corporation:

We have audited the accompanying consolidated balance sheet of Allied Capital Corporation and subsidiaries (the Company) as of December 31, 2009 and 2008, including the consolidated statements of investments as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in net assets and cash flows, and the financial highlights (included in Note 13), for each of the years in the three-year period ended December 31, 2009. These consolidated financial statements and financial highlights 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 and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included physical inspection or confirmation of securities owned as of December 31, 2009 and 2008. 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 Allied Capital Corporation and subsidiaries as of December 31, 2009 and 2008, and the results of their operations, their cash flows, changes in their net assets, and financial highlights for each of the years in the three-year period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, the Company modified its method of determining the fair value of portfolio investments in 2008 due to the adoption of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements.*

Washington, D.C.
February 26, 2010

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(in thousands, except per share amounts)

	December 31, 2009	December 31, 2008
ASSETS		
Portfolio at value:		
Private finance		
Companies more than 25% owned (cost: 2009-$1,747,759; 2008-$2,167,020)	$ 811,736	$ 1,187,722
Companies 5% to 25% owned (cost: 2009-$222,981; 2008-$392,516)	180,998	352,760
Companies less than 5% owned (cost: 2009-$1,639,193; 2008-$2,317,856)	1,082,577	1,858,581
Total private finance (cost: 2009-$3,609,933; 2008-$4,877,392)	2,075,311	3,399,063
Commercial real estate finance (cost: 2009-$75,180; 2008-$85,503)	55,807	93,887
Total portfolio at value (cost: 2009-$3,685,113; 2008-$4,962,895)	2,131,118	3,492,950
Accrued interest and dividends receivable	43,875	55,638
Other assets	88,802	122,909
Investments in money market and other securities	381,020	287
Cash	20,682	50,402
Total assets	$ 2,665,497	$ 3,722,186
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Notes payable (maturing within one year: 2009-$85,111; 2008-$1,015,000)	$ 1,384,920	$ 1,895,000
Bank secured term debt (former revolver)	41,091	50,000
Accounts payable and other liabilities	41,284	58,786
Total liabilities	1,467,295	2,003,786
Commitments and contingencies		
Shareholders' equity:		
Common stock, $0.0001 par value, 400,000 shares authorized; 179,940 and 178,692 shares issued and outstanding at December 31, 2009 and 2008, respectively	18	18
Additional paid-in capital	3,037,513	3,037,845
Notes receivable from sale of common stock	(301)	(1,089)
Net unrealized appreciation (depreciation)	(1,679,778)	(1,503,089)
Undistributed (distributions in excess of) earnings	(159,250)	184,715
Total shareholders' equity	1,198,202	1,718,400
Total liabilities and shareholders' equity	$ 2,665,497	$ 3,722,186
Net asset value per common share	$ 6.66	$ 9.62

The accompanying notes are an integral part of these consolidated financial statements.

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS

(in thousands, except per share amounts)

	For the Years Ended December 31,		
	2009	**2008**	**2007**
Interest and Related Portfolio Income:			
Interest and dividends			
Companies more than 25% owned	$ 93,739	$ 111,188	$ 105,634
Companies 5% to 25% owned	30,028	42,376	41,577
Companies less than 5% owned	167,219	303,854	270,365
Total interest and dividends	290,986	457,418	417,576
Fees and other income			
Companies more than 25% owned	23,382	28,278	18,505
Companies 5% to 25% owned	234	2,619	810
Companies less than 5% owned	4,084	12,797	24,814
Total fees and other income	27,700	43,694	44,129
Total interest and related portfolio income	318,686	501,112	461,705
Expenses:			
Interest	171,068	148,930	132,080
Employee	42,104	76,429	89,155
Employee stock options	3,355	11,781	35,233
Administrative	38,147	49,424	50,580
Impairment of long-lived assets	2,873		
Total operating expenses	257,547	286,564	307,048
Net investment income before income taxes	61,139	214,548	154,657
Income tax expense, including excise tax	5,576	2,506	13,624
Net investment income	55,563	212,042	141,033
Net Realized and Unrealized Gains (Losses):			
Net realized gains (losses)			
Companies more than 25% owned	(149,032)	(131,440)	226,437
Companies 5% to 25% owned	(49,484)	(14,120)	(10,046)
Companies less than 5% owned	(162,612)	16,142	52,122
Total net realized gains (losses)	(361,128)	(129,418)	268,513
Net change in unrealized appreciation or depreciation	(176,689)	(1,123,762)	(256,243)
Total net gains (losses)	(537,817)	(1,253,180)	12,270

Gain on repurchase of debt	83,532	1,132	
Loss on extinguishment of debt	(122,776)		
Net increase (decrease) in net assets resulting from operations	$ (521,498)	$ (1,040,006)	$ 153,303
Basic earnings (loss) per common share	$ (2.91)	$ (6.01)	$ 1.00
Diluted earnings (loss) per common share	$ (2.91)	$ (6.01)	$ 0.99
Weighted average common shares outstanding basic	178,994	172,996	152,876
Weighted average common shares outstanding diluted	178,994	172,996	154,687

The accompanying notes are an integral part of these consolidated financial statements.

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(in thousands, except per share amounts)

	For the Years Ended December 31, 2009	2008	2007
Operations:			
Net investment income	$ 55,563	$ 212,042	$ 141,033
Net realized gains (losses)	(361,128)	(129,418)	268,513
Net change in unrealized appreciation or depreciation	(176,689)	(1,123,762)	(256,243)
Gain on repurchase of debt	83,532	1,132	
Loss on extinguishment of debt	(122,776)		
Net increase (decrease) in net assets resulting from operations	(521,498)	(1,040,006)	153,303
Shareholder distributions:			
Common stock dividends		(456,531)	(407,317)
Preferred stock dividends	(10)	(10)	(10)
Net decrease in net assets resulting from shareholder distributions	(10)	(456,541)	(407,327)
Capital share transactions:			
Sale of common stock		402,478	171,282
Issuance of common stock in lieu of cash distributions		3,751	17,095
Issuance of common stock upon the exercise of stock options	918		14,251
Cash portion of option cancellation payment			(52,833)
Stock option expense	3,424	11,906	35,810
Cancellation of common stock (note receivable from common stock)	(36)		
Net decrease in notes receivable from sale of common stock	788	1,603	158
Purchase of common stock held in deferred compensation trust		(943)	(12,444)
Distribution of common stock held in deferred compensation trust		27,335	837
Other	(3,784)	(3,030)	10,471
Net increase in net assets resulting from capital share transactions	1,310	443,100	184,627
Total net increase (decrease) in net assets	(520,198)	(1,053,447)	(69,397)
Net assets at beginning of year	1,718,400	2,771,847	2,841,244
Net assets at end of year	$ 1,198,202	$ 1,718,400	$ 2,771,847
Net asset value per common share	$ 6.66	$ 9.62	$ 17.54
Common shares outstanding at end of year	179,940	178,692	158,002

The accompanying notes are an integral part of these consolidated financial statements.

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)

	For the Years Ended December 31,		
	2009	**2008**	**2007**
Cash flows from operating activities:			
Net increase (decrease) in net assets resulting from operations	$ (521,498)	$ (1,040,006)	$ 153,303
Adjustments:			
Portfolio investments	(130,436)	(1,070,092)	(1,845,973)
Principal collections related to investment repayments or sales	871,271	1,037,348	1,211,550
Collections of notes and other consideration received from sale of investments	198,406	16,546	15,305
Realized gains from the receipt of notes and other consideration from sale of investments	(577)	(11,972)	(33,011)
Realized losses	413,783	279,886	131,997
Gain on repurchase of debt	(83,532)	(1,132)	
Redemption of (investment in) U.S. Treasury bills, money market and other securities	(380,733)	200,935	988
Payment-in-kind interest and dividends, net of cash collections	(33,839)	(53,364)	(11,997)
Change in accrued interest and dividends	10,653	14,860	(11,916)
Net collection (amortization) of discounts and fees	(7,173)	(13,083)	(4,101)
Stock option expense	3,424	11,906	35,810
Impairment of long-lived asset	2,873		
Changes in other assets and liabilities	(86,676)	(41,481)	(12,466)
Depreciation and amortization	1,536	913	2,064
Net change in unrealized (appreciation) or depreciation	176,689	1,123,762	256,243
Net cash provided by (used in) operating activities	434,171	455,026	(112,204)
Cash flows from financing activities:			
Sale of common stock		402,478	171,282
Sale of common stock upon the exercise of stock options	918		14,251
Collections of notes receivable from sale of common stock	752	1,603	158
Borrowings under notes payable		193,000	230,000
Repayments on notes payable	(392,136)	(217,080)	
Net borrowings under (repayments on) bank secured term debt (former revolver)	(8,909)	(317,250)	159,500
Cash portion of option cancellation payment			(52,833)
Purchase of common stock held in deferred compensation trust		(943)	(12,444)
Payment of deferred financing costs and other financing activities	(64,506)	(17,182)	1,798
Common stock dividends and distributions paid		(452,780)	(397,645)
Preferred stock dividends paid	(10)	(10)	(10)
Net cash provided by (used in) financing activities	(463,891)	(408,164)	114,057

Net increase (decrease) in cash	(29,720)	46,862	1,853
Cash at beginning of year	50,402	3,540	1,687
Cash at end of year	$ 20,682	$ 50,402	$ 3,540

The accompanying notes are an integral part of these consolidated financial statements.

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS

December 31, 2009

(in thousands, except number of shares)

Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Companies More Than 25% Owned				
AGILE Fund I, LLC(5) (Private Equity Fund)	Equity Interests		$ 637	$ 449
	Total Investment		**637**	**449**
AllBridge Financial, LLC (Asset Management)	Senior Loan (6.3%, Due 4/10)	$ 1,500	1,500	1,500
	Equity Interests		40,118	15,805
	Total Investment		**41,618**	**17,305**
Avborne, Inc. (Business Services)	Common Stock (27,500 shares)			39
	Total Investment			**39**
Aviation Properties Corporation (Business Services)	Common Stock (100 shares)		123	
	Total Investment		**123**	
Border Foods, Inc. (Consumer Products)	Senior Loan (12.9%, Due 3/12)	34,126	29,064	34,126
	Preferred Stock (100,000 shares)		12,721	20,901
	Common Stock (260,467 shares)		3,847	9,663
	Total Investment		**45,632**	**64,690**
Callidus Capital Corporation (Asset Management)	Subordinated Debt (18.0%, Due 8/13)	21,782	21,782	19,108
	Common Stock (100 shares)			
	Total Investment		**21,782**	**19,108**
	Guaranty ($3,189)			
Ciena Capital LLC (Financial Services)	Senior Loan (5.5%, Due 3/09)(6)	319,031	319,031	100,051
	Class B Equity Interests		119,436	
	Class C Equity Interests		109,097	

	Total Investment		**547,564**	**100,051**
	Guaranty ($5,000 See Note 3)			
CitiPostal Inc.				
	Senior Loan (3.7%, Due 12/13)	692	683	683
(Business Services)	Unitranche Debt (12.0%, Due 12/13)	50,801	50,633	50,633
	Subordinated Debt (16.0%, Due 12/15)	10,685	10,685	10,685
	Common Stock (37,024 shares)		12,726	1,432
	Total Investment		**74,727**	**63,433**
Coverall North America, Inc. (Business Services)	Unitranche Debt (12.0%, Due 7/11)	31,627	31,573	31,573
	Subordinated Debt (15.0%, Due 7/11)	5,563	5,555	5,555
	Common Stock (763,333 shares)		14,361	11,386
	Total Investment		**51,489**	**48,514**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Crescent Equity Corp.(8) (Business Services)	Senior Loan (10.0%, Due 6/10)	$ 433	$ 433	$ 433
	Subordinated Debt (11.0%, Due 9/11 6/17)(6)	32,161	32,072	4,132
	Common Stock (174 shares)		82,818	
	Total Investment		**115,323**	**4,565**
	Guaranty ($900)			
Direct Capital Corporation (Financial Services)	Senior Loan (8.0%, Due 1/14)(6)	8,175	8,175	8,744
	Subordinated Debt (16.0%, Due 3/13)(6)	55,671	55,496	6,797
	Common Stock (2,317,020 shares)		25,732	
	Total Investment		**89,403**	**15,541**
Financial Pacific Company (Financial Services)	Subordinated Debt (17.4%, Due 2/12 8/12)	68,967	68,880	34,780
	Preferred Stock (9,458 shares)		8,865	
	Common Stock (12,711 shares)		12,783	
	Total Investment		**90,528**	**34,780**
HCI Equity, LLC(4)(5) (Private Equity Fund)	Equity Interests		1,100	877
	Total Investment		**1,100**	**877**
Hot Light Brands, Inc. (Real Estate)	Senior Loan (9.0%, Due 2/11)(6)	29,257	29,257	9,116
	Common Stock (93,500 shares)		5,151	
	Total Investment		**34,408**	**9,116**
Hot Stuff Foods, LLC (Consumer Products)	Senior Loan (3.7%, Due 2/12)	44,697	44,602	44,697
	Subordinated Debt (12.3%, Due 8/12 2/13)(6)	83,692	83,387	48,240
	Common Stock (1,147,453 shares)		56,187	
	Total Investment		**184,176**	**92,937**
Huddle House, Inc. (Retail)	Subordinated Debt (15.0%, Due 12/15)	19,694	19,646	19,646
	Common Stock (358,428 shares)		36,348	3,919
	Total Investment		**55,994**	**23,565**
IAT Equity, LLC and Affiliates d/b/a Industrial Air Tool (Industrial Products)	Subordinated Debt (9.0%, Due 6/14)	6,000	6,000	6,000
	Equity Interests		7,500	5,485
	Total Investment		**13,500**	**11,485**

Impact Innovations Group, LLC (Business Services)	Equity Interests in Affiliate			215
	Total Investment			**215**
Insight Pharmaceuticals Corporation (Consumer Products)	Subordinated Debt (15.0%, Due 9/12)	54,443	54,385	54,023
	Common Stock (155,000 shares)		40,413	9,400
	Total Investment		**94,798**	**63,423**
Jakel, Inc. (Industrial Products)	Subordinated Debt (15.5%, Due 3/08)(6)	748	748	
	Total Investment		**748**	

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Knightsbridge CLO 2007-1 Ltd.(4) (CLO)	Class E Notes (9.3%, Due 1/22)	$ 18,700	$ 18,700	$ 11,360
	Income Notes (4.4%)(7)		39,174	16,220
	Total Investment		**57,874**	**27,580**
Knightsbridge CLO 2008-1 Ltd.(4) (CLO)	Class C Notes (7.8%, Due 6/18)	12,800	12,800	12,289
	Class D Notes (8.8%, Due 6/18)	8,000	8,000	7,160
	Class E Notes (5.3%, Due 6/18)	13,200	11,291	10,091
	Income Notes (20.8%)(7)		21,893	20,637
	Total Investment		**53,984**	**50,177**
MVL Group, Inc. (Business Services)	Senior Loan (12.0%, Due 7/12)	25,260	25,256	25,260
	Subordinated Debt (14.5%, Due 7/12)	35,607	35,578	34,306
	Subordinated Debt (8.0%, Due 7/12)(6)	144	139	
	Common Stock (560,716 shares)		555	
	Total Investment		**61,528**	**59,566**
Penn Detroit Diesel Allison, LLC (Business Services)	Equity Interests		20,081	15,258
	Total Investment		**20,081**	**15,258**
Service Champ, Inc. (Business Services)	Subordinated Debt (15.5%, Due 4/12)	27,742	27,696	27,696
	Common Stock (55,112 shares)		11,145	28,071
	Total Investment		**38,841**	**55,767**
Stag-Parkway, Inc. (Business Services)	Subordinated Debt (10.0%, Due 7/12)	19,044	19,004	19,004
	Common Stock (25,000 shares)		32,686	14,226
	Total Investment		**51,690**	**33,230**
Startec Equity, LLC (Telecommunications)	Equity Interests		211	65
	Total Investment		**211**	**65**
Total companies more than 25% owned			**$ 1,747,759**	**$ 811,736**
Companies 5% to 25% Owned				
10th Street, LLC (Business Services)	Subordinated Debt (13.0%, Due 11/14)	22,325	22,234	22,325
	Equity Interests		422	475

	Option		25	25
	Total Investment		**22,681**	**22,825**
Air Medical Group Holdings LLC	Senior Loan (2.8%, Due 3/11)	6,075	6,056	5,845
(Healthcare Services)	Equity Interests		2,993	19,500
	Total Investment		**9,049**	**25,345**
BB&T Capital Partners/Windsor Mezzanine Fund, LLC(5) (Private Equity Fund)	Equity Interests		11,789	10,379
	Total Investment		**11,789**	**10,379**
Driven Brands, Inc.	Subordinated Debt (16.6%, Due 7/15)	91,991	91,647	91,899
(Consumer Services)	Common Stock (3,772,098 shares)		9,516	3,000
	Total Investment		**101,163**	**94,899**
Multi-Ad Services, Inc.	Unitranche Debt (11.3%, Due 11/11)	2,500	2,485	2,491
(Business Services)	Equity Interests		1,737	1,418
	Total Investment		**4,222**	**3,909**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Pendum Acquisition, Inc. (Business Services)	Common Stock (8,872 shares)		$	$ 200
	Total Investment			**200**
Postle Aluminum Company, LLC (Industrial Products)	Senior Loan (6.0%, Due 10/12)(6)	$ 35,000	34,876	16,054
	Subordinated Debt (3.0%, Due 10/12)(6)	23,953	23,868	
	Equity Interests		2,174	
	Total Investment		**60,918**	**16,054**
Regency Healthcare Group, LLC (Healthcare Services)	Equity Interests		1,302	1,898
	Total Investment		**1,302**	**1,898**
SGT India Private Limited(4) (Business Services)	Common Stock (150,596 shares)		4,161	
	Total Investment		**4,161**	
Soteria Imaging Services, LLC (Healthcare Services)	Subordinated Debt (13.3%, Due 11/10)	4,250	4,216	4,210
	Equity Interests		1,881	1,279
	Total Investment		**6,097**	**5,489**
Universal Environmental Services, LLC (Business Services)	Equity Interests		1,599	
	Total Investment		**1,599**	
Total companies 5% to 25% owned			**$ 222,981**	**$ 180,998**
Companies Less Than 5% Owned				
3SI Security Systems, Inc. (Consumer Products)	Subordinated Debt (16.6%, Due 8/13)(6)	29,548	29,473	9,542
	Total Investment		**29,473**	**9,542**
Axium Healthcare Pharmacy, Inc. (Healthcare Services)	Subordinated Debt (8.0%, Due 3/15)	3,036	3,036	2,641
	Total Investment		**3,036**	**2,641**
BenefitMall Holdings Inc.		40,326	40,254	40,254

(Business Services)	Subordinated Debt (18.0%, Due 6/14) Common Stock (39,274,290 shares)(3) Warrants(3)		39,274	68,822
	Total Investment		**79,528**	**109,076**
Bushnell, Inc. (Consumer Products)	Subordinated Debt (6.8%, Due 2/14)	41,325	40,217	30,456
	Total Investment		**40,217**	**30,456**
Callidus Debt Partners CDO Fund I, Ltd.(4)(10) (CDO)	Class C Notes (12.9%, Due 12/13)(6)	19,420	19,527	2,163
	Class D Notes (17.0%, Due 12/13)(6)	9,400	9,454	
	Total Investment		**28,981**	**2,163**
Callidus Debt Partners CLO Fund III, Ltd.(4)(10) (CLO)	Preferred Shares (23,600,000 shares)		20,138	4,112
	Total Investment		**20,138**	**4,112**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Callidus Debt Partners CLO Fund IV, Ltd.(4)(10) (CLO)	Class D Notes (4.8%, Due 4/20)	$ 3,000	$ 2,206	$ 1,710
	Income Notes (0.0%)(7)		14,859	5,433
	Total Investment		**17,065**	**7,143**
Callidus Debt Partners CLO Fund V, Ltd.(4)(10) (CLO)	Income Notes (1.4%)(7)		13,432	5,012
	Total Investment		**13,432**	**5,012**
Callidus Debt Partners CLO Fund VI, Ltd.(4)(10) (CLO)	Class D Notes (6.3%, Due 10/21)	9,480	7,809	4,256
	Income Notes (0.0%)(7)		29,144	4,978
	Total Investment		**36,953**	**9,234**
Callidus Debt Partners CLO Fund VII, Ltd.(4)(10) (CLO)	Income Notes (0.0%)(7)		24,824	7,148
	Total Investment		**24,824**	**7,148**
Callidus MAPS CLO Fund I LLC(10) (CLO)	Class E Notes (5.8%, Due 12/17)	17,000	17,000	11,695
	Income Notes (0.0%)(7)		38,509	14,119
	Total Investment		**55,509**	**25,814**
Callidus MAPS CLO Fund II, Ltd.(4)(10) (CLO)	Class D Notes (4.5%, Due 7/22)	7,700	3,880	3,215
	Income Notes (2.5%)(7)		17,824	6,310
	Total Investment		**21,704**	**9,525**
Carlisle Wide Plank Floors, Inc. (Consumer Products)	Unitranche Debt (12.0%, Due 6/11)	1,644	1,638	1,544
	Common Stock (345,056 Shares)		345	
	Total Investment		**1,983**	**1,544**
Catterton Partners VI, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		3,327	2,014
	Total Investment		**3,327**	**2,014**
Commercial Credit Group, Inc. (Financial Services)	Subordinated Debt (15.0%, Due 6/15)	22,000	21,970	21,970
	Preferred Stock (64,679 shares)		15,543	6,005
	Warrants			

	Total Investment		**37,513**	**27,975**
Community Education Centers, Inc. (Education Services)	Subordinated Debt (21.5%, Due 11/13)	37,357	37,307	35,869
	Total Investment		**37,307**	**35,869**
Component Hardware Group, Inc. (Industrial Products)	Subordinated Debt (13.5%, Due 1/13)(6)	18,992	18,947	16,695
	Total Investment		**18,947**	**16,695**
Cook Inlet Alternative Risk, LLC (Business Services)	Unitranche Debt (13.0%, Due 4/13)	87,600	87,309	62,100
	Equity Interests		552	
	Total Investment		**87,861**	**62,100**
Cortec Group Fund IV, L.P.(5) (Private Equity)	Limited Partnership Interest		6,390	3,917
	Total Investment		**6,390**	**3,917**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Digital VideoStream, LLC	Unitranche Debt (11.0%, Due 2/12)	$ 12,984	$ 12,940	$ 12,811
(Business Services)	Convertible Subordinated Debt (10.0%, Due 2/16)	5,017	5,006	5,006
	Total Investment		**17,946**	**17,817**
DirectBuy Holdings, Inc.	Subordinated Debt (16.0%, Due 5/13)	78,414	78,181	71,856
(Consumer Products)	Equity Interests		8,000	1,500
	Total Investment		**86,181**	**73,356**
Distant Lands Trading Co.	Senior Loan (8.3%, Due 11/11)	8,300	8,284	7,852
(Consumer Products)	Unitranche Debt (13.0%, Due 11/11)	43,581	43,509	43,026
	Common Stock (3,451 shares)		3,451	1,046
	Total Investment		**55,244**	**51,924**
Diversified Mercury Communications, LLC (Business Services)	Senior Loan (6.8%, Due 3/13)	2,668	2,657	2,391
	Total Investment		**2,657**	**2,391**
Dryden XVIII Leveraged Loan 2007 Limited(4)	Class B Notes (4.8%, Due 10/19)(6)	8,717	7,497	2,115
(CLO)	Income Notes (0.0%)(7)		23,164	2,427
	Total Investment		**30,661**	**4,542**
Dynamic India Fund IV(4)(5) (Private Equity Fund)	Equity Interests		9,350	8,224
	Total Investment		**9,350**	**8,224**
EarthColor, Inc.	Subordinated Debt (15.0%, Due 11/13)(6)	123,819	123,385	
(Business Services)	Common Stock (63,438 shares)(3)		63,438	
	Warrants(3)			
	Total Investment		**186,823**	
eCentury Capital Partners, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		7,274	
	Total Investment		**7,274**	
eInstruction Corporation	Subordinated Debt (12.2%,			

(Education Services)	Due 7/14 1/15)	36,849	36,737	34,174
	Common Stock (2,406 shares)		2,500	1,050
	Total Investment		**39,237**	**35,224**
Fidus Mezzanine Capital, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		14,720	9,921
	Total Investment		**14,720**	**9,921**
Geotrace Technologies, Inc. (Energy Services)	Warrants		2,027	2,075
	Total Investment		**2,027**	**2,075**
Gilchrist & Soames, Inc. (Consumer Products)	Subordinated Debt (13.4%, Due 10/13)	24,421	24,310	23,181
	Total Investment		**24,310**	**23,181**
Havco Wood Products LLC (Industrial Products)	Equity Interests		910	
	Total Investment		**910**	

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
The Homax Group, Inc. (Consumer Products)	Senior Loan (8.0%, Due 10/12)	$ 697	$ 653	$ 648
	Subordinated Debt (14.5%, Due 4/14)	14,159	13,649	9,804
	Preferred Stock (76 shares)		76	
	Common Stock (24 shares)		5	
	Warrants		954	
	Total Investment		**15,337**	**10,452**
Ideal Snacks Corporation (Consumer Products)	Senior Loan (8.5%, Due 6/11)	967	967	958
	Total Investment		**967**	**958**
Kodiak Fund LP(5) (Private Equity Fund)	Equity Interests		9,323	1,917
	Total Investment		**9,323**	**1,917**
Market Track Holdings, LLC (Business Services)	Senior Loan (8.0%, Due 6/14)	2,500	2,450	2,412
	Subordinated Debt (15.9%, Due 6/14)	24,600	24,509	23,680
	Total Investment		**26,959**	**26,092**
NetShape Technologies, Inc. (Industrial Products)	Senior Loan (4.0%, Due 2/13)	972	972	335
	Total Investment		**972**	**335**
Network Hardware Resale, Inc. (Business Services)	Unitranche Debt (12.0%, Due 12/11)	16,042	16,088	16,031
	Convertible Subordinated Debt (9.8%, Due 12/15)	15,953	15,998	15,998
	Total Investment		**32,086**	**32,029**
Novak Biddle Venture Partners III, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		2,018	1,070
	Total Investment		**2,018**	**1,070**
Pangaea CLO 2007-1 Ltd.(4) (CLO)	Class D Notes (5.0%, Due 1/21)	15,000	12,119	6,651
	Total Investment		**12,119**	**6,651**
PC Helps Support, LLC (Business Services)	Senior Loan (4.3%, Due 12/13)	8,181	8,092	7,756
		26,734	26,633	26,490

	Subordinated Debt (12.8%, Due 12/13)			
	Total Investment		**34,725**	**34,246**
Performant Financial Corporation (Business Services)	Common Stock (478,816 shares)		734	1,400
	Total Investment		**734**	**1,400**
Promo Works, LLC (Business Services)	Unitranche Debt (16.0%, Due 12/12)	19,964	19,859	12,557
	Total Investment		**19,859**	**12,557**
Reed Group, Ltd. (Healthcare Services)	Senior Loan (6.0%, Due 12/13)	12,033	11,903	10,186
	Subordinated Debt (15.8%, Due 12/13)	19,259	19,199	15,260
	Equity Interests		1,800	28
	Total Investment		**32,902**	**25,474**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
S.B. Restaurant Company (Retail)	Unitranche Debt (11.8%, Due 4/11)	$ 38,327	$ 38,207	$ 32,693
	Preferred Stock (46,690 shares)		117	
	Warrants		534	
	Total Investment		**38,858**	**32,693**
SPP Mezzanine Funding II, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		7,476	7,145
	Total Investment		**7,476**	**7,145**
STS Operating, Inc. (Industrial Products)	Subordinated Debt (11.0%, Due 1/13)	30,386	30,318	28,695
	Total Investment		**30,318**	**28,695**
Summit Energy Services, Inc. (Business Services)	Common Stock (415,982 shares)		1,861	2,200
	Total Investment		**1,861**	**2,200**
Tappan Wire & Cable Inc. (Industrial Products)	Unitranche Debt (15.0%, Due 8/14)(6)	22,346	22,248	5,331
	Common Stock (12,940 shares)(3)		2,043	
	Warrant(3)			
	Total Investment		**24,291**	**5,331**
The Step2 Company, LLC (Consumer Products)	Unitranche Debt (11.0%, Due 4/12)	94,122	93,937	89,614
	Equity Interests		2,156	705
	Total Investment		**96,093**	**90,319**
Tradesmen International, Inc. (Business Services)	Subordinated Debt (15.0%, Due 12/12)(6)	40,000	39,793	11,532
	Total Investment		**39,793**	**11,532**
Trover Solutions, Inc. (Business Services)	Subordinated Debt (12.0%, Due 11/12)	53,827	53,674	51,270
	Total Investment		**53,674**	**51,270**
United Road Towing, Inc. (Consumer Services)	Subordinated Debt (11.8%, Due 1/14)	19,060	18,993	18,367

	Total Investment		**18,993**	**18,367**
Venturehouse-Cibernet Investors, LLC (Business Services)	Equity Interest			
	Total Investment			
Webster Capital II, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		1,742	1,235
	Total Investment		**1,742**	**1,235**
Woodstream Corporation (Consumer Products)	Subordinated Debt (12.0%, Due 2/15)	90,000	89,693	77,400
	Common Stock (6,960 shares)		6,961	2,700
	Total Investment		**96,654**	**80,100**
Other companies	Other debt investments	37	(130)	(134)
	Other equity investments		41	8
	Total Investment		**(89)**	**(126)**
Total companies less than 5% owned			**$ 1,639,193**	**$ 1,082,577**
Total private finance (100 portfolio investments)			**$ 3,609,933**	**$ 2,075,311**

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Commercial Real Estate Finance
(in thousands, except number of loans)

	Stated Interest Rate Ranges	Number of Loans	December 31, 2009 Cost	Value
Commercial Mortgage Loans				
	Up to 6.99%	3	$ 29,660	$ 28,372
	7.00% - 8.99%	2	1,845	1,819
	9.00% - 10.99%	1	6,480	3,281
	15.00% and above	2	3,970	1,943
Total commercial mortgage loans(9)			**$ 41,955**	**$ 35,415**
Real Estate Owned			**$ 5,962**	**$ 6,405**
Equity Interests(2) Companies more than 25% owned			**$ 27,263**	**$ 13,987**
Total commercial real estate finance			**$ 75,180**	**$ 55,807**
Total portfolio			**$ 3,685,113**	**$ 2,131,118**

	Yield	Cost	Value
Investments in Money Market and Other Securities			
First American Treasury Obligations Fund		$ 381,020	$ 381,020
Total		$ 381,020	$ 381,020

(1) Interest rates represent the weighted average annual stated interest rate on loans and debt securities, which are presented by nature of indebtedness for a single issuer. The maturity dates represent the earliest and the latest maturity dates.

(2) Common stock, preferred stock, warrants, options, and equity interests are generally non-income producing and restricted.

(3) Common stock is non-voting. In addition to non-voting stock ownership, the Company has an option to acquire a majority of the voting securities of the portfolio company at fair market value.

(4) Non-U.S. company or principal place of business outside the U.S.

(5) Non-registered investment company.

(6)

Loan or debt security is on non-accrual status and therefore is considered non-income producing.

(7) Represents the effective interest yield earned on the cost basis of these preferred equity investments and income notes. The yield is included in interest income in the consolidated statement of operations.

(8) Crescent Equity Corp. holds investments in Crescent Hotels & Resorts, LLC and affiliates.

(9) Commercial mortgage loans totaling $6.1 million at value were on non-accrual status and therefore were considered non-income producing.

(10) The fund is managed by Callidus Capital, a portfolio company of Allied Capital.

The accompanying notes are an integral part of these consolidated financial statements.

