

ARES CAPITAL CORP  
 Form 497  
 February 12, 2010

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**Filed pursuant to Rule 497(b)  
 Registration No. 333-163760**

**MERGER PROPOSED YOUR VOTE IS VERY IMPORTANT**

Dear Stockholder,

On October 26, 2009, Allied Capital Corporation, or "Allied Capital," and Ares Capital Corporation, or "Ares Capital," announced a strategic business combination in which ARCC Odyssey Corp., a wholly owned subsidiary of Ares Capital, or "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.

Allied Capital and Ares Capital are specialty finance companies that are closed-end, non-diversified management investment companies. They are both incorporated in Maryland and have elected to be regulated as business development companies under the Investment Company Act of 1940. Ares Capital's investment objective is to generate both current income and capital appreciation through debt and equity investments. Allied Capital has a similar investment objective to achieve current income and capital gains.

The market value of the merger consideration will fluctuate with the market price of Ares Capital common stock. The following table shows the closing sale prices of Ares Capital common stock and Allied Capital common stock as reported on the NASDAQ Global Select Market, or "NASDAQ," and the New York Stock Exchange, or the "NYSE," respectively, on October 23, 2009, the last full trading day before the public announcement of the merger, and on February 10, 2010, the last full trading day before the date of this document.

This table also shows the implied value of the merger consideration proposed for each share of Allied Capital common stock, which was calculated by multiplying the closing price of Ares Capital common stock on those dates by 0.325, the exchange ratio.

	<b>Ares Capital Common Stock</b>	<b>Allied Capital Common Stock</b>	<b>Implied Value of One Share of Allied Capital Common Stock</b>
Closing Price at October 23, 2009	\$ 10.69	\$ 2.73	\$ 3.47
Closing Price at February 10, 2010	\$ 11.85	\$ 3.92	\$ 3.85

The market prices of both Ares Capital common stock and Allied Capital common stock will fluctuate before the merger. You should obtain current stock price quotations for Ares Capital common stock and Allied Capital common stock. Ares Capital common stock trades on NASDAQ under the symbol "ARCC." Allied Capital common stock trades on the NYSE and NASDAQ under the symbol "ALD."

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The merger and subsequent combination are intended to qualify as a "reorganization" within the meaning of Section 368(a) of the Internal Revenue Code of 1986 and holders of Allied Capital common stock are not expected to recognize any gain or loss for U.S. federal income tax purposes upon the exchange of shares of Allied Capital common stock for shares of Ares Capital common stock, except with respect to any cash received instead of fractional shares of Ares Capital common stock.

At a special meeting of Allied Capital stockholders, Allied Capital stockholders will be asked to vote on the approval of the merger and the merger agreement described in this document. 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.

Prospect Capital Corporation, or "Prospect Capital," has made an unsolicited acquisition proposal for Allied Capital. Prospect Capital is trying to solicit votes from Allied Capital's stockholders against the merger. For all the reasons set forth in this document under "The Merger The Unsolicited Offer from Prospect Capital," Allied Capital's Board of Directors has unanimously concluded that Prospect

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Capital's proposal does not constitute, and is not reasonably likely to result in, a "Superior Proposal." Accordingly, Allied Capital recommends that you do not give your proxy to Prospect Capital.

**Whether or not you expect to attend the Allied Capital special meeting in person, Allied Capital urges you to submit your proxy as promptly as possible by: (1) accessing the Internet website specified on your enclosed WHITE proxy card, (2) calling the telephone number specified on your enclosed WHITE proxy card or (3) completing, signing and dating the enclosed WHITE proxy card and returning it in the postage-paid envelope provided.** If your shares are held in the name of a bank, broker or other nominee, please follow the instructions on the voting instruction card furnished to you by such record holder. If you have any questions about the merger or need assistance voting your shares, please call Georgeson, which is assisting Allied Capital with the solicitation of proxies, toll-free at (866) 695-6072. **Please disregard any proxies you receive from Prospect Capital and vote only the enclosed WHITE proxy card today.**

At a special meeting of Ares Capital stockholders, Ares Capital stockholders will be asked to vote on the issuance of Ares Capital common stock in connection with the merger. The stock issuance proposal requires the affirmative vote of at least a majority of all of the votes cast on the matter at a meeting at which a quorum is present.

**After careful consideration, the board of directors of Allied Capital unanimously recommends that its stockholders vote "FOR" approval of the merger and the merger agreement and "FOR" approval of the proposal to adjourn the Allied Capital special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the Allied Capital special meeting to approve the foregoing proposal.**

**This document concisely describes the special meetings, the merger, the documents related to the merger and other related matters that an Allied Capital stockholder ought to know before voting on the proposals described herein and should be retained for future reference. Please carefully read this entire document, including "Risk Factors" beginning on page 28, for a discussion of the risks relating to the merger. You also can obtain information about Ares Capital and Allied Capital from documents that each has filed with the Securities and Exchange Commission. See "Where You Can Find More Information" for instructions on how to obtain such information.**

Sincerely,

William L. Walton  
*Chairman of the Board of Directors*  
*Allied Capital Corporation*

**The Securities and Exchange Commission has not approved or disapproved the Ares Capital common stock to be issued under this document or determined if this document is accurate or adequate. Any representation to the contrary is a criminal offense.**

The date of this document is February 11, 2010 and it is first being mailed or otherwise delivered to Allied Capital stockholders on or about February 16, 2010.