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS

December 31, 2008

(in thousands, except number of shares)

Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Companies More Than 25% Owned				
AGILE Fund I, LLC(5) (Private Equity Fund)	Equity Interests		$ 694	$ 497
	Total Investment		**694**	**497**
AllBridge Financial, LLC (Asset Management)	Equity Interests		33,294	10,960
	Total Investment		**33,294**	**10,960**
	Standby Letter of Credit ($15,000)			
Allied Capital Senior Debt Fund, L.P.(5) (Private Debt Fund)	Limited Partnership Interests		31,800	31,800
	Total Investment		**31,800**	**31,800**
Avborne, Inc.(7) (Business Services)	Preferred Stock (12,500 shares)			942
	Common Stock (27,500 shares)			
	Total Investment			**942**
Avborne Heavy Maintenance, Inc.(7) (Business Services)	Common Stock (2,750 shares)			
	Total Investment			
Aviation Properties Corporation	Common Stock (100 shares)		93	

(Business Services)				
	Total Investment		**93**	
	Standby Letters of Credit ($1,000)			
Border Foods, Inc.	Senior Loan (12.6%, Due 12/09 3/12)	$ 33,027	26,860	33,027
(Consumer Products)	Preferred Stock (100,000 shares)		12,721	11,851
	Common Stock (260,467 shares)		3,847	
	Total Investment		**43,428**	**44,878**
Calder Capital Partners, LLC(5)	Senior Loan (10.5%, Due 5/09)(6)	4,496	4,496	953
(Asset Management)	Equity Interests		2,453	
	Total Investment		**6,949**	**953**
Callidus Capital Corporation	Subordinated Debt (18.0%,	16,068	16,068	16,068
(Asset Management)	Due 8/13 2/14)			
	Common Stock (100 shares)			34,377
	Total Investment		**16,068**	**50,445**
	Guaranty ($6,447)			

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Ciena Capital LLC (Financial Services)	Senior Loan (5.5%, Due 3/09)(6)	$ 319,031	$ 319,031	$ 104,883
	Class B Equity Interests		119,436	
	Class C Equity Interests		109,301	
	Total Investment		**547,768**	**104,883**
	Guaranty ($5,000 See Note 3)			
	Standby Letters of Credit ($102,600 See Note 3)			
CitiPostal Inc. (Business Services)	Senior Loan (4.0%, Due 12/13)	692	681	681
	Unitranche Debt (12.0%, Due 12/13)	51,758	51,548	51,548
	Subordinated Debt (16.0%, Due 12/15)	9,114	9,114	9,114
	Common Stock (37,024 shares)		12,726	8,616
	Total Investment		**74,069**	**69,959**
Coverall North America, Inc. (Business Services)	Unitranche Debt (12.0%, Due 7/11)	32,035	31,948	31,948
	Subordinated Debt (15.0%, Due 7/11)	5,563	5,549	5,549
	Common Stock (763,333 shares)		14,361	17,968
	Total Investment		**51,858**	**55,465**
CR Holding, Inc. (Consumer Products)	Subordinated Debt (16.6%, Due 2/13)(6)	39,307	39,193	17,360
	Common Stock (32,090,696 shares)		28,744	
	Total Investment		**67,937**	**17,360**
Crescent Equity Corp.(8) (Business Services)	Senior Loan (10.0%, Due 1/09)	433	433	433
	Subordinated Debt (11.0%, Due 9/11 6/17)	22,312	22,247	14,283
	Subordinated Debt (11.0%, Due 1/12 9/12)(6)	10,097	10,072	4,331
	Common Stock (174 shares)		81,255	4,580
	Total Investment		**114,007**	**23,627**
	Guaranty ($900)			
	Standby Letters of Credit ($200)			
Direct Capital Corporation (Financial Services)	Subordinated Debt (16.0%, Due 3/13)(6)	55,671	55,496	13,530
	Common Stock (2,317,020 shares)		25,732	
	Total Investment		**81,228**	**13,530**

Financial Pacific Company (Financial Services)	Subordinated Debt (17.4%, Due 2/12 8/12)	68,967	68,840	62,189
	Preferred Stock (9,458 shares)		8,865	
	Common Stock (12,711 shares)		12,783	
	Total Investment		**90,488**	**62,189**
ForeSite Towers, LLC (Tower Leasing)	Equity Interest			889
	Total Investment			**889**
Global Communications, LLC (Business Services)	Senior Loan (10.0%, Due 9/02)(6)	1,335	1,335	1,335
	Total Investment		**1,335**	**1,335**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Hot Light Brands, Inc. (Retail)	Senior Loan (9.0%, Due 2/11)(6)	$ 30,522	$ 30,522	$ 13,678
	Common Stock (93,500 shares)		5,151	
	Total Investment		**35,673**	**13,678**
	Standby Letter of Credit ($105)			
Hot Stuff Foods, LLC (Consumer Products)	Senior Loan (4.0%, Due 2/11 2/12)	53,597	53,456	42,378
	Subordinated Debt (12.4%, Due 8/12 2/13)(6)	83,692	83,387	
	Common Stock (1,147,453 shares)		56,187	
	Total Investment		**193,030**	**42,378**
Huddle House, Inc. (Retail)	Subordinated Debt (15.0%, Due 12/12)	57,244	57,067	57,067
	Common Stock (358,428 shares)		35,828	20,922
	Total Investment		**92,895**	**77,989**
IAT Equity, LLC and Affiliates d/b/a Industrial Air Tool (Industrial Products)	Subordinated Debt (9.0%, Due 6/14)	6,000	6,000	6,000
	Equity Interests		7,500	8,860
	Total Investment		**13,500**	**14,860**
Impact Innovations Group, LLC (Business Services)	Equity Interests in Affiliate			321
	Total Investment			**321**
Insight Pharmaceuticals Corporation (Consumer Products)	Subordinated Debt (15.0%, Due 9/12)	45,827	45,738	45,827
	Subordinated Debt (19.0%, Due 9/12)(6)	16,177	16,126	17,532
	Preferred Stock (25,000 shares)		25,000	4,068
	Common Stock (620,000 shares)		6,325	
	Total Investment		**93,189**	**67,427**
Jakel, Inc. (Industrial Products)	Subordinated Debt (15.5%, Due 3/08)(6)	748	748	374
	Total Investment		**748**	**374**

Knightsbridge CLO 2007-1 Ltd.(4) (CLO)	Class E Notes (13.8%, Due 1/22)	18,700	18,700	14,866
	Income Notes (14.9%)(11)		40,914	35,214
	Total Investment		**59,614**	**50,080**
Knightsbridge CLO 2008-1 Ltd.(4) (CLO)	Class C Notes (9.3%, Due 6/18)	12,800	12,800	12,800
	Class D Notes (10.3%, Due 6/18)	8,000	8,000	8,000
	Class E Notes (6.8%, Due 6/18)	13,200	10,573	10,573
	Income Notes (16.6%)(11)		21,315	21,315
	Total Investment		**52,688**	**52,688**
MHF Logistical Solutions, Inc. (Business Services)	Subordinated Debt (13.0%, Due 6/12 6/13)(6)	49,841	49,633	
	Preferred Stock (10,000 shares)			
	Common Stock (20,934 shares)		20,942	
	Total Investment		**70,575**	

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
MVL Group, Inc.	Senior Loan (12.0%, Due 6/09 7/09)	$ 30,674	$ 30,663	$ 30,663
(Business Services)	Subordinated Debt (14.5%, Due 6/09 7/09)	41,074	40,994	40,994
	Subordinated Debt (3.0%, Due 6/09)(6)	144	139	86
	Common Stock (560,716 shares)		555	
	Total Investment		**72,351**	**71,743**
Old Orchard Brands, LLC (Consumer Products)	Subordinated Debt (18.0%, Due 7/14)	18,951	18,882	18,882
	Equity Interests		16,857	27,763
	Total Investment		**35,739**	**46,645**
Penn Detroit Diesel Allison, LLC (Business Services)	Subordinated Debt (15.5%, Due 8/13)	37,984	37,869	37,869
	Equity Interests		18,873	21,100
	Total Investment		**56,742**	**58,969**
Service Champ, Inc. (Business Services)	Subordinated Debt (15.5%, Due 4/12)	27,050	26,984	26,984
	Common Stock (55,112 shares)		11,785	21,156
	Total Investment		**38,769**	**48,140**
Stag-Parkway, Inc. (Business Services)	Unitranche Debt (14.0%, Due 7/12)	17,975	17,920	17,962
	Common Stock (25,000 shares)		32,686	6,968
	Total Investment		**50,606**	**24,930**
Startec Equity, LLC (Telecommunications)	Equity Interests		211	332
	Total Investment		**211**	**332**
Senior Secured Loan Fund LLC (Private Debt Fund)	Subordinated Certificates (12.0%)		125,423	125,423
	Equity Interests		1	1
	Total Investment		**125,424**	**125,424**
Worldwide Express Operations, LLC (Business Services)	Subordinated Debt (14.0%, Due 2/14)(6)	2,865	2,722	2,032
	Equity Interests		11,384	

	Warrants		144	
	Total Investment		**14,250**	**2,032**
Total companies more than 25% owned			**$ 2,167,020**	**$ 1,187,722**
Companies 5% to 25% Owned				
10th Street, LLC (Business Services)	Subordinated Debt (13.0%, Due 11/14)	21,439	21,329	21,439
	Equity Interests		422	975
	Option		25	25
	Total Investment		**21,776**	**22,439**
Advantage Sales & Marketing, Inc. (Business Services)	Subordinated Debt (12.0%, Due 3/14)	158,617	158,132	135,000
	Equity Interests			5,000
	Total Investment		**158,132**	**140,000**
Air Medical Group Holdings LLC (Healthcare Services)	Senior Loan (3.3%, Due 3/11)	3,360	3,326	3,139
	Equity Interests		2,993	10,800
	Total Investment		**6,319**	**13,939**
Alpine ESP Holdings, Inc. (Business Services)	Preferred Stock (701 shares)		701	
	Common Stock (11,657 shares)		13	
	Total Investment		**714**	

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Amerex Group, LLC (Consumer Products)	Subordinated Debt (12.3%, Due 1/13)	$ 8,789	$ 8,784	$ 8,784
	Equity Interests		3,508	9,932
	Total Investment		**12,292**	**18,716**
BB&T Capital Partners/Windsor Mezzanine Fund, LLC(5) (Private Equity Fund)	Equity Interests		11,789	11,063
	Total Investment		**11,789**	**11,063**
Becker Underwood, Inc. (Industrial Products)	Subordinated Debt (14.5%, Due 8/12)	25,503	25,450	25,502
	Common Stock (4,376 shares)		5,014	2,267
	Total Investment		**30,464**	**27,769**
Drew Foam Companies, Inc. (Business Services)	Preferred Stock (622,555 shares)		623	512
	Common Stock (6,286 shares)		6	
	Total Investment		**629**	**512**
Driven Brands, Inc. (Consumer Services)	Subordinated Debt (16.5%, Due 7/15)	84,106	83,698	83,698
	Common Stock (3,772,098 shares)		9,516	4,855
	Total Investment		**93,214**	**88,553**
Hilden America, Inc. (Consumer Products)	Common Stock (19 shares)		454	76
	Total Investment		**454**	**76**
Lydall Transport, Ltd. (Business Services)	Equity Interests		432	345
	Total Investment		**432**	**345**
Multi-Ad Services, Inc. (Business Services)	Unitranche Debt (11.3%, Due 11/11)	3,018	2,995	2,941
	Equity Interests		1,737	1,782

	Total Investment		**4,732**	**4,723**
Progressive International Corporation (Consumer Products)	Preferred Stock (500 shares)		500	1,125
	Common Stock (197 shares)		13	4,600
	Warrants			
	Total Investment		**513**	**5,725**
Regency Healthcare Group, LLC (Healthcare Services)	Unitranche Debt (11.1%, Due 6/12)	10,901	10,855	10,825
	Equity Interests		1,302	2,050
	Total Investment		**12,157**	**12,875**
SGT India Private Limited(4) (Business Services)	Common Stock (150,596 shares)		4,137	
	Total Investment		**4,137**	
Soteria Imaging Services, LLC (Healthcare Services)	Subordinated Debt (11.3%, Due 11/10)	4,250	4,167	4,054
	Equity Interests		1,881	1,971
	Total Investment		**6,048**	**6,025**
Triax Holdings, LLC (Consumer Products)	Subordinated Debt (21.0%, Due 2/12)(6)	10,625	10,587	
	Equity Interests		16,528	
	Total Investment		**27,115**	

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Private Finance Portfolio Company	**Investment(1)(2)**	**Principal**	**Cost**	**Value**
Universal Environmental Services, LLC (Business Services)	Equity Interests		$ 1,599	$
	Total Investment		**1,599**	
Total companies 5% to 25% owned			**$ 392,516**	**$ 352,760**
Companies Less Than 5% Owned				
3SI Security Systems, Inc. (Consumer Products)	Subordinated Debt (14.6%, Due 8/13)	$ 29,200	29,118	28,170
	Total Investment		**29,118**	**28,170**
Abraxas Corporation (Business Services)	Subordinated Debt (14.6%, Due 4/13)	36,822	36,662	36,170
	Total Investment		**36,662**	**36,170**
Augusta Sportswear Group, Inc. (Consumer Products)	Subordinated Debt (13.0%, Due 1/15)	53,000	52,825	52,406
	Common Stock (2,500 shares)		2,500	1,400
	Total Investment		**55,325**	**53,806**
Axium Healthcare Pharmacy, Inc. (Healthcare Services)	Senior Loan (14.0%, Due 12/12)	3,750	3,724	3,654
	Unitranche Debt (14.0%, Due 12/12)	8,500	8,471	7,908
	Common Stock (22,860 shares)		2,286	100
	Total Investment		**14,481**	**11,662**
Baird Capital Partners IV Limited(5) (Private Equity Fund)	Limited Partnership Interest		3,636	2,978
	Total Investment		**3,636**	**2,978**

BenefitMall Holdings Inc. (Business Services)	Subordinated Debt (18.0%, Due 6/14)	40,326	40,238	40,238
	Common Stock (39,274,290 shares)(12)		39,274	91,149
	Warrants(12)			
	Total Investment		**79,512**	**131,387**
Broadcast Electronics, Inc. (Business Services)	Senior Loan (8.8%, Due 11/11)(6)	4,912	4,884	773
	Preferred Stock (2,044 shares)			
	Total Investment		**4,884**	**773**
Bushnell, Inc. (Consumer Products)	Subordinated Debt (8.0%, Due 2/14)	41,325	40,003	35,794
	Total Investment		**40,003**	**35,794**
Callidus Debt Partners CDO Fund I, Ltd.(4)(10) (CDO)	Class C Notes (12.9%, Due 12/13)	18,800	18,907	10,116
	Class D Notes (17.0%, Due 12/13)	9,400	9,454	
	Total Investment		**28,361**	**10,116**
Callidus Debt Partners CLO Fund III, Ltd.(4)(10) (CLO)	Preferred Shares (23,600,000 shares)		20,138	5,402
	Total Investment		**20,138**	**5,402**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Callidus Debt Partners CLO Fund IV, Ltd.(4)(10) (CLO)	Class D Notes (9.1%, Due 4/20)	$ 3,000	$ 2,045	$ 1,445
	Income Notes (13.2%)(11)		14,591	10,628
	Total Investment		**16,636**	**12,073**
Callidus Debt Partners CLO Fund V, Ltd.(4)(10) (CLO)	Income Notes (16.4%)(11)		13,388	10,331
	Total Investment		**13,388**	**10,331**
Callidus Debt Partners CLO Fund VI, Ltd.(4)(10) (CLO)	Class D Notes (9.8%, Due 10/21)	9,000	7,144	3,929
	Income Notes (17.8%)(11)		28,314	23,090
	Total Investment		**35,458**	**27,019**
Callidus Debt Partners CLO Fund VII, Ltd.(4)(10) (CLO)	Income Notes (11.4%)(11)		24,026	15,361
	Total Investment		**24,026**	**15,361**
Callidus MAPS CLO Fund I LLC(10) (CLO)	Class E Notes (7.0%, Due 12/17)	17,000	17,000	9,813
	Income Notes (4.0%)(11)		45,053	27,678
	Total Investment		**62,053**	**37,491**
Callidus MAPS CLO Fund II, Ltd.(4)(10) (CLO)	Class D Notes (8.8%, Due 7/22)	7,700	3,555	2,948
	Income Notes (13.3%)(11)		18,393	12,626
	Total Investment		**21,948**	**15,574**
Carlisle Wide Plank Floors, Inc. (Consumer Products)	Senior Loan (6.1%, Due 6/11)	1,000	998	953
	Unitranche Debt (14.5%, Due 6/11)	3,161	3,139	3,047
	Preferred Stock (345,056 Shares)		345	82
	Total Investment		**4,482**	**4,082**
Catterton Partners VI, L.P.(5)	Limited Partnership Interest		2,812	2,356

(Private Equity Fund)				
	Total Investment		**2,812**	**2,356**
Centre Capital Investors V, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		3,049	2,344
	Total Investment		**3,049**	**2,344**
CK Franchising, Inc. (Consumer Services)	Subordinated Debt (12.3%, Due 7/12 7/17)	21,000	20,912	20,912
	Preferred Stock (1,281,887 shares)		1,282	1,592
	Common Stock (7,585,549 shares)		7,586	10,600
	Total Investment		**29,780**	**33,104**
Commercial Credit Group, Inc. (Financial Services)	Subordinated Debt (15.0%, Due 6/15)	19,000	18,970	18,970
	Preferred Stock (64,679 shares)		15,543	9,073
	Warrants			
	Total Investment		**34,513**	**28,043**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Community Education Centers, Inc. (Education Services)	Subordinated Debt (14.5%, Due 11/13)	$ 35,548	$ 35,486	$ 34,056
	Total Investment		**35,486**	**34,056**
Component Hardware Group, Inc. (Industrial Products)	Subordinated Debt (13.5%, Due 1/13)	18,710	18,654	18,261
	Total Investment		**18,654**	**18,261**
Cook Inlet Alternative Risk, LLC (Business Services)	Unitranche Debt (10.8%, Due 4/13)	90,000	89,619	82,839
	Equity Interests		552	
	Total Investment		**90,171**	**82,839**
Cortec Group Fund IV, L.P.(5) (Private Equity)	Limited Partnership Interest		4,647	3,445
	Total Investment		**4,647**	**3,445**
Diversified Mercury Communications, LLC (Business Services)	Senior Loan (4.5%, Due 3/13)	2,972	2,958	2,692
	Total Investment		**2,958**	**2,692**
Digital VideoStream, LLC (Business Services)	Unitranche Debt (11.0%, Due 2/12)	14,097	14,032	14,003
	Convertible Subordinated Debt (10.0%, Due 2/16)	4,545	4,533	4,700
	Total Investment		**18,565**	**18,703**
DirectBuy Holdings, Inc. (Consumer Products)	Subordinated Debt (14.5%, Due 5/13)	75,909	75,609	71,703
	Equity Interests		8,000	3,200
	Total Investment		**83,609**	**74,903**
Distant Lands Trading Co.	Senior Loan (7.5%, Due 11/11)	4,825	4,800	4,501

(Consumer Products)	Unitranche Debt (12.3%, Due 11/11)	43,133	43,022	42,340
	Common Stock (3,451 shares)		3,451	984
	Total Investment		**51,273**	**47,825**
Dryden XVIII Leveraged Loan 2007 Limited(4) (CLO)	Class B Notes (8.0%, Due 10/19)	9,000	7,728	4,535
	Income Notes (16.0%)(11)		22,080	17,477
	Total Investment		**29,808**	**22,012**
Dynamic India Fund IV(4)(5) (Private Equity Fund)	Equity Interests		9,350	8,966
	Total Investment		**9,350**	**8,966**
EarthColor, Inc. (Business Services)	Subordinated Debt (15.0%, Due 11/13)(6)	123,819	123,385	77,243
	Common Stock (63,438 shares)(12)		63,438	
	Warrants(12)			
	Total Investment		**186,823**	**77,243**
eCentury Capital Partners, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		7,274	1,431
	Total Investment		**7,274**	**1,431**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
eInstruction Corporation (Education Services)	Subordinated Debt (12.6%, Due 7/14 1/15)	$ 33,931	$ 33,795	$ 31,670
	Common Stock (2,406 shares)		2,500	1,700
	Total Investment		**36,295**	**33,370**
Farley's & Sathers Candy Company, Inc. (Consumer Products)	Subordinated Debt (10.1%, Due 3/11)	2,500	2,493	2,365
	Total Investment		**2,493**	**2,365**
FCP-BHI Holdings, LLC d/b/a Bojangles' (Retail)	Subordinated Debt (12.0%, Due 9/13)	27,284	27,191	25,640
	Equity Interests		1,029	1,700
	Total Investment		**28,220**	**27,340**
Fidus Mezzanine Capital, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		9,597	6,754
	Total Investment		**9,597**	**6,754**
Freedom Financial Network, LLC (Financial Services)	Subordinated Debt (13.5%, Due 2/14)	13,000	12,945	12,811
	Total Investment		**12,945**	**12,811**
Geotrace Technologies, Inc. (Energy Services)	Warrants		2,027	3,000
	Total Investment		**2,027**	**3,000**
Gilchrist & Soames, Inc. (Consumer Products)	Subordinated Debt (13.4%, Due 10/13)	25,800	25,660	24,692
	Total Investment		**25,660**	**24,692**

Havco Wood Products LLC (Industrial Products)	Equity Interests		910	400
	Total Investment		**910**	**400**
Higginbotham Insurance Agency, Inc. (Business Services)	Subordinated Debt (13.7%, Due 8/13 8/14)	53,305	53,088	53,088
	Common Stock (23,695 shares)(12)		23,695	27,335
	Warrant(12)			
	Total Investment		**76,783**	**80,423**
The Hillman Companies, Inc.(3) (Consumer Products)	Subordinated Debt (10.0%, Due 9/11)	44,580	44,491	44,345
	Total Investment		**44,491**	**44,345**
The Homax Group, Inc. (Consumer Products)	Senior Loan (7.2%, Due 10/12)	11,785	11,742	10,689
	Subordinated Debt (14.5%, Due 4/14)	14,000	13,371	12,859
	Preferred Stock (76 shares)		76	
	Common Stock (24 shares)		5	
	Warrants		954	
	Total Investment		**26,148**	**23,548**
Ideal Snacks Corporation (Consumer Products)	Senior Loan (5.3%, Due 6/10)	1,496	1,496	1,438
	Total Investment		**1,496**	**1,438**

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Private Finance Portfolio Company	**Investment(1)(2)**	**Principal**	**Cost**	**Value**
Kodiak Fund LP(5) (Private Equity Fund)	Equity Interests		$ 9,422	$ 900
	Total Investment		**9,422**	**900**
Market Track Holdings, LLC (Business Services)	Senior Loan (8.0%, Due 6/14)	$ 2,500	2,450	2,352
	Subordinated Debt (15.9%, Due 6/14)	24,600	24,488	23,785
	Total Investment		**26,938**	**26,137**
NetShape Technologies, Inc. (Industrial Products)	Senior Loan (5.3%, Due 2/13)	382	382	346
	Total Investment		**382**	**346**
Network Hardware Resale, Inc. (Business Services)	Unitranche Debt (12.5%, Due 12/11)	18,734	18,809	18,703
	Convertible Subordinated Debt (9.8%, Due 12/15)	14,533	14,585	14,585
	Total Investment		**33,394**	**33,288**
Novak Biddle Venture Partners III, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		2,018	1,349
	Total Investment		**2,018**	**1,349**
Oahu Waste Services, Inc. (Business Services)	Stock Appreciation Rights		206	750
	Total Investment		**206**	**750**
Pangaea CLO 2007-1 Ltd.(4) (CLO)	Class D Notes (9.2%, Due 10/21)	15,000	11,761	7,114
	Total Investment		**11,761**	**7,114**
	Senior Loan (4.8%, Due 12/13)	8,610	8,520	8,587

PC Helps Support, LLC (Business Services)	Subordinated Debt (13.3%, Due 12/13)	28,136	28,009	28,974
	Total Investment		**36,529**	**37,561**
Performant Financial Corporation (Business Services)	Common Stock (478,816 shares)		734	200
	Total Investment		**734**	**200**
Peter Brasseler Holdings, LLC (Business Services)	Equity Interests		3,451	2,900
	Total Investment		**3,451**	**2,900**
PharMEDium Healthcare Corporation (Healthcare Services)	Senior Loan (4.3%, Due 10/13)	1,910	1,910	1,747
	Total Investment		**1,910**	**1,747**
Postle Aluminum Company, LLC (Industrial Products)	Unitranche Debt (13.0%, Due 10/12)(6)	58,953	58,744	9,978
	Equity Interests		2,174	
	Total Investment		**60,918**	**9,978**
Pro Mach, Inc. (Industrial Products)	Subordinated Debt (12.5%, Due 6/12)	14,616	14,573	14,089
	Equity Interests		1,294	1,900
	Total Investment		**15,867**	**15,989**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Promo Works, LLC (Business Services)	Unitranche Debt (12.3%, Due 12/11)	$ 23,111	$ 22,954	$ 21,266
	Total Investment		**22,954**	**21,266**
Reed Group, Ltd. (Healthcare Services)	Senior Loan (7.6%, Due 12/13)	12,893	12,758	11,502
	Subordinated Debt (13.8%, Due 12/13)	18,543	18,469	16,683
	Equity Interests		1,800	300
	Total Investment		**33,027**	**28,485**
S.B. Restaurant Company (Retail)	Unitranche Debt (9.8%, Due 4/11)	36,501	36,295	34,914
	Preferred Stock (46,690 shares)		117	117
	Warrants		534	
	Total Investment		**36,946**	**35,031**
Snow Phipps Group, L.P.(5) (Private Equity Fund)	Standby Letters of Credit ($2,465)		4,785	4,374
	Limited Partnership Interest			
	Total Investment		**4,785**	**4,374**
SPP Mezzanine Funding II, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		9,362	9,269
	Total Investment		**9,362**	**9,269**
STS Operating, Inc. (Industrial Products)	Subordinated Debt (11.0%, Due 1/13)	30,386	30,296	29,745
	Total Investment		**30,296**	**29,745**
Summit Energy Services, Inc. (Business Services)	Subordinated Debt (11.6%, Due 8/13)	35,730	35,547	32,113
	Common Stock (415,982 shares)		1,861	1,900
	Total Investment		**37,408**	**34,013**
	Senior Loan (7.1%, Due 9/14)	30,514	29,539	25,937

Tank Intermediate Holding Corp. (Industrial Products)				
	Total Investment		**29,539**	**25,937**
Tappan Wire & Cable Inc. (Business Services)	Unitranche Debt (15.0%, Due 8/14)	22,346	22,248	15,625
	Common Stock (12,940 shares)(12)		2,043	
	Warrant(12)			
	Total Investment		**24,291**	**15,625**
The Step2 Company, LLC (Consumer Products)	Unitranche Debt (11.0%, Due 4/12)	95,083	94,816	90,474
	Equity Interests		2,156	1,161
	Total Investment		**96,972**	**91,635**
Tradesmen International, Inc. (Business Services)	Subordinated Debt (12.0%, Due 12/12)	40,000	39,586	37,840
	Total Investment		**39,586**	**37,840**
TransAmerican Auto Parts, LLC (Consumer Products)	Subordinated Debt (16.3%, Due 11/12)(6)	24,561	24,409	
	Equity Interests		1,034	
	Total Investment		**25,443**	
Trover Solutions, Inc. (Business Services)	Subordinated Debt (12.0%, Due 11/12)	60,054	59,847	57,362
	Total Investment		**59,847**	**57,362**

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Private Finance Portfolio Company	**Investment(1)(2)**	**Principal**	**Cost**	**Value**
United Road Towing, Inc. (Consumer Services)	Subordinated Debt (12.1%, Due 1/14)	$ 20,000	$ 19,915	$ 20,000
	Total Investment		**19,915**	**20,000**
Venturehouse-Cibernet Investors, LLC (Business Services)	Equity Interest			
	Total Investment			
VICORP Restaurants, Inc. (Retail)	Warrants		33	
	Total Investment		**33**	
WMA Equity Corporation and Affiliates d/b/a Wear Me Apparel (Consumer Products)	Subordinated Debt (16.8%, Due 4/13 4/14)(6)	139,455	138,559	63,823
	Common Stock (86 shares)		39,721	
	Total Investment		**178,280**	**63,823**
Webster Capital II, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		1,702	1,481
	Total Investment		**1,702**	**1,481**
Woodstream Corporation (Consumer Products)	Subordinated Debt (12.0%, Due 2/15)	90,000	89,633	83,258
	Common Stock (6,960 shares)		6,961	2,500
	Total Investment		**96,594**	**85,758**
York Insurance Services Group, Inc. (Business Services)	Common Stock (12,939 shares)		1,294	1,700
	Total Investment		**1,294**	**1,700**
Other companies	Other debt investments	155	74	72
	Other equity investments		30	8

Total Investment	**104**	**80**
Total companies less than 5% owned	**$ 2,317,856**	**$ 1,858,581**
Total private finance (138 portfolio investments)	**$ 4,877,392**	**$ 3,399,063**

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Commercial Real Estate Finance
(in thousands, except number of loans)

	Stated Interest Rate Ranges	Number of Loans	December 31, 2008 Cost	Value
Commercial Mortgage Loans				
	Up to 6.99%	4	$ 30,999	$ 30,537
	7.00% - 8.99%	1	644	580
	9.00% - 10.99%	1	6,465	6,465
	11.00% - 12.99%	1	10,469	9,391
	15.00% and above	2	3,970	6,529
Total commercial mortgage loans(13)			**$ 52,547**	**$ 53,502**
Real Estate Owned			**$ 18,201**	**$ 20,823**
Equity Interests(2) Companies more than 25% owned			**$ 14,755**	**$ 19,562**
Guarantees ($6,871)				
Standby Letter of Credit ($650)				
Total commercial real estate finance			**$ 85,503**	**$ 93,887**
Total portfolio			**$ 4,962,895**	**$ 3,492,950**

	Yield	Cost	Value
Investments in Money Market and Other Securities			
SEI Daily Income Tr Prime Obligation Money Market Fund	0.9%	$ 5	$ 5
Columbia Treasury Reserves Fund		12	12
Other Money Market Funds		270	270
Total		$ 287	$ 287

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(1) Interest rates represent the weighted average annual stated interest rate on loans and debt securities, which are presented by nature of indebtedness for a single issuer. The maturity dates represent the earliest and the latest maturity dates.

(2) Common stock, preferred stock, warrants, options, and equity interests are generally non-income producing and restricted.

(3) Public company.

(4) Non-U.S. company or principal place of business outside the U.S.

(5) Non-registered investment company.

(6) Loan or debt security is on non-accrual status and therefore is considered non-income producing.

(7) Avborne, Inc. and Avborne Heavy Maintenance, Inc. are affiliated companies.

(8) Crescent Equity Corp. holds investments in Crescent Hotels & Resorts, LLC and affiliates.

(10) The fund is managed by Callidus Capital, a portfolio company of Allied Capital.

(11) Represents the effective interest yield earned on the cost basis of these preferred equity investments and income notes. The yield is included in interest income in the consolidated statement of operations.

(12) Common stock is non-voting. In addition to non-voting stock ownership, the Company has an option to acquire a majority of the voting securities of the portfolio company at fair market value.

(13) Commercial mortgage loans totaling $7.7 million at value were on non-accrual status and therefore were considered non-income producing.

The accompanying notes are an integral part of these consolidated financial statements.

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Other Matters

Allied Capital Corporation, a Maryland corporation, is a closed-end, non-diversified management investment company that has elected to be regulated as a business development company ("BDC") under the Investment Company Act of 1940 ("1940 Act"). Allied Capital Corporation ("ACC") has a real estate investment trust subsidiary, Allied Capital REIT, Inc. ("Allied REIT"), and several subsidiaries that are single member limited liability companies established for specific purposes including holding real estate properties. ACC also has a subsidiary, A.C. Corporation ("AC Corp"), that generally provides diligence and structuring services, as well as transaction, management, consulting, and other services, including underwriting and arranging senior loans, to the Company, its portfolio companies and its managed funds.

ACC and its subsidiaries, collectively, are referred to as the "Company." The Company consolidates the results of its subsidiaries for financial reporting purposes.

Pursuant to Accounting Standards Codification ("ASC") Topic 810, *"Consolidations,"* the financial results of the Company's portfolio investments are not consolidated in the Company's financial statements. Portfolio investments are held for purposes of deriving investment income and future capital gains.

The investment objective of the Company is to achieve current income and capital gains. In order to achieve this objective, the Company has primarily invested in debt and equity securities of private companies in a variety of industries.

On October 26, 2009, the Company and Ares Capital Corporation, ("Ares Capital") announced a strategic business combination in which ARCC Odyssey Corp., a wholly owned subsidiary of Ares Capital Corporation ("Merger Sub") would merge with and into Allied Capital and, immediately thereafter, Allied Capital would merge with and into Ares Capital. If the merger of Merger Sub into Allied Capital is completed, holders of Allied Capital common stock will have a right to receive 0.325 shares of Ares Capital common stock for each share of Allied Capital common stock held immediately prior to such merger. In connection with such merger, Ares Capital expects to issue a maximum of approximately 58.3 million shares of its common stock (assuming that holders of all "in-the-money" Allied Capital stock options elect to be cashed out), subject to adjustment in certain limited circumstances. The closing of the merger is subject to the receipt of shareholder approvals from Allied Capital and Ares Capital shareholders, and other closing conditions. Allied Capital is holding a special meeting of its stockholders on March 26, 2010, at which Allied Capital stockholders will be asked to vote on the approval of the merger and the merger agreement described in the proxy statement dated February 11, 2010. Approval of the merger and the merger agreement requires the affirmative vote of two-thirds of Allied Capital's outstanding shares entitled to vote on the matter. The completion of the merger with Ares Capital is dependent on a number of conditions being satisfied or, where legally permissible, waived.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of ACC and its subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications have been made to the 2008 and 2007 balances to conform with the 2009 financial statement presentation.

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In June 2009, the FASB issued SFAS No. 168, *"The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles,"* which was primarily codified into ASC Topic 105, *"Generally Accepted Accounting Standards."* This standard is the single source of authoritative non-governmental U.S. generally accepted accounting principles ("GAAP"), superseding existing FASB, American Institute of Certified Public Accountants ("AICPA"), Emerging Issues Task Force ("EITF"), and related accounting literature. Also included is relevant Securities and Exchange Commission guidance organized using the same topical structure in separate sections. This guidance is effective for financial statements issued for reporting periods that end after September 15, 2009. This guidance impacts the Company's consolidated financial statements and related disclosures as all references to authoritative literature reflect the newly adopted codification.

The private finance portfolio and the interest and related portfolio income and net realized gains (losses) on the private finance portfolio are presented in three categories: companies more than 25% owned, which represent portfolio companies where the Company directly or indirectly owns more than 25% of the outstanding voting securities of such portfolio company or where the Company controls the portfolio company's board of directors and, therefore, are deemed controlled by the Company under the 1940 Act; companies owned 5% to 25%, which represent portfolio companies where the Company directly or indirectly owns 5% to 25% of the outstanding voting securities of such portfolio company or where the Company holds one or more seats on the portfolio company's board of directors and, therefore, are deemed to be an affiliated person under the 1940 Act; and companies less than 5% owned which represent portfolio companies where the Company directly or indirectly owns less than 5% of the outstanding voting securities of such portfolio company and where the Company has no other affiliations with such portfolio company. The interest and related portfolio income and net realized gains (losses) from the commercial real estate finance portfolio and other sources, including investments in money market and other securities, are included in the companies less than 5% owned category on the consolidated statement of operations.

In the ordinary course of business, the Company enters into transactions with portfolio companies that may be considered related party transactions.

The Company, as a BDC, has invested in illiquid securities including debt and equity securities of portfolio companies, CLO bonds and preferred shares/income notes, CDO bonds and investment funds. The Company's investments may be subject to certain restrictions on resale and generally have no established trading market. The Company values substantially all of its investments at fair value as determined in good faith by the Board of Directors in accordance with the Company's valuation policy and the provisions of the 1940 Act and ASC Topic 820 *"Financial Instruments,"* which includes the codification of FASB Statement No. 157, *Fair Value Measurements* and related interpretations. The Company determines fair value to be the price that would be received for an investment in a current sale, which assumes an orderly transaction between market participants on the measurement date. The Company's valuation policy considers the fact that no ready market exists for substantially all of the securities in which it invests and that fair value for its investments must typically be determined using unobservable inputs. The Company's valuation policy is intended to provide a consistent basis for determining the fair value of the portfolio.

The Company adopted the standards in ASC Topic 820 on a prospective basis in the first quarter of 2008. These standards require the Company to assume that the portfolio investment is to be sold in the principal market to market participants, or in the absence of a principal market, the most advantageous market, which may be a hypothetical market. Market participants are defined as buyers and sellers in the principal or most advantageous market that are independent, knowledgeable, and willing and able to transact. In accordance with the standards, the Company has considered its principal market, or the market in which the Company exits its portfolio investments with the greatest volume and level of activity.