*Allied Capital Corporation*  
1919 Pennsylvania Avenue, N.W.  
Washington, D.C. 20006  
(202) 721-6100

*Ares Capital Corporation*  
280 Park Avenue, 22nd Floor  
Building East  
New York, NY 10017  
(212) 750-7300

In addition, if you have questions about the merger or this document, would like additional copies of this document or need to obtain proxy cards or other information related to the proxy solicitation, you may contact Georgeson, Allied Capital's proxy solicitor, at the address and telephone number listed below. You will not be charged for any of these documents that you request.

**Georgeson**

199 Water Street, 26th Floor  
New York, New York 10038  
Banks and Brokers Call (212) 440-9800  
All Others Call Toll-Free (866) 695-6072

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Dear Stockholder,

On October 26, 2009, Ares Capital Corporation, or "Ares Capital," and Allied Capital Corporation, or "Allied Capital," announced a strategic business combination in which ARCC Odyssey Corp., a wholly owned subsidiary of Ares Capital, or "Merger Sub," would merge with and into Allied Capital and, immediately thereafter, Allied Capital would merge with and into Ares Capital.

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Ares Capital and Allied Capital are specialty finance companies that are closed-end, non-diversified management investment companies. They are both incorporated in Maryland and have elected to be regulated as business development companies under the Investment Company Act of 1940. Ares Capital's investment objective is to generate both current income and capital appreciation through debt and equity investments. Allied Capital has a similar investment objective to achieve current income and capital gains.

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This table also shows the implied value of the merger consideration proposed for each share of Allied Capital common stock, which was calculated by multiplying the closing price of Ares Capital common stock on those dates by 0.325, the exchange ratio.

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The market prices of both Ares Capital common stock and Allied Capital common stock will fluctuate before the merger. You should obtain current stock price quotations for Ares Capital and Allied Capital common stock. Ares Capital common stock trades on NASDAQ under the symbol "ARCC." Allied Capital common stock trades on the NYSE and NASDAQ under the symbol "ALD."

The merger and subsequent combination are intended to qualify as a "reorganization" within the meaning of Section 368(a) of the Internal Revenue Code of 1986 and holders of Allied Capital common stock are not expected to recognize any gain or loss for U.S. federal income tax purposes upon the exchange of shares of Allied Capital common stock for shares of Ares Capital common stock, except with respect to any cash received instead of fractional shares of Ares Capital common stock.

**Your vote is extremely important.** At a special meeting of Ares Capital stockholders, Ares Capital stockholders will be asked to vote on the issuance of Ares Capital common stock in connection with

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the merger. The stock issuance proposal requires the affirmative vote of at least a majority of all of the votes cast on the matter at a meeting at which a quorum is present.

**Whether or not you expect to attend the Ares Capital special meeting in person, Ares Capital urges you to submit your proxy as promptly as possible by: (1) accessing the Internet website specified on your enclosed proxy card, (2) calling the telephone number specified on your enclosed proxy card or (3) completing, signing and dating the enclosed proxy card and returning it in the postage-paid envelope provided. If your shares are held in the name of a bank, broker or other nominee, please follow the instructions on the voting instruction card furnished to you by such record holder.** If you have any questions about the merger or need assistance voting your shares, please call D. F. King & Co., Inc., which is assisting Ares Capital with the solicitation of proxies, toll-free at 1-800-967-7635 or call collect at 1-212-269-5550.

At a special meeting of Allied Capital stockholders, Allied Capital stockholders will be asked to vote on the approval of the merger and the merger agreement. The affirmative vote of the holders of two-thirds of the shares of Allied Capital common stock outstanding and entitled to vote is required to approve such matters.

**After careful consideration, the board of directors of Ares Capital unanimously recommends that its stockholders vote "FOR" approval of the issuance of the shares of Ares Capital common stock to be issued pursuant to the merger agreement described in this document and "FOR" approval of the proposal to adjourn the Ares Capital special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the Ares Capital special meeting to approve the foregoing proposal.**

**This document concisely describes the special meetings, the merger, the documents related to the merger and other related matters that an Ares Capital stockholder ought to know before voting on the proposals described herein and should be retained for future reference. Please carefully read this entire document, including "Risk Factors" beginning on page 28, for a discussion of the risks relating to the merger. You also can obtain information about Ares Capital and Allied Capital from documents that each has filed with the Securities and Exchange Commission. See "Where You Can Find More Information" for instructions on how to obtain such information.**

Sincerely,

Bennett Rosenthal  
*Chairman of the Board of Directors*

**The Securities and Exchange Commission has not approved or disapproved the Ares Capital common stock to be issued under this document or determined if this document is accurate or adequate. Any representation to the contrary is a criminal offense.**

The date of this document is February 11, 2010 and it is first being mailed or otherwise delivered to Ares Capital stockholders on or about February 16, 2010.

*Allied Capital Corporation*  
1919 Pennsylvania Avenue, N.W.  
Washington, D.C. 20006  
(202) 721-6100

*Ares Capital Corporation*  
280 Park Avenue, 22nd Floor  
Building East  
New York, NY 10017  
(212) 750-7300

In addition, if you have questions about the merger or this document, would like additional copies of this document or need to obtain proxy cards or other information related to the proxy solicitation, you may contact D.F. King & Co., Inc., Ares Capital's proxy solicitor, at the address and telephone number listed below. You will not be charged for any of these documents that you request.

**D.F. King & Co., Inc.**  
48 Wall Street, 22nd Floor

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New York, New York 10005  
1-800-967-7635 (toll free) or 1-212-269-5550 (call collect)

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**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS OF ALLIED CAPITAL**

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS**

To the Stockholders of Allied Capital Corporation:

You are cordially invited to a special meeting of stockholders of Allied Capital Corporation, or "Allied Capital," to be held at the offices of Sutherland Asbill & Brennan LLP, 1275 Pennsylvania Avenue, N.W., Washington, D.C. 20004 on March 26, 2010, at 10:00 a.m. Eastern Time to consider and vote on the following matters:

1. A proposal to approve the merger of ARCC Odyssey Corp., a wholly owned subsidiary of Ares Capital Corporation, or "Ares Capital," with and into Allied Capital and to approve the Agreement and Plan of Merger, as such agreement may be amended from time to time, or the "merger agreement," dated as of October 26, 2009, among Allied Capital, Ares Capital and ARCC Odyssey Corp.; and
2. A proposal to approve the adjournment of the Allied Capital special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the Allied Capital special meeting to approve the foregoing proposal.

You have the right to receive notice of and to vote at the Allied Capital special meeting if you were a stockholder of record at the close of business on February 2, 2010. **Whether or not you expect to be present in person at the Allied Capital special meeting, please sign the enclosed WHITE proxy card and return it promptly in the postage-paid envelope provided or authorize your proxy by telephone or through the Internet.** Instructions are shown on the proxy card.

You have the option to revoke the proxy at any time prior to the vote at the meeting or to vote your shares personally on request if you attend the meeting. **Please disregard any proxy cards you receive from Prospect Capital and only vote the enclosed WHITE proxy card today.**

**The Allied Capital board of directors has unanimously approved the merger and the merger agreement and unanimously recommends that Allied Capital stockholders vote "FOR" approval of the merger and the merger agreement and "FOR" approval of the proposal to adjourn the Allied Capital special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the Allied Capital special meeting to approve the foregoing proposal.**

By Order of the Board of Directors,

Miriam G. Krieger  
*Executive Vice President  
and Corporate Secretary*

Washington, DC  
February 11, 2010

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**YOUR VOTE IS IMPORTANT!**

**WHETHER OR NOT YOU EXPECT TO ATTEND THE ALLIED CAPITAL SPECIAL MEETING IN PERSON, ALLIED CAPITAL URGES YOU TO SUBMIT YOUR PROXY AS PROMPTLY AS POSSIBLE BY: (1) ACCESSING THE INTERNET WEBSITE SPECIFIED ON YOUR ENCLOSED WHITE PROXY CARD, (2) CALLING THE TELEPHONE NUMBER SPECIFIED ON YOUR ENCLOSED WHITE PROXY CARD OR (3) COMPLETING, SIGNING AND DATING THE ENCLOSED WHITE PROXY CARD AND RETURNING IT IN THE POSTAGE-PAID ENVELOPE PROVIDED.** If your shares are held in the name of a bank, broker or other nominee, please follow the instructions on the voting instruction card furnished to you by such record holder.

This document provides a description of the merger, the merger agreement and the matters to be considered at the Allied Capital special meeting. Allied Capital urges you to read this document and its annexes carefully and in their entirety. If you have any questions concerning the merger, the matters to be considered at the Allied Capital special meeting or this document, would like additional copies of this document or need help voting your shares, please contact Allied Capital's proxy solicitor:

**Georgeson**

199 Water Street, 26th Floor  
New York, New York 10038  
Banks and Brokers Call (212) 440-9800  
All Others Call Toll-Free (866) 695-6072

**Please disregard any proxy cards you  
receive from Prospect Capital and only  
vote the enclosed WHITE proxy card today.**

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**Ares Capital Corporation**

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

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**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS  
TO BE HELD ON MARCH 26, 2010**

To the Stockholders of Ares Capital Corporation:

Notice is hereby given that Ares Capital Corporation, a Maryland corporation, or "Ares Capital," will hold a Special Meeting of the Stockholders of Ares Capital, or the "Ares Capital special meeting," on March 26, 2010 at 3:00 p.m., Eastern Time, at The Westin Grand, 2350 M Street Northwest, Washington, D.C., United States 20037 for the following purposes:

1. To consider and vote upon a proposal to approve the issuance of the shares of Ares Capital common stock to be issued pursuant to the Agreement and Plan of Merger, as such agreement may be amended from time to time, or the "merger agreement," dated as of October 26, 2009, among Ares Capital, Allied Capital Corporation, or "Allied Capital," and ARCC Odyssey Corp., a wholly owned subsidiary of Ares Capital; and
2. To consider and vote upon a proposal to approve the adjournment of the Ares Capital special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the Ares Capital special meeting to approve the foregoing proposal.

You have the right to receive notice of, and to vote at, the Ares Capital special meeting if you were a stockholder of record at the close of business on February 2, 2010. **Whether or not you expect to be present in person at the Ares Capital special meeting, we urge you to promptly fill out, sign and date the enclosed proxy card and return it promptly in the postage-paid envelope provided or authorize your proxy by telephone or through the Internet.** Instructions are shown on the proxy card.

You have the option to revoke the proxy at any time prior to the vote at the meeting or to vote your shares personally on request if you attend the meeting.