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The Company has determined that for its buyout investments, where the Company has control or could gain control through an option or warrant security, both the debt and equity securities of the portfolio investment would exit in the merger and acquisition ("M&A") market as the principal market generally through a sale or recapitalization of the portfolio company. The Company believes that the in-use premise of value (as defined in ASC Topic 820), which assumes the debt and equity securities are sold together, is appropriate as this would provide maximum proceeds to the seller. As a result, the Company uses the enterprise value methodology to determine the fair value of these investments. Enterprise value means the entire value of the company to a market participant, including the sum of the values of debt and equity securities used to capitalize the enterprise at a point in time. Enterprise value is determined using various factors, including cash flow from operations of the portfolio company, multiples at which private companies are bought and sold, and other pertinent factors, such as recent offers to purchase a portfolio company, recent transactions involving the purchase or sale of the portfolio company's equity securities, liquidation events, or other events. The Company allocates the enterprise value to these securities in order of the legal priority of the securities.

While the Company typically exits its securities upon the sale or recapitalization of the portfolio company in the M&A market, for investments in portfolio companies where the Company does not have control or the ability to gain control through an option or warrant security, the Company cannot typically control the exit of its investment into its principal market (the M&A market). As a result, in accordance with ASC Topic 820, the Company is required to determine the fair value of these investments assuming a sale of the individual investment (the in-exchange premise of value) in a hypothetical market to a hypothetical market participant. The Company continues to perform an enterprise value analysis for the investments in this category to assess the credit risk of the loan or debt security and to determine the fair value of its equity investment in these portfolio companies. The determined equity values are generally discounted when the Company has a minority ownership position, restrictions on resale, specific concerns about the receptivity of the capital markets to a specific company at a certain time, or other factors. For loan and debt securities, the Company performs a yield analysis assuming a hypothetical current sale of the investment. The yield analysis requires the Company to estimate the expected repayment date of the instrument and a market participant's required yield. The Company's estimate of the expected repayment date of a loan or debt security may be shorter than the legal maturity of the instruments as the Company's loans historically have been repaid prior to the maturity date. The yield analysis considers changes in interest rates and changes in leverage levels of the loan or debt security as compared to market interest rates and leverage levels. Assuming the credit quality of the loan or debt security remains stable, the Company will use the value determined by the yield analysis as the fair value for that security. A change in the assumptions that the Company uses to estimate the fair value of its loans and debt securities using a yield analysis could have a material impact on the determination of fair value. If there is deterioration in credit quality or a loan or debt security is in workout status, the Company may consider other factors in determining the fair value of a loan or debt security, including the value attributable to the loan or debt security from the enterprise value of the portfolio company or the proceeds that would be received in a liquidation analysis.

The Company's equity investments in private debt and equity funds are generally valued based on the amount that the Company believes would be received if the investments were sold and consider the fund's net asset value, observable transactions and other factors. The value of the Company's equity securities in public companies for which quoted prices in an active market are readily available is based on the closing public market price on the measurement date.

The fair value of the Company's CLO bonds and preferred shares/income notes and CDO bonds ("CLO/CDO Assets") is generally based on a discounted cash flow model that utilizes prepayment, re-investment, loss and ratings assumptions based on historical experience and projected performance, economic factors, the characteristics of the underlying cash flow, and comparable yields

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for similar bonds and preferred shares/ income notes, when available. The Company recognizes unrealized appreciation or depreciation on its CLO/CDO Assets as comparable yields in the market change and/or based on changes in estimated cash flows resulting from changes in prepayment, re-investment, loss or ratings assumptions in the underlying collateral pool, or changes in redemption assumptions for the CLO/CDO Assets, if applicable. The Company determines the fair value of its CLO/CDO Assets on an individual security-by-security basis.

The Company records unrealized depreciation on investments when it determines that the fair value of a security is less than its cost basis, and records unrealized appreciation when it determines that the fair value is greater than its cost basis. Because of the inherent uncertainty of valuation, the values determined at the measurement date may differ significantly from the values that would have been used had a ready market existed for the investments, and the differences could be material. Additionally, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the values determined at the measurement date. In accordance with ASC Topic 820 (discussed below), the Company does not consider a transaction price that is associated with a transaction that is not orderly to be indicative of fair value or market participant risk premiums, and accordingly would place little, if any, weight on transactions that are not orderly in determining fair value. When considering recent potential or completed transactions, the Company uses judgment in determining if such offers or transactions were pursuant to an orderly process for purposes of determining how much weight is placed on these data points in accordance with the applicable guidelines in ASC Topic 820.

Net Realized Gains or Losses and Net Change in Unrealized Appreciation or Depreciation

Realized gains or losses are measured by the difference between the net proceeds from the repayment or sale and the cost basis of the investment without regard to unrealized appreciation or depreciation previously recognized, and include investments charged off during the period, net of recoveries. Net change in unrealized appreciation or depreciation primarily reflects the change in portfolio investment values during the reporting period, including the reversal of previously recorded unrealized appreciation or depreciation when gains or losses are realized. Net change in unrealized appreciation or depreciation also reflects the change in the value of U.S. Treasury bills, when applicable, and depreciation on accrued interest and dividends receivable and other assets where collection is doubtful.

Interest and Dividend Income

Interest income is recorded on an accrual basis to the extent that such amounts are expected to be collected. For loans and debt securities with contractual payment-in-kind interest, which represents contractual interest accrued and added to the loan balance that generally becomes due at maturity, the Company will not accrue payment-in-kind interest if the portfolio company valuation indicates that the payment-in-kind interest is not collectible. In general, interest is not accrued on loans and debt securities if the Company has doubt about interest collection or where the enterprise value of the portfolio company may not support further accrual. Interest may not accrue on loans or debt securities to portfolio companies that are more than 50% owned by the Company depending on such company's capital requirements.

When the Company receives nominal cost warrants or free equity securities ("nominal cost equity"), the Company allocates its cost basis in its investment between its debt securities and its nominal cost equity at the time of origination. At that time, the original issue discount basis of the nominal cost equity is recorded by increasing the cost basis in the equity and decreasing the cost basis in the related debt securities. Loan origination fees, original issue discount, and market discount are capitalized and then amortized into interest income using a method that approximates the effective interest method. Upon the prepayment of a loan or debt security, any unamortized loan origination

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fees are recorded as interest income and any unamortized original issue discount or market discount is recorded as a realized gain.

The weighted average yield on loans and debt securities is computed as the (a) annual stated interest on accruing loans and debt securities plus the annual amortization of loan origination fees, original issue discount, and market discount on accruing loans and debt securities less the annual amortization of loan origination costs, divided by (b) total loans and debt securities at value. The weighted average yield is computed as of the balance sheet date.

The Company recognizes interest income on the CLO preferred shares/income notes using the effective interest method, based on the anticipated yield that is determined using the estimated cash flows over the projected life of the investment. Yields are revised when there are changes in actual or estimated cash flows due to changes in prepayments and/or re-investments, credit losses, ratings or asset pricing. Changes in estimated yield are recognized as an adjustment to the estimated yield over the remaining life of the preferred shares/income notes from the date the estimated yield was changed. CLO and CDO bonds have stated interest rates. The weighted average yield on the CLO/CDO Assets is calculated as the (a) annual stated interest or the effective interest yield on the accruing bonds or the effective yield on the preferred shares/income notes, divided by (b) CLO/CDO Assets at value. The weighted average yields are computed as of the balance sheet date.

Dividend income on preferred equity securities is recorded as dividend income on an accrual basis to the extent that such amounts are expected to be collected and to the extent that the Company has the option to receive the dividend in cash. Dividend income on common equity securities is recorded on the record date for private companies or on the ex-dividend date for publicly traded companies.

Fee Income

Fee income includes fees for loan prepayment premiums, guarantees, commitments, and services rendered by the Company to portfolio companies and other third parties such as diligence, structuring, transaction services, management and consulting services, and other services. Loan prepayment premiums are recognized at the time of prepayment. Guaranty and commitment fees are generally recognized as income over the related period of the guaranty or commitment, respectively. Diligence, structuring, and transaction services fees are generally recognized as income when services are rendered or when the related transactions are completed. Management, consulting and other services fees, including fund management fees, are generally recognized as income as the services are rendered. Fees are not accrued if the Company has doubt about the collection of those fees.

Cash and Cash Equivalents

Cash and cash equivalents represents unrestricted cash and highly liquid securities with original maturities of 90 days or less.

Guarantees

Guarantees meeting the characteristics described in ASC Topic 460,*"Guarantees"* and issued or modified after December 31, 2002, are recognized at fair value at inception. Guarantees made on behalf of portfolio companies are considered in determining the fair value of the Company's investments. See Note 5.

Financing Costs

Debt financing costs are based on actual costs incurred in obtaining debt financing and generally are deferred and amortized as part of interest expense over the term of the related debt

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instrument using a method that approximates the effective interest method. Costs associated with the issuance of common stock are recorded as a reduction to the proceeds from the sale of common stock. Financing costs generally include underwriting, accounting and legal fees, and printing costs.

Dividends to Shareholders

Dividends to shareholders are recorded on the ex-dividend date.

Stock Compensation Plans

The Company has a stock-based employee compensation plan. See Note 9. Effective January 1, 2006, the Company adopted the provisions of FASB Statement No. 123 (Revised 2004), *Share-Based Payment* ("SFAS 123R"), which was primarily codified into ASC Topic 718, *"Compensation Stock Compensation."* These standards were adopted using the modified prospective method of application, which required the Company to recognize compensation costs on a prospective basis beginning January 1, 2006. Accordingly, the Company did not restate prior year financial statements. Under this method, the unamortized cost of previously awarded options that were unvested as of January 1, 2006, is recognized over the remaining service period in the statement of operations beginning in 2006, using the fair value amounts determined for pro forma disclosure under these standards. With respect to options granted on or after January 1, 2006, compensation cost based on estimated grant date fair value is recognized over the related service period in the consolidated statement of operations. The stock option expense for the years ended December 31, 2009, 2008 and 2007, was as follows:

($ in millions, except per share amounts)	**2009**	**2008**	**2007**
Employee Stock Option Expense:			
Options granted:			
Previously awarded, unvested options as of January 1, 2006	$	$ 3.9	$ 10.1
Options granted on or after January 1, 2006	3.4	7.9	10.7
Total options granted	3.4	11.8	20.8
Options cancelled in connection with tender offer (see Note 9)			14.4
Total employee stock option expense	$ 3.4	$ 11.8	$ 35.2
Per basic share	$ 0.02	$ 0.07	$ 0.23
Per diluted share	$ 0.02	$ 0.07	$ 0.23

In addition to the employee stock option expense for options granted, administrative expense included $0.1 million, $0.1 million and $0.2 million of expense for each of the years ended December 31, 2009, 2008 and 2007, respectively, related to options granted to directors during each year. Options were granted to non-officer directors in the second quarters of 2009, 2008 and 2007. Options granted to non-officer directors vest on the grant date and therefore, the full expense is recorded on the grant date.

Options Granted. The stock option expense shown in the tables above were based on the underlying value of the options granted by the Company. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model and expensed over the

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vesting period. The following weighted average assumptions were used to calculate the fair value of options granted during the years ended December 31, 2009, 2008, and 2007:

	2009	2008	2007
Expected term (in years)	3.0	5.0	5.0
Risk-free interest rate	1.3%	2.8%	4.6%
Expected volatility	105.0%	27.8%	26.4%
Dividend yield	32.5%	8.5%	8.9%
Weighted average fair value per option	$ 0.21	$ 2.18	$ 2.96

The expected term of the options granted represents the period of time that such options are expected to be outstanding. To determine the expected term of the options, the Company used historical data to estimate option exercise time frames, including considering employee terminations. The risk free rate was based on the U.S. Treasury bond yield curve at the date of grant consistent with the expected term. Expected volatilities were determined based on the historical volatility of the Company's common stock over a historical time period consistent with the expected term. The dividend yield was determined based on the Company's historical dividend yield over a historical time period consistent with the expected term.

To determine the stock options expense for options granted, the calculated fair value of the options granted is applied to the options granted, net of assumed future option forfeitures. The Company estimates that the employee-related stock option expense for outstanding unvested options as of December 31, 2009, will be approximately $3.9 million, $3.9 million and $0.0 million for the years ended December 31, 2010, 2011 and 2012, respectively. This estimate does not include any expense related to stock option grants after December 31, 2009, as the fair value of those stock options will be determined at the time of grant. This estimate may change if the Company's assumptions related to future option forfeitures change. The aggregate total stock option expense remaining as of December 31, 2009, is expected to be recognized over an estimated weighted-average period of 1.46 years.

Options Cancelled in Connection with Tender Offer. As discussed in Note 9, the Company completed a tender offer in July 2007, whereby the Company accepted for cancellation 10.3 million vested options held by employees and non-officer directors of the Company in exchange for an option cancellation payment ("OCP"). The OCP was equal to the "in-the-money" value of the stock options cancelled, determined using the Weighted Average Market Price of $31.75, and was paid one-half in cash and one-half in unregistered shares of the Company's common stock. In accordance with the terms of the tender offer, the Weighted Average Market Price represented the volume weighted average price of the Company's common stock over the fifteen trading days preceding the first day of the offer period, or June 20, 2007. Because the Weighted Average Market Price at the commencement of the tender offer on June 20, 2007, was higher than the market price of the Company's common stock at the close of the offer on July 18, 2007, ASC Topic 718 required the Company to record a non-cash employee-related stock option expense of $14.4 million and administrative expense related to stock options cancelled that were held by non-officer directors of $0.4 million. The same amounts were recorded as an increase to additional paid-in capital and, therefore, had no effect on the Company's net asset value. The portion of the OCP paid in cash of $52.8 million reduced the Company's additional paid-in capital and therefore reduced the Company's net asset value. For income tax purposes, the Company's tax deduction resulting from the OCP will be similar to the tax deduction that would have resulted from an exercise of stock options in the market. Any tax deduction for the Company resulting from the OCP or an exercise of stock options in the market is limited by Section 162(m) of the Internal Revenue Code ("Code").

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Federal and State Income Taxes and Excise Tax

The Company has complied with the requirements of the Code that are applicable to regulated investment companies ("RIC") and real estate investment trusts ("REIT"). ACC and any subsidiaries that qualify as a RIC or a REIT intend to distribute or retain through a deemed distribution all of their annual taxable income to shareholders; therefore, the Company has made no provision for income taxes exclusive of excise taxes for these entities.

If the Company does not distribute at least 98% of its annual taxable income in the year earned, the Company will generally be required to pay an excise tax equal to 4% of the amount by which 98% of the Company's annual taxable income exceeds the distributions from such taxable income during the year earned. To the extent that the Company determines that its estimated current year annual taxable income will be in excess of estimated current year dividend distributions from such taxable income, the Company accrues excise taxes on estimated excess taxable income as taxable income is earned using an annual effective excise tax rate. The annual effective excise tax rate is determined by dividing the estimated annual excise tax by the estimated annual taxable income.

Income taxes for AC Corp are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases as well as operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Per Share Information

Basic earnings per common share is calculated using the weighted average number of common shares outstanding for the year presented. Diluted earnings per common share reflects the potential dilution that could occur if options to issue common stock were exercised into common stock. Earnings per share is computed after subtracting dividends on preferred shares, if any.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

The consolidated financial statements include portfolio investments at value of $2.1 billion and $3.5 billion at December 31, 2009 and 2008, respectively. At December 31, 2009 and 2008, 80% and 94%, respectively, of the Company's total assets represented portfolio investments whose fair values have been determined by the Board of Directors in good faith in the absence of readily available market values. Because of the inherent uncertainty of valuation, the Board of Directors' determined values may differ significantly from the values that would have been used had a ready market existed for the investments, and the differences could be material.

Recent Accounting Pronouncements

Fair Value Measurements. In September 2006, the FASB issued Statement No. 157, which was primarily codified into ASC Topic 820, defines fair value, and which establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company adopted this

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statement on a prospective basis beginning in the quarter ending March 31, 2008. The initial adoption of this statement did not have a material effect on the Company's consolidated financial statements.

ASC Topic 820 also includes the codification of, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active ("FSP 157-3").* These provisions apply to financial assets within the scope of accounting pronouncements that require or permit fair value measurements in accordance with ASC Topic 820. These provisions of ASC Topic 820 provide clarification in a market that is not active and provide an example to illustrate key considerations in determining the fair value. The Company has applied these provisions of ASC Topic 820 relating to determining the fair value of a financial asset when the market for that asset is not active in determining the fair value of its portfolio investments at December 31, 2009. The application of these provisions did not have a material impact on the Company's consolidated financial position or its results of operations.

ASC Topic 820 also includes the codification of *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP 157-4), which was issued by the FASB in April 2009. These provisions provide guidance on how to determine the fair value of assets under ASC Topic 820 in the current economic environment and reemphasize that the objective of a fair value measurement remains an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. These provisions state that a transaction price that is associated with a transaction that is not orderly is not determinative of fair value or market-participant risk premiums and companies should place little, if any, weight (compared with other indications of fair value) on transactions that are not orderly when estimating fair value or market risk premiums.

The Company adopted these provisions of ASC Topic 820 on a prospective basis beginning in the quarter ending March 31, 2009. The adoption of these provisions did not have a material effect on the Company's consolidated financial statements.

Subsequent Events (SFAS 165). In May 2009, the FASB issued SFAS 165, which was primarily codified into ASC Topic 855, which establishes general standards for reporting events that occur after the balance sheet date, but before financial statements are issued or are available to be issued. This standard requires the disclosure of the date through which an entity has evaluated subsequent events and whether that date represents the date the financial statements were issued or were available to be issued.

The Company adopted these provisions of Topic 855 in the quarter ended June 30, 2009. The adoption of these provisions did not have a material impact on the Company's financial statements.

Accounting for Transfers of Financial Assets (SFAS 166), which was codified into ASC Topic 860, *Transfers and Servicing*. In June 2009, the FASB issued SFAS 166, which changes the conditions for reporting a transfer of a portion of a financial asset as a sale and requires additional year-end and interim disclosures. SFAS 166 is effective for fiscal years beginning after November 15, 2009. The implementation of SFAS 166 is not expected to have a material impact on the Company's financial statements.

Amendments to FASB Interpretation No. 46(R) (SFAS 167), which will be codified into ASC Topic 810, *Consolidation*. In June 2009, the FASB issued SFAS 167, which amends the guidance on accounting for variable interest entities. SFAS 167 is effective for fiscal years beginning after November 15, 2009 and interim periods within that fiscal year. The Company has not completed the process of evaluating the impact of adopting this standard.

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Note 3. Portfolio

Private Finance

At December 31, 2009 and 2008, the private finance portfolio consisted of the following:

	2009			2008		
($ in millions)	**Cost**	**Value**	**Yield(1)**	**Cost**	**Value**	**Yield(1)**
Loans and debt securities:						
Senior loans	$ 534.7	$ 278.9	4.9%	$ 556.9	$ 306.3	5.6%
Unitranche debt(2)	420.5	360.4	12.9%	527.5	456.4	12.0%
Subordinated debt(3)	1,504.6	1,051.3	13.4%	2,300.1	1,829.1	12.9%
Total loans and debt securities(4)	2,459.8	1,690.6	11.9%	3,384.5	2,591.8	11.9%
Equity securities:						
Preferred shares/income notes of CLOs(5)	242.9	86.4	8.0%	248.2	179.2	16.4%
Subordinated certificates in Senior Secured Loan Fund LLC(5)			%	125.4	125.4	12.0%
Other equity securities	907.2	298.3		1,119.3	502.7	
Total equity securities	1,150.1	384.7		1,492.9	807.3	
Total	$ 3,609.9	$ 2,075.3		$ 4,877.4	$ 3,399.1	

(1) The weighted average yield on loans and debt securities is computed as the (a) annual stated interest on accruing loans and debt securities plus the annual amortization of loan origination fees, original issue discount, and market discount on accruing loans and debt securities less the annual amortization of loan origination costs, divided by (b) total loans and debt securities at value. At December 31, 2009 and 2008, senior loans included the senior secured loan to Ciena totaling $319.0 million and $319.0 million at cost, respectively, and $100.1 million and $104.9 million at value, respectively, which was placed on non-accrual on the purchase date.

The weighted average yield on the preferred shares/income notes of CLOs is calculated as the (a) effective interest yield on the preferred shares/income notes of CLOs, divided by (b) total preferred shares/income notes of CLOs at value. The weighted average yields are computed as of the balance sheet date. The effective interest yield on the CLO assets represents the yield used for recording interest income. The market yield used in the valuation of the CLO assets may be different than the interest yields.

The weighted average yield on the subordinated certificates in the Senior Secured Loan Fund LLC is computed as the (a) effective interest yield on the subordinated certificates divided by (b) total investment at value.

(2) Unitranche debt is an investment that combines both senior and subordinated financing, generally in a first lien position.

(3) Subordinated debt includes bonds in CLOs and in a CDO.

(4) The total principal balance outstanding on loans and debt securities was $2,484.1 million and $3,418.0 million at December 31, 2009 and 2008, respectively. The difference between principal and cost primarily represents unamortized loan origination fees and costs, original issue discounts, and market discounts totaling $24.3 million and $33.5 million at December 31, 2009 and 2008, respectively.

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(5) Investments in the preferred shares/income notes of CLOs and the subordinated certificates in Senior Secured Loan Fund LLC earned a current return that is included in interest income in the accompanying consolidated statement of operations.

The Company's private finance investment activity principally involves providing financing through privately negotiated debt and equity investments. The Company's private finance debt and equity investments generally are issued by private companies and generally are illiquid and may be subject to certain restrictions on resale.

The Company's private finance debt investments generally are structured as loans and debt securities that carry a relatively high fixed rate of interest, which may be combined with equity features, such as conversion privileges, or warrants or options to purchase a portion of the portfolio company's equity at a pre-determined strike price, which generally is a nominal price for warrants or options in a private company. The annual stated interest rate is only one factor in pricing the investment relative to the Company's rights and priority in the portfolio company's capital structure, and will vary depending on many factors, including if the Company has received nominal cost equity or other components of investment return, such as loan origination fees or market discount. The stated interest rate may include some component of contractual payment-in-kind interest, which represents contractual interest accrued and added to the loan balance that generally becomes due at maturity.

At December 31, 2009 and 2008, 79% and 85%, respectively of the private finance loans and debt securities had a fixed rate of interest and 21% and 15%, respectively, had a floating rate of interest. Senior loans may carry a fixed rate of interest or a floating rate of interest, set as a spread over prime or LIBOR, and may require payments of both principal and interest throughout the life of the loan. Senior loans generally have contractual maturities of three to six years and interest is generally paid to the Company monthly or quarterly. Unitranche debt generally carries a fixed rate of interest. Unitranche debt generally requires payments of both principal and interest throughout the life of the loan. Unitranche debt generally has contractual maturities of five to six years and interest generally is paid to the Company quarterly. Subordinated debt generally carries a fixed rate of interest generally with contractual maturities of five to ten years and generally has interest-only payments in the early years and payments of both principal and interest in the later years, although maturities and principal amortization schedules may vary. Interest on subordinated debt generally is paid to the Company quarterly.

Equity securities primarily consist of securities issued by private companies and may be subject to certain restrictions on their resale and are generally illiquid. The Company may make equity investments for minority stakes in portfolio companies or may receive equity features, such as nominal cost warrants. The Company also may invest in the equity (preferred and/or voting or non-voting common) of a portfolio company where the Company's equity ownership may represent a significant portion of the equity, but may or may not represent a controlling interest. If the Company invests in non-voting equity in a buyout investment, the Company generally has the option to acquire a controlling stake in the voting securities of the portfolio company at fair market value. The Company may incur costs associated with making buyout investments that will be included in the cost basis of the Company's equity investment. These include costs such as legal, accounting and other professional fees associated with diligence, referral and investment banking fees, and other costs. Equity securities generally do not produce a current return, but are held with the potential for investment appreciation and ultimate gain on sale.

Ciena Capital LLC. Ciena Capital LLC (f/k/a Business Loan Express, LLC) ("Ciena") has provided loans to commercial real estate owners and operators. Ciena has been a participant in the Small Business Administration's 7(a) Guaranteed Loan Program and its wholly-owned subsidiary is licensed by the SBA as a Small Business Lending Company ("SBLC"). Ciena is headquartered in New York, NY.

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On September 30, 2008, Ciena voluntarily filed for bankruptcy protection under Chapter 11 of Title 11 of the United States Code (the Bankruptcy Code) in the United States Bankruptcy Court for the Southern District of New York (the Court). Ciena continues to service and manage its assets as a "debtor-in-possession" under the jurisdiction of the Court and in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Court.

As a result of Ciena's decision to file for bankruptcy protection, the Company's unconditional guaranty of the obligations outstanding under Ciena's revolving credit facility became due and, in lieu of paying under our guarantee, the Company purchased the positions of the senior lenders under Ciena's revolving credit facility. As of December 31, 2009, the senior secured loan to Ciena had a cost basis of $319.0 million and a value of $100.1 million. The Company continues to guarantee the remaining principal balance of $5 million, plus related interest, fees and expenses payable to a third party bank. In connection with its continuing guaranty of the amounts held by this bank, the Company has agreed that the amounts owing to the bank under the Ciena revolving credit facility will be paid before any of the secured obligations of Ciena now owed to the Company.

At December 31, 2009 and 2008, the Company's investment in Ciena was as follows:

	2009		2008	
($ in millions)	**Cost**	**Value**	**Cost**	**Value**
Senior Loan	$ 319.0	$ 100.1	$ 319.0	$ 104.9
Class B Equity Interests(1)	119.5		119.5	
Class C Equity Interests(1)	109.1		109.3	
Total(2)	$ 547.6	$ 100.1	$ 547.8	$ 104.9

(1) At December 31, 2009 and 2008, the Company held 100% of the Class B equity interests and 94.9% of the Class C equity interests.

(2) In addition to the Company's investment in Ciena in the portfolio, the Company has amounts receivable from or related to Ciena that are included in other assets in the accompanying consolidated financial statements. See below.

During the year ended December 31, 2009, the Company funded $97.4 million to support Ciena's term securitizations in lieu of draws under related standby letters of credit. This was required primarily as a result of the issuer of the letters of credit not extending maturing standby letters of credit that were issued under the Company's former revolving line of credit. The amounts funded were recorded as other assets in the accompanying consolidated balance sheet. At December 31, 2009 and 2008, other assets includes amounts receivable from or related to Ciena totaling $112.7 million and $15.4 million at cost and $1.9 million and $2.1 million at value, respectively. Net change in unrealized appreciation or depreciation included a net decrease of $102.0 million and $174.5 million for the years ended December 31, 2009 and 2007, respectively, related to the Company's investment in and receivables from Ciena. Net change in unrealized appreciation or depreciation for the year ended December 31, 2008, included a decrease in the Company's investment in Ciena totaling $296.0 million and the reversal of unrealized depreciation of $99.0 million associated with the realized loss on the sale of the Company's Class A equity interests.

At December 31, 2009, the Company had no outstanding standby letters of credit issued under its former revolving line of credit. The Company has considered the letters of credit and the funding thereof in the valuation of Ciena at December 31, 2009.

The Company's investment in Ciena was on non-accrual status, therefore the Company did not earn any interest and related portfolio income from its investment in Ciena for each of the years ended December 31, 2009 and 2008.

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At December 31, 2009, Ciena had one non-recourse SBA loan warehouse facility, which has reached its maturity date but remains outstanding. Ciena is working with the providers of the SBA loan warehouse facility with regard to the repayment of that facility. The Company has issued a performance guaranty whereby the Company agreed to indemnify the warehouse providers for any damages, losses, liabilities and related costs and expenses that they may incur as a result of Ciena's failure to perform any of its obligations as loan originator, loan seller or loan servicer under the warehouse facility.

The Office of the Inspector General of the SBA (OIG) and the United States Secret Service are conducting ongoing investigations of allegedly fraudulently obtained SBA-guaranteed loans issued by Ciena.

Ciena also is subject to other SBA and OIG audits, investigations, and reviews. In addition, the Office of the Inspector General of the U.S. Department of Agriculture is conducting an investigation of Ciena's lending practices under the Business and Industry Loan (B&I) program. The OIG and the U.S. Department of Justice are also conducting a civil investigation of Ciena's lending practices in various jurisdictions. The Company is unable to predict the outcome of these inquiries, and it is possible that third parties could try to seek to impose liability against the Company in connection with certain defaulted loans in Ciena's portfolio. These investigations, audits and reviews are ongoing.

These investigations, audits, reviews, and litigation have had and may continue to have a material adverse impact on Ciena and, as a result, could continue to negatively affect the Company's financial results. The Company has considered Ciena's voluntary filing for bankruptcy protection, the letters of credit and the funding thereof current regulatory issues, ongoing investigations, and litigation in performing the valuation of Ciena at December 31, 2009 and 2008.

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Collateralized Loan Obligations ("CLOs") and Collateralized Debt Obligations ("CDOs"). At December 31, 2009 and 2008, the Company owned bonds and preferred shares/income notes in CLOs and bonds in a CDO as follows:

($ in millions)	2009 Cost	2009 Value	2009 Yield(1)	2008 Cost	2008 Value	2008 Yield(1)
Bonds(2):						
Callidus Debt Partners CDO Fund I, Ltd.	$ 29.0	$ 2.2	%	$ 28.4	$ 10.1	39.4%
Callidus Debt Partners CLO Fund IV, Ltd.	2.2	1.7	20.2%	2.0	1.4	26.9%
Callidus Debt Partners CLO Fund VI, Ltd.	7.8	4.3	19.2%	7.1	3.9	26.1%
Callidus MAPS CLO Fund I LLC	17.0	11.7	8.4%	17.0	9.8	12.2%
Callidus MAPS CLO Fund II LLC	3.9	3.2	24.1%	3.6	3.0	30.2%
Dryden XVIII Leveraged Loan 2007 Limited	7.5	2.1	%	7.7	4.5	20.5%
Knightsbridge CLO 2007-1 Ltd.(3)	18.7	11.4	15.3%	18.7	14.9	17.4%
Knightsbridge CLO 2008-1 Ltd.(3)	32.1	29.5	11.2%	31.4	31.4	10.2%
Pangaea CLO 2007-1 Ltd.	12.1	6.6	17.7%	11.8	7.1	25.0%
Total bonds	130.3	72.7	12.5%	127.7	86.1	18.5%
Preferred Shares/Income Notes:						
Callidus Debt Partners CLO Fund III, Ltd.	20.1	4.1	%	20.1	5.4	%
Callidus Debt Partners CLO Fund IV, Ltd.	14.9	5.4	%	14.6	10.6	18.1%
Callidus Debt Partners CLO Fund V, Ltd.	13.4	5.0	3.8%	13.4	10.3	21.3%
Callidus Debt Partners CLO Fund VI, Ltd.	29.1	5.0	%	28.3	23.1	21.8%
Callidus Debt Partners CLO Fund VII, Ltd.	24.8	7.2	%	24.0	15.4	17.9%
Callidus MAPS CLO Fund I LLC	38.5	14.1	%	45.1	27.8	6.5%
Callidus MAPS CLO Fund II, Ltd.	17.8	6.3	7.1%	18.4	12.6	19.3%
Dryden XVIII Leveraged Loan 2007 Limited	23.2	2.4	%	22.1	17.5	20.2%
	39.2	16.2	10.6%	40.9	35.2	17.4%

Knightsbridge CLO 2007-1 Ltd.(3)						
Knightsbridge CLO 2008-1 Ltd.(3)	21.9	20.7	22.1%	21.3	21.3	16.6%
Total preferred shares/income notes	242.9	86.4	8.0%	248.2	179.2	16.4%
Total	$ 373.2	$ 159.1		$ 375.9	$ 265.3	

(1) The weighted average yield is calculated as the (a) annual stated interest or the effective interest yield on the accruing bonds or the effective interest yield on the preferred shares/income notes, divided by (b) CLO and CDO assets at value. The yield on these debt and equity securities is included in interest income in the accompanying consolidated statement of operations.

The market yield used in the valuation of the CLO and CDO assets may be different than the interest yields shown above.

(2) These securities are included in private finance subordinated debt.

(3) These funds are managed by the Company through a wholly-owned subsidiary.

The initial yields on the cost basis of the CLO preferred shares and income notes are based on the estimated future cash flows expected to be paid to these CLO classes from the underlying collateral assets. As each CLO preferred share or income note ages, the estimated future cash flows are updated based on the estimated performance of the underlying collateral assets, and the respective yield on the cost basis is adjusted as necessary. As future cash flows are subject to uncertainties and contingencies that are difficult to predict and are subject to future events that may alter current assumptions, no assurance can be given that the anticipated yields to maturity will be achieved.

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The bonds, preferred shares and income notes of the CLOs and CDO in which the Company has invested are junior in priority for payment of interest and principal to the more senior notes issued by the CLOs and CDO. Cash flow from the underlying collateral assets in the CLOs and CDO generally is allocated first to the senior bonds in order of priority, then any remaining cash flow generally is distributed to the preferred shareholders and income note holders. To the extent there are ratings downgrades, defaults and unrecoverable losses on the underlying collateral assets that result in reduced cash flows, the preferred shares/income notes will bear this loss first and then the subordinated bonds would bear any loss after the preferred shares/income notes. At both December 31, 2009 and 2008, the face value of the CLO and CDO assets held by the Company was subordinate to as much as 94% of the face value of the securities outstanding in these CLOs and CDO.

At December 31, 2009 and 2008, based on information provided by the collateral managers, the underlying collateral assets of these CLO and CDO issuances, consisting primarily of senior corporate loans, were issued by 626 issuers and 658 issuers, respectively, and had principal balances as follows:

($ in millions)	**2009**	**2008**
Bonds	$ 229.3	$ 268.3
Syndicated loans	4,313.8	4,477.3
Cash(1)	156.2	89.6
Total underlying collateral assets(2)	$ 4,699.3	$ 4,835.2

(1) Includes undrawn liability amounts.

(2) At December 31, 2009 and 2008, the total face value of defaulted obligations was $148.6 million and $95.0 million, respectively, or approximately 3.5% and 2.0% respectively, of the total underlying collateral assets.