**The Ares Capital board of directors has unanimously approved the merger and the merger agreement and the issuance of the shares of Ares Capital common stock to be issued pursuant to the merger agreement and unanimously recommends that Ares Capital stockholders vote "FOR" approval of the issuance of the shares of Ares Capital common stock to be issued pursuant to the merger agreement and "FOR" approval of the proposal to adjourn the Ares Capital special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the Ares Capital special meeting to approve the foregoing proposal.**

By Order of the Board of  
Directors,

Merritt S. Hooper  
*Secretary*

New York, New York  
February 11, 2010

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**YOUR VOTE IS IMPORTANT!**

**WHETHER OR NOT YOU EXPECT TO ATTEND THE ARES CAPITAL SPECIAL MEETING IN PERSON, ARES CAPITAL URGES YOU TO SUBMIT YOUR PROXY AS PROMPTLY AS POSSIBLE BY (1) ACCESSING THE INTERNET WEBSITE SPECIFIED ON YOUR ENCLOSED PROXY CARD, (2) BY CALLING THE TELEPHONE NUMBER SPECIFIED ON YOUR ENCLOSED PROXY CARD OR (3) BY COMPLETING, SIGNING AND DATING THE ENCLOSED PROXY CARD AND RETURNING IT IN THE POSTAGE-PAID ENVELOPE PROVIDED.** If your shares are held in the name of a bank, broker or other nominee, please follow the instructions on the voting instruction card furnished to you by such record holder.

This document provides a description of the merger, the merger agreement and the matters to be considered at the Ares Capital special meeting. Ares Capital urges you to read this document and its annexes carefully and in their entirety. If you have any questions concerning the merger, the matters to be considered at the Ares Capital special meeting or this document, would like additional copies of this document or need help voting your shares, please contact Ares Capital's proxy solicitor:

**D. F. King & Co., Inc.**  
48 Wall Street, 22nd Floor  
New York, New York 10005  
1-800-967-7635 (toll free)  
1-212-269-5550 (call collect)

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**ABOUT THIS DOCUMENT**

This document, which forms part of a registration statement on Form N-14 filed with the Securities and Exchange Commission, or the "SEC," by Ares Capital (File No. 333-163760), constitutes a prospectus of Ares Capital under Section 5 of the Securities Act of 1933, or the "Securities Act," with respect to the shares of Ares Capital common stock to be issued to Allied Capital common stockholders as required by the merger agreement.

This document also constitutes a joint proxy statement of Ares Capital and Allied Capital under Section 14(a) of the Securities Exchange Act of 1934, or the "Exchange Act." It also constitutes a notice of meeting with respect to the special meetings of Allied Capital common stockholders, at which Allied Capital common stockholders will be asked to vote on a proposal to approve the merger and the merger agreement, and Ares Capital common stockholders, at which Ares Capital common stockholders will be asked to vote on the issuance of Ares Capital common stock in connection with the merger.

You should rely only on the information contained in this document. No one has been authorized to provide you with information that is different from that contained in this document. This document is dated February 11, 2010. You should not assume that the information contained in this document is accurate as of any date other than that date. Neither the mailing of this document to Ares Capital common stockholders or Allied Capital common stockholders nor the issuance by Ares Capital of common stock in connection with the merger will create any implication to the contrary.

**This document does not constitute an offer to sell, or a solicitation of an offer to buy, any securities, or the solicitation of a proxy, in any jurisdiction to or from any person to whom it is unlawful to make any such offer or solicitation in such jurisdiction.**

**Except where the context otherwise indicates, information contained in this document regarding Ares Capital has been provided by Ares Capital and information contained in this document regarding Allied Capital has been provided by Allied Capital.**

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**QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETINGS AND THE MERGER**

*The questions and answers below highlight only selected information from this document. They do not contain all of the information that may be important to you. You should read carefully this entire document to fully understand the merger agreement and the transactions contemplated thereby, including the merger and subsequent combination, and the voting procedures for the Allied Capital and Ares Capital special meetings. Unless otherwise indicated in this document or the context otherwise requires, throughout this document we generally refer to Ares Capital Corporation and, where applicable, its consolidated subsidiaries as "Ares Capital," its investment adviser Ares Capital Management LLC as "Ares Capital Management" or as "investment adviser," Ares Management LLC, the sole member of Ares Capital Management, as "Ares Management," Ares Operations LLC as "Ares Operations," Ares Partners Management Company LLC and its affiliated companies (other than portfolio companies of its affiliated funds), including Ares Management, as "Ares," Allied Capital Corporation and, where applicable, its consolidated subsidiaries as "Allied Capital," ARCC Odyssey Corp., a wholly owned subsidiary of Ares Capital, as "Merger Sub," the merger of Merger Sub with and into Allied Capital as the "merger," the merger of Allied Capital with and into Ares Capital as the "subsequent combination" and the effective time of the merger as the "effective time."*

**Q: Why am I receiving these materials?**

**A:**

Allied Capital and Ares Capital are sending these materials to their respective stockholders to help them decide how to vote their shares of Allied Capital or Ares Capital common stock, as the case may be, at their respective special meetings concerning the merger. At the Allied Capital special meeting, Allied Capital common stockholders will be asked to vote on a proposal to approve the merger and the merger agreement or approval to adjourn the Allied Capital special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the Allied Capital special meeting to approve the foregoing proposal. At the Ares Capital special meeting, Ares Capital common stockholders will be asked to vote on the issuance of Ares Capital common stock in connection with the merger or approval to adjourn the Ares Capital special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the Ares Capital special meeting to approve the foregoing proposal. Information about these meetings and the merger is contained in this document.

The boards of directors of Allied Capital and Ares Capital have both unanimously approved the merger and the merger agreement as in the best interests of Allied Capital and Ares Capital, respectively, and their respective stockholders. Please see the section entitled "The Merger Reasons for the Merger" for an important discussion of the merger.