Loans and Debt Securities on Non-Accrual Status. At December 31, 2009 and 2008, private finance loans and debt securities at value not accruing interest were as follows:

($ in millions)	**2009**	**2008**
Loans and debt securities		
Companies more than 25% owned	$ 177.1	$ 176.1
Companies 5% to 25% owned	16.0	
Companies less than 5% owned	47.4	151.8
Total	$ 240.5	$ 327.9

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Industry and Geographic Compositions. The industry and geographic compositions of the private finance portfolio at value at December 31, 2009 and 2008, were as follows:

	2009	2008
Industry		
Business services	32%	36%
Consumer products	29	24
Financial services	9	6
CLO/CDO(1)	8	8
Consumer services	5	5
Industrial products	4	5
Education services	3	2
Healthcare services	3	2
Retail	3	5
Private debt funds		5
Other	4	2
Total	100%	100%
Geographic Region(2)		
Mid-Atlantic	37%	41%
Midwest	32	28
Southeast	17	17
West	13	13
Northeast	1	1
Total	100%	100%

(1) These funds primarily invest in senior corporate loans. Certain of these funds are managed by Callidus Capital, a portfolio company of Allied Capital.

(2) The geographic region for the private finance portfolio depicts the location of the headquarters for the Company's portfolio companies. The portfolio companies may have a number of other locations in other geographic regions.

Commercial Real Estate Finance

At December 31, 2009 and 2008, the commercial real estate finance portfolio consisted of the following:

	2009			2008		
($ in millions)	**Cost**	**Value**	**Yield(1)**	**Cost**	**Value**	**Yield(1)**
Commercial mortgage loans	$ 42.0	$ 35.4	5.1%	$ 52.5	$ 53.5	7.4%
Real estate owned	5.9	6.4		18.2	20.8	
Equity interests	27.3	14.0		14.8	19.6	
Total	$ 75.2	$ 55.8		$ 85.5	$ 93.9	

(1) The weighted average yield on the commercial mortgage loans is computed as the (a) annual stated interest on accruing loans plus the annual amortization of loan origination fees, original issue discount, and market discount on accruing loans less the annual amortization of origination costs, divided by (b) total interest-bearing investments at value. The weighted average yield is computed as of the balance sheet date.

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Commercial Mortgage Loans and Equity Interests. The commercial mortgage loan portfolio contains loans that were originated by the Company or were purchased from third-party sellers. At December 31, 2009, approximately 55% and 45% of the Company's commercial mortgage loan portfolio was composed of fixed and adjustable interest rate loans, respectively. At December 31, 2008, approximately 69% and 31% of the Company's commercial mortgage loan portfolio was composed of fixed and adjustable interest rate loans, respectively. At December 31, 2009 and 2008, loans with a value of $6.1 million and $7.7 million, respectively, were not accruing interest. Loans greater than 120 days delinquent generally do not accrue interest.

Equity interests consist primarily of equity securities issued by privately owned companies that invest in single real estate properties. These equity interests may be subject to certain restrictions on their resale and are generally illiquid. Equity interests generally do not produce a current return, but are generally held in anticipation of investment appreciation and ultimate realized gain on sale.

The property types and the geographic composition securing the commercial mortgage loans and equity interests at value at December 31, 2009 and 2008, were as follows:

	2009	2008
Property Type		
Hospitality	60%	52%
Recreation	32	22
Office	6	15
Retail		9
Other	2	2
Total	100%	100%
Geographic Region		
Southeast	41%	43%
West	33	26
Midwest	14	22
Northeast	12	9
Mid-Atlantic		
Total	100%	100%

Fair Value Measurements

The Company, as a BDC, has invested in illiquid securities including debt and equity securities of portfolio companies, CLO bonds and preferred shares/income notes, CDO bonds and investment funds. The Company's investments may be subject to certain restrictions on resale and generally have no established trading market. The Company values substantially all of its investments at fair value as determined in good faith by the Board of Directors in accordance with the Company's valuation policy and the provisions of the Investment Company Act of 1940 and ASC Topic 820. The Company determines fair value to be the price that would be received for an investment in a current sale, which assumes an orderly transaction between market participants on the measurement date. The Company's valuation policy considers the fact that no ready market exists for substantially all of the securities in which it invests and that fair value for its investments must typically be determined using unobservable inputs.

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ASC Topic 820 establishes a fair value hierarchy that encourages the use of observable inputs, but allows for unobservable inputs when observable inputs do not exist. Inputs are classified into one of three categories:

Level 1 Quoted prices (unadjusted) in active markets for identical assets

Level 2 Inputs other than quoted prices that are observable to the market participant for the asset or quoted prices in a market that is not active

Level 3 Unobservable inputs

When there are multiple inputs for determining the fair value of an investment, the Company classifies the investment in total based on the lowest level input that is significant to the fair value measurement.

The Company has $381.0 million in investments in money market and other securities, which the Company has determined are Level 1 assets but are not presented in the Company's investment portfolio. Portfolio assets measured at fair value on a recurring basis by level within the fair value hierarchy at December 31, 2009, were as follows:

($ in millions)	Fair Value Measurement as of December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets at Fair Value:				
Portfolio				
Private finance:				
Loans and debt securities	$ 1,690.6	$	$	$ 1,690.6
Preferred shares/income notes of CLOs	86.4			86.4
Other equity securities	298.3			298.3
Commercial real estate finance	55.8			55.8
Total portfolio	$ 2,131.1	$	$	$ 2,131.1

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The table below sets forth a summary of changes in the Company's assets measured at fair value using level 3 inputs.

($ in millions)	Loans and Debt Securities	Preferred Shares/ Income Notes of CLOs	Private Finance Subordinated Certificates in Senior Secured Fund LLC	Other Equity Securities	Commercial Real Estate Finance	Total
Balance at December 31, 2008	$ 2,591.8	$ 179.2	$ 125.4	$ 502.7	$ 93.9	$ 3,493.0
Total gains or losses						
Net realized gains (losses)(1)	(247.8)	14.3	6.2	(115.3)	(3.7)	(346.3)
Net change in unrealized appreciation or depreciation(2)	23.4	(87.5)		7.7	(27.8)	(84.2)
Purchases, issuances, repayments and exits, net(3)	(676.8)	(19.6)	(131.6)	(96.8)	(6.6)	(931.4)
Transfers in and/or out of level 3						
Balance at December 31, 2009	$ 1,690.6	$ 86.4	$	$ 298.3	$ 55.8	$ 2,131.1
Net unrealized appreciation (depreciation) during the period relating to assets still held at the reporting date(2)	$ (204.1)	$ (87.5)	$	$ (85.1)	$ (29.2)	$ (405.9)

(1) Includes net realized gains (losses) (recorded as realized gains or losses in the accompanying consolidated statement of operations), and amortization of discounts and closing points (recorded as interest income in the accompanying consolidated statement of operations).

(2) Included in change in net unrealized appreciation or depreciation in the accompanying consolidated statement of operations. Net change in unrealized appreciation or depreciation includes net unrealized appreciation (depreciation) resulting from changes in portfolio investment values during the reporting period and the reversal of previously recorded unrealized appreciation or depreciation when associated gains or losses are realized. The net change in unrealized appreciation or depreciation in the consolidated statement of operations also includes the change in value of escrow and other receivables from portfolio companies that are included in other assets on the consolidated balance sheet.

(3) Includes interest and dividend income reinvested through the receipt of a debt or equity security (payment-in-kind income) (recorded as interest and dividend income in the accompanying consolidated statement of operations).

Managed Funds

In addition to managing its own assets, the Company manages certain funds that also invest in the debt and equity securities of primarily private middle market companies in a variety of industries and broadly syndicated senior secured loans. At December 31, 2009, the Company had six separate funds under its management (together, the "Managed Funds") for which the Company may earn management or other fees for the Company's services. In some cases, the Company has invested in the equity of these funds, along with other third parties, from which the Company may earn a current return and/or a future incentive allocation.

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In the first quarter of 2009, the Company completed the acquisition of the management contracts of three middle market senior debt CLOs (together, the Emporia Funds) and certain other related assets for approximately $11 million (subject to post-closing adjustments). The acquired assets are included in other assets in the accompanying consolidated balance sheet and are being amortized over the life of the contracts. During the fourth quarter of 2009, the Company sold its investment, including its outstanding commitments and the provision of management services, in the Senior Secured Loan Fund LLC to Ares Capital, and the Company sold its investment, including the provision of management services, in the Allied Capital Senior Debt Fund, L.P. to Ivy Hill Asset Management, L.P., a portfolio company of Ares Capital.

During the year ended December 31, 2009, the Company sold assets to certain of the Managed Funds for which it received proceeds of $9.7 million and the Company recognized a net realized gain of $6.3 million. During the year ended December 31, 2008, the Company sold assets to certain of the Managed Funds, for which it received proceeds of $383.0 million, respectively, and the Company recognized realized gains of $8.3 million.

In addition to managing these funds, we hold certain investments in the Managed Funds as of December 31, 2009 and 2008 as follows:

($ in millions)		**2009**		**2008**	
Name of Fund	**Investment Description**	**Cost**	**Value**	**Cost**	**Value**
Senior Secured Loan Fund LLC(1)	Subordinated Certificates and Equity Interests	$	$	$ 125.4	$ 125.4
Allied Capital Senior Debt Fund, L.P.(1)	Equity interests			31.8	31.8
Knightsbridge CLO 2007-1 Ltd.	Class E Notes and Income Notes	57.9	27.6	59.6	50.1
Knightsbridge CLO 2008-1 Ltd.	Class C Notes, Class D Notes, Class E Notes and Income Notes	54.0	50.2	52.7	52.7
AGILE Fund I, LLC	Equity Interests	0.6	0.4	0.7	0.5
Total		$ 112.5	$ 78.2	$ 270.2	$ 260.5

(1) In the fourth quarter of 2009, the Company sold its investment, including its outstanding commitments and the provision of management services, in the Senior Secured Loan Fund LLC to Ares Capital, and the Company sold its investment, including the provision of management services, in the Allied Capital Senior Debt Fund, L.P. to Ivy Hill Asset Management, L.P., a portfolio company of Ares Capital.

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Note 4. Debt

At December 31, 2009 and 2008, the Company had the following debt:

	2009			2008		
($ in millions)	**Facility Amount**	**Amount Drawn**	**Annual Interest Cost(1)**	**Facility Amount**	**Amount Drawn**	**Annual Interest Cost(1)**
Notes payable:						
Privately issued secured notes payable (formerly unsecured)	$ 673.2	$ 673.2(5)	13.0%	$ 1,015.0	$ 1,015.0	7.8%
Publicly issued unsecured notes payable	745.5	745.5	6.7%	880.0	880.0	6.7%
Total notes payable	1,418.7	1,418.7	9.7%	1,895.0	1,895.0	7.3%
Bank secured term debt (former revolver)(4)	41.1	41.1	16.0%(2)	632.5	50.0	4.3%(2)
Total debt	$ 1,459.8	$ 1,459.8	9.8%(3)	$ 2,527.5	$ 1,945.0	7.7%(3)

(1) The weighted average annual interest cost is computed as the (a) annual stated interest on the debt plus the annual amortization of commitment fees, other facility fees and amortization of debt financing costs and original issue discount that are recognized into interest expense over the contractual life of the respective borrowings, divided by (b) debt outstanding on the balance sheet date.

(2) The annual interest cost reflects the interest rate payable for borrowings under the bank debt facility in effect at the balance sheet date. In addition to the current interest payable, there were annual costs of commitment fees, other facility fees and amortization of debt financing costs are $3.1 million and $8.5 million at December 31, 2009 and 2008, respectively.

(3) The annual interest cost for total debt includes the annual cost of commitment fees, other facility fees and amortization of debt financing costs on the bank debt facility regardless of the amount outstanding on the facility as of the balance sheet date. The annual interest cost reflects the facilities in place on the balance sheet date.

(4) At December 31, 2008, $460.2 million remained unused on the revolving line of credit, net of amounts committed for standby letters of credit of $122.3 million issued under the credit facility.

(5) The notes payable on the consolidated balance sheet are shown net of OID of approximately $33.8 million as of December 31, 2009.

Privately Issued Debt

At December 31, 2009, the Company had outstanding privately issued notes (the "Notes") of $673.2 million and $41.1 million outstanding under its bank facility (the "Facility"). The Notes and the Facility were restructured on August 28, 2009. Beginning in January 2009, the Company engaged in discussions with the revolving line of credit lenders (the "Lenders") and the private noteholders (the "Noteholders") to seek relief under certain terms of both the Facility and the Notes due to certain covenant defaults. As of December 31, 2008, the Company's asset coverage was less than the 200% then required by the revolving credit facility and the private notes. Asset coverage generally refers to the percentage resulting from assets less accounts payable and other liabilities, divided by total debt.

In connection with the restructuring, the Company granted the Noteholders and the Lenders a pari-passu blanket lien on a substantial portion of its assets, including a substantial portion of the assets of the Company's consolidated subsidiaries.

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The financial covenants applicable to the Notes and the Facility were modified as part of the restructuring. The Consolidated Debt to Consolidated Shareholders' Equity covenant and the Capital Maintenance covenant were both eliminated. The Asset Coverage ratio was set at 1.35:1 initially, increasing to 1.4:1 at June 30, 2010 and to 1.55:1 at June 30, 2011, and maintained at that level thereafter. A new covenant, Total Adjusted Assets to Secured Debt, was set at 1.75:1 initially, increasing to 2.0:1 at June 30, 2010 and to 2.25:1 at June 30, 2011, and maintained at that level thereafter. The ratio of Adjusted EBIT to Adjusted Interest Expense was set at 1.05:1 initially, decreasing to 0.95:1 at December 31, 2009, 0.80:1 at March 31, 2010 and 0.75:1 at June 30, 2010. The covenant will then be increased to 0.80:1 on December 31, 2010 and 0.95:1 on December 31, 2011 and maintained at that level thereafter.

The Notes and Facility impose certain limitations on the Company's ability to incur additional indebtedness, including precluding the Company from incurring additional indebtedness unless its asset coverage of all outstanding indebtedness is at least 200%. Pursuant to the 1940 Act, the Company is not permitted to issue indebtedness unless immediately after such issuance the Company has asset coverage of all outstanding indebtedness of at least 200%. At December 31, 2009, the Company's asset coverage ratio was 180%, which is less than the 200% requirement. As a result, the Company will not be able to issue additional indebtedness until such time as its asset coverage returns to at least 200%.

The Company is required to apply 50% of all net cash proceeds from asset sales to the repayment of the Notes and 6% of all net cash proceeds from asset sales to the repayment of the Facility, subject to certain conditions and exclusions. In the case of certain events of default, the Company would be required to apply 100% of all net cash proceeds from asset sales to the repayment of its secured lenders. Under the new agreements, subject to a limit and certain liquidity restrictions, the Company may repurchase its public debt; however, the Company is prohibited from repurchasing its common stock and may not pay dividends in excess of the minimum the Company reasonably believes is required to maintain its tax status as a regulated investment company. In addition, upon the occurrence of a change of control (as defined in the Note Agreement and Credit Agreement), the Noteholders have the right to be prepaid in full and the Company is required to repay in full all amounts outstanding under the Facility.

The Note Agreement and Credit Agreement provide for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, cross-defaults, bankruptcy events and failure to pay judgments. Certain of these events of default are subject to notice and cure periods or materiality thresholds. Pursuant to the terms of the Notes, the occurrence of an event of default generally permits the holders of more than 50% in principal amount of outstanding Notes to accelerate repayment of all amounts due thereunder. The occurrence of an event of default would generally permit the administrative agent for the lenders under the Facility, or the holders of more than 51% of the aggregate principal debt outstanding under the Facility, to accelerate repayment of all amounts outstanding thereunder. Pursuant to the Notes, during the continuance of an event of default, the rate of interest applicable to the Notes would increase by 200 basis points. Pursuant to the terms of the Facility, during the continuance of an event of default, the applicable spread on any borrowings outstanding under the Facility would increase by 200 basis points.

Privately Issued Notes Payable. The Company made principal payments on the Notes at and prior to the closing of the restructuring and had $841.0 million of Notes outstanding following the closing of the restructuring.

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In connection with the restructuring, the existing Notes were exchanged for three new series of Notes containing the following terms:

($ in millions)	Principal Amount(1)	Maturity Dates	Annual Stated Interest Rate Through December 31, 2009(2)	Annual Stated Interest Rate Beginning January 1, 2010(2)	Annual Stated Interest Rate Beginning January 1, 2011(2)	Annual Stated Interest Rate Beginning January 1, 2012(2)
Series A	$ 253.8	June 15, 2010	8.50%	9.25%	N/A	N/A
Series B	$ 253.8	June 15, 2011	9.00%	9.50%	9.75%	N/A
Series C	$ 333.5	March 31 & April 1, 2012	9.50%	10.00%	10.25%	10.75%

(1) Amount outstanding at closing on August 28, 2009.

(2) The Notes generally require payment of interest quarterly.

The Company made various cash payments in connection with the restructuring of its Notes. The Company paid an amendment fee at closing of $15.2 million. In addition, the Company paid a make-whole fee of $79.7 million related to a contractual provision in the old Notes. Due to the payment of this make-whole fee, the new Notes have no significant make-whole requirement. The Company also paid a restructuring fee of $50.0 million at closing, which will be applied toward the principal balance of the Notes if the Notes are refinanced in full on or before January 31, 2010.

Bank Facility. At June 30, 2009, the Company had an unsecured revolving line of credit that was due to expire on April 11, 2011. The Company's Facility was restructured from a revolving facility to a term facility maturing on November 13, 2010. Total commitments under the Facility were reduced at closing to $96.0 million from $115.0 million prior to closing. At closing, there were $50.0 million of borrowings and $46.0 million of standby letters of credit ("LCs") outstanding under the Facility. The $46.0 million of LCs terminated and/or expired prior to September 30, 2009 and the commitments under the Facility were reduced by a commensurate amount. As a result, the total commitment and outstanding balance was $50.0 million at September 30, 2009.

Borrowings under the Facility bear interest at a floating rate of interest, subject to a floor. The floating rate spread increases by 0.5% per annum beginning on January 1, 2010 and continuing through maturity. At closing, the interest rate on the Facility was 8.5% per annum. The Facility requires the payment of a commitment fee equal to 0.50% per annum of the committed amount. In addition, the Company agreed to pay an amendment fee at closing of $1.0 million, and a restructuring fee payable on January 31, 2010 equal to 1.0% of the outstanding borrowings on such date if the Facility remains outstanding. The Facility generally requires payments of interest no less frequently than quarterly.

Private Debt Refinance. On January 29, 2010, the Company repaid the Notes and the Facility (collectively, the "Existing Private Debt") in full using cash on hand from asset sales and repayments and proceeds from a new term loan. In addition, by repaying the Notes before January 31, 2010, the Company was able to apply the $50.0 million restructuring fee paid at closing of the August 2009 restructure toward the principal balance of the Notes. In connection with the repayment and refinancing, the Company entered into a Second Amended and Restated Credit Agreement (the "Credit Agreement") pursuant to which the Company obtained a senior secured term loan in the aggregate amount of $250 million (the "Term Loan"). On January 29, 2010, after giving effect to the refinancing and the full repayment of the Existing Private Debt, the Company had total outstanding debt of $995.5 million and cash and investments in money market and other securities of approximately $128 million.

The Term Loan matures on February 28, 2011. The Company is required to make mandatory repayments of the Term Loan (i) using 56% of all net cash proceeds from asset dispositions, subject to certain conditions and exclusions, (ii) using 100% of proceeds from any unsecured debt issuance,

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(iii) using 100% of available cash in excess of $125 million at any month end and (iv) to cure any borrowing base deficiencies, as discussed below. In addition, the Term Loan must be repaid in full if at any time the outstanding principal balance is less than or equal to $25 million and the Company's available cash is then equal to or greater than $125 million. The Term Loan generally becomes due and payable in full upon a change of control of the Company; except that, in certain circumstances, the Term Loan may be assumed by Ares Capital in connection with the consummation of the merger contemplated by the Agreement and Plan of Merger, dated as of October 26, 2009, among Ares Capital, ARCC Odyssey Corp. and the Company.

At the Company's election, borrowings under the Term Loan will generally bear interest at a rate per annum equal to (i) LIBOR plus 4.50% or (ii) 2.00% plus the higher of (a) the JPMorgan Chase Bank, N.A. prime rate, (b) the daily one-month LIBOR plus 2.5%, and (c) the federal funds effective rate plus 0.5%. In addition to the interest paid on the Term Loan, the Company incurred other fees and costs associated with the repayment and refinancing and will also incur additional exit fees, which increase over the term of the loan, as the Term Loan is repaid.

Consistent with the terms of the Existing Private Debt, the Company has granted the Term Loan lenders a blanket lien on a substantial portion of its assets. Borrowings under the Term Loan are subject to a requirement that the borrowing base (as defined in the Credit Agreement) be greater than 2.5x the outstanding principal balance of the Term Loan at any time such outstanding principal balance is greater than $175 million, and greater than 2.0x at any time such outstanding principal balance is less than or equal to $175 million. If the borrowing base falls below the minimum coverage requirement, the Company is required to make repayments of the Term Loan in an amount sufficient to bring the coverage ratio to the required level.

The Credit Agreement contains various operating covenants applicable to the Company. The Term Loan requires that the Company maintain a ratio of Adjusted EBIT to Adjusted Interest Expense (as such terms are defined in the Credit Agreement) of not less than 0.70:1.0, measured as of the last day of each fiscal quarter as provided in the Credit Agreement. In addition, the Company is precluded from incurring additional indebtedness unless its asset coverage of all outstanding indebtedness is at least 200% and may not pay dividends in excess of the minimum the Company reasonably believes is required to maintain its tax status as a regulated investment company.

The Credit Agreement contains customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, cross-defaults, bankruptcy events and failure to pay judgments. Certain of these events of default are subject to notice and cure periods or materiality thresholds. The occurrence of an event of default would permit the administrative agent for the lenders under the Term Loan, or the holders of more than 51% of the aggregate principal debt outstanding under the Term Loan, to declare the entire unpaid principal balance outstanding due and payable. Pursuant to the terms of the Credit Agreement, during the continuance of an event of default, at the election of the required lenders, the applicable interest on any outstanding principal amount of the Term Loan would increase by 200 basis points.

Publicly Issued Unsecured Notes Payable. At December 31, 2009, the Company had outstanding publicly issued unsecured notes as follows:

($ in millions)	Amount	Maturity Date
6.625% Notes due 2011	$ 319.9	July 15, 2011
6.000% Notes due 2012	195.6	April 1, 2012
6.875% Notes due 2047	230.0	April 15, 2047
Total	$ 745.5	

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The 6.625% Notes due 2011 and the 6.000% Notes due 2012 require payment of interest only semi-annually, and all principal is due upon maturity. The Company has the option to redeem these notes in whole or in part, together with a redemption premium, as stipulated in the notes.

The 6.875% Notes due 2047 require payment of interest only quarterly, and all principal is due upon maturity. These notes are redeemable in whole or in part at any time or from time to time on or after April 15, 2012, at par and upon the occurrence of certain tax events as stipulated in the notes.

The Company has certain financial and operating covenants that are required by the publicly issued unsecured notes payable. The Company is not permitted to issue indebtedness unless immediately after such issuance the Company has asset coverage of all outstanding indebtedness of at least 200% as required by the 1940 Act, as amended. At December 31, 2009, the Company's asset coverage ratio was 180%.

Scheduled Maturities. Scheduled future maturities of notes payable at December 31, 2009, were as follows:

	Amount Maturing		
($ in millions) Year	**Privately Issued Unsecured Notes Payable**	**Publicly Issued Unsecured Notes Payable**	**Total**
2010	$ 86.0	$	$ 86.0
2011	253.8	319.9	573.7
2012	333.4	195.6	529.0
2013			
2014			
Thereafter		230.0	230.0
Total	$ 673.2	$ 745.5	$ 1,418.7

Fair Value of Debt

The Company records debt at cost. The fair value of the Company's outstanding debt was approximately $1.3 billion and $1.4 billion at December 31, 2009 and 2008, respectively. The fair value of the Company's publicly issued 6.875% Notes due 2047 was determined using the market price of the retail notes at December 31, 2009. The fair value of the Company's other debt was determined based on market interest rates for similar instruments as of the balance sheet date.

Note 5. Guarantees and Commitments

In the ordinary course of business, the Company has issued guarantees through financial intermediaries on behalf of certain portfolio companies. As of December 31, 2009 and 2008, the Company had issued guarantees of debt and rental obligations aggregating $9.1 million and $19.2 million, respectively. Under these arrangements, the Company would be required to make payments to third parties if the portfolio companies were to default on their related payment obligations.

As of December 31, 2009, the guarantees expired as follows:

(in millions)	Total	2010	2011	2012	2013	2014	After 2014
Guarantees	$ 9.1	$ 8.2	$	$ 0.1	$	$	$ 0.8

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In the ordinary course of business, the Company enters into agreements with service providers and other parties that may contain provisions for the Company to indemnify and guaranty certain minimum fees to such parties under certain circumstances.

At December 31, 2009, the Company had outstanding investment commitments totaling $153.8 million.

Note 6. Shareholders' Equity

Sales of common stock for the years ended December 31, 2009, 2008, and 2007, were as follows:

(in millions)	2009	2008	2007
Number of common shares		20.5	6.6
Gross proceeds		$ 417.1	$ 177.7
Less costs, including underwriting fees		(14.6)	(6.4)
Net proceeds		$ 402.5	$ 171.3

The Company issued 1.2 million and 0.6 million shares of common stock upon the exercise of stock options during the years ended December 31, 2009, and 2007, respectively. There were no stock options exercised in the year ended December 31, 2008. In addition, in July 2007, the Company issued 1.7 million unregistered shares of common stock upon the cancellation of stock options pursuant to a tender offer. See Note 9.

The Company has a dividend reinvestment plan, whereby the Company may buy shares of its common stock in the open market or issue new shares in order to satisfy dividend reinvestment requests. If the Company issues new shares, the issue price is equal to the average of the closing sale prices reported for the Company's common stock for the five consecutive trading days immediately prior to the dividend payment date. The Company cannot issue new shares at a price below net asset value. Dividend reinvestment plan activity for the years ended December 31, 2009, 2008, and 2007, was as follows:

(in millions, except per share amounts)	2009	2008	2007
Shares issued		0.2	0.6
Average price per share	$	$ 19.49	$ 27.40
Shares purchased by plan agent for shareholders		1.8	
Average price per share	$	$ 6.09	$

Note 7. Earnings Per Common Share

Earnings per common share for the years ended December 31, 2009, 2008, and 2007, were as follows:

(in millions, except per share amounts)	2009	2008	2007
Net increase (decrease) in net assets resulting from operations	$ (521.5)	$ (1,040.0)	$ 153.3
Weighted average common shares outstanding basic	179.0	173.0	152.9
Dilutive options outstanding			1.8
Weighted average common shares outstanding diluted	179.0	173.0	154.7
Basic earnings (loss) per common share	$ (2.91)	$ (6.01)	$ 1.00
Diluted earnings (loss) per common share	$ (2.91)	$ (6.01)	$ 0.99

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Note 8. Employee Compensation Plans

For 2009, the Company accrued $7.5 million in bonuses and $0.3 million in performance awards as compared to $1.0 million in bonuses and $11.2 million in performance awards accrued in 2008. In order to retain key personnel through the closing date of the merger with Ares Capital, the Company will pay the 2009 bonuses as retention bonuses on the earlier of April 15, 2010 or the closing date of the merger with Ares Capital. An employee must be employed on the payment date in order to receive the retention bonus.

The Company had an Individual Performance Award plan ("IPA"), and an Individual Performance Bonus plan ("IPB", each individually a "Plan," or collectively, the "Plans") for 2008 and 2007. These Plans generally were determined annually at the beginning of each year but may have been adjusted throughout the year. In 2008, the IPA was paid in cash in two equal installments during the year. Through December 31, 2007, the IPA amounts were contributed into a trust and invested in the Company's common stock. The IPB was distributed in cash to award recipients throughout the year (beginning in February of each respective year) as long as the recipient remained employed by the Company. The Company did not establish an IPA or IPB for 2009 or 2010.

The trusts for the IPA payments were consolidated with the Company's accounts. The common stock was classified as common stock held in deferred compensation trust in the accompanying financial statements and the deferred compensation obligation, which represented the amount owed to the employees, was included in other liabilities. Changes in the value of the Company's common stock held in the deferred compensation trust were not recognized. However, the liability was marked to market with a corresponding charge or credit to employee compensation expense.

In December 2007, the Company's Board of Directors made a determination that it was in the best interests of the Company to terminate its deferred compensation arrangements. The Board of Directors' decision primarily was in response to increased complexity resulting from recent changes in the regulation of deferred compensation arrangements, and the accounts under these Plans were distributed to participants in full on March 18, 2008, the termination and distribution date.

The accounts under the deferred compensation arrangements totaled $52.5 million at December 31, 2007. The balances on the termination date were distributed to participants in March 2008 subsequent to the termination date in accordance with the transition rule for payment elections under Section 409A of the Code. Distributions from the plans were made in cash or shares of the Company's common stock, net of required withholding taxes.

The Company did not establish an IPA or IPB for 2009. The IPA and IPB expenses are included in employee expenses and for the years ended December 31, 2008 and 2007, were as follows:

($ in millions)	**2008**	**2007**
IPA contributions	$ 8.5	$ 9.8
IPA mark to market expense (benefit)	(4.1)	(14.0)
Total IPA expense (benefit)	$ 4.4	$ (4.2)
Total IPB expense	$ 8.8	$ 9.5

Note 9. Stock Option Plan

The purpose of the stock option plan ("Option Plan") is to provide officers and non-officer directors of the Company with additional incentives. Options are exercisable at a price equal to the fair market value of the shares on the day the option is granted. Each option states the period or periods of time within which the option may be exercised by the optionee, which may not exceed ten years from the date the option is granted. The options granted to officers generally vest ratably over up to a three year period. Options granted to non-officer directors vest on the grant date.

All rights to exercise options terminate 60 days after an optionee ceases to be (i) a non-officer director, (ii) both an officer and a director, if such optionee serves in both capacities, or (iii) an officer (if such officer is not also a director) of the Company for any cause other than death or total and permanent disability. In the event of a change of control of the Company, all outstanding options will become fully vested and exercisable as of the change of control.

At December 31, 2009, 2008 and 2007, there were 37.2 million shares authorized under the Option Plan.

On July 18, 2007, the Company completed a tender offer related to the Company's offer to all optionees who held vested "in-the-money" stock options as of June 20, 2007, the opportunity to receive an option cancellation payment ("OCP") equal to the "in-the-money" value of the stock options cancelled, determined using the Weighted Average Market Price of $31.75, which would be paid one-half in cash and one-half in unregistered shares of the Company's common stock. The Company accepted for cancellation 10.3 million vested options, which in the aggregate had a weighted average exercise price of $21.50. This resulted in a total option cancellation payment of approximately $105.6 million, of which $52.8 million was paid in cash and $52.8 million was paid through the issuance of 1.7 million unregistered shares of the Company's common stock, determined using the Weighted Average Market Price of $31.75. The Weighted Average Market Price represented the volume weighted average price of the Company's common stock over the fifteen trading days preceding the first day of the offer period, or June 20, 2007. See Note 2 Stock Compensation Plans.

At December 31, 2009 and 2008, the number of shares available to be granted under the Option Plan was 6.0 million and 9.5 million, respectively.

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Information with respect to options granted, exercised and forfeited under the Option Plan for the years ended December 31, 2009, 2008, and 2007, was as follows:

(in millions, except per share amounts)	Shares	Weighted Average Exercise Price Per Share	Weighted Average Contractual Remaining Term (Years)	Aggregate Intrinsic Value at December 31, 2009
Options outstanding at January 1, 2007	23.2	$ 24.92		
Granted	6.7	$ 29.52		
Exercised	(0.6)	$ 25.25		
Cancelled in tender offer(1)	(10.3)	$ 21.50		
Forfeited	(0.5)	$ 28.96		
Options outstanding at December 31, 2007	18.5	$ 28.36		
Granted	7.7	$ 22.52		
Exercised		$		
Forfeited	(6.5)	$ 26.87		
Options outstanding at December 31, 2008	19.7	$ 26.56		
Granted	11.5	$ 0.88		
Exercised	(1.3)	$ 0.73		
Forfeited	(8.0)	$ 22.85		
Options outstanding at December 31, 2009	21.9	$ 15.94	5.34	$ 24.5
Exercisable at December 31, 2009(2)	12.6	$ 22.35	4.95	$ 6.8
Exercisable and expected to be exercisable at December 31, 2009(3)	21.4	$ 16.35	5.31	$ 22.9

(1) See description of the tender offer above.

(2) Represents vested options.

(3) The amount of options expected to be exercisable at December 31, 2009, is calculated based on an estimate of expected forfeitures.

The fair value of the shares vested during the years ended December 31, 2009, 2008, and 2007, was $8.2 million, $13.5 million, and $21.6 million, respectively. The total intrinsic value of the options exercised during the years ended December 31, 2009, and 2007, was $3.3 million, and $2.7 million, respectively. There were no options exercised during the year ended December 31, 2008.

The following table summarizes information about stock options outstanding at December 31, 2009:

	Outstanding			Exercisable	
Range of Exercise Prices	Total Number Outstanding (in millions)	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Total Number Exercisable (in millions)	Weighted Average Exercise Price
$0.73	8.2	6.17	$ 0.73	2.3	$ 0.73
$2.63	0.9	6.22	$ 2.63	0.2	$ 2.63
$14.28 - $29.58	12.5	4.79	$ 26.45	9.8	$ 27.51
$30.00 - $30.52	0.3	3.18	$ 30.26	0.3	$ 30.26

	21.9	5.34	$	15.94	12.6	$	22.35

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Notes Receivable from the Sale of Common Stock

As a BDC under the 1940 Act, the Company is entitled to provide and has provided loans to the Company's officers in connection with the exercise of options. However, as a result of provisions of the Sarbanes-Oxley Act of 2002, the Company is prohibited from making new loans to its executive officers. The outstanding loans are full recourse, have varying terms not exceeding ten years, bear interest at the applicable federal interest rate in effect at the date of issue and have been recorded as a reduction to shareholders' equity. At December 31, 2009 and 2008, the Company had outstanding loans to officers of $0.3 million and $1.1 million, respectively. Officers with outstanding loans repaid principal of $0.8 million, $1.6 million, and $0.2 million, for the years ended December 31, 2009, 2008, and 2007, respectively. The Company recognized a nominal amount of interest income from these loans during the years ended December 31, 2009 and 2008, and recognized $0.1 million during the year ended December 31, 2007. This interest income is included in interest and dividends for companies less than 5% owned.