This document summarizes the information regarding the matters to be voted upon at the special meetings of Allied Capital and Ares Capital. However, you do not need to attend your special meeting to vote your shares. You may simply sign the enclosed WHITE proxy card and return it promptly in the postage-paid envelope provided or authorize your proxy by telephone or through the Internet. Instructions are shown on the proxy card. **It is very important that you vote your shares at your special meeting. The merger cannot be completed unless Allied Capital stockholders approve the merger and the merger agreement and Ares Capital stockholders approve the issuance of Ares Capital common stock in connection with the merger.**

**If you hold some or all of your shares in a brokerage account, your broker will not be permitted to vote your shares unless you provide them with instructions on how to vote your shares.** For this reason, you should provide your broker with instructions on how to vote your shares or arrange to attend your special meeting and vote your shares in person. Stockholders are urged to authorize proxies by telephone or the Internet if their broker has provided them with the opportunity to do so. See your voting instruction form for details. If your broker holds your shares and you attend your special meeting in person, please bring a letter from your broker identifying you as the beneficial owner of the shares and authorizing you to vote your shares at the special meeting.

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If you are an Allied Capital stockholder and do not provide your broker with instructions or vote at the Allied Capital special meeting, it will have the same effect as a vote "against" approval of the merger and the merger agreement.

**Q: When and where is the Allied Capital special meeting?**

**A:**

The Allied Capital special meeting will take place on March 26, 2010 at 10:00 a.m., Eastern Time, at the offices of Sutherland Asbill & Brennan LLP, 1275 Pennsylvania Avenue, N.W., Washington D.C., United States 20004.

**Q: When and where is the Ares Capital special meeting?**

**A:**

The Ares Capital special meeting will take place on March 26, 2010 at 3:00 p.m., Eastern Time, at The Westin Grand, 2350 M Street Northwest, Washington, D.C., United States 20037.

**Q: What is happening at the Allied Capital special meeting?**

**A:**

Allied Capital stockholders are being asked to consider and vote on the following matters at their special meeting:

a proposal to approve the merger and the merger agreement among Ares Capital, Allied Capital and Merger Sub, as such agreement may be amended from time to time; and

a proposal to approve the adjournment of the Allied Capital special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the Allied Capital special meeting to approve the foregoing proposal.

**Q: What is happening at the Ares Capital special meeting?**

**A:**

Ares Capital stockholders are being asked to consider and vote on the following matters at their special meeting:

a proposal to approve the issuance of the shares of Ares Capital common stock to be issued pursuant to the merger agreement among Ares Capital, Allied Capital and Merger Sub, as such agreement may be amended from time to time; and

a proposal to approve the adjournment of the Ares Capital special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the Ares Capital special meeting to approve the foregoing proposal.

**Q: What will happen in the merger and subsequent combination?**

**A:**

Subject to the terms and conditions of the merger agreement, the transactions contemplated by the merger agreement will be accomplished in two steps. In the first step, Merger Sub will merge with and into Allied Capital and the separate corporate existence of Merger Sub will cease. Immediately thereafter, in the subsequent combination, Allied Capital will merge with and into Ares Capital and the separate corporate existence of Allied Capital will cease. Ares Capital will be the surviving entity of the subsequent combination and Ares Capital will succeed to and assume all the rights and obligations of Allied Capital and will continue its existence as a corporation under Maryland law. The transaction has been structured in two steps to avoid certain potential adverse tax consequences that could result in the unlikely event that the transaction failed to qualify as a "reorganization," within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, or the "Code," and Allied Capital failed to qualify as a regulated investment company, or "RIC."

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**Q: What will Allied Capital stockholders receive in the merger?**

**A:**

Each Allied Capital stockholder will be entitled to receive 0.325 shares of Ares Capital common stock for each share of Allied Capital common stock owned by such Allied Capital stockholder immediately prior to the merger, or the "exchange ratio," subject to the payment of cash instead of fractional shares. For example, if an Allied Capital stockholder currently owns 100 shares of Allied Capital common stock, then, as a result of the merger, the stockholder will receive 32 shares of Ares Capital common stock, plus cash instead of the fractional 0.5 share of Ares Capital common stock, in exchange for the stockholder's 100 shares of Allied Capital common stock.

On October 23, 2009, the last full trading day before the public announcement of the merger, the closing price of Ares Capital common stock on the NASDAQ Global Select Market, or "NASDAQ," was \$10.69. Based upon this closing price, each share of Allied Capital common stock had an implied value of \$3.47 per share and the aggregate value of the stock consideration in the merger, including outstanding "in-the-money" options (assuming a value per Allied Capital common share of \$3.47), would have been approximately \$648 million. On February 10, 2010, the last full trading day prior to the date of this document, the closing price of Ares Capital common stock on NASDAQ was \$11.85, and the closing price of Allied Capital's shares of common stock on the New York Stock Exchange, or the "NYSE," was \$3.92. Based upon this closing price, each share of Allied Capital common stock had an implied value of \$3.85 per share and the aggregate value of the stock consideration in the merger, including outstanding "in-the-money" options (assuming a value per Allied Capital common share of \$3.85), would have been approximately \$691 million.

Until the merger is completed, the value of the shares of Ares Capital common stock to be issued in the merger will continue to fluctuate but the number of shares to be issued to Allied Capital stockholders will remain fixed.

The term "implied value" refers to the value of the Ares Capital common stock that Allied Capital stockholders would receive if the merger took place on a given day, based on the market price of Ares Capital common stock on such date. The value of Ares Capital common stock to be received in the merger will continue to fluctuate and, as a result, Allied Capital stockholders will not know the value of the Ares Capital common stock they will receive in the merger at the time they vote.