Note 10. Dividends and Distributions and Taxes

For the years ended December 31, 2009, 2008, and 2007, the Company's Board of Directors declared the following distributions:

	2009		2008		2007	
(in millions, except per share amounts)	**Total Amount**	**Total Per Share**	**Total Amount**	**Total Per Share**	**Total Amount**	**Total Per Share**
First quarter	$	$	$ 108.1	$ 0.65	$ 95.8	$ 0.63
Second quarter			116.1	0.65	97.6	0.64
Third quarter			116.1	0.65	100.3	0.65
Fourth quarter			116.2	0.65	102.6	0.65
Extra dividend					11.0	0.07
Total distributions to common shareholders	$	$	$ 456.5	$ 2.60	$ 407.3	$ 2.64

For income tax purposes, distributions for 2008 and 2007, were composed of the following:

	2008		2007	
(in millions, except per share amounts)	**Total Amount**	**Total Per Share**	**Total Amount**	**Total Per Share**
Ordinary income(1)(2)	$ 104.0	$ 0.59	$ 126.7	$ 0.82
Long-term capital gains	352.5	2.01	280.6	1.82
Total distributions to common shareholders	$ 456.5	$ 2.60	$ 407.3	$ 2.64

(1) For the years ended December 31, 2008 and 2007, ordinary income included dividend income of approximately $0.06 and zero, per share, respectively, that qualified to be taxed at the 15% maximum capital gains rate.

(2) For certain eligible corporate shareholders, dividends eligible for the dividend received deduction for 2008 and 2007, was $0.056 and zero, per share, respectively.

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The following table summarizes the differences between financial statement net increase (decrease) in net assets resulting from operations and taxable income available for distribution to shareholders for the years ended December 31, 2009, 2008, and 2007:

($ in millions)	**2009 (ESTIMATED)(1)**	**2008**	**2007**
Financial statement net increase (decrease) in net assets resulting from operations	$ (521.5)	$ (1,040.0)	$ 153.3
Adjustments:			
Net change in unrealized appreciation or depreciation	176.7	1,123.8	256.2
Interest- and dividend-related items	26.9	(5.3)	13.8
Employee compensation-related items	1.9	1.2	0.7
Nondeductible excise tax		(0.6)	16.3
Debt issuance cost related items	50.2		
Realized gains recognized (deferred) through installment treatment	173.3	18.3	(13.0)
Other gain or loss related items	48.1	(91.7)	(10.2)
Net income (loss) from partnerships and limited liability companies(2)	(1.7)	(4.6)	(22.7)
Net capital loss carryforward	18.5	37.9	
Net (income) loss from consolidated subsidiaries, net of tax	(5.4)	2.1	2.7
Other	0.1	(0.7)	0.7
Taxable income (loss)	$ (32.9)	$ 40.4	$ 397.8

(1) The Company's taxable loss for 2009 is an estimate and will not be finally determined until the Company files its 2009 tax return in September 2010. Therefore, the final taxable income (loss) may be different than this estimate.

(2) Includes taxable income (loss) passed through to the Company from Ciena Capital LLC (Ciena) and related entities in excess of interest and related portfolio income from Ciena included in the financial statements totaling ($1.9) million and ($22.6) million, for the years ended December 31, 2008 and 2007, respectively. See Note 3 for additional related disclosure.

Taxable income or loss generally differs from net income or loss for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses, and generally excludes net unrealized appreciation or depreciation, as gains or losses are not included in taxable income until they are realized. As a RIC, the Company may not use net operating losses ("NOLs") to offset positive taxable income earned in preceding or succeeding taxable years. However, capital losses in excess of capital gains earned in a tax year may be carried forward and used to offset capital gains in the eight succeeding tax years. The Company estimates that, as of December 31, 2009, it will have a capital loss carryforward of approximately $56.4 million available for use in later tax years.

The Company must distribute at least 90% of its investment company taxable income to qualify for pass-through tax treatment and maintain its RIC status. The Company has distributed sufficient dividends to eliminate taxable income. Dividends declared and paid by the Company in a year generally differ from taxable income for that year as such dividends may include the distribution of current year taxable income, less amounts carried over into the following year, and the distribution of prior year taxable income carried over into and distributed in the current year.

The Company currently estimates that it has a net taxable loss for 2009. This taxable loss for 2009 is an estimate and will not be finally determined until the Company files its 2009 tax return in

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September 2010. Because the Company had a net taxable loss in 2009, no distribution was required or made for 2009. For income tax purposes, distributions for 2008 and 2007, were made from taxable income as follows:

($ in millions)	**2008**	**2007**
Taxable income (loss)	$ 40.4	$ 397.8
Taxable income earned in prior year and carried forward and distributed in current year	393.3	402.8
Taxable income earned in current year and carried forward for distribution in next year		(393.3)
Distributions from accumulated earnings	22.8	
Total distributions to common shareholders	$ 456.5	$ 407.3

The Company generally will be required to pay an excise tax equal to 4% of the amount by which 98% of the Company's annual taxable income exceeds the distributions for the year. In 2007 annual taxable income was in excess of the Company's dividend distributions from such taxable income for that year, and accordingly, the Company had an excise tax expense of $16.3 million on the excess taxable income carried forward. As of December 31, 2009 the Company had no dividend distribution requirement for the 2009 tax year, therefore, it has not recorded an excise tax for the year ended December 31, 2009. In certain circumstances, the Company is restricted in its ability to pay dividends. The Company's outstanding Term Loan contains provisions that limit the amount of dividends the Company can pay. In addition, pursuant to the 1940 Act, the Company may be precluded from declaring dividends or other distributions to its shareholders unless the Company's asset coverage is at least 200%.

The Company currently estimates that it has cumulative deferred taxable income related to installment sale gains of approximately $44.4 million as of December 31, 2009. These gains have been recognized for financial reporting purposes in the respective years they were realized, but are generally deferred for tax purposes until the notes or other amounts received from the sale of the related investments are collected in cash. The recognition of installment sales gains as of December 31, 2009 are estimates and will not be finally determined until the Company files its 2009 tax return in September 2010.

At December 31, 2009 and 2008, the aggregate gross unrealized appreciation of the Company's investments above cost for federal income tax purposes was $112.8 million (estimated) and $346.5 million, respectively. At December 31, 2009 and 2008, the aggregate gross unrealized depreciation of the Company's investments below cost for federal income tax purposes was $1.5 billion (estimated) and $1.4 billion, respectively. The Company's investments as compared to cost for federal income tax purposes was net unrealized depreciation of $1.4 billion (estimated) and $1.1 billion at December 31, 2009 and 2008, respectively. At December 31, 2009 and 2008, the aggregate cost of securities, for federal income tax purposes was $3.5 billion (estimated) and $4.5 billion, respectively.

The Company's consolidated subsidiary, AC Corp, is subject to federal and state income taxes. For the years ended December 31, 2009, 2008, and 2007, AC Corp's income tax expense (benefit) was $5.6 million, $3.1 million, and $(2.7) million, respectively. For the year ended December 31, 2009 and 2008, paid in capital was decreased by $3.8 million and $3.0 million, respectively, primarily for the reduction of the deferred tax asset related to stock options that expired unexercised.

The net deferred tax asset at December 31, 2009, was $12.7 million, consisting of deferred tax assets of $13.0 million and deferred tax liabilities of $0.3 million. The net deferred tax asset at December 31, 2008, was $15.0 million, consisting of deferred tax assets of $32.2 million and deferred tax liabilities of $17.2 million. At December 31, 2009, the deferred tax assets primarily related to compensation-related items. Management believes that the realization of the net deferred tax asset is more likely than not based on expectations as to future taxable income and scheduled reversals of temporary differences. Accordingly, the Company did not record a valuation allowance at December 31, 2009 or 2008.

Note 11. Cash

The Company places its cash with financial institutions and, at times, cash held in checking accounts in financial institutions may be in excess of the Federal Deposit Insurance Corporation insured limit.

At December 31, 2009 and 2008, cash consisted of the following:

($ in millions)	2009	2008
Cash	$ 21.7	$ 51.9
Less escrows held	(1.0)	(1.5)
Total cash	$ 20.7	$ 50.4

Note 12. Supplemental Disclosure of Cash Flow Information

The Company paid interest of $157.7 million, $161.0 million, and $123.5 million, respectively, for the years ended December 31, 2009, 2008, and 2007. The Company paid income taxes, including excise taxes (net of refunds), of $9.9 million, $10.1 million and $18.8 million for the years ended December 31, 2009, 2008 and 2007, respectively.

Non-cash operating activities for the years ended December 31, 2009, 2008 and 2007, totaled $86.8 million, $117.8 million, and $142.2 million, respectively. Non-cash operating activities included the exchange of existing debt securities and accrued interest for new debt and equity securities. Non-cash financing activities for the year ended December 31, 2009 totaled $891.0 million as a result of the refinancing of privately issued unsecured debt with new privately issued secured debt. Non-cash financing activities included the issuance of common stock in lieu of cash distributions totaling $3.8 million and $17.1 million, for the years ended December 31, 2008 and 2007, respectively. Non-cash financing activities for the year ended December 31, 2007, also included the payment of one-half of the value of the option cancellation payment in connection with the tender offer, or $52.8 million, through the issuance of 1.7 million unregistered shares of the Company's common stock. See Notes 2 and 9.

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Note 13. Financial Highlights

	At and for the Years Ended December 31,		
	2009	2008	2007
Per Common Share Data			
Net asset value, beginning of year	$ 9.62	$ 17.54	$ 19.12
Net investment income(1)	0.31	1.22	0.91
Net realized gains (losses)(1)(2)	(2.02)	(0.75)	1.74
Net investment income plus net realized gains (losses)(1)	(1.71)	0.47	2.65
Net change in unrealized appreciation or depreciation(1)(2)	(0.98)	(6.49)	(1.66)
Gain on repurchase of debt(1)	0.47	0.01	
Loss on extinguishment of debt(1)	(0.69)		
Net increase (decrease) in net assets resulting from operations(1)	(2.91)	(6.01)	0.99
Decrease in net assets from shareholder distributions		(2.60)	(2.64)
Net increase (decrease) in net assets from capital share transactions(1)(3)	(0.05)	0.69	0.41
Decrease in net assets from cash portion of the option cancellation payment(1)(4)			(0.34)
Net asset value, end of year	$ 6.66	$ 9.62	$ 17.54
Market value, end of year	$ 3.61	$ 2.69	$ 21.50
Total return(5)	34.2%	(82.5)%	(27.6)%

	At and for the Years Ended December 31,		
	2009	2008	2007
Ratios and Supplemental Data			
($ and shares in millions, except per share amounts)			
Ending net assets	$ 1,198.2	$ 1,718.4	$ 2,771.8
Common shares outstanding at end of year	179.9	178.7	158.0
Diluted weighted average common shares outstanding	179.0	173.0	154.7
Employee, employee stock option and administrative expenses/average net assets	6.12%	5.47%	6.10%
Total operating expenses/average net assets	18.86%	11.39%	10.70%
Income tax expense including excise tax/average net assets	0.41%	0.10%	0.47%
Net investment income/average net assets	4.07%	8.43%	4.91%
Net increase (decrease) in net assets resulting from operations/average net assets	(38.18)%	(41.34)%	5.34%
Portfolio turnover rate	4.80%	24.00%	26.84%
Average debt outstanding	$ 1,753.7	$ 2,091.6	$ 1,924.2
Average debt per share(1)	$ 9.80	$ 12.09	$ 12.44

(1) Based on diluted weighted average number of common shares outstanding for the year.

(2) Net realized gains (losses) and net change in unrealized appreciation or depreciation can fluctuate significantly from year to year.

(3) Excludes capital share transactions related to the cash portion of the option cancellation payment.

(4) See Notes 2 and 9 to the consolidated financial statements above for further discussion.

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(5) Total return assumes the reinvestment of all dividends paid for the years presented.

Note 14. Selected Quarterly Data (Unaudited)

	2009			
	Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4
Total interest and related portfolio income	$ 95.2	$ 84.6	$ 72.4	$ 66.4
Net investment income	$ 27.5	$ 18.2	$ 9.6	$ 0.2
Net increase (decrease) in net assets resulting from operations	$ (347.7)	$ (29.1)	$ (140.7)	$ (4.1)
Basic earnings (loss) per common share	$ (1.95)	$ (0.16)	$ (0.79)	$ (0.02)
Diluted earnings (loss) per common share	$ (1.95)	$ (0.16)	$ (0.79)	$ (0.02)

	2008			
($ in millions, except per share amounts)	Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4
Total interest and related portfolio income	$ 144.9	$ 134.6	$ 120.7	$ 100.9
Net investment income	$ 69.5	$ 63.9	$ 45.6	$ 33.0
Net increase (decrease) in net assets resulting from operations	$ (40.7)	$ (102.2)	$ (318.3)	$ (578.8)
Basic earnings (loss) per common share	$ (0.25)	$ (0.59)	$ (1.78)	$ (3.24)
Diluted earnings (loss) per common share	$ (0.25)	$ (0.59)	$ (1.78)	$ (3.24)

Note 15. Litigation

On June 23, 2004, the Company was notified by the SEC that the SEC was conducting an informal investigation of the Company. The investigation related to the valuation of securities in the Company's private finance portfolio and other matters. On June 20, 2007, the Company announced that it entered into a settlement with the SEC that resolved the SEC's informal investigation. As part of the settlement and without admitting or denying the SEC's allegations, the Company agreed to the entry of an administrative order. In the order the SEC alleged that, between June 30, 2001, and March 31, 2003, the Company did not maintain books, records and accounts which, in reasonable detail, supported or accurately and fairly reflected valuations of certain securities in the Company's private finance portfolio and, as a result, did not meet certain recordkeeping and internal controls provisions of the federal securities laws. In the administrative order, the SEC ordered the Company to continue to maintain certain of its current valuation-related controls. Specifically, during and following the two-year period of the order, the Company has: (1) continued to employ a Chief Valuation Officer, or a similarly structured officer-level employee, to oversee its quarterly valuation processes; and (2) continued to employ third-party valuation consultants to assist in its quarterly valuation processes.

On December 22, 2004, the Company received letters from the U.S. Attorney for the District of Columbia requesting the preservation and production of information regarding the Company and Business Loan Express, LLC (currently known as Ciena Capital LLC) in connection with a criminal investigation relating to matters similar to those investigated by and settled with the SEC as discussed above. The Company produced materials in response to the requests from the U.S. Attorney's office and certain current and former employees were interviewed by the U.S. Attorney's Office. The Company has voluntarily cooperated with the investigation.

In late December 2006, the Company received a subpoena from the U.S. Attorney for the District of Columbia requesting, among other things, the production of records regarding the use of private investigators by the Company or its agents. The Board established a committee, which was advised by its own counsel, to review this matter. In the course of gathering documents responsive to the subpoena, the Company became aware that an agent of the Company obtained what were represented to be telephone records of David Einhorn and which purport to be records of calls from Greenlight Capital during a period of time in 2005. Also, while the Company was gathering documents

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responsive to the subpoena, allegations were made that the Company's management had authorized the acquisition of these records and that management was subsequently advised that these records had been obtained. The Company's management has stated that these allegations are not true. The Company has cooperated fully with the inquiry by the U.S. Attorney's Office.

On February 26, 2007, Dana Ross filed a class action complaint in the U.S. District Court for the District of Columbia in which she alleges that Allied Capital Corporation and certain members of management violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder. Thereafter, the court appointed new lead counsel and approved new lead plaintiffs. On July 30, 2007, plaintiffs served an amended complaint. Plaintiffs claim that, between November 7, 2005, and January 22, 2007, Allied Capital either failed to disclose or misrepresented information about its portfolio company, Business Loan Express, LLC. Plaintiffs sought unspecified compensatory and other damages, as well as other relief. On September 13, 2007, the Company filed a motion to dismiss the lawsuit. On November 4, 2009, the motion to dismiss was granted.

A number of lawsuits have been filed against the Company, its Board of Directors and Ares Capital Corporation. These include: (1) In re Allied Capital Corporation Shareholder Litigation, Case No. 322639-V (Circuit Court for Montgomery County, Maryland); (2) Sandler v. Walton, et al., Case No. 2009 CA 008123 B (Superior Court for the District of Columbia); (3) Wienecki v. Allied Capital Corporation, et al., Case No. 2009 CA 008541 B (Superior Court for the District of Columbia); and (4) Ryan v. Walton, et al., Case No. 1:10-CV-00145-RMC (United States District Court for the District of Columbia). The suits were filed after the announcement of the merger with Ares Capital on October 26, 2009 either as putative stockholder class actions, shareholder derivative actions or both. All of the actions assert similar claims alleging that the Company's Board of Directors failed to discharge adequately its fiduciary duties to shareholders by failing to adequately value the Company's shares and ensure that the Company's shareholders received adequate consideration in a proposed sale of Allied Capital to Ares Capital Corporation, that the proposed merger between the Company and Ares Capital is the product of a flawed sales process, that the Company's directors and officers breached their fiduciary duties by agreeing to a structure that was not designed to maximize the value of Allied's shares, and that Ares Capital aided and abetted the alleged breach of fiduciary duty. The plaintiffs demand, among other things, a preliminary and permanent injunction enjoining the sale and rescinding the transaction or any part thereof that has been implemented. The Company believes that each of the lawsuits is without merit.

In addition, the Company is party to certain lawsuits in the normal course of business. Furthermore, third parties may try to seek to impose liability on the Company in connection with the activities of its portfolio companies. For a discussion of civil investigations being conducted regarding the lending practice of Ciena Capital LLC, a portfolio company of the Company, see "Note 3, Portfolio Ciena Capital LLC."

While the outcome of any of the open legal proceedings described above cannot at this time be predicted with certainty, the Company does not expect these matters will materially affect its financial condition or results of operations.

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Schedule 12-14

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

SCHEDULE OF INVESTMENTS IN AND ADVANCES TO AFFILIATES

PRIVATE FINANCE Portfolio Company (in thousands)	Investment(1)	Amount of Interest or Dividends Credited to Income(6)	Other(2)	December 31, 2008 Value	Gross Additions(3)	Gross Reductions(4)	December 31, 2009 Value
Companies More Than 25% Owned							
AGILE Fund I, LLC (Private Equity Fund)	Equity Interests			$ 497	$ 44	$ (92)	$ 449
AllBridge Financial, LLC	Senior Loan	$ 44			1,500		1,500
(Asset Management)	Equity Interests			10,960	6,926	(2,081)	15,805
Allied Capital Senior Debt Fund, L.P. (Private Debt Fund)	Limited Partnership Interests			31,800		(31,800)	
Avborne, Inc.	Preferred Stock			942		(942)	
(Business Services)	Common Stock				39		39
Avborne Heavy Maintenance, Inc. (Business Services)	Common Stock						
Aviation Properties Corporation (Business Services)	Common Stock				30	(30)	
Border Foods, Inc.	Senior Loan	5,618		33,027	2,956	(1,857)	34,126
(Consumer Products)	Preferred Stock			11,851	9,050		20,901
	Common Stock				9,663		9,663
Calder Capital Partners, LLC	Senior Loan(5)			953	3,542	(4,495)	
(Asset Management)	Equity Interests				2,454	(2,454)	
Callidus Capital Corporation	Subordinated Debt	3,086		16,068	5,714	(2,674)	19,108
(Asset Management)	Common Stock			34,377		(34,377)	
Ciena Capital LLC	Senior Loan(5)			104,883		(4,832)	100,051
(Financial Services)	Class B Equity Interests				3,504	(3,504)	
	Class C Equity Interests						
CitiPostal Inc.	Senior Loan	30		681	2		683
(Business Services)	Unitranche Debt	6,304		51,548	566	(1,481)	50,633
	Subordinated Debt	1,635		9,114	1,571		10,685
	Common Stock			8,616		(7,184)	1,432

Coverall North America, Inc.	Unitranche Debt	3,890		31,948	33	(408)	31,573
(Business Services)	Subordinated Debt	860		5,549	6		5,555
	Common Stock			17,968	1	(6,583)	11,386
CR Holding, Inc.	Subordinated Debt(5)			17,360	23,150	(40,510)	
(Consumer Products)	Common Stock				28,744	(28,744)	
Crescent Equity Corp.	Senior Loan	44		433			433
(Business Services)	Subordinated Debt(5)	74	$ 245	18,614	85	(14,567)	4,132
	Common Stock			4,580	2,253	(6,833)	
Direct Capital Corporation	Senior Loan(5)				8,744		8,744
(Financial Services)	Subordinated Debt(5)			13,530		(6,733)	6,797
	Common Stock						

See related footnotes at the end of this schedule.

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PRIVATE FINANCE Portfolio Company (in thousands)	Investment(1)	Amount of Interest or Dividends Credited to Income(6)	Other(2)	December 31, 2008 Value	Gross Additions(3)	Gross Reductions(4)	December 31, 2009 Value
Financial Pacific Company (Financial Services)	Subordinated Debt	$ 9,462		$ 62,189	$ 40	$ (27,449)	$ 34,780
	Preferred Stock						
	Common Stock						
ForeSite Towers, LLC (Tower Leasing)	Equity Interest			889		(889)	
Global Communications, LLC (Business Services)	Senior Loan			1,335		(1,335)	
HCI Equity,LLC (Private Equity Fund)	Equity Interests				1,100	(223)	877
Hot Light Brands, Inc. (Retail)	Senior Loan(5)			13,678	51	(4,613)	9,116
	Common Stock						
Hot Stuff Foods, LLC (Real Estate)	Senior Loan	1,969		42,378	11,219	(8,900)	44,697
	Subordinated Debt(5)				48,240		48,240
	Common Stock						
Huddle House, Inc. (Retail)	Subordinated Debt	5,673		57,067	1,114	(38,535)	19,646
	Common Stock			20,922	1	(17,004)	3,919
IAT Equity, LLC and Affiliates d/b/a Industrial Air Tool (Industrial Products)	Subordinated Debt	548		6,000			6,000
	Equity Interests			8,860		(3,375)	5,485
Impact Innovations Group, LLC (Business Services)	Equity Interests in Affiliate			321		(106)	215
Insight Pharmaceuticals Corporation (Consumer Products)	Subordinated Debt	7,709		63,359	9,245	(18,581)	54,023
	Preferred Stock			4,068	20,932	(25,000)	
	Common Stock				34,088	(24,688)	9,400
Jakel, Inc. (Industrial Products)	Subordinated Debt(5)			374		(374)	
Knightsbridge CLO 2007-1 Ltd. (CLO)	Class E Notes	1,887		14,866		(3,506)	11,360
	Income Notes	4,126		35,214	4,125	(23,119)	16,220
Knightsbridge CLO 2008-1 Ltd. (CLO)	Class C Notes	1,097		12,800		(511)	12,289
	Class D Notes	767		8,000		(840)	7,160
	Class E Notes	1,514		10,573	718	(1,200)	10,091
	Income Notes	4,075		21,315	4,075	(4,753)	20,637
MHF Logistical Solutions, Inc. (Business Services)	Subordinated Debt				49,633	(49,633)	
	Preferred Stock						
	Common Stock				20,942	(20,942)	
MVL Group, Inc. (Business Services)	Senior Loan	3,198		30,663	74	(5,477)	25,260
	Subordinated Debt	5,139		40,994	42,126	(48,814)	34,306
				86	144	(230)	

	Subordinated Debt(5)						
	Common Stock						
Old Orchard Brands, LLC (Consumer Products)	Subordinated Debt	917		18,882	262	(19,144)	
	Equity Interests			27,763		(27,763)	
Penn Detroit Diesel Allison, LLC (Business Services)	Subordinated Debt	2,767		37,869	578	(38,447)	
	Equity Interests			21,100	1,262	(7,104)	15,258
Senior Secured Loan Fund LLC (Private Debt Fund)	Subordinated Certificates	13,664	$ 12,758	125,423	47,374	(172,797)	
	Equity Interests			1	(1)		

See related footnotes at the end of this schedule.

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PRIVATE FINANCE Portfolio Company (in thousands)	Investment(1)	Amount of Interest or Dividends Credited to Income(6)	Other(2)	December 31, 2008 Value	Gross Additions(3)	Gross Reductions(4)	December 31, 2009 Value
Service Champ, Inc.	Subordinated Debt	$ 5,619		$ 26,984	$ 712	$	$ 27,696
(Business Services)	Common Stock			21,156	7,555	(640)	28,071
Stag-Parkway, Inc.	Subordinated Debt	1,853			19,005	(1)	19,004
(Business Services)	Unitranche Debt	170		17,962	418	(18,380)	
	Common Stock			6,968	7,258		14,226
Startec Equity, LLC (Telecommunications)	Equity Interests			332		(267)	65
Worldwide Express Operations, LLC	Subordinated Debt		$ 38	2,032	694	(2,726)	
(Business Services)	Equity Interests				11,384	(11,384)	
	Warrants				144	(144)	
Total companies more than 25% owned				**$ 1,187,722**			**$ 811,736**
Companies 5% to 25% Owned							
10th Street, LLC	Subordinated Debt	$ 2,877		$ 21,439	$ 906	$ (20)	$ 22,325
(Business Services)	Equity Interests			975		(500)	475
	Option			25			25
Advantage Sales & Marketing, Inc.	Subordinated Debt	2,286		135,000		(135,000)	
(Business Services)	Equity Interests			5,000		(5,000)	
Air Medical Group Holdings LLC	Senior Loan	145		3,139	20,296	(17,590)	5,845
(Healthcare Services)	Equity Interests			10,800	8,700		19,500
Alpine ESP Holdings, Inc.	Preferred Stock				701	(701)	
(Business Services)	Common Stock				13	(13)	
Amerex Group, LLC	Subordinated Debt	1,993		8,784	5	(8,789)	
(Consumer Products)	Equity Interests	6,167		9,932		(9,932)	
BB&T Capital Partners/Windsor Mezzanine Fund, LLC (Private Equity Fund)	Equity Interests			11,063		(684)	10,379
Becker Underwood, Inc.	Subordinated Debt	425		25,502	216	(25,718)	
(Industrial Products)	Common Stock			2,267	2,748	(5,015)	
BI Incorporated	Subordinated Debt						
	Common Equity						
Drew Foam Companies, Inc.	Preferred Stock			512	111	(623)	
(Business Services)	Common Stock				6	(6)	
Driven Brands, Inc.	Subordinated Debt	14,923		83,698	8,201		91,899
(Consumer Services)	Common Stock			4,855		(1,855)	3,000
Hilden America, Inc. (Consumer Products)	Common Stock			76	378	(454)	
Lydall Transport, Ltd. (Business Services)	Equity Interests			345	87	(432)	
Multi-Ad Services, Inc.	Unitranche Debt	307		2,941	67	(517)	2,491
(Business Services)	Equity Interests			1,782		(364)	1,418

Pendum Acquisition, Inc. (Business Services)	Common Stock	200		200
Postle Aluminum Company, LLC (Industrial Products)	Senior Loan(5)	34,876	(18,822)	16,054
	Subordinated Debt(5)	23,868	(23,868)	
	Equity Interest			

See related footnotes at the end of this schedule.

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PRIVATE FINANCE Portfolio Company (in thousands)	Investment(1)	Amount of Interest or Dividends Credited to Income(6)	Other(2)	December 31, 2008 Value	Gross Additions(3)	Gross Reductions(4)	December 31, 2009 Value
Progressive International Corporation	Preferred Stock			$ 1,125	$	$ (1,125)	$
(Consumer Products)	Common Stock			4,600		(4,600)	
	Warrants						
Regency Healthcare Group, LLC	Senior Loan	$ 44			4,001	(4,001)	
(Healthcare Services)	Unitranche Debt	309		10,825	31	(10,856)	
	Equity Interests			2,050		(152)	1,898
SGT India Private Limited (Business Services)	Common Stock				24	(24)	
Soteria Imaging Services, LLC	Subordinated Debt	552		4,054	156		4,210
(Healthcare Services)	Equity Interests			1,971		(692)	1,279
Triax Holdings, LLC	Subordinated Debt				10,772	(10,772)	
(Consumer Products)	Equity Interests				16,528	(16,528)	
Universal Environmental Services, LLC (Business Services)	Equity Interests						
Total companies 5% to 25% owned				**$ 352,760**			**$ 180,998**

This schedule should be read in conjunction with the Company's consolidated financial statements, including the consolidated statement of investments and Note 3 to the consolidated financial statements. Note 3 includes additional information regarding activities in the private finance portfolio.

(1)
Common stock, preferred stock, warrants, options, and equity interests are generally non-income producing and restricted. The principal amount for loans and debt securities and the number of shares of common stock and preferred stock is shown in the consolidated statement of investments as of September 30, 2009.

(2)
Other includes interest, dividend, or other income which was applied to the principal of the investment and therefore reduced the total investment. These reductions are also included in the Gross Reductions for the investment, as applicable.

(3)
Gross additions include increases in the cost basis of investments resulting from new portfolio investments, paid-in-kind interest or dividends, the amortization of discounts and closing fees, the exchange of one or more existing securities for one or more new securities and the movement of an existing portfolio company into this category from a different category. Gross additions also include net increases in unrealized appreciation or net decreases in unrealized depreciation.

(4)
Gross reductions include decreases in the cost basis of investments resulting from principal collections related to investment repayments or sales, the exchange of one or more existing securities for one or more new securities and the movement of an existing portfolio company out of this category into a different category. Gross reductions also include net increases in unrealized depreciation or net decreases in unrealized appreciation.

(5)
Loan or debt security is on non-accrual status at December 31, 2009, and is therefore considered non-income producing. Loans or debt securities on non-accrual status at the end of the period may or may not have been on non-accrual status for the full period.

(6)

Represents the total amount of interest or dividends credited to income for the portion of the year an investment was included in the companies more than 25% owned or companies 5% to 25% owned categories, respectively.

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(in thousands, except per share amounts)

	March 31, 2010 (unaudited)	December 31, 2009
ASSETS		
Portfolio at value:		
Private finance		
Companies more than 25% owned (cost: 2010-$1,796,887; 2009-$1,747,759)	$ 655,269	$ 811,736
Companies 5% to 25% owned (cost: 2010-$181,094; 2009-$222,981)	153,969	180,998
Companies less than 5% owned (cost: 2010-$1,293,721; 2009-$1,639,193)	983,576	1,082,577
Total private finance (cost: 2010-$3,271,702; 2009-$3,609,933)	1,792,814	2,075,311
Commercial real estate finance (cost: 2010-$75,945; 2009-$75,180)	40,952	55,807
Total portfolio at value (cost: 2010-$3,347,647; 2009-$3,685,113)	1,833,766	2,131,118
Accrued interest and dividends receivable	41,705	43,875
Other assets	68,670	88,802
Investments in money market and other securities	74,221	381,020
Cash	59,082	20,682
Restricted cash	250	
Total assets	$ 2,077,694	$ 2,665,497
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Notes payable (maturing within one year: 2010-$136,942; 2009-$85,111)	$ 882,486	$ 1,384,920
Bank term debt		41,091
Dividends payable	35,988	
Accounts payable and other liabilities	32,136	41,284
Total liabilities	950,610	1,467,295
Commitments and contingencies		
Shareholders' equity:		
Common stock, $0.0001 par value, 400,000 shares authorized; 179,895 and 179,940 shares issued and outstanding at March 31, 2010, and December 31, 2009, respectively	18	18
Additional paid-in capital	3,037,417	3,037,513
Notes receivable from sale of common stock		(301)
Net unrealized depreciation	(1,639,501)	(1,679,778)
Distributions in excess of earnings	(270,850)	(159,250)
Total shareholders' equity	1,127,084	1,198,202
Total liabilities and shareholders' equity	$ 2,077,694	$ 2,665,497

Net asset value per common share	$ 6.27	$ 6.66

The accompanying notes are an integral part of these consolidated financial statements.

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS

(in thousands, except per share amounts)

	For the Three Months Ended March 31, 2010	2009
	(unaudited)	
Interest and Related Portfolio Income:		
Interest and dividends		
Companies more than 25% owned	$ 14,531	$ 25,353
Companies 5% to 25% owned	3,957	11,136
Companies less than 5% owned	30,973	52,241
Total interest and dividends	49,461	88,730
Fees and other income		
Companies more than 25% owned	3,968	5,276
Companies 5% to 25% owned	10	17
Companies less than 5% owned	653	1,159
Total fees and other income	4,631	6,452
Total interest and related portfolio income	54,092	95,182
Expenses:		
Interest	23,605	43,485
Employee	7,571	11,070
Employee stock options	972	773
Administrative	14,391	9,845
Merger related expenses	8,423	
Impairment of long-lived asset		2,873
Total operating expenses	54,962	68,046
Net investment income (loss) before income taxes	(870)	27,136
Income tax expense (benefit), including excise tax	1,202	(378)
Net investment income (loss)	(2,072)	27,514
Net Realized and Unrealized Gains (Losses):		
Net realized gains (losses)		
Companies more than 25% owned	(20,049)	(4,050)
Companies 5% to 25% owned	(3,753)	(30,095)
Companies less than 5% owned	(47,730)	7,036
Total net realized losses	(71,532)	(27,109)
Net change in unrealized appreciation or depreciation	40,277	(350,070)
Total net losses	(31,255)	(377,179)

Gain on repurchase of debt		4,964		1,995
Loss on extinguishment of debt		(6,972)		
Net decrease in net assets resulting from operations	$	(35,335)	$	(347,670)
Basic loss per common share	$	(0.20)	$	(1.95)
Diluted loss per common share	$	(0.20)	$	(1.95)
Weighted average common shares outstanding basic		179,938		178,692
Weighted average common shares outstanding diluted		179,938		178,692

The accompanying notes are an integral part of these consolidated financial statements.