**Q: Is the exchange ratio subject to any adjustment?**

**A:**

Generally, no. The exchange ratio will only be adjusted if the outstanding shares of Ares Capital common stock have themselves been increased, decreased, changed into or exchanged for a different number or kind of shares or securities as a result of any reclassification, recapitalization, stock split, reverse stock split, split-up, combination or exchange of shares, or if a stock dividend (other than as a result of shares delivered pursuant to Ares Capital's dividend reinvestment plan) or dividend payable in any other securities shall be declared with a record date prior to closing or if any other similar event shall have occurred.

**Q: Who is responsible for paying the expenses relating to completing the merger, including the preparation of this document and the solicitation of proxies?**

**A:**

In general, Allied Capital and Ares Capital will each be responsible for its own expenses incurred in connection with the completion of the transactions contemplated by the merger agreement. However, the costs and expenses of printing and mailing the registration statement (of which this document forms a part) and all filing and other fees paid to the SEC in connection with the merger and all filing and other fees in connection with any filing under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, or the "HSR Act," will be borne equally by Allied Capital and Ares Capital. See "Description of the Merger Agreement Expenses and Fees."

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**Q: What will happen to Allied Capital stock options at the effective time?**

**A:**

At the effective time, each Allied Capital stock option that has not been exercised will be cancelled and, if the exercise price of such option is less than the product of (1) the average closing price per share of Ares Capital common stock for the five consecutive trading days immediately preceding the closing and (2) the exchange ratio of 0.325, then the holder of such option will have the right to receive, at such holder's election, cash or shares of Ares Capital common stock (and cash, without interest, instead of any fractional shares) in an amount equal to such difference.  **Holders of Allied Capital stock options should consult with their own tax advisors to determine the tax consequences of their election and any cash or stock received by them.**

**Q: Will I receive dividends after the merger?**

**A:**

Ares Capital currently intends to distribute quarterly dividends to its stockholders. For a history of the dividends and distributions paid by Ares Capital since January 1, 2008, see "Market Price, Dividend and Distribution Information." The amount and timing of past dividends and distributions are not a guarantee of any future dividends or distributions, or the amount thereof, the payment, timing and amount of which will be determined by Ares Capital's board of directors and depend on Ares Capital's cash requirements, its financial condition and earnings, contractual restrictions, legal and regulatory considerations and other factors. See "Ares Capital Dividend Reinvestment Plan" for additional information regarding Ares Capital's dividend reinvestment plan.

For a history of the dividends and distributions paid by Allied Capital since January 1, 2008, see "Market Price, Dividend and Distribution Information."

No dividends or other distributions with respect to shares of Ares Capital common stock will be paid to any former Allied Capital stockholders who held their shares in certificated form and who have not surrendered their certificates to the exchange agent for shares of Ares Capital common stock until such certificates are surrendered in accordance with the letter of transmittal. Following the surrender of any such certificates in accordance with the letter of transmittal, the record holders of such certificates shall be entitled to receive, without interest, the amount of dividends or other distributions with a record date after the effective time payable with respect to shares of Ares Capital common stock exchangeable for such certificates and not previously paid.

**Q: Is the merger subject to any third party consents?**

**A:**

Yes, under the merger agreement, Ares Capital's obligation to complete the merger is subject to the prior receipt of certain approvals, confirmations and consents required to be obtained from certain agents, lenders, noteholders and other parties. As of the date of this document, Ares Capital and Allied Capital believe that, subject to the satisfaction of certain conditions, they have obtained all necessary third party consents other than stockholder approvals and, if necessary, rating agency confirmation with respect to the notes, or "CLO Notes," under its on-balance-sheet debt securitization, or "Debt Securitization."

On January 22, 2010, Ares Capital entered into an agreement to amend and restate its senior secured revolving credit facility, or the "Credit Facility." The amendment and restatement of the Credit Facility, among other things, increases the size of the facility from \$525 million to \$690 million (comprised of \$615 million in commitments on a stand-alone basis and an additional \$75 million in commitments contingent upon the closing of the merger), extends the maturity date to January 22, 2013, modifies pricing and permits certain mergers, including a merger of the type currently contemplated by the merger agreement. The Credit Facility also includes an "accordion" feature that allows Ares Capital, under certain circumstances, to increase the Credit Facility's size

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to a maximum of \$897.5 million prior to the closing of the merger and up to a maximum of \$1.05 billion upon the closing of the merger.

On that same date, Ares Capital also combined its existing \$225 million amortizing Ares Capital CP Funding LLC facility, or the "CP Funding Facility," with its existing \$200 million revolving Ares Capital CP Funding II LLC facility, or the "CP Funding II Facility," into a single \$400 million revolving securitized facility. The combined CP Funding Facility, among other things, converted the existing facility from an amortizing facility to a revolving facility, extended the maturity date to January 22, 2013 (with two one-year extension options, subject to mutual consent), modified the pricing structure of the CP Funding Facility and pre-approved the merger. In connection with the combination, Ares Capital terminated the CP Funding II Facility.