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(in thousands, except per share amounts)

	For the Three Months Ended March 31, 2010	2009
	(unaudited)	
Operations:		
Net investment income (loss)	$ (2,072)	$ 27,514
Net realized losses	(71,532)	(27,109)
Net change in unrealized appreciation or depreciation	40,277	(350,070)
Gain on repurchase of debt	4,964	1,995
Loss on extinguishment of debt	(6,972)	
Net decrease in net assets resulting from operations	(35,335)	(347,670)
Shareholder distributions:		
Common stock dividends	(35,988)	
Net decrease in net assets resulting from shareholder distributions	(35,988)	
Capital share transactions:		
Stock option expense	972	773
Net decrease in notes receivable from sale of common stock	301	632
Other	(1,068)	(2,382)
Net increase (decrease) in net assets resulting from capital share transactions	205	(977)
Total decrease in net assets	(71,118)	(348,647)
Net assets at beginning of period	1,198,202	1,718,400
Net assets at end of period	$ 1,127,084	$ 1,369,753
Net asset value per common share	$ 6.27	$ 7.67
Common shares outstanding at end of period	179,895	178,692

The accompanying notes are an integral part of these consolidated financial statements.

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)

	For the Three Months Ended March 31, 2010	2009
	(unaudited)	
Cash flows from operating activities:		
Net decrease in net assets resulting from operations	$ (35,335)	$ (347,670)
Adjustments:		
Portfolio investments	(20,166)	(39,917)
Principal collections related to investment repayments or sales	279,312	109,524
Collections of notes and other consideration received from sale of investments	8,696	132,246
Realized gains from the receipt of notes and other consideration from sale of investments		(4,058)
Realized losses	78,525	39,874
Gain on repurchase of debt		(1,995)
Redemption of (investments in) U.S. Treasury bills, money market and other securities	306,799	282
Payment-in-kind interest and dividends, net of cash collections	(6,951)	(7,659)
Change in accrued interest and dividends	2,962	1,554
Net collection (amortization) of discounts and fees	(1,952)	(4,697)
Stock option expense	972	773
Impairment of long-lived asset		2,873
Net change in restricted cash	250	
Changes in other assets and liabilities	10,966	8,498
Depreciation and amortization	353	398
Net change in unrealized (appreciation) or depreciation	(40,277)	350,070
Net cash provided by operating activities	584,154	240,096
Cash flows from financing activities:		
Sale of common stock upon the exercise of stock options	13	
Collections of notes receivable from sale of common stock	301	258
Repurchase or repayment of notes payable	(501,258)	(529)
Net repayments on bank term debt	(41,091)	
Cash paid for cancellation of stock options	(221)	
Other financing activities	(3,498)	
Net cash used in financing activities	(545,754)	(271)
Net increase (decrease) in cash	38,400	239,825
Cash at beginning of period	20,682	50,402

Cash at end of period	$ 59,082	$ 290,227

The accompanying notes are an integral part of these consolidated financial statements.

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS

March 31, 2010

(in thousands, except number of shares)

(unaudited)

Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Companies More Than 25% Owned				
AGILE Fund I, LLC(5) (Private Equity Fund)	Equity Interests		$ 467	$ 264
	Total Investment		**467**	**264**
AllBridge Financial, LLC (Asset Management)	Equity Interests		40,118	11,369
	Total Investment		**40,118**	**11,369**
Avborne, Inc. (Business Services)	Common Stock (27,500 shares)			39
	Total Investment			**39**
Aviation Properties Corporation (Business Services)	Common Stock (100 shares)		123	
	Total Investment		**123**	
Border Foods, Inc. (Consumer Products)	Senior Loan (12.9%, Due 3/12)	$ 34,126	29,443	34,126
	Preferred Stock (100,000 shares)		12,721	21,346
	Common Stock (260,467 shares)		3,847	13,472
	Total Investment		**46,011**	**68,944**
Callidus Capital Corporation (Asset Management)	Subordinated Debt (18.0%, Due 8/13)(6)	22,434	22,434	20,120
	Common Stock (100 shares)			
	Total Investment		**22,434**	**20,120**
	Guaranty ($3,189)			
Ciena Capital LLC		$ 319,031	$ 319,031	$ 78,971

(Financial Services)	Senior Loan (5.5%, Due 3/09)(6)			
	Class B Equity Interests		119,436	
	Class C Equity Interests		109,097	
	Total Investment		**547,564**	**78,971**
	Guaranty ($5,000 See Note 3)			
CitiPostal Inc.	Senior Loan (6.5%, Due 12/13)	1,942	1,934	1,942
(Business Services)	Unitranche Debt (13.0%, Due 12/13)	50,184	50,026	50,184
	Subordinated Debt (16.0%, Due 12/15)	11,136	11,136	11,136
	Common Stock (37,024 shares)		12,726	
	Total Investment		**75,822**	**63,262**
Coverall North America, Inc.	Unitranche Debt (12.0%, Due 7/11)	31,627	31,582	31,627
(Business Services)	Subordinated Debt (16.0%, Due 7/11)	5,563	5,556	5,563
	Common Stock (763,333 shares)		14,362	2,999
	Total Investment		**51,500**	**40,189**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Crescent Equity Corp.(8)	Senior Loan (10.0%, Due 6/10)	433	433	433
(Business Services)	Subordinated Debt (11.0%, Due 9/11 6/17)(6)	32,422	32,333	6,200
	Common Stock (174 shares)		83,544	
	Total Investment		**116,310**	**6,633**
	Guaranty ($900)			
Direct Capital Corporation	Senior Loan (8.0%, Due 1/14)(6)	8,175	8,175	8,919
(Financial Services)	Subordinated Debt (16.0%, Due 3/13)(6)	55,671	55,496	1,190
	Common Stock (2,317,020 shares)		25,732	
	Total Investment		**89,403**	**10,109**
EarthColor, Inc. (Business Services)	Common Stock (89,435 shares)		186,823	
	Total Investment		**186,823**	
Financial Pacific Company (Financial Services)	Subordinated Debt (17.4%, Due 2/12 8/12)	68,967	68,890	32,800
	Preferred Stock (9,458 shares)		8,865	
	Common Stock (12,711 shares)		12,783	
	Total Investment		**90,538**	**32,800**
HCI Equity, LLC(4)(5) (Private Equity Fund)	Equity Interests		$ 1,199	$ 808
	Total Investment		**1,199**	**808**
Hot Light Brands, Inc.	Senior Loan (9.0%, Due 2/11)(6)	$ 29,257	29,257	6,727
(Retail)	Common Stock (93,500 shares)		5,151	
	Total Investment		**34,408**	**6,727**
Hot Stuff Foods, LLC	Senior Loan (3.7%, Due 2/11 2/12)	45,587	44,503	44,587
(Consumer Products)	Subordinated Debt (12.3%, Due 8/12 2/13)(6)	83,692	83,387	24,581
	Common Stock (1,147,453 shares)		56,187	
	Total Investment		**184,077**	**69,168**
Huddle House, Inc.	Subordinated Debt (15.0%, Due 12/15)	19,794	19,748	19,607
(Retail)	Common Stock (358,428 shares)		36,348	

	Total Investment		**56,096**	**19,607**
IAT Equity, LLC and Affiliates d/b/a Industrial Air Tool (Industrial Products)	Subordinated Debt (9.0%, Due 6/14)	6,000	6,000	6,000
	Equity Interests		7,500	7,419
	Total Investment		**13,500**	**13,419**
Insight Pharmaceuticals Corporation (Consumer Products)	Subordinated Debt (15.0%, Due 9/12)	54,721	54,670	54,721
	Common Stock (155,000 shares)		40,413	12,070
	Total Investment		**95,083**	**66,791**
Jakel, Inc. (Industrial Products)	Subordinated Debt (15.5%, Due 3/08)(6)	748	748	
	Total Investment		**748**	
MVL Group, Inc. (Business Services)	Senior Loan (12.0%, Due 7/12)	$ 25,260	$ 25,257	$ 25,260
	Subordinated Debt (14.5%, Due 7/12)	35,607	35,580	35,447
	Subordinated Debt (8.0%, Due 7/12)(6)	144	139	
	Common Stock (560,716 shares)		555	
	Total Investment		**61,531**	**60,707**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Penn Detroit Diesel Allison, LLC (Business Services)	Equity Interests		20,081	20,069
	Total Investment		**20,081**	**20,069**
Service Champ, Inc. (Business Services)	Common Stock (55,112 shares)		11,145	28,463
	Total Investment		**11,145**	**28,463**
Stag-Parkway, Inc.	Subordinated Debt (10.0%, Due 7/12)	19,044	19,009	19,044
(Business Services)	Common Stock (25,000 shares)		32,686	17,766
	Total Investment		**51,695**	**36,810**
Startec Equity, LLC (Telecommunications)	Equity Interests		211	
	Total Investment		**211**	
Total companies more than 25% owned			**$ 1,796,887**	**$ 655,269**
Companies 5% to 25% Owned				
10th Street, LLC	Subordinated Debt (13.0%, Due 11/14)	$ 22,552	$ 22,466	$ 22,552
(Business Services)	Equity Interests		422	594
	Option		25	25
	Total Investment		**22,913**	**23,171**
Air Medical Group Holdings LLC	Senior Loan (2.4%, Due 3/11)	4,740	4,725	4,645
(Healthcare Services)	Equity Interests		2,993	18,204
	Total Investment		**7,718**	**22,849**
BB&T Capital Partners/Windsor Mezzanine Fund, LLC(5) (Private Equity Fund)	Equity Interests		16,351	13,943
	Total Investment		**16,351**	**13,943**
Driven Brands, Inc.	Subordinated Debt (18.0%, Due 7/15)	$ 51,220	$ 51,058	$ 52,814
(Consumer Services)	Common Stock (3,772,098 shares)		9,516	4,939
	Total Investment		**60,574**	**57,753**
Multi-Ad Services, Inc.	Unitranche Debt (11.3%, Due 11/11)	1,886	1,873	1,878
(Business Services)	Equity Interests		1,737	788
	Total Investment		**3,610**	**2,666**

Postle Aluminum Company, LLC	Senior Loan (6.0%, Due 10/12)(6)	35,000	34,876	27,500
(Industrial Products)	Subordinated Debt (3.0%, Due 10/12)(6)	23,953	23,868	
	Equity Interests		2,174	
	Total Investment		**60,918**	**27,500**
Regency Healthcare Group, LLC (Healthcare Services)	Equity Interests		1,302	2,007
	Total Investment		**1,302**	**2,007**
Soteria Imaging Services, LLC	Subordinated Debt (13.3%, Due 11/10)	4,250	4,228	4,080
(Healthcare Services)	Equity Interests		1,881	
	Total Investment		**6,109**	**4,080**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Universal Environmental Services, LLC	Equity Interests		1,599	
(Business Services)				
	Total Investment		**1,599**	
Total companies 5% to 25% owned			**$ 181,094**	**$ 153,969**
Companies Less Than 5% Owned				
Axium Healthcare Pharmacy, Inc. (Healthcare Services)	Subordinated Debt (8.0%, Due 3/15)	$ 3,098	$ 3,098	$ 2,819
	Total Investment		**3,098**	**2,819**
BenefitMall Holdings Inc.	Subordinated Debt (18.0%, Due 6/14)	40,326	40,257	40,326
(Business Services)	Common Stock (39,274,290 shares)(7)		39,274	53,510
	Warrants(12)			
	Total Investment		**79,531**	**93,836**
Bushnell, Inc. (Consumer Products)	Subordinated Debt (6.8%, Due 2/14)	41,325	40,274	28,928
	Total Investment		**40,274**	**28,928**
Callidus Debt Partners CDO	Class C Notes (12.9%, Due 12/13)(6)	19,420	19,527	1,463
Fund I, Ltd.(4)(10) (CDO)	Class D Notes (17.0%, Due 12/13)(6)	9,400	9,454	
	Total Investment		**28,981**	**1,463**
Callidus Debt Partners CLO Fund III, Ltd.(4)(10) (CDO)	Preferred Shares (23,600,000 shares)		20,138	5,593
	Total Investment		**20,138**	**5,593**
Callidus Debt Partners CLO	Class D Notes (4.8%, Due 4/20)	3,000	2,253	1,723
Fund IV, Ltd.(4)(10) (CLO)	Income Notes (0.0%)(11)		14,650	7,930
	Total Investment		**16,903**	**9,653**
Callidus Debt Partners CLO Fund V, Ltd.(4)(10) (CLO)	Income Notes (0.0%)(11)		12,706	8,818
	Total Investment		**12,706**	**8,818**
Callidus Debt Partners CLO	Class D Notes (6.2%, Due 10/21)	9,635	8,017	4,484
Fund VI, Ltd.(4)(10) (CLO)	Income Notes (0.0%)(11)		29,144	9,276

	Total Investment		**37,161**	**13,760**
Callidus Debt Partners CLO Fund VII, Ltd.(4)(10) (CLO)	Income Notes (0.0%)(11)		24,388	11,015
	Total Investment		**24,388**	**11,015**
Callidus MAPS CLO Fund I LLC(10)	Class E Notes (5.8%, Due 12/17)	$ 17,000	$ 17,000	$ 11,289
(CLO)	Income Notes (0.0%)(11)		36,379	15,163
	Total Investment		**53,379**	**26,452**
Callidus MAPS CLO				
Fund II, Ltd.(4)(10)	Class D Notes (4.5%, Due 7/22)	7,700	3,978	3,209
(CLO)	Income Notes (0.0%)(11)		16,940	9,121
	Total Investment		**20,918**	**12,330**
Carlisle Wide Plank Floors, Inc.	Unitranche Debt (15.0%, Due 6/11)	1,644	1,639	1,480
(Consumer Products)	Common Stock (345,056 Shares)		345	
	Total Investment		**1,984**	**1,480**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Catterton Partners VI, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		3,327	1,589
	Total Investment		**3,327**	**1,589**
Commercial Credit Group, Inc. (Financial Services)	Subordinated Debt (15.0%, Due 6/15)	19,500	19,470	19,500
	Total Investment		**19,470**	**19,500**
Community Education Centers, Inc. (Education Services)	Subordinated Debt (21.5%, Due 11/13)(6)	38,096	38,050	35,048
	Total Investment		**38,050**	**35,048**
Compass Group Diversified Holdings, LLC(3) (Financial Services)	Senior Loan (4.7%, Due 12/12)	5,184	5,143	5,184
	Total Investment		**5,143**	**5,184**
Component Hardware Group, Inc.(3) (Industrial Products)	Subordinated Debt (15.5%, Due 1/13)	18,992	18,947	8,321
	Total Investment		**18,947**	**8,321**
Cook Inlet Alternative Risk, LLC (Business Services)	Unitranche Debt (13.3%, Due 4/13)(6)	87,600	87,331	55,000
	Equity Interests		552	
	Total Investment		**87,883**	**55,000**
Cortec Group Fund IV, L.P.(5) (Private Equity)	Limited Partnership Interest		6,446	3,334
	Total Investment		**6,446**	**3,334**
Digital VideoStream, LLC (Business Services)	Unitranche Debt (11.0%, Due 2/12)	$ 11,087	$ 11,048	$ 11,087
	Convertible Subordinated Debt (10.0%, Due 2/16)	5,142	5,132	5,578
	Total Investment		**16,180**	**16,665**
DirectBuy Holdings, Inc. (Consumer Products)	Subordinated Debt (16.0%, Due 5/13)	79,198	78,982	75,238
	Equity Interests		8,000	3,112
	Total Investment		**86,982**	**78,350**

Distant Lands Trading Co. (Consumer Products)	Senior Loan (8.3%, Due 11/11)	10,000	9,986	9,800
	Unitranche Debt (13.0%, Due 11/11)	43,581	43,519	42,709
	Common Stock (3,451 shares)		3,451	980
	Total Investment		**56,956**	**53,489**
Diversified Mercury Communications, LLC (Business Services)	Senior Loan (8.0%, Due 3/13)	2,521	2,512	2,269
	Total Investment		**2,512**	**2,269**
Dryden XVIII Leveraged Loan 2007 Limited(4)	Class B Notes (4.7%, Due 10/19)	8,637	7,483	3,627
(CLO)	Income Notes (0.0%)(11)		23,164	12,883
	Total Investment		**30,647**	**16,510**
Dynamic India Fund IV(4)(5) (Private Equity Fund)	Equity Interests		9,350	4,822
	Total Investment		**9,350**	**4,822**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
eCentury Capital Partners, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		7,274	
	Total Investment		**7,274**	
eInstruction Corporation (Education Services)	Subordinated Debt (12.3%, Due 7/14 1/15)	37,687	37,581	33,068
	Common Stock (2,406 shares)		2,500	926
	Total Investment		**40,081**	**33,994**
Fidus Mezzanine Capital, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		$ 14,720	$ 9,643
	Total Investment		**14,720**	**9,643**
Geotrace Technologies, Inc. (Energy Services)	Warrants		2,027	2,893
	Total Investment		**2,027**	**2,893**
Gilchrist & Soames, Inc. (Consumer Products)	Subordinated Debt (13.4%, Due 10/13)	$ 24,421	24,317	23,416
	Total Investment		**24,317**	**23,416**
Havco Wood Products LLC (Industrial Products)	Equity Interests		910	
	Total Investment		**910**	
Ideal Snacks Corporation (Consumer Products)	Senior Loan (8.5%, Due 6/11)	969	969	969
	Total Investment		**969**	**969**
Kodiak Fund LP(5) (Private Equity Fund)	Equity Interests		9,319	950
	Total Investment		**9,319**	**950**
Market Track Holdings, LLC (Business Services)	Subordinated Debt (15.9%, Due 6/14)	24,337	24,201	24,287
	Total Investment		**24,201**	**24,287**

NetShape Technologies, Inc. (Industrial Products)	Senior Loan (4.0%, Due 2/13)	972	972	521
	Total Investment		**972**	**521**
Network Hardware Resale, Inc. (Business Services)	Unitranche Debt (12.0%, Due 12/11)	$ 15,723	$ 15,763	$ 15,723
	Convertible Subordinated Debt (9.8%, Due 12/15)	17,518	17,561	17,561
	Total Investment		**33,324**	**33,284**
Novak Biddle Venture Partners III, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		2,018	697
	Total Investment		**2,018**	**697**
Pangaea CLO 2007-1 Ltd.(4) (CLO)	Class D Notes (5.0%, Due 1/21)	15,000	12,225	8,737
	Total Investment		**12,225**	**8,737**
PC Helps Support, LLC (Business Services)	Senior Loan (3.5%, Due 12/13)	8,062	7,974	7,976
	Subordinated Debt (12.8%, Due 12/13)	26,348	26,253	26,348
	Total Investment		**34,227**	**34,324**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Performant Financial Corporation (Business Services)	Common Stock (478,816 shares)		734	1,478
	Total Investment		**734**	**1,478**
Promo Works, LLC (Business Services)	Unitranche Debt (16.0%, Due 12/12)	19,964	19,869	7,842
	Total Investment		**19,869**	**7,842**
Reed Group, Ltd.	Senior Loan (6.0%, Due 12/13)(6)	12,005	11,877	10,122
(Healthcare Services)	Subordinated Debt (15.8%, Due 12/13)(6)	19,449	19,393	15,559
	Equity Interests		1,800	203
	Total Investment		**33,070**	**25,884**
S.B. Restaurant Company	Unitranche Debt (11.8%, Due 4/11)	38,327	38,230	28,546
(Retail)	Preferred Stock (46,690 shares)		117	
	Warrants		534	
	Total Investment		**38,881**	**28,546**
SPP Mezzanine Funding II, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		7,263	6,884
	Total Investment		**7,263**	**6,884**
STS Operating, Inc. (Industrial Products)	Subordinated Debt (11.0%, Due 1/13)	30,386	30,324	29,170
	Total Investment		**30,324**	**29,170**
Summit Energy Services, Inc. (Business Services)	Common Stock (415,982 shares)		1,861	2,520
	Total Investment		**1,861**	**2,520**
Tappan Wire & Cable Inc.	Unitranche Debt (15.0%, Due 8/14)(6)	$ 22,346	$ 22,248	$ 10,351
(Business Services)	Common Stock (12,940 shares)(12)		2,043	
	Warrant(12)			
	Total Investment		**24,291**	**10,351**
		94,371	94,206	88,709

The Step2 Company, LLC (Consumer Products)	Unitranche Debt (13.0%, Due 4/12) Equity Interests		2,156	24
	Total Investment		**96,362**	**88,733**
Tradesmen International, Inc. (Business Services)	Subordinated Debt (15.0%, Due 12/12)(6)	40,000	39,793	20,048
	Total Investment		**39,793**	**20,048**
Trover Solutions, Inc. (Business Services)	Subordinated Debt (12.0%, Due 11/12)	52,828	52,688	52,828
	Total Investment		**52,688**	**52,828**
United Road Towing, Inc. (Consumer Services)	Subordinated Debt (16.3%, Due 1/14)	19,060	18,997	18,775
	Total Investment		**18,997**	**18,775**
Venturehouse-Cibernet Investors, LLC (Business Services)	Equity Interest			
	Total Investment			
Webster Capital II, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		1,767	687
	Total Investment		**1,767**	687

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Other companies	Other debt investments		(123)	(123)
	Other equity investments		6	10
	Total Investment		**(117)**	**(113)**
Total companies less than 5% owned			**$ 1,293,721**	**$ 983,576**
Total private finance (93 portfolio investments)			**$ 3,271,702**	**$ 1,792,814**

Commercial Real Estate Finance
(in thousands, except number of loans)

	Stated Interest Rate Ranges	Number of Loans	Cost	Value
			(unaudited)	
Commercial Mortgage Loans				
	Up to 6.99%	3	$ 29,872	$ 26,858
	7.00% - 8.99%	2	2,607	2,586
	9.00% - 10.99%	1	6,481	650
	15.00% and above	2	3,970	1,027
Total commercial mortgage loans(12)			**$ 42,930**	**$ 31,121**
Real Estate Owned			**$ 5,962**	**$ 3,513**
Equity Interests(2) Companies more than 25% owned			**$ 27,053**	**$ 6,318**
Total commercial real estate finance			**$ 75,945**	**$ 40,952**
Total portfolio			**$ 3,347,647**	**$ 1,833,766**

	Yield	Cost	Value
Investments in Money Market and Other Securities			
First American Treasury Obligations Fund		$ 74,221	$ 74,221
Total		$ 74,221	$ 74,221

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(1) Interest rates represent the weighted average annual stated interest rate on loans and debt securities, which are presented by nature of indebtedness for a single issuer. The maturity dates represent the earliest and the latest maturity dates.

(2)

Common stock, preferred stock, warrants, options, and equity interests are generally non-income producing and restricted.

(3) Public company.

(4) Non-U.S. company or principal place of business outside the U.S.

(5) Non-registered investment company.

(6) Loan or debt security is on non-accrual status and therefore is considered non-income producing.

(7) Common stock is non-voting. In addition to non-voting stock ownership, Allied Capital has an option to acquire a majority of the voting securities of the portfolio company at fair market value.

(8) Crescent Equity Corp. holds investments in Crescent Hotels & Resorts, LLC and affiliates.

(10) The fund is managed by Callidus Capital, a portfolio company of Allied Capital.

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(11) Represents the effective interest yield earned on the cost basis of these preferred equity investments and income notes. The yield is included in interest income in the consolidated statement of operations.

(12) Commercial mortgage loans totaling $6.4 million at value were on non-accrual status and therefore were considered non-income producing.

The accompanying notes are an integral part of these consolidated financial statements.

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS

December 31, 2009

(in thousands, except number of shares)

Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Companies More Than 25% Owned				
AGILE Fund I, LLC(5) (Private Equity Fund)	Equity Interests		$ 637	$ 449
	Total Investment		**637**	**449**
AllBridge Financial, LLC (Asset Management)	Senior Loan (6.3%, Due 4/10)	$ 1,500	1,500	1,500
	Equity Interests		40,118	15,805
	Total Investment		**41,618**	**17,305**
Avborne, Inc. (Business Services)	Common Stock (27,500 shares)			39
	Total Investment			**39**
Aviation Properties Corporation (Business Services)	Common Stock (100 shares)		123	
	Total Investment		**123**	
Border Foods, Inc. (Consumer Products)	Senior Loan (12.9%, Due 3/12)	34,126	29,064	34,126
	Preferred Stock (100,000 shares)		12,721	20,901
	Common Stock (260,467 shares)		3,847	9,663
	Total Investment		**45,632**	**64,690**
Callidus Capital Corporation (Asset Management)	Subordinated Debt (18.0%, Due 8/13)	21,782	21,782	19,108
	Common Stock (100 shares)			

	Total Investment		**21,782**	**19,108**
	Guaranty ($3,189)			
Ciena Capital LLC (Financial Services)	Senior Loan (5.5%, Due 3/09)(6)	319,031	319,031	100,051
	Class B Equity Interests		119,436	
	Class C Equity Interests		109,097	
	Total Investment		**547,564**	**100,051**
	Guaranty ($5,000 See Note 3)			
CitiPostal Inc. (Business Services)	Senior Loan (3.7%, Due 12/13)	692	683	683
	Unitranche Debt (12.0%, Due 12/13)	50,801	50,633	50,633
	Subordinated Debt (16.0%, Due 12/15)	10,685	10,685	10,685
	Common Stock (37,024 shares)		12,726	1,432
	Total Investment		**74,727**	**63,433**
Coverall North America, Inc. (Business Services)	Unitranche Debt (12.0%, Due 7/11)	31,627	31,573	31,573
	Subordinated Debt (15.0%, Due 7/11)	5,563	5,555	5,555
	Common Stock (763,333 shares)		14,361	11,386
	Total Investment		**51,489**	**48,514**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Crescent Equity Corp.(8) (Business Services)	Senior Loan (10.0%, Due 6/10)	$ 433	$ 433	$ 433
	Subordinated Debt (11.0%, Due 9/11 6/17)(6)	32,161	32,072	4,132
	Common Stock (174 shares)		82,818	
	Total Investment		**115,323**	**4,565**
	Guaranty ($900)			
Direct Capital Corporation (Financial Services)	Senior Loan (8.0%, Due 1/14)(6)	8,175	8,175	8,744
	Subordinated Debt (16.0%, Due 3/13)(6)	55,671	55,496	6,797
	Common Stock (2,317,020 shares)		25,732	
	Total Investment		**89,403**	**15,541**
Financial Pacific Company (Financial Services)	Subordinated Debt (17.4%, Due 2/12 8/12)	68,967	68,880	34,780
	Preferred Stock (9,458 shares)		8,865	
	Common Stock (12,711 shares)		12,783	
	Total Investment		**90,528**	**34,780**
HCI Equity, LLC(4)(5) (Private Equity Fund)	Equity Interests		1,100	877
	Total Investment		**1,100**	**877**
Hot Light Brands, Inc. (Real Estate)	Senior Loan (9.0%, Due 2/11)(6)	29,257	29,257	9,116
	Common Stock (93,500 shares)		5,151	
	Total Investment		**34,408**	**9,116**
Hot Stuff Foods, LLC (Consumer Products)	Senior Loan (3.7%, Due 2/12)	44,697	44,602	44,697
	Subordinated Debt (12.3%, Due 8/12 2/13)(6)	83,692	83,387	48,240
	Common Stock (1,147,453 shares)		56,187	
	Total Investment		**184,176**	**92,937**
Huddle House, Inc. (Retail)	Subordinated Debt (15.0%, Due 12/15)	19,694	19,646	19,646
	Common Stock (358,428 shares)		36,348	3,919

	Total Investment		**55,994**	**23,565**
IAT Equity, LLC and Affiliates d/b/a Industrial Air Tool (Industrial Products)	Subordinated Debt (9.0%, Due 6/14)	6,000	6,000	6,000
	Equity Interests		7,500	5,485
	Total Investment		**13,500**	**11,485**
Impact Innovations Group, LLC (Business Services)	Equity Interests in Affiliate			215
	Total Investment			**215**
Insight Pharmaceuticals Corporation (Consumer Products)	Subordinated Debt (15.0%, Due 9/12)	54,443	54,385	54,023
	Common Stock (155,000 shares)		40,413	9,400
	Total Investment		**94,798**	**63,423**
Jakel, Inc. (Industrial Products)	Subordinated Debt (15.5%, Due 3/08)(6)	748	748	
	Total Investment		**748**	

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Knightsbridge CLO 2007-1 Ltd.(4) (CLO)	Class E Notes (9.3%, Due 1/22)	$ 18,700	$ 18,700	$ 11,360
	Income Notes (4.4%)(7)		39,174	16,220
	Total Investment		**57,874**	**27,580**
Knightsbridge CLO 2008-1 Ltd.(4) (CLO)	Class C Notes (7.8%, Due 6/18)	12,800	12,800	12,289
	Class D Notes (8.8%, Due 6/18)	8,000	8,000	7,160
	Class E Notes (5.3%, Due 6/18)	13,200	11,291	10,091
	Income Notes (20.8%)(7)		21,893	20,637
	Total Investment		**53,984**	**50,177**
MVL Group, Inc. (Business Services)	Senior Loan (12.0%, Due 7/12)	25,260	25,256	25,260
	Subordinated Debt (14.5%, Due 7/12)	35,607	35,578	34,306
	Subordinated Debt (8.0%, Due 7/12)(6)	144	139	
	Common Stock (560,716 shares)		555	
	Total Investment		**61,528**	**59,566**
Penn Detroit Diesel Allison, LLC (Business Services)	Equity Interests		20,081	15,258
	Total Investment		**20,081**	**15,258**
Service Champ, Inc. (Business Services)	Subordinated Debt (15.5%, Due 4/12)	27,742	27,696	27,696
	Common Stock (55,112 shares)		11,145	28,071
	Total Investment		**38,841**	**55,767**
Stag-Parkway, Inc. (Business Services)	Subordinated Debt (10.0%, Due 7/12)	19,044	19,004	19,004
	Common Stock (25,000 shares)		32,686	14,226
	Total Investment		**51,690**	**33,230**
Startec Equity, LLC (Telecommunications)	Equity Interests		211	65
	Total Investment		**211**	**65**
Total companies more than 25% owned			**$ 1,747,759**	**$ 811,736**
Companies 5% to 25% Owned				
10th Street, LLC	Subordinated Debt (13.0%, Due 11/14)	22,325	22,234	22,325

(Business Services)	Equity Interests		422	475
	Option		25	25
	Total Investment		**22,681**	**22,825**
Air Medical Group Holdings LLC	Senior Loan (2.8%, Due 3/11)	6,075	6,056	5,845
(Healthcare Services)	Equity Interests		2,993	19,500
	Total Investment		**9,049**	**25,345**
BB&T Capital Partners/Windsor Mezzanine Fund, LLC(5) (Private Equity Fund)	Equity Interests		11,789	10,379
	Total Investment		**11,789**	**10,379**
Driven Brands, Inc.	Subordinated Debt (16.6%, Due 7/15)	91,991	91,647	91,899
(Consumer Services)	Common Stock (3,772,098 shares)		9,516	3,000
	Total Investment		**101,163**	**94,899**
Multi-Ad Services, Inc.	Unitranche Debt (11.3%, Due 11/11)	2,500	2,485	2,491
(Business Services)	Equity Interests		1,737	1,418
	Total Investment		**4,222**	**3,909**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Pendum Acquisition, Inc (Business Services)	Common Stock (8,872 shares)		$	$ 200
	Total Investment			**200**
Postle Aluminum Company, LLC (Industrial Products)	Senior Loan (6.0%, Due 10/12)(6)	$ 35,000	34,876	16,054
	Subordinated Debt (3.0%, Due 10/12)(6)	23,953	23,868	
	Equity Interests		2,174	
	Total Investment		**60,918**	**16,054**
Regency Healthcare Group, LLC (Healthcare Services)	Equity Interests		1,302	1,898
	Total Investment		**1,302**	**1,898**
SGT India Private Limited(4) (Business Services)	Common Stock (150,596 shares)		4,161	
	Total Investment		**4,161**	
Soteria Imaging Services, LLC (Healthcare Services)	Subordinated Debt (13.3%, Due 11/10)	4,250	4,216	4,210
	Equity Interests		1,881	1,279
	Total Investment		**6,097**	**5,489**
Universal Environmental Services, LLC (Business Services)	Equity Interests		1,599	
	Total Investment		**1,599**	
Total companies 5% to 25% owned			**$ 222,981**	**$ 180,998**

Companies Less Than 5% Owned

3SI Security Systems, Inc. (Consumer Products)	Subordinated Debt (16.6%, Due 8/13)(6)	29,548	29,473	9,542
	Total Investment		**29,473**	**9,542**
Axium Healthcare Pharmacy, Inc. (Healthcare Services)	Subordinated Debt (8.0%, Due 3/15)	3,036	3,036	2,641
	Total Investment		**3,036**	**2,641**
BenefitMall Holdings Inc. (Business Services)	Subordinated Debt (18.0%, Due 6/14)	40,326	40,254	40,254
	Common Stock (39,274,290 shares)(3)		39,274	68,822
	Warrants(3)			
	Total Investment		**79,528**	**109,076**
Bushnell, Inc. (Consumer Products)	Subordinated Debt (6.8%, Due 2/14)	41,325	40,217	30,456
	Total Investment		**40,217**	**30,456**
Callidus Debt Partners CDO Fund I, Ltd.(4)(10) (CDO)	Class C Notes (12.9%, Due 12/13)(6)	19,420	19,527	2,163
	Class D Notes (17.0%, Due 12/13)(6)	9,400	9,454	
	Total Investment		**28,981**	**2,163**
Callidus Debt Partners CLO Fund III, Ltd.(4)(10) (CLO)	Preferred Shares (23,600,000 shares)		20,138	4,112
	Total Investment		**20,138**	**4,112**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Callidus Debt Partners CLO Fund IV, Ltd.(4)(10) (CLO)	Class D Notes (4.8%, Due 4/20)	$ 3,000	$ 2,206	$ 1,710
	Income Notes (0.0%)(7)		14,859	5,433
	Total Investment		**17,065**	**7,143**
Callidus Debt Partners CLO Fund V, Ltd.(4)(10) (CLO)	Income Notes (1.4%)(7)		13,432	5,012
	Total Investment		**13,432**	**5,012**
Callidus Debt Partners CLO Fund VI, Ltd.(4)(10) (CLO)	Class D Notes (6.3%, Due 10/21)	9,480	7,809	4,256
	Income Notes (0.0%)(7)		29,144	4,978
	Total Investment		**36,953**	**9,234**
Callidus Debt Partners CLO Fund VII, Ltd.(4)(10) (CLO)	Income Notes (0.0%)(7)		24,824	7,148
	Total Investment		**24,824**	**7,148**
Callidus MAPS CLO Fund I LLC(10) (CLO)	Class E Notes (5.8%, Due 12/17)	17,000	17,000	11,695
	Income Notes (0.0%)(7)		38,509	14,119
	Total Investment		**55,509**	**25,814**
Callidus MAPS CLO Fund II, Ltd.(4)(10) (CLO)	Class D Notes (4.5%, Due 7/22)	7,700	3,880	3,215
	Income Notes (2.5%)(7)		17,824	6,310
	Total Investment		**21,704**	**9,525**
Carlisle Wide Plank Floors, Inc. (Consumer Products)	Unitranche Debt (12.0%, Due 6/11)	1,644	1,638	1,544
	Common Stock (345,056 Shares)		345	
	Total Investment		**1,983**	**1,544**
Catterton Partners VI, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		3,327	2,014

	Total Investment		**3,327**	**2,014**
Commercial Credit Group, Inc. (Financial Services)	Subordinated Debt (15.0%, Due 6/15)	22,000	21,970	21,970
	Preferred Stock (64,679 shares)		15,543	6,005
	Warrants			
	Total Investment		**37,513**	**27,975**
Community Education Centers, Inc. (Education Services)	Subordinated Debt (21.5%, Due 11/13)	37,357	37,307	35,869
	Total Investment		**37,307**	**35,869**
Component Hardware Group, Inc. (Industrial Products)	Subordinated Debt (13.5%, Due 1/13)(6)	18,992	18,947	16,695
	Total Investment		**18,947**	**16,695**
Cook Inlet Alternative Risk, LLC (Business Services)	Unitranche Debt (13.0%, Due 4/13)	87,600	87,309	62,100
	Equity Interests		552	
	Total Investment		**87,861**	**62,100**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Cortec Group Fund IV, L.P.(5) (Private Equity)	Limited Partnership Interest		$ 6,390	$ 3,917
	Total Investment		**6,390**	**3,917**
Digital VideoStream, LLC (Business Services)	Unitranche Debt (11.0%, Due 2/12)	$ 12,984	12,940	12,811
	Convertible Subordinated Debt (10.0%, Due 2/16)	5,017	5,006	5,006
	Total Investment		**17,946**	**17,817**
DirectBuy Holdings, Inc. (Consumer Products)	Subordinated Debt (16.0%, Due 5/13)	78,414	78,181	71,856
	Equity Interests		8,000	1,500
	Total Investment		**86,181**	**73,356**
Distant Lands Trading Co. (Consumer Products)	Senior Loan (8.3%, Due 11/11)	8,300	8,284	7,852
	Unitranche Debt (13.0%, Due 11/11)	43,581	43,509	43,026
	Common Stock (3,451 shares)		3,451	1,046
	Total Investment		**55,244**	**51,924**
Diversified Mercury Communications, LLC (Business Services)	Senior Loan (6.8%, Due 3/13)	2,668	2,657	2,391
	Total Investment		**2,657**	**2,391**
Dryden XVIII Leveraged Loan 2007 Limited(4) (CLO)	Class B Notes (4.8%, Due 10/19)(6)	8,717	7,497	2,115
	Income Notes (0.0%)(7)		23,164	2,427
	Total Investment		**30,661**	**4,542**
Dynamic India Fund IV(4)(5) (Private Equity Fund)	Equity Interests		9,350	8,224
	Total Investment		**9,350**	**8,224**
EarthColor, Inc. (Business Services)	Subordinated Debt (15.0%, Due 11/13)(6)	123,819	123,385	

	Common Stock (63,438 shares)(3)		63,438	
	Warrants(3)			
	Total Investment		**186,823**	
eCentury Capital Partners, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		7,274	
	Total Investment		**7,274**	
eInstruction Corporation (Education Services)	Subordinated Debt (12.2%, Due 7/14 1/15)	36,849	36,737	34,174
	Common Stock (2,406 shares)		2,500	1,050
	Total Investment		**39,237**	**35,224**
Fidus Mezzanine Capital, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		14,720	9,921
	Total Investment		**14,720**	**9,921**
Geotrace Technologies, Inc. (Energy Services)	Warrants		2,027	2,075
	Total Investment		**2,027**	**2,075**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Gilchrist & Soames, Inc. (Consumer Products)	Subordinated Debt (13.4%, Due 10/13)	$ 24,421	$ 24,310	$ 23,181
	Total Investment		**24,310**	**23,181**
Havco Wood Products LLC (Industrial Products)	Equity Interests		910	
	Total Investment		**910**	
The Homax Group, Inc. (Consumer Products)	Senior Loan (8.0%, Due 10/12)	697	653	648
	Subordinated Debt (14.5%, Due 4/14)	14,159	13,649	9,804
	Preferred Stock (76 shares)		76	
	Common Stock (24 shares)		5	
	Warrants		954	
	Total Investment		**15,337**	**10,452**
Ideal Snacks Corporation (Consumer Products)	Senior Loan (8.5%, Due 6/11)	967	967	958
	Total Investment		**967**	**958**
Kodiak Fund LP(5) (Private Equity Fund)	Equity Interests		9,323	1,917
	Total Investment		**9,323**	**1,917**
Market Track Holdings, LLC (Business Services)	Senior Loan (8.0%, Due 6/14)	2,500	2,450	2,412
	Subordinated Debt (15.9%, Due 6/14)	24,600	24,509	23,680
	Total Investment		**26,959**	**26,092**
NetShape Technologies, Inc. (Industrial Products)	Senior Loan (4.0%, Due 2/13)	972	972	335
	Total Investment		**972**	**335**
		16,042	16,088	16,031

Network Hardware Resale, Inc. (Business Services)	Unitranche Debt (12.0%, Due 12/11)			
	Convertible Subordinated Debt (9.8%, Due 12/15)	15,953	15,998	15,998
	Total Investment		**32,086**	**32,029**
Novak Biddle Venture Partners III, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		2,018	1,070
	Total Investment		**2,018**	**1,070**
Pangaea CLO 2007-1 Ltd.(4) (CLO)	Class D Notes (5.0%, Due 1/21)	15,000	12,119	6,651
	Total Investment		**12,119**	**6,651**
PC Helps Support, LLC (Business Services)	Senior Loan (4.3%, Due 12/13)	8,181	8,092	7,756
	Subordinated Debt (12.8%, Due 12/13)	26,734	26,633	26,490
	Total Investment		**34,725**	**34,246**
Performant Financial Corporation (Business Services)	Common Stock (478,816 shares)		734	1,400
	Total Investment		**734**	**1,400**
Promo Works, LLC (Business Services)	Unitranche Debt (16.0%, Due 12/12)	19,964	19,859	12,557
	Total Investment		**19,859**	**12,557**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Reed Group, Ltd. (Healthcare Services)	Senior Loan (6.0%, Due 12/13)	$ 12,033	$ 11,903	$ 10,186
	Subordinated Debt (15.8%, Due 12/13)	19,259	19,199	15,260
	Equity Interests		1,800	28
	Total Investment		**32,902**	**25,474**
S.B. Restaurant Company (Retail)	Unitranche Debt (11.8%, Due 4/11)	38,327	38,207	32,693
	Preferred Stock (46,690 shares)		117	
	Warrants		534	
	Total Investment		**38,858**	**32,693**
SPP Mezzanine Funding II, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		7,476	7,145
	Total Investment		**7,476**	**7,145**
STS Operating, Inc. (Industrial Products)	Subordinated Debt (11.0%, Due 1/13)	30,386	30,318	28,695
	Total Investment		**30,318**	**28,695**
Summit Energy Services, Inc. (Business Services)	Common Stock (415,982 shares)		1,861	2,200
	Total Investment		**1,861**	**2,200**
Tappan Wire & Cable Inc. (Industrial Products)	Unitranche Debt (15.0%, Due 8/14)(6)	22,346	22,248	5,331
	Common Stock (12,940 shares)(3)		2,043	
	Warrant(3)			
	Total Investment		**24,291**	**5,331**
The Step2 Company, LLC (Consumer Products)	Unitranche Debt (11.0%, Due 4/12)	94,122	93,937	89,614
	Equity Interests		2,156	705
	Total Investment		**96,093**	**90,319**
Tradesmen International, Inc. (Business Services)	Subordinated Debt (15.0%, Due 12/12)(6)	40,000	39,793	11,532

	Total Investment		**39,793**	**11,532**
Trover Solutions, Inc. (Business Services)	Subordinated Debt (12.0%, Due 11/12)	53,827	53,674	51,270
	Total Investment		**53,674**	**51,270**
United Road Towing, Inc. (Consumer Services)	Subordinated Debt (11.8%, Due 1/14)	19,060	18,993	18,367
	Total Investment		**18,993**	**18,367**
Venturehouse-Cibernet Investors, LLC (Business Services)	Equity Interest			
	Total Investment			
Webster Capital II, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		1,742	1,235
	Total Investment		**1,742**	**1,235**
Woodstream Corporation (Consumer Products)	Subordinated Debt (12.0%, Due 2/15)	90,000	89,693	77,400
	Common Stock (6,960 shares)		6,961	2,700
	Total Investment		**96,654**	**80,100**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Other companies	Other debt investments	$ 37	$ (130)	$ (134)
	Other equity investments		41	8
	Total Investment		**(89)**	**(126)**
Total companies less than 5% owned			**$ 1,639,193**	**$ 1,082,577**
Total private finance (100 portfolio investments)			**$ 3,609,933**	**$ 2,075,311**

Commercial Real Estate Finance
(in thousands, except number of loans)

	Stated Interest Rate Ranges	Number of Loans	December 31, 2009 Cost	Value
Commercial Mortgage Loans				
	Up to 6.99%	3	$ 29,660	$ 28,372
	7.00% - 8.99%	2	1,845	1,819
	9.00% - 10.99%	1	6,480	3,281
	15.00% and above	2	3,970	1,943
Total commercial mortgage loans(9)			**$ 41,955**	**$ 35,415**
Real Estate Owned			**$ 5,962**	**$ 6,405**
Equity Interests(2) Companies more than 25% owned			**$ 27,263**	**$ 13,987**
Total commercial real estate finance			**$ 75,180**	**$ 55,807**
Total portfolio			**$ 3,685,113**	**$ 2,131,118**

	Yield	Cost	Value
Investments in Money Market and Other Securities			
First American Treasury Obligations Fund		$ 381,020	$ 381,020
Total		$ 381,020	$ 381,020

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(1) Interest rates represent the weighted average annual stated interest rate on loans and debt securities, which are presented by nature of indebtedness for a single issuer. The maturity dates represent the earliest and the latest maturity dates.

(2) Common stock, preferred stock, warrants, options, and equity interests are generally non-income producing and restricted.

(3) Common stock is non-voting. In addition to non-voting stock ownership, Allied Capital has an option to acquire a majority of the voting securities of the portfolio company at fair market value.

(4) Non-U.S. company or principal place of business outside the U.S.

(5) Non-registered investment company.

(6) Loan or debt security is on non-accrual status and therefore is considered non-income producing.

(7) Represents the effective interest yield earned on the cost basis of these preferred equity investments and income notes. The yield is included in interest income in the consolidated statement of operations.

(8) Crescent Equity Corp. holds investments in Crescent Hotels & Resorts, LLC and affiliates.

(9) Commercial mortgage loans totaling $6.1 million at value were on non-accrual status and therefore were considered non-income producing.

(10) The fund is managed by Callidus Capital, a portfolio company of Allied Capital.

The accompanying notes are an integral part of these consolidated financial statements.

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Note 1. Organization

Allied Capital Corporation ("Allied Capital"), a Maryland corporation, is a closed-end, non-diversified management investment company that has elected to be regulated as a business development company ("BDC") under the Investment Company Act of 1940 ("1940 Act"). Allied Capital has a real estate investment trust subsidiary, Allied Capital REIT, Inc. ("Allied REIT"), and several subsidiaries that are single member limited liability companies established for specific purposes including holding real estate properties. Allied Capital also has a subsidiary, A.C. Corporation ("AC Corp") that generally provides diligence and structuring services, as well as transaction, management, consulting, and other services, including underwriting and arranging senior loans, to Allied Capital, its portfolio companies and its managed funds.

Allied Capital and its subsidiaries, collectively, are referred to as the "Company." The Company consolidates the results of its subsidiaries for financial reporting purposes.

Pursuant to Accounting Standards Codification ("ASC") Topic 810 *"Consolidations,"* the financial results of Allied Capital's portfolio investments are not consolidated in Allied Capital's financial statements. Portfolio investments are held for purposes of deriving investment income and future capital gains.

The investment objective of Allied Capital is to achieve current income and capital gains. In order to achieve this objective, Allied Capital has primarily invested in debt and equity securities of private companies in a variety of industries.

On October 26, 2009, Allied Capital entered into a definitive agreement to be acquired by Ares Capital Corporation ("Ares Capital") in an all stock transaction upon the consummation of which each existing share of common stock of Allied Capital was exchanged for 0.325 shares of Ares Capital common stock (the "Acquisition by Ares Capital"). The Acquisition by Ares Capital was consummated on April 1, 2010 in a transaction valued at approximately $908 million as of the closing date. In connection with the closing of the Acquisition by Ares Capital on April 1, 2010, Allied Capital incurred costs of approximately $54.4 million, which are not included in the Statement of Operations for the three months ended March 31, 2010. See Note 13 Subsequent Events.

Note 2. Summary of Significant Accounting Policies

The fair value of the portfolio investments as of December 31, 2009, was determined by the board of directors of Allied Capital using the valuation policies and procedures described in Allied Capital's financial statements included in Allied Capital's Annual Report on Form 10-K for the year ended December 31, 2009, filed with the Securities and Exchange Commission ("SEC") on February 26, 2010.

As discussed above and in Note 13 Subsequent Events, the Acquisition by Ares Capital was consummated on April 1, 2010. In connection therewith, Allied Capital was merged out of existence and, consequently, there was no board of directors of Allied Capital after April 1, 2010, to determine fair value as of March 31, 2010.

Subsequent to the Acquisition by Ares Capital, the board of directors of Ares Capital determined the fair value, as of April 1, 2010, of the portfolio investments acquired in the Acquisition by Ares Capital using the valuation policies and procedures described in Ares Capital's financial statements included in Ares Capital's Annual Report on Form 10-K for the year ended December 31, 2009, filed with the SEC on February 25, 2010. These determinations of fair value as of April 1, 2010, were used for purposes of determining the fair value of the Allied Capital portfolio investments as of March 31, 2010.

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Allied Capital, as a BDC, has invested in illiquid securities including debt and equity securities of portfolio companies, CLO bonds and preferred shares/income notes, CDO bonds and investment funds. Allied Capital's investments may be subject to certain restrictions on resale and generally have no established trading market. The valuation of these investments considers the fact that no ready market exists for substantially all of the securities in the portfolio and that fair value for the investments must typically be determined using unobservable inputs. Because of the inherent uncertainty of valuation, the values determined by the board of directors may differ significantly from the values that would have been used had a ready market existed for the investments, and the differences could be material. Additionally, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the values determined at the measurement date. Also, if forced to immediately liquidate some or all of the investments in the portfolio, the proceeds of such liquidation could be significantly less than the current value of such investments.

The consolidated financial statements include the accounts of Allied Capital and its subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications have been made to the 2009 balances to conform with the 2010 financial statement presentation.

The accompanying unaudited consolidated financial statements of Allied Capital have been prepared in accordance with GAAP (as herein defined) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. The unaudited consolidated financial results of Allied Capital included herein contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position of Allied Capital as of March 31, 2010, the results of operations for the three months ended March 31, 2010 and 2009, and changes in net assets and cash flows for the three months ended March 31, 2010 and 2009. The results of operations for the three months ended March 31, 2010, are not necessarily indicative of the operating results to be expected for the full year.

In June 2009, the Financial Accounting Standards Board ("FASB") issued SFAS No. 168, *"The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles,"* which was primarily codified into ASC Topic 105, *"Generally Accepted Accounting Standards."* This standard is the single source of authoritative non-governmental U.S. generally accepted accounting principles ("GAAP"), superseding existing FASB, American Institute of Certified Public Accountants ("AICPA"), Emerging Issues Task Force ("EITF"), and related accounting literature. Also included is relevant SEC guidance organized using the same topical structure in separate sections. This guidance is effective for financial statements issued for reporting periods that end after September 15, 2009. This guidance impacts the consolidated financial statements and related disclosures as all references to authoritative literature reflect the newly adopted codification.

The private finance portfolio and the interest and related portfolio income and net realized gains (losses) on the private finance portfolio are presented in three categories: companies more than 25% owned, which represent portfolio companies where Allied Capital directly or indirectly owns more than 25% of the outstanding voting securities of such portfolio company or where Allied Capital controls the portfolio company's board of directors and, therefore, are deemed controlled by Allied Capital under the 1940 Act; companies owned 5% to 25%, which represent portfolio companies where Allied Capital directly or indirectly owns 5% to 25% of the outstanding voting securities of such portfolio company or where Allied Capital holds one or more seats on the portfolio company's board of directors and, therefore, are deemed to be an affiliated person under the 1940 Act; and companies less than 5% owned, which represent portfolio companies where Allied Capital directly or indirectly owns less than 5% of the outstanding voting securities of such portfolio company and where Allied Capital has no other affiliations with such portfolio company. The interest and related portfolio income and net realized gains (losses) from the commercial real estate finance portfolio and other sources, including investments in money market and other securities, are included in the companies less than 5% owned category on the consolidated statement of operations.

In the ordinary course of business, Allied Capital enters into transactions with portfolio companies that may be considered related party transactions.

Net Realized Gains or Losses and Net Change in Unrealized Appreciation or Depreciation

Realized gains or losses are measured by the difference between the net proceeds from the repayment or sale and the cost basis of the investment without regard to unrealized appreciation or depreciation previously recognized, and include investments charged off during the period, net of recoveries. Net change in unrealized appreciation or depreciation primarily reflects the change in portfolio investment values during the reporting period, including the reversal of previously recorded unrealized appreciation or depreciation when gains or losses are realized. Net change in unrealized appreciation or depreciation also reflects depreciation on accrued interest and dividends receivable and other assets where collection is doubtful.

Interest and Dividend Income

Interest income is recorded on an accrual basis to the extent that such amounts are expected to be collected. For loans and debt securities with contractual payment-in-kind interest, which represents contractual interest accrued and added to the loan balance that generally becomes due at maturity, Payment-in-kind interest is not accrued if the portfolio company valuation indicates that the payment-in-kind interest is not collectible. In general, interest is not accrued on loans and debt securities if there is doubt about interest collection or where the enterprise value of the portfolio company may not support further accrual. Interest may not accrue on loans or debt securities to portfolio companies that are more than 50% owned by Allied Capital depending on such company's capital requirements.

When nominal cost warrants or free equity securities ("nominal cost equity") were received, the cost basis in the investment was allocated between the debt securities and nominal cost equity at the time of origination. At that time, the original issue discount basis of the nominal cost equity was recorded by increasing the cost basis in the equity and decreasing the cost basis in the related debt securities. Loan origination fees, original issue discount, and market discount were capitalized and then amortized into interest income using a method that approximated the effective interest method. Upon the prepayment of a loan or debt security, any unamortized loan origination fees were recorded as interest income and any unamortized original issue discount or market discount was recorded as a realized gain.

The weighted average yield on loans and debt securities is computed as the (a) annual stated interest on accruing loans and debt securities plus the annual amortization of loan origination fees, original issue discount, and market discount on accruing loans and debt securities less the annual amortization of loan origination costs, divided by (b) total loans and debt securities at value. The weighted average yield is computed as of the balance sheet date.

Allied Capital recognizes interest income on the CLO preferred shares/income notes using the effective interest method, based on the anticipated yield that is determined using the estimated cash flows over the projected life of the investment. Yields are revised when there are changes in actual or estimated cash flows due to changes in prepayments and/or re-investments, credit losses, ratings or asset pricing. Changes in estimated yield are recognized as an adjustment to the estimated yield over the remaining life of the preferred shares/income notes from the date the estimated yield was changed. CLO and CDO bonds have stated interest rates. The weighted average yield on the CLO/CDO Assets is calculated as the (a) annual stated interest or the effective interest yield on the accruing bonds or the

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effective yield on the preferred shares/income notes, divided by (b) CLO/CDO Assets at value. The weighted average yields are computed as of the balance sheet date.

Dividend income on preferred equity securities is recorded as dividend income on an accrual basis to the extent that such amounts are expected to be collected and to the extent that Allied Capital has the option to receive the dividend in cash. Dividend income on common equity securities is recorded on the record date for private companies or on the ex-dividend date for publicly traded companies.

Fee Income

Fee income includes fees for loan prepayment premiums, guarantees, commitments and services rendered by Allied Capital to portfolio companies and other third parties such as diligence, structuring, transaction services, management and consulting services, and other services. Loan prepayment premiums are recognized at the time of prepayment. Guaranty and commitment fees are generally recognized as income over the related period of the guaranty or commitment, respectively. Diligence, structuring, and transaction services fees are generally recognized as income when services are rendered or when the related transactions are completed. Management, consulting and other services fees, including fund management fees, are generally recognized as income as the services are rendered. Fees were not accrued if there was doubt about collection of those fees.

Cash and Cash Equivalents

Cash and cash equivalents represents unrestricted cash and highly liquid securities with original maturities of 90 days or less.

Guarantees

Guarantees meeting the characteristics described in ASC Topic 460, "*Guarantees,*" and issued or modified after December 31, 2002, are recognized at fair value at inception. Guarantees made on behalf of portfolio companies are considered in determining the fair value of Allied Capital's investments. See Note 5 Guarantees and Commitments.

Financing Costs

Debt financing costs are based on actual costs incurred in obtaining debt financing and generally are deferred and amortized as part of interest expense over the term of the related debt instrument using a method that approximates the effective interest method. Costs associated with the issuance of common stock are recorded as a reduction to the proceeds from the sale of common stock. Financing costs generally include underwriting, accounting and legal fees, and printing costs.

Dividends to Shareholders

Dividends to shareholders are recorded on the ex-dividend date.

Stock Compensation Plans

As of March 31, 2010, Allied Capital had a stock-based employee compensation plan. See Note 8. Effective January 1, 2006, Allied Capital adopted the provisions of FASB Statement No. 123 (Revised 2004), *Share-Based Payment* ("SFAS 123R"), which was primarily codified into ASC Topic 718, *"Compensation Stock Compensation"*. These standards were adopted using the modified prospective method of application, which required Allied Capital to recognize compensation costs on a prospective basis beginning January 1, 2006. Accordingly, Allied Capital did not restate prior year financial statements. Under this method, the unamortized cost of previously awarded options that were unvested

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as of January 1, 2006, is recognized over the remaining service period in the statement of operations beginning in 2006, using the fair value amounts determined for pro forma disclosure under these standards. With respect to options granted on or after January 1, 2006, compensation cost based on estimated grant date fair value is recognized over the related service period in the statement of operations.

The stock option expense for the three months ended March 31, 2010 and 2009, was as follows:

($ in millions, except per share amounts)	For the Three Months Ended March 31, 2010	2009
Employee Stock Option Expense:		
Previously awarded, unvested options as of January 1, 2006	$	$
Options granted on or after January 1, 2006	1.0	0.8
Total employee stock option expense	$ 1.0	$ 0.8
Per basic share	$ 0.00	$ 0.00
Per diluted share	$ 0.00	$ 0.00

In addition to the above stock option expense for the three months ended March 31, 2010, in connection with the closing of the Acquisition by Ares Capital, all outstanding unvested options became vested on April 1, 2010 (the acquisition date) in accordance with Allied Capital's stock option plan. Allied Capital had stock option expense related to the vesting of stock options upon the closing of $6.8 million on April 1, 2010, which is not included in the Statement of Operations for the three months ended March 31, 2010. See Note 13 Subsequent events.

Options Granted. The stock option expense shown in the table above was based on the underlying value of the options granted by Allied Capital. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model and expensed over the vesting period. There were no options granted during the three months ended March 31, 2010. The following weighted average assumptions were used to calculate the fair value of options granted during the three months ended March 31, 2009:

	For the Three Months Ended March 31, 2009
Expected term (in years)	3.0
Risk-free interest rate	1.3%
Expected volatility	103.8%
Dividend yield	34.4%
Weighted average fair value per option	$ 0.12

The expected term of the options granted represents the period of time that such options are expected to be outstanding. To determine the expected term of the options, Allied Capital used historical and other data to estimate option exercise time frames, including considering employee terminations. The risk free rate was based on the U.S. Treasury bond yield curve at the date of grant consistent with the expected term. Expected volatilities were determined based on the historical volatility of Allied Capital's common stock over a historical time period consistent with the expected term. The dividend yield was determined based on an estimate of Allied Capital's future dividends over the expected term, relative to the option price. To determine the stock options expense for options granted, the calculated fair value of the options granted was applied to the options granted, net of assumed future option forfeitures.

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Federal and State Income Taxes and Excise Tax

Allied Capital has complied with the requirements of the Code that are applicable to regulated investment companies ("RIC") and real estate investment trusts ("REIT"). Allied Capital and any subsidiaries that qualify as a RIC or a REIT intend to distribute or retain through a deemed distribution all of their annual taxable income to shareholders; therefore, Allied Capital has made no provision for income taxes exclusive of excise taxes for these entities.

Income taxes for AC Corp are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases as well as operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Per Share Information

Basic earnings per common share is calculated using the weighted average number of common shares outstanding for the period presented. Diluted earnings per common share reflects the potential dilution that could occur if options to issue common stock were exercised into common stock. Earnings per share is computed after subtracting dividends on preferred shares, if any.

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 assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

The consolidated financial statements include portfolio investments at value of $1.8 billion and $2.1 billion at March 31, 2010, and December 31, 2009, respectively. At December 31, 2009, 80% of Allied Capital's total assets represented portfolio investments whose fair values were determined by the Board of Directors of Allied Capital in good faith in the absence of readily available market values. At March 31, 2010, 88% of Allied Capital's total assets represented portfolio investments whose fair values were based upon the fair values determined by the Board of Directors of Ares Capital as of April 1, 2010 (the effective date of the Acquisition by Ares Capital), after the effective date of the merger, in good faith in the absence of readily available market values. Because of the inherent uncertainty of valuation, these determined values may differ significantly from the values that would have been used had readily available market values existed for the investments, and the differences could be material.

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Note 3. Portfolio

Private Finance

At March 31, 2010, and December 31, 2009, the private finance portfolio consisted of the following:

	2010			2009		
($ in millions)	**Cost**	**Value**	**Yield(1)**	**Cost**	**Value**	**Yield(1)**
Loans and debt securities:						
Senior loans	$ 536.8	$ 269.7	5.7%	$ 534.7	$ 278.9	4.9%
Unitranche debt(2)	417.4	345.2	11.2%	420.5	360.4	12.9%
Subordinated debt(3)	1,132.1	827.3	12.0%	1,504.6	1,051.3	13.4%
Total loans and debt securities(4)	2,086.3	1,442.2	10.6%	2,459.8	1,690.6	11.9%
Equity securities:						
Preferred shares/income notes of CLOs(5)	177.5	79.8	8.4%	242.9	86.4	8.0%
Other equity securities	1,007.9	270.8		907.2	298.3	
Total equity securities	1,185.4	350.6		1,150.1	384.7	
Total	$ 3,271.7	$ 1,792.8		$ 3,609.9	$ 2,075.3	

(1) The weighted average yield on loans and debt securities is computed as the (a) annual stated interest on accruing loans and debt securities plus the annual amortization of loan origination fees, original issue discount, and market discount on accruing loans and debt securities less the annual amortization of loan origination costs, divided by (b) total loans and debt securities at value. At March 31, 2010 and December 31, 2009, senior loans included the senior secured loan to Ciena totaling $319.0 million and $319.0 million at cost, respectively, and $79.0 million and $100.1 million at value, respectively, which was placed on non-accrual status on the purchase date.

The weighted average yield on the preferred shares/income notes of CLOs is calculated as the (a) effective interest yield on the preferred shares/income notes of CLOs, divided by (b) total preferred shares/income notes of CLOs at value. The weighted average yields are computed as of the balance sheet date. The effective interest yield on the CLO assets represents the yield used for recording interest income. The market yield used in the valuation of the CLO assets may be different than the interest yields.

(2) Unitranche debt is an investment that combines both senior and subordinated financing, generally in a first lien position.

(3) Subordinated debt includes bonds in CLOs and in a CDO.

(4) The total principal balance outstanding on loans and debt securities was $2,106.0 million and $2,484.1 million at March 31, 2010 and December 31, 2009, respectively. The difference between principal and cost is represented by unamortized loan origination fees and costs, original issue discounts, and market discounts totaling $19.7 million and $24.3 million at March 31, 2010, and December 31, 2009, respectively.

(5) Investments in the preferred shares/income notes of CLOs earn a current return that is included in interest income in the accompanying consolidated statement of operations.

Allied Capital's private finance investment activity principally involves providing financing through privately negotiated long-term debt and equity investments. Allied Capital's private finance debt and equity investments generally are issued by private companies and generally are illiquid and may be subject to certain restrictions on resale.

Allied Capital's private finance debt investments are generally structured as loans and debt securities that carry a relatively high fixed rate of interest, which may be combined with equity features, such as conversion privileges, or warrants or options to purchase a portion of the portfolio company's equity at a pre-determined strike price, which is generally a nominal price for warrants or options in a private company. The annual stated interest rate is only one factor in pricing the investment relative to Allied Capital's rights and priority in the portfolio company's capital structure, and will vary depending on many factors, including if Allied Capital has received nominal cost equity or other components of investment return, such as loan origination fees or market discount. The stated interest rate may include some component of contractual payment-in-kind interest, which represents contractual interest accrued and added to the loan balance that generally becomes due at maturity.

At March 31, 2010 and December 31, 2009, 80% of the private finance loans and debt securities had a fixed rate of interest and 20% had a floating rate of interest. Senior loans may carry a fixed rate of interest or a floating rate of interest, usually set as a spread over prime or LIBOR, and may require payments of both principal and interest throughout the life of the loan. Senior loans generally have contractual maturities of three to six years and interest is generally paid to Allied Capital monthly or quarterly. Unitranche debt generally carries a fixed rate of interest and generally requires payments of both principal and interest throughout the life of the loan. Unitranche debt generally has contractual maturities of five to six years and interest generally is paid to Allied Capital quarterly. Subordinated debt generally carries a fixed rate of interest generally with contractual maturities of five to ten years and generally has interest-only payments in the early years and payments of both principal and interest in the later years, although maturities and principal amortization schedules may vary. Interest on subordinated debt generally is paid to Allied Capital quarterly.

Equity securities primarily consist of securities issued by private companies and may be subject to certain restrictions on their resale and are generally illiquid. Allied Capital may make equity investments for minority stakes in portfolio companies or may receive equity features, such as nominal cost warrants. Allied Capital also may invest in the equity (preferred and/or voting or non-voting common) of a portfolio company where Allied Capital's equity ownership may represent a significant portion of the equity, but may or may not represent a controlling interest. If Allied Capital invests in non-voting equity in a buyout investment, Allied Capital generally has the option to acquire a controlling stake in the voting securities of the portfolio company at fair market value. Allied Capital may incur costs associated with making buyout investments that will be included in the cost basis of Allied Capital's equity investment. These include costs such as legal, accounting and other professional fees associated with diligence, referral and investment banking fees, and other costs. Equity securities generally do not produce a current return, but are held with the potential for investment appreciation and ultimate gain on sale.

Ciena Capital LLC. Ciena Capital LLC (f/k/a Business Loan Express, LLC) ("Ciena") has provided loans to commercial real estate owners and operators. Ciena has been a participant in the Small Business Administration's 7(a) Guaranteed Loan Program and its wholly-owned subsidiary is licensed by the SBA as a Small Business Lending Company ("SBLC"). Ciena remains subject to SBA rules and regulations. Ciena is headquartered in New York, NY.

On September 30, 2008, Ciena voluntarily filed for bankruptcy protection under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of New York (the "Court"). Ciena continues to operate its servicing business and manage its assets as a "debtor-in-possession" under the jurisdiction of the Court and in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Court.

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As a result of Ciena's decision to file for bankruptcy protection, Allied Capital's unconditional guaranty of the obligations outstanding under Ciena's revolving credit facility became due and Allied Capital, in lieu of paying under its guaranty, purchased the positions of the senior lenders under Ciena's revolving credit facility. As of March 31, 2010, the senior secured loan to Ciena had a cost basis of $319.0 million and a value of $79.0 million. Allied Capital continues to guarantee the remaining principal balance of $5 million, plus related interest, fees and expenses payable to a third party bank. In connection with Allied Capital's continuing guaranty of the amounts held by this bank, Allied Capital has agreed that the amounts owing to the bank under the Ciena revolving credit facility will be paid before any of the secured obligations of Ciena now owed to Allied Capital.

At March 31, 2010 and December 31, 2009, Allied Capital's investment in Ciena was as follows:

	March 31, 2010		December 31, 2009	
($ in millions)	**Cost**	**Value**	**Cost**	**Value**
Senior Loan	$ 319.0	$ 79.0	$ 319.0	$ 100.1
Class B Equity Interests(1)	119.5		119.5	
Class C Equity Interests(1)	109.1		109.1	
Total(2)	$ 547.6	$ 79.0	$ 547.6	$ 100.1

(1) At March 31, 2010 and December 31, 2009, Allied Capital held 100% of the Class B equity interests and 94.9% of the Class C equity interests.

(2) In addition to Allied Capital's investment in Ciena included in the portfolio, Allied Capital has amounts receivable from or related to Ciena that are included in other assets in the accompanying consolidated financial statements. See below.

During the year ended December 31, 2009, Allied Capital funded $97.4 million to support Ciena's term securitizations in lieu of draws under related standby letters of credit. This was required primarily as a result of the issuer of the letters of credit not extending maturing standby letters of credit due to events of default under Allied Capital's former revolving line of credit. The amounts funded were recorded as other assets in the accompanying consolidated balance sheet. Other assets includes amounts receivable from or related to Ciena totaling $112.7 million at cost and $1.9 million at value at both March 31, 2010 and December 31, 2009. Net change in unrealized appreciation or depreciation included a net decrease in Allied Capital's investment in and receivables from Ciena of $21.1 million for the three months ended March 31, 2010. Net change in unrealized appreciation or depreciation included a net decrease in Allied Capital's investment in and receivables from Ciena of $44.1 million for the three months ended March 31, 2009.

Allied Capital's investment in Ciena was on non-accrual status, therefore Allied Capital did not earn any interest and related portfolio income from its investment in Ciena for each of the three months ended March 31, 2010 and 2009.