On January 29, 2010, Allied Capital entered into a Second Amended and Restated Credit Agreement, or the "Credit Agreement," pursuant to which Allied Capital obtained its \$250 million senior secured term loan, or the "Term Loan." The proceeds of the Term Loan were used to refinance Allied Capital's private notes and bank facility. In connection with entering into the Term Loan, Allied Capital used the proceeds from the Term Loan and cash on hand from asset sales and repayments to repay its private notes and bank facility in full. On January 29, 2010, after giving effect to the refinancing and the full repayment of the private notes and bank facility, Allied Capital 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 and is subject to certain mandatory prepayments prior to maturity, including repayments related to asset dispositions. The Term Loan generally becomes due and payable upon a change of control or merger; except that, in certain circumstances, the Term Loan may be assumed by Ares Capital in connection with the consummation of the merger. Borrowings under the Term Loan will bear interest based on LIBOR or a base rate and the Term Loan will initially bear interest at a rate per annum of 4.74%. In addition to the interest paid on the Term Loan, Allied Capital 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 private notes and bank facility, Allied Capital has granted the Term Loan lenders a blanket lien on a substantial portion of its assets.

For more information, see "The Merger Third Party Consents Required for the Merger."

**Q: How does Ares Capital's investment objective and strategy differ from Allied Capital's?**

**A:**

Like Allied Capital, Ares Capital is a specialty finance company that is a closed-end, non-diversified management investment company. Both Allied Capital and Ares Capital are incorporated in Maryland and have elected to be regulated as business development companies, or "BDCs," under the Investment Company Act of 1940, or the "Investment Company Act." Ares Capital's investment objective is to generate both current income and capital appreciation through debt and equity investments. Allied Capital has a similar investment objective to achieve current income and capital gains. Ares Capital and Allied Capital each focus on making investments in privately-held companies.

Allied Capital has primarily invested in debt and equity securities of private companies in a variety of industries. However, from time to time, Allied Capital has invested in companies that are public, but lack access to additional public capital. Allied Capital's private finance portfolio primarily is composed of debt and equity investments. Allied Capital's private finance portfolio includes buyout transactions in which it holds investments in senior debt, subordinated debt and equity (preferred and/or voting or non-voting common) where Allied Capital's equity ownership represents a significant portion of the equity, but may or may not represent a controlling interest. Ares Capital generally has not historically engaged in such buyout transactions. In addition to managing its own assets, Allied Capital manages certain funds that also invest in the debt and

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equity securities of primarily private middle-market companies in a variety of industries and broadly syndicated senior secured loans. Allied Capital's typical investments are in companies that operate in diverse industries with EBITDA, or earnings before interest, taxes, depreciation and amortization, of between \$5 million and \$150 million.

Ares Capital concentrates on making investments in companies with annual EBITDA of between \$10 million and \$250 million. Ares Capital has built an investment portfolio of primarily first and second lien loans, mezzanine debt and to a lesser extent equity investments in private middle-market companies. Ares Capital's portfolio is well diversified by industry sector and its concentration to any single issuer is limited. Ares Capital's debt investments have ranged between \$10 million and \$100 million each, although the investment sizes may be more or less than the targeted range. Ares Capital's investment sizes are expected to grow with Ares Capital's capital availability. To a lesser extent, Ares Capital also makes equity investments. Ares Capital's equity investments have generally been less than \$20 million each but may grow with Ares Capital's capital availability and are usually made in conjunction with loans extended by Ares Capital. The proportion of these investments will change over time given Ares Capital's views on, among other things, the economic and credit environment in which Ares Capital operates.

**Q: How will the combined company be managed following the merger?**

**A:**

Unlike Allied Capital, Ares Capital is an externally managed closed end fund. Upon completion of the merger and subsequent combination, the current directors and officers of Ares Capital are expected to continue in their current positions and Ares Capital's investment adviser, Ares Capital Management, will externally manage the combined company.

At the effective time, Ares Capital's board of directors will be increased by at least one member and Ares Capital will submit the name of one member of Allied Capital's board of directors for consideration to Ares Capital's nominating and governance committee to fill the vacancy.

**Q: What is expected to happen to annual expenses following the merger?**

**A:**

As is shown in more detail in "Comparative Fees and Expenses," and based on the assumptions described in that section, in the first year following the merger, absent any change in Allied Capital's interest expense, annual expenses as a percentage of consolidated net assets attributable to common stock is estimated to (1) increase for Ares Capital stockholders from 8.91% on a stand-alone basis to 16.24% on a pro forma combined basis and (2) decrease for Allied Capital stockholders from 21.29% on a stand-alone basis to 16.24% on a pro forma combined basis. The pro forma estimated increase to Ares Capital stockholders results primarily from the pro forma combined interest payments on borrowed funds, which reflect Allied Capital's significantly higher average borrowings and interest expense of 10.7% for the nine months ended September 30, 2009. Allied Capital and Ares Capital expect that as a result of completed and anticipated asset sales and debt repayments and refinancings the combined company's interest payments on borrowed funds in the first year following the merger will be less than the amounts used in such pro forma combined estimate and, accordingly, that estimated total expenses will be lower than as reflected in the pro forma combined estimate as of September 30, 2009.

**Q: Are Allied Capital stockholders able to exercise dissenters' rights?**

**A:**

No. Allied Capital stockholders will not be entitled to exercise dissenters' rights with respect to any matter to be voted upon at their special meeting. Any Allied Capital stockholder may abstain from or vote against any of such matters.



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**Q: Are Ares Capital stockholders able to exercise dissenters' rights?**

**A:**

No. Ares Capital stockholders will not be entitled to exercise dissenters' rights with respect to any matter to be voted upon at their special meeting. Any Ares Capital stockholder may abstain from or vote against any of such matters.