At March 31, 2010, Ciena had one non-recourse securitization SBA loan warehouse facility, which has reached its maturity date but remains outstanding. Ciena is working with the providers of the SBA loan warehouse facility with regard to the repayment of that facility. Allied Capital has issued a performance guaranty whereby Allied Capital agreed to indemnify the warehouse providers for any damages, losses, liabilities and related costs and expenses that they may incur as a result of Ciena's failure to perform any of its obligations as loan originator, loan seller or loan servicer under the warehouse facility. As of March 31, 2010, there were no known issues or claims with respect to this performance guaranty.

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The Office of the Inspector General of the SBA (OIG) and the United States Secret Service have been conducting ongoing investigations of allegedly fraudulently obtained SBA-guaranteed loans issued by Ciena. Ciena also is subject to other SBA and OIG audits, investigations, and reviews. In addition, the Office of the Inspector General of the U.S. Department of Agriculture is conducting an investigation of Ciena's lending practices under the Business and Industry Loan (B&I) program. The OIG and the U.S. Department of Justice are also conducting a civil investigation of Ciena's lending practices in various jurisdictions. Allied Capital is unable to predict the outcome of these inquiries, and it is possible that third parties could try to seek to impose liability against Allied Capital in connection with certain defaulted loans in Ciena's portfolio. Certain of these investigations, audits and reviews are ongoing. For information concerning recent developments in respect of these investigations, see Note 13 Subsequent Events.

These investigations, audits, reviews, and litigation have had and may continue to have a material adverse impact on Ciena. Ciena's voluntary filing for bankruptcy protection, the letters of credit and the funding thereof, current regulatory issues, ongoing investigations, and litigation have been considered in performing the valuation of Ciena at March 31, 2010 and December 31, 2009.

Collateralized Loan Obligations ("CLOs") and Collateralized Debt Obligations ("CDOs"). At March 31, 2010, and December 31, 2009, Allied Capital owned bonds and preferred shares/income notes in CLOs and bonds in a CDO as follows:

	2010			2009		
($ in millions)	**Cost**	**Value**	**Yield(1)**	**Cost**	**Value**	**Yield(1)**
Bonds(2):						
Callidus Debt Partners CDO Fund I, Ltd.	$ 29.0	$ 1.5	%	$ 29.0	$ 2.2	%
Callidus Debt Partners CLO Fund IV, Ltd.	2.3	1.7	13.8%	2.2	1.7	20.2%
Callidus Debt Partners CLO Fund VI, Ltd.	8.0	4.5	18.5%	7.8	4.3	19.2%
Callidus MAPS CLO Fund I LLC	17.0	11.3	8.7%	17.0	11.7	8.4%
Callidus MAPS CLO Fund II LLC	4.0	3.2	20.0%	3.9	3.2	24.1%
Dryden XVIII Leveraged Loan 2007 Limited	7.5	3.6	19.2%	7.5	2.1	%
Knightsbridge CLO 2007-1 Ltd.(3)			%	18.7	11.4	15.3%
Knightsbridge CLO 2008-1 Ltd.(3)			%	32.1	29.5	11.2%
Pangaea CLO 2007-1 Ltd.	12.2	8.7	11.4%	12.1	6.6	17.7%
Total bonds	80.0	34.5	12.7%	130.3	72.7	12.5%
Preferred Shares/Income Notes:						
Callidus Debt Partners CLO Fund III, Ltd.	20.1	5.6	%	20.1	4.1	%
Callidus Debt Partners CLO Fund IV, Ltd.	14.7	7.9	3.2%	14.9	5.4	%
Callidus Debt Partners CLO Fund V, Ltd.	12.7	8.8	16.0%	13.4	5.0	3.8%
	29.1	9.3	13.6%	29.1	5.0	%

Callidus Debt Partners CLO Fund VI, Ltd.						
Callidus Debt Partners CLO Fund VII, Ltd.	24.4	11.0	%	24.8	7.2	%
Callidus MAPS CLO Fund I LLC	36.4	15.2	%	38.5	14.1	%
Callidus MAPS CLO Fund II, Ltd.	16.9	9.1	15.5%	17.8	6.3	7.1%
Dryden XVIII Leveraged Loan 2007 Limited	23.2	12.9	18.3%	23.2	2.4	%
Knightsbridge CLO 2007-1 Ltd.(3)			%	39.2	16.2	10.6%
Knightsbridge CLO 2008-1 Ltd.(3)			%	21.9	20.7	22.1%
Total preferred shares/income notes	177.5	79.8	8.4%	242.9	86.4	8.0%
Total	$ 257.5	$ 114.3		$ 373.2	$ 159.1	

(1) The weighted average yield is calculated as the (a) annual stated interest or the effective interest yield on the accruing bonds or the effective interest yield on the preferred shares/income notes,

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divided by (b) CLO and CDO assets at value. The yield on these debt and equity securities is included in interest income in the accompanying consolidated statement of operations. The market yield used in the valuation of the CLO and CDO assets may be different than the interest yields shown above.

(2) These securities are included in private finance subordinated debt.

(3) These funds were managed by Allied Capital through a wholly-owned subsidiary at December 31, 2009.

The initial yields on the cost basis of the CLO preferred shares and income notes are based on the estimated future cash flows expected to be paid to these CLO classes from the underlying collateral assets. As each CLO preferred share or income note ages, the estimated future cash flows are updated based on the estimated performance of the underlying collateral assets, and the respective yield on the cost basis is adjusted as necessary. As future cash flows are subject to uncertainties and contingencies that are difficult to predict and are subject to future events that may alter current assumptions, no assurance can be given that the anticipated yields to maturity will be achieved.

The bonds, preferred shares and income notes of the CLOs and CDO in which Allied Capital has invested are junior in priority for payment of interest and principal to the more senior notes issued by the CLOs and CDO. Cash flow from the underlying collateral assets in the CLOs and CDO is generally allocated first to the senior bonds in order of priority. Any remaining cash flow is then generally distributed to the preferred shareholders and income note holders. To the extent there are ratings downgrades, defaults and unrecoverable losses on the underlying collateral assets that result in reduced cash flows, the preferred shares/income notes will bear this loss first and then the subordinated bonds would bear any loss after the preferred shares/income notes.

Loans and Debt Securities on Non-Accrual Status. At March 31, 2010, and December 31, 2009, private finance loans and debt securities at value not accruing interest were as follows:

($ in millions)	**2010**	**2009**
Loans and debt securities		
Companies more than 25% owned	$ 146.7	$ 177.1
Companies 5% to 25% owned	27.5	16.0
Companies less than 5% owned	155.9	47.4
Total	$ 330.1	$ 240.5

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Industry and Geographic Compositions. The industry and geographic compositions of the private finance portfolio at value at March 31, 2010, and December 31, 2009 were as follows:

	2010	2009
Industry		
Business services	35%	32%
Consumer products	27	29
Financial services	8	9
CLO/CDO(1)	6	8
Industrial products	5	4
Consumer services	4	5
Education services	4	3
Healthcare services	3	3
Retail	3	3
Other	5	4
Total	100%	100%
Geographic Region(2)		
Midwest	35%	32%
Mid-Atlantic	32	37
Southeast	17	17
West	15	13
Northeast	1	1
Total	100%	100%

(1) These funds primarily invest in senior corporate loans.

(2) The geographic region for the private finance portfolio depicts the location of the headquarters for Allied Capital's portfolio companies. The portfolio companies may have a number of other locations in other geographic regions.

Commercial Real Estate Finance

At March 31, 2010, and December 31, 2009, the commercial real estate finance portfolio consisted of the following:

	2010			2009		
($ in millions)	**Cost**	**Value**	**Yield(1)**	**Cost**	**Value**	**Yield(1)**
Commercial mortgage loans	$ 42.9	$ 31.1	3.6%	$ 42.0	$ 35.4	5.1%
Real estate owned	5.9	3.5		5.9	6.4	
Equity interests	27.1	6.3		27.3	14.0	
Total	$ 75.9	$ 40.9		$ 75.2	$ 55.8	

(1)

The weighted average yield on the commercial mortgage loans is computed as the (a) annual stated interest on accruing loans plus the annual amortization of loan origination fees, original issue discount, and market discount on accruing loans less the annual amortization of origination costs, divided by (b) total interest-bearing investments at value. The weighted average yield is computed as of the balance sheet date.

Commercial Mortgage Loans and Equity Interests. The commercial mortgage loan portfolio contains loans that were originated by Allied Capital or were purchased from third-party sellers. At

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March 31, 2010, and December 31, 2009, approximately 85% and 55% of Allied Capital's commercial mortgage loan portfolio was composed of fixed interest rate loans, respectively, and 15% and 45% of Allied Capital's commercial loan portfolio was composed of adjustable interest rate loans, respectively. At March 31, 2010, and December 31, 2009, loans with a value of $6.4 million and $6.1 million, respectively, were not accruing interest. Loans greater than 120 days delinquent generally do not accrue interest.

Equity interests primarily consist of equity securities issued by privately owned companies that invest in single real estate properties. These equity interests may be subject to certain restrictions on their resale and are generally illiquid. Equity interests generally do not produce a current return, but are generally held in anticipation of potential investment appreciation and ultimate realized gain on sale.

The property types and the geographic composition securing the commercial real estate finance portfolio at value at March 31, 2010, and December 31, 2009, were as follows:

	2010	2009
Property Type		
Hospitality	68%	60%
Recreation	25	32
Business Services	5	2
Office	2	6
Total	100%	100%
Geographic Region		
West	43%	33%
Southeast	33	41
Midwest	15	14
Northeast	9	12
Mid-Atlantic		
Total	100%	100%

Fair Value Measurements

ASC Topic 820, *"Financial Instruments,"* which codified FASB Statement No. 157, *"Fair Value Measurements,"* establishes a fair value hierarchy that encourages the use of observable inputs, but allows for unobservable inputs when observable inputs do not exist. Inputs are classified into one of three categories:

Level 1 Quoted prices (unadjusted) in active markets for identical assets

Level 2 Inputs other than quoted prices that are observable to the market participant for the asset or quoted prices in a market that is not active

Level 3 Unobservable inputs

When there are multiple inputs for determining the fair value of an investment, Allied Capital classifies the investment in total based on the lowest level input that is significant to the fair value measurement.

At March 31, 2010, Allied Capital has $74.2 million in investments in money market and other securities, which were determined to be Level 1 assets but are not included in Allied Capital's

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investment portfolio. Portfolio assets measured at fair value on a recurring basis by level within the fair value hierarchy at March 31, 2010, were as follows:

($ in millions)	Fair Value Measurement as of March 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets at Fair Value:				
Portfolio				
Private finance:				
Loans and debt securities	$ 1,442.2	$	$	$ 1,442.2
Preferred shares/income notes of CLOs	79.8			79.8
Equity securities	270.8			270.8
Commercial real estate finance	40.9			40.9
Total portfolio	$ 1,833.7	$	$	$ 1,833.7

The table below sets forth a summary of changes in Allied Capital's assets measured at fair value using Level 3 inputs.

($ in millions)	Loans and Debt Securities	Private Finance Preferred Shares/ Income Notes of CLOs	Other Equity Securities	Commercial Real Estate Finance	Total
Balance at December 31, 2009	$ 1,690.6	$ 86.4	$ 298.3	$ 55.8	$ 2,131.1
Total gains or losses					
Net realized gains (losses)(1)	(33.7)	(20.5)	(19.5)		(73.7)
Net change in unrealized appreciation or depreciation(2)	125.1	58.9	(128.2)	(15.6)	40.2
Purchases, issuances, repayments and exits, net(3)	(339.8)	(45.0)	120.2	0.7	(263.9)
Transfers in and/or out of level 3					
Balance at March 31, 2010	$ 1,442.2	$ 79.8	$ 270.8	$ 40.9	$ 1,833.7
Net unrealized appreciation (depreciation) during the period relating to assets still held at the reporting date(2)	$ 79.2	$ 34.9	$ (147.2)	$ (15.6)	$ (48.7)

(1) Includes net realized gains (losses) (recorded as realized gains or losses in the accompanying consolidated statement of operations), and amortization of discounts and closing points (recorded as interest income in the accompanying consolidated statement of operations).

(2) Included in change in net unrealized appreciation or depreciation in the accompanying consolidated statement of operations. Net change in unrealized appreciation or depreciation includes net unrealized appreciation (depreciation) resulting from changes in portfolio investment values during the reporting period and the reversal of previously recorded unrealized appreciation or depreciation when gains or losses are realized. The net change in unrealized appreciation or depreciation in the consolidated statement of operations also includes the change in value of escrow and other receivables from portfolio companies that are included in other assets on the consolidated balance sheet.

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(3) Includes interest and dividend income reinvested through the receipt of a debt or equity security (payment-in-kind income) (recorded as interest and dividend income in the accompanying consolidated statement of operations).

Note 4. Debt

At March 31, 2010, and December 31, 2009, Allied Capital had outstanding debt at par as follows:

($ in millions)	March 31, 2010 Facility Amount	March 31, 2010 Amount Drawn	December 31, 2009 Facility Amount	December 31, 2009 Amount Drawn
Notes payable:				
Privately issued senior secured term debt	$ 137.0	$ 137.0	$	$
Privately issued secured notes payable			673.2(1)	$ 673.2(1)
Publicly issued unsecured notes payable	745.5	745.5	745.5	745.5
Total notes payable	882.5	882.5	1,418.7	1,418.7
Bank term debt			41.1	41.1
Total debt	$ 882.5	$ 882.5	$ 1,459.8	$ 1,459.8

(1) The privately issued secured notes payable on the consolidated balance sheet are shown net of OID of approximately $33.8 million as of December 31, 2009.

Privately Issued Debt. At March 31, 2010, Allied Capital had outstanding privately issued senior secured term debt of $137.0 million. This debt was issued on January 29, 2010 and bears interest at a rate of LIBOR plus 450 basis points.

The privately issued secured notes payable and the bank term debt outstanding at December 31, 2009 were repaid in full on January 29, 2010. In addition, in connection with this repayment, Allied Capital applied the $50 million restructuring fee paid at closing of the August 2009 restructuring toward the principal balance of these notes. This $50 million, net of unamortized costs associated with these notes, resulted in a net gain on the repurchase of debt of $5.0 million during the three months ended March 31, 2010. Allied Capital also incurred a loss on extinguishment of debt of $7.0 million during the three months ended March 31, 2010, primarily as a result of a 1% exit fee associated with each prepayment of the privately issued senior secured term debt and the related unamortized costs associated with the debt being repaid.

Concurrent with the Acquisition by Ares Capital on April 1, 2010, Ares Capital repaid in full the remaining amounts outstanding under Allied Capital's privately issued senior secured term debt. See Note 13 Subsequent Events.

Publicly Issued Unsecured Notes Payable. At March 31, 2010, Allied Capital had outstanding publicly issued unsecured notes as follows:

($ in millions)	Amount	Maturity Date
6.625% Notes due 2011	$ 319.9	July 15, 2011
6.000% Notes due 2012	195.6	April 1, 2012
6.875% Notes due 2047	230.0	April 15, 2047
Total	$ 745.5	

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The 6.625% Notes due 2011 and the 6.000% Notes due 2012 require payment of interest semi-annually, and all principal is due upon maturity. Allied Capital has the option to redeem these notes in whole or in part, together with a redemption premium, as stipulated in the notes.

The 6.875% Notes due 2047 require payment of interest quarterly, and all principal is due upon maturity. These notes are redeemable in whole or in part at any time or from time to time on or after April 15, 2012, at par and upon the occurrence of certain tax events as stipulated in the notes.

In addition, these publicly issued notes may be purchased in the market to the extent permitted by the 1940 Act.

Scheduled Maturities. Scheduled future maturities of notes payable at March 31, 2010, were as follows:

($ in millions) Year	Amount Maturing: Privately Issued Senior Secured Term Debt	Amount Maturing: Publicly Issued Unsecured Notes Payable	Total
2010	$	$	$
2011	137.0	319.9	456.9
2012		195.6	195.6
2013			
2014			
Thereafter		230.0	230.0
Total	$ 137.0	$ 745.5	$ 882.5

Fair Value of Debt

Allied Capital records debt at cost. The fair value of Allied Capital's outstanding debt was approximately $0.8 billion and $1.3 billion at March 31, 2010 and December 31, 2009, respectively. The fair value of Allied Capital's publicly issued 6.875% Notes due 2047 was determined using the market price of the retail notes at March 31, 2010 and December 31, 2009. The fair value of Allied Capital's other debt was determined based on quoted prices where available or market interest rates for similar instruments as of the balance sheet dates.

Note 5. Guarantees and Commitments

In the ordinary course of business, Allied Capital has issued guarantees on behalf of certain portfolio companies. As of March 31, 2010, and December 31, 2009, Allied Capital had issued guarantees of debt and rental obligations aggregating $9.1 million and $9.1 million, respectively. Under these arrangements, Allied Capital would be required to make payments to third parties if the portfolio companies were to default on their related payment. The maximum amount of potential future payments was $9.1 million and $9.1 million at March 31, 2010, and December 31, 2009, respectively.

As of March 31, 2010, the guarantees expired as follows:

(in millions)	Total	2010	2011	2012	2013	2014	After 2014
Guarantees	$ 9.1	$ 8.2	$	$ 0.1	$	$	$ 0.8
Total	$ 9.1	$ 8.2	$	$ 0.1	$	$	$ 0.8

In the ordinary course of business, Allied Capital enters into agreements with service providers and other parties that may contain provisions for Allied Capital to indemnify and guaranty certain minimum fees to such parties under certain circumstances.

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At March 31, 2010, Allied Capital had outstanding commitments to fund investments totaling $144.2 million, including $137.0 million related to private finance investments and $7.2 million related to commercial real estate finance investments.

Note 6. Shareholders' Equity

Allied Capital did not sell any common stock during the three months ended March 31, 2010 or 2009.

There were no stock options exercised during the three months ended March 31, 2010 and 2009, respectively. However, on April 1, 2010, in connection with the Acquisition by Ares Capital, all outstanding unvested options became vested in accordance with Allied Capital's stock option plan and were cancelled and settled in either cash or shares of Ares Capital stock at the election of the option holder pursuant to the terms of the merger agreement with Ares Capital and the underlying option agreements. See Note 13 Subsequent Events.

On March 26, 2010, the Board of Directors declared a special dividend of $0.20 per share payable to stockholders of record on March 26, 2010. The dividend was funded at the closing of the merger with Ares Capital and was paid to stockholders promptly thereafter.

Note 7. Earnings Per Common Share

Earnings per common share for the three months ended March 31, 2010 and 2009, were as follows:

	For the Three Months Ended March 31,	
(in millions, except per share amounts)	**2010**	**2009**
Net increase (decrease) in net assets resulting from operations	$ (35.3)	$ (347.7)
Weighted average common shares outstanding basic	179.9	178.7
Dilutive options outstanding		
Weighted average common shares outstanding diluted	179.9	178.7
Basic earnings (loss) per common share	$ (0.20)	$ (1.95)
Diluted earnings (loss) per common share	$ (0.20)	$ (1.95)

Note 8. Stock Option Plan

The purpose of the stock option plan is to provide officers and non-officer directors of Allied Capital with additional incentives. Options are exercisable at a price equal to the fair market value of the shares on the day the option is granted. Each option states the period or periods of time within which the option may be exercised by the optionee, which may not exceed ten years from the date the option is granted. The options granted to officers generally vest ratably over up to a three year period. Options granted to non-officer directors vest on the grant date.

All rights to exercise options terminate 60 days after an optionee ceases to be (i) a non-officer director, (ii) both an officer and a director, if such optionee serves in both capacities, or (iii) an officer (if such officer is not also a director) of Allied Capital for any cause other than death or total and permanent disability. In the event of a change of control of Allied Capital, all outstanding options will become fully vested and exercisable as of the change of control.

Effective upon the closing of the Acquisition by Ares Capital on April 1, 2010, all outstanding unvested options became immediately vested in accordance with the stock option plan and were cancelled and settled in either cash or shares of Ares Capital stock at the election of the option holder pursuant to the terms of the merger agreement with Ares Capital and the underlying option agreements. See Note 13 Subsequent Events.

Note 9. Dividends and Distributions and Taxes

At December 31, 2009, Allied Capital estimated that it did not have excess taxable income available for distribution to shareholders in 2010. On March 26, 2010, the Board of Directors declared a special dividend of $0.20 per share payable to stockholders of record on March 26, 2010. The dividend was funded at the closing of the Acquisition by Ares Capital and was paid to stockholders promptly thereafter.

Allied Capital had cumulative deferred taxable income related to installment sale gains of approximately $44.4 million as of December 31, 2009. These gains have been recognized for financial reporting purposes in the respective years they were realized, but are generally deferred for tax purposes until the notes or other amounts received from the sale of the related investments are collected in cash. These installment gains as of December 31, 2009 will be recognized for tax purposes in future years as certain notes received from the sale of the related investments are sold or repaid.

Allied Capital's consolidated subsidiary, AC Corp, is subject to federal and state income taxes. For the three months ended March 31, 2010 and 2009, AC Corp's income tax expense (benefit) was $1.2 million and ($0.4) million, respectively.

Note 10. Supplemental Disclosure of Cash Flow Information

Allied Capital paid interest of $26.2 million and $33.2 million, respectively, for the three months ended March 31, 2010 and 2009. Allied Capital paid income taxes, including excise taxes (net of refunds), of $0.1 million and $3.0 million for the three months ended March 31, 2010 and 2009, respectively.

Non-cash operating activities for the three months ended March 31, 2010 and 2009, totaled $186.8 million and $58.7 million, respectively. Non-cash operating activities for the three months ended March 31, 2010 and 2009, resulted from the exchange of existing debt securities, including accrued interest (if any), and common stock of portfolio companies for new debt and equity securities.

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Note 11. Financial Highlights

	At and for the Three Months Ended March 31, 2010(1)	At and for the Three Months Ended March 31, 2009	At and for the Year Ended December 31, 2009
Per Common Share Data			
Net asset value, beginning of period	$ 6.66	$ 9.62	$ 9.62
Net investment income (loss)(2)	(0.01)	0.16	0.31
Net realized gains (losses)(2)(3)	(0.40)	(0.15)	(2.02)
Net investment income (loss) plus net realized gains (losses)(2)	(0.41)	0.01	(1.71)
Net change in unrealized appreciation or depreciation(2)(3)	0.22	(1.96)	(0.98)
Gain on repurchase of debt	0.03		0.47
Loss on extinguishment of debt	(0.04)		(0.69)
Net increase (decrease) in net assets resulting from operations(2)	(0.20)	(1.95)	(2.91)
Decrease in net assets from shareholder distributions	(0.20)		
Net increase (decrease) in net assets from capital share transactions(2)			(0.05)
Net asset value, end of period	$ 6.27	$ 7.67	$ 6.66
Market value, end of period	$ 4.77	$ 1.59	$ 3.61
Total return(4)	37.7%	(40.9)%	(34.2)%
Ratios and Supplemental Data ($ and shares in millions, except per share amounts)			
Ending net assets	$ 1,127.1	$ 1,369.8	$ 1,198.2
Common shares outstanding at end of period	179.9	178.7	179.9
Diluted weighted average common shares outstanding	179.9	178.7	179.0
Employee, employee stock option and administrative expenses/average net assets(5)	2.69%	1.40%	6.12%
Total operating expenses/average net assets(5)(6)	4.72%	4.41%	18.86%
Income tax expense (benefit), including excise tax/average net assets(5)	0.10%	(0.02)%	0.41%
Net investment income (loss)/average net assets(5)	(0.18)%	1.91%	4.07%
Net increase (decrease) in net assets resulting from operations/average net assets(5)	(3.04)%	(22.52)%	(38.18)%
Portfolio turnover rate(5)	1.02%	1.25%	4.80%
Average debt outstanding	$ 1,086.7	$ 1,945.0	$ 1,753.7
Average debt per share(2)	$ 6.04	$ 10.88	$ 9.80

(1) The results for the three months ended March 31, 2010, are not necessarily indicative of the operating results to be expected for the full year.

(2) Based on diluted weighted average number of common shares outstanding for the period.

(3) Net realized gains (losses) and net change in unrealized appreciation or depreciation can fluctuate significantly from period to period. As a result, quarterly comparisons may not be meaningful.

(4)

Total return assumes the reinvestment of all dividends paid for the periods presented.

(5) The ratios for the three months ended March 31, 2010 and 2009, do not represent annualized results.

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(6) Includes 0.20% for the effect of the impairment of long-lived asset during the year ended December 31, 2009, and the three months ended March 31, 2009.

Note 12. Litigation

On June 23, 2004, Allied Capital was notified by the SEC that the SEC was conducting an informal investigation of Allied Capital. The investigation related to the valuation of securities in Allied Capital's private finance portfolio and other matters. On June 20, 2007, Allied Capital announced that it entered into a settlement with the SEC that resolved the SEC's informal investigation. As part of the settlement and without admitting or denying the SEC's allegations, Allied Capital agreed to the entry of an administrative order. In the order the SEC alleged that, between June 30, 2001, and March 31, 2003, Allied Capital did not maintain books, records and accounts which, in reasonable detail, supported or accurately and fairly reflected valuations of certain securities in Allied Capital's private finance portfolio and, as a result, did not meet certain recordkeeping and internal controls provisions of the federal securities laws. In the administrative order, the SEC ordered Allied Capital to continue to maintain certain of its current valuation-related controls. Specifically, Allied Capital: (1) continued to employ a Chief Valuation Officer, or a similarly structured officer-level employee, to oversee its quarterly valuation processes; and (2) continued to employ third-party valuation consultants to assist in its quarterly valuation processes.

On December 22, 2004, Allied Capital received letters from the U.S. Attorney for the District of Columbia requesting the preservation and production of information regarding Allied Capital and Business Loan Express, LLC (currently known as Ciena Capital LLC) in connection with a criminal investigation relating to matters similar to those investigated by and settled with the SEC as discussed above. Allied Capital produced materials in response to the requests from the U.S. Attorney's office and certain current and former employees were interviewed by the U.S. Attorney's Office. Allied Capital has voluntarily cooperated with the investigation.

In late December 2006, Allied Capital received a subpoena from the U.S. Attorney for the District of Columbia requesting, among other things, the production of records regarding the use of private investigators by Allied Capital or its agents. The Board established a committee, which was advised by its own counsel, to review this matter. In the course of gathering documents responsive to the subpoena, Allied Capital became aware that an agent of Allied Capital obtained what were represented to be telephone records of David Einhorn and which purport to be records of calls from Greenlight Capital ("Greenlight") during a period of time in 2005. Also, while Allied Capital was gathering documents responsive to the subpoena, allegations were made that Allied Capital's management had authorized the acquisition of these records and that management was subsequently advised that these records had been obtained. Allied Capital's management has stated that these allegations are not true. Allied Capital has cooperated fully with the inquiry by the U.S. Attorney's Office.

A number of lawsuits were filed by stockholders of Allied Capital challenging the Acquisition by Ares Capital. These include: (1) *In re Allied Capital Corporation Shareholder Litigation*, Case No. 322639-V (Circuit Court for Montgomery County, Maryland) (the "Maryland action"); (2) *Sandler v. Walton*, et al., Case No. 2009 CA 008123 B (Superior Court for the District of Columbia), which was consolidated with *Wienecki v. Allied Capital Corporation, et al.*, Case No. 2009 CA 008541 B (Superior Court for the District of Columbia) (the "D.C. Superior Court action"); and (3) *Ryan v. Walton, et al.*, Case No. 1:10-CV-000145-RMC (United States District Court for the District of Columbia) (the "D.C. Federal Court action"). The suits were filed after the entry by Allied Capital, Ares Capital and ARCC Odyssey Corp. ("Merger Sub") into the Agreement and Plan of Merger (the "Merger Agreement") and the announcement of the Acquisition by Ares Capital on October 26, 2009, either as putative stockholder class actions, shareholder derivative actions or both. All of the actions asserted similar claims against the members of Allied Capital's board of directors alleging that the

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Merger Agreement was the product of a flawed sales process and that Allied Capital's directors breached their fiduciary duties by agreeing to a structure that was not designed to maximize the value of Allied Capital's stockholders, by failing to adequately value and obtain fair consideration for Allied Capital's shares and by improperly rejecting competing offers by Prospect Capital Corporation. They also claimed that Ares Capital (and, in several cases, Merger Sub, and, in several other cases, Allied Capital) aided and abetted the directors' alleged breaches of fiduciary duties. In addition, in *Ryan v. Walton, et al*., the plaintiffs also alleged violations of Rule 14a-9(a) under the Securities Exchange Act of 1934. All of the actions demanded, among other things, a preliminary and permanent injunction enjoining the merger and rescinding the transaction or any part thereof that may be implemented.

On March 2, 2010, the plaintiffs in the Maryland action, Allied Capital and Ares Capital reached an agreement in principle to settle the Maryland action on terms and conditions substantially similar to those set forth in a Stipulation of Settlement dated March 17, 2010. Although Allied Capital and Ares Capital believe that the disclosures already provided were thorough and complete, in connection with the settlement Allied Capital and Ares Capital agreed to make certain additional disclosures that are contained in the Supplement to the Joint Proxy Statement, dated March 8, 2010, and pay attorney fees for the plaintiffs in the Maryland action certain of their fees and expenses. The settlement has been preliminarily approved by the Maryland court. The settlement is subject to final settlement documentation and final approval by the Maryland court, after, among other things, notice is provided to the stockholders of Allied Capital.

On March 19, 2010, the plaintiffs in the D.C. Federal Court action, Allied Capital and Ares Capital reached an agreement in principle to settle the D.C. Federal Court action. The D.C. Federal Court action and the D.C. Superior Court action were stayed on March 22, 2010 and March 26, 2010, respectively, in contemplation of dismissal with prejudice once the settlement of the Maryland action has been finally approved by the Maryland court. On April 15, 2010, the plaintiffs in the D.C. Superior Court action, Allied Capital and Ares Capital reached an agreement in principle to settle the D.C. Superior Court action. The parties to the Maryland action, the D.C. Federal Court action, and the D.C. Superior Court action have entered into, and filed with the Maryland court, an Amended Stipulation of Settlement, which provides for, among other things, settlement of all the actions described above.

A final hearing on the settlement is scheduled to be held on July 29, 2010 before the Maryland court. There can be no assurance that the proposed settlement will be finalized or that the Maryland court will approve the proposed settlement. The proposed settlement terms, which require court approval, provide that the Maryland action will be dismissed with prejudice against all defendants.

Allied Capital, Ares Capital and the other defendants have vigorously denied all liability with respect to the facts and claims alleged in the actions. The proposed settlement is not, and should not be construed as, an admission of wrongdoing or liability by any defendant. The parties considered it desirable that the actions described above be settled to avoid the expense, risk, inconvenience and distraction of continued litigation and to fully resolve the claims involved in these actions.

In addition, Allied Capital is party to certain lawsuits in the normal course of business. Furthermore, third parties may try to seek to impose liability on Allied Capital in connection with the activities of its portfolio companies. For a discussion of civil investigations being conducted regarding the lending practice of Ciena Capital LLC, a portfolio company of Allied Capital, see Note 3 Portfolio Ciena Capital LLC and Note 13 Subsequent Events.

While the outcome of any of the open legal proceedings described above cannot at this time be predicted with certainty, Allied Capital does not expect these matters will materially affect its financial condition or results of operations.

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Note 13. Subsequent Events

On October 26, 2009, Allied Capital entered into a definitive agreement to be acquired by Ares Capital in the Acquisition by Ares Capital. The boards of directors of both companies each unanimously approved the Acquisition by Ares Capital and on March 26, 2010, Allied Capital's stockholders approved the merger and the stockholders of Ares Capital approved the issuance of Ares Capital common stock to Allied Capital's shareholders. Allied Capital and Ares Capital consummated the Acquisition by Ares Capital on April 1, 2010 in a transaction valued at approximately $908 million as of the closing date. Concurrent with the Acquisition by Ares Capital, Ares Capital repaid in full the remaining amounts outstanding under Allied Capital's privately issued senior secured term debt.

In connection with the closing of the Acquisition by Ares Capital, Allied Capital incurred employee, employee stock option and administrative costs, net of tax, which are not included in the Statement of Operations for the three months ended March 31, 2010. These expenses, which were directly related to the closing of the transaction on April 1, 2010, were as follows:

($ in millions)		
Severance, change in control payments and payroll taxes	$	39.8
Investment banking fees		8.2
Expense associated with acceleration of stock option vesting		6.8
Professional and other fees		1.4
Income tax benefit		(1.8)
Total	$	54.4

On April 15, 2010, the plaintiffs in the D.C. Superior Court action, Allied Capital and Ares Capital reached an agreement in principle to settle the D.C. Superior Court action. On July 29, 2010, the Maryland court issued an order approving the settlement and dismissing all claims against the defendants in the Maryland action. On August 3, 2010, the D.C. Federal Court dismissed the D.C. Federal Court action. On August 10, 2010, the D.C. Superior Court dismissed the D.C. Superior Court action.

On May 5, 2010, Ciena filed in the Bankruptcy Court proceeding described in Note 3 above a motion for approval of certain settlement agreements between Ciena, Allied Capital (and Ares Capital as its successor by merger), and certain former employees of Ciena and Allied Capital on the one hand and the United States on behalf of the Small Business Administration, and certain other parties on the other hand. The settlement agreements collectively settle certain (but not all) investigations, audits, reviews, and litigation referenced in Note 3. The settlement agreements are subject to approval by the Bankruptcy Court and entry of a dismissal order by the United States District Court for the Northern District of Georgia to become effective. If the settlement agreements are approved, Ciena will, among other things, grant the United States an allowed general unsecured claim in an amount such that the United States receives, on the effective date of Ciena's chapter 11 plan, cash distributions totaling $10.1 million. The settlement terms also establish operating covenants under which Ciena will continue to service SBA related loans. There can be no assurance, however, that such settlement will be finalized, that the Bankruptcy Court will approve such settlement, or that the United States District Court for the Northern District of Georgia will enter such dismissal order .

Note that the remaining investigations, audits, reviews, and litigation may continue to have a material adverse impact on Ciena. Ciena's voluntary filing for bankruptcy protection, current regulatory issues, ongoing investigations, and litigation have been considered in performing the valuation of Ciena at March 31, 2010 and December 31, 2009. See also Note 3 Portfolio, *Ciena Capital LLC*.

14,280,000 Shares

Common Stock

PROSPECTUS SUPPLEMENT

BofA Merrill Lynch

Morgan Stanley

January 20, 2012