**Q: When do you expect to complete the merger and subsequent combination?**

**A:**

While there can be no assurance as to the exact timing, or that the merger will be completed at all, we are working to complete the merger in the first quarter of 2010. We currently expect to complete the merger promptly following receipt of the required approvals at the Allied Capital and Ares Capital special meetings and satisfaction of the other closing conditions set forth in the merger agreement. The subsequent combination will occur immediately after the merger is completed.

**Q: Is the merger expected to be taxable to Allied Capital stockholders?**

**A:**

The merger and subsequent combination are intended to qualify as a "reorganization," within the meaning of Section 368(a) of the Code, and it is a condition to Ares Capital's and Allied Capital's respective obligations to complete the merger that each of them receives a legal opinion to that effect. Holders of Allied Capital common stock are not expected to recognize any gain or loss for U.S. federal income tax purposes on the exchange of shares of Allied Capital common stock for shares of Ares Capital common stock in the merger, except with respect to cash received instead of fractional shares of Ares Capital common stock. Holders of Allied Capital common stock should read "Certain Material U.S. Federal Income Tax Consequences of the Merger" for a more complete discussion of the U.S. federal income tax consequences of the merger and subsequent combination to Allied Capital stockholders. Tax matters can be complicated and the tax consequences of the merger to you will depend on your particular tax situation.  **Holders of Allied Capital common stock should consult with their own tax advisors to determine the tax consequences of the merger to them.**

**Q: What happens if the merger is not consummated?**

**A:**

If the merger is not approved by the requisite vote of Allied Capital's stockholders or the issuance of shares of Ares Capital common stock in connection with the merger is not approved by the requisite vote of Ares Capital's stockholders, or if the merger is not completed for any other reason, Allied Capital's stockholders will not receive any payment for their shares in connection with the merger. Instead, Allied Capital will remain an independent public company and its common stock will continue to be listed and traded on the NYSE. In addition, under circumstances specified in the merger agreement, Allied Capital may be required to pay Ares Capital a termination fee of \$30 million (\$15 million if Allied Capital stockholders do not approve the merger and the merger agreement) and Ares Capital may be required to pay Allied Capital a termination fee of \$30 million (\$30 million if Ares Capital stockholders do not approve the issuance of shares of Ares Capital common stock in the merger). See "Description of the Merger Agreement Termination of the Merger Agreement."

**Q: What Allied Capital stockholder vote is required to approve the merger and the merger agreement?**

**A:**

The affirmative vote of the holders of two-thirds of the shares of Allied Capital common stock outstanding and entitled to vote on the matter is required to approve the merger and the merger agreement. Stockholders who abstain or who fail to (1) return their proxies, (2) instruct the proxy solicitor on how to cast their vote by telephone or via the Internet pursuant to the instructions

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shown on the proxy card or (3) vote at the Allied Capital special meeting, will have the same effect as if they voted "against" the merger agreement and the merger.

**Q: What Ares Capital stockholder vote is required to approve the issuance of Ares Capital common stock in connection with the merger?**

**A:**

Approval of the issuance of the shares of Ares Capital common stock to be issued pursuant to the merger agreement requires the affirmative vote of at least a majority of all of the votes cast on the matter at a meeting at which a quorum is present.

**Q: Does Allied Capital's board of directors recommend approval of the merger and the merger agreement and the proposal to adjourn the Allied Capital special meeting if necessary?**

**A:**

Yes. Allied Capital's board of directors, including its independent directors, unanimously approved the merger and the merger agreement and recommends that Allied Capital stockholders vote "FOR" approval of the merger and the merger agreement and "FOR" approval of the proposal to adjourn the Allied Capital special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the Allied Capital special meeting to approve the proposal.

**Q: Does Ares Capital's board of directors recommend approval of the issuance of Ares Capital common stock in connection with the merger and the proposal to adjourn the Ares Capital special meeting if necessary?**

**A:**

Yes. Ares Capital's board of directors, including its independent directors, unanimously approved the merger and the merger agreement, including the issuance of common stock in connection therewith, and recommends that Ares Capital stockholders vote "FOR" approval of the issuance of Ares Capital common stock to be issued pursuant to the merger agreement and "FOR" approval of the proposal to adjourn the Ares Capital special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the Ares Capital special meeting to approve the foregoing proposal.

**Q: Did the boards of directors of Allied Capital and Ares Capital receive opinions from financial advisors regarding the exchange ratio?**

**A:**

In connection with the merger, Merrill Lynch, Pierce, Fenner & Smith Incorporated, or "BofA Merrill Lynch," and Sandler O'Neill & Partners, L.P., or "Sandler O'Neill," Allied Capital's financial advisors, delivered to Allied Capital's board of directors their separate written opinions, each dated October 25, 2009, as to the fairness, from a financial point of view and as of the date of such opinion, of the exchange ratio to the holders of Allied Capital common stock. The full text of these opinions, which describe, among other things, the assumptions made, procedures followed, factors considered and limitations on the review undertaken, are attached to this document and incorporated herein by reference in their entirety as *Annex B-2* and *Annex C-2*, respectively. BofA Merrill Lynch's and Sandler O'Neill's respective opinions were provided to Allied Capital's board of directors for the benefit and use of Allied Capital's board of directors in connection with and for purposes of its evaluation of the exchange ratio from a financial point of view. The written opinions do not address any other aspect of the merger and do not constitute a recommendation to any stockholder as to how to vote or act in connection with the merger.

Similarly, J.P. Morgan Securities Inc., or "J.P. Morgan," delivered its written opinion to Ares Capital's board of directors that, as of October 26, 2009, and based upon and subject to the factors, assumptions, qualifications and limitations set forth therein, the exchange ratio in the merger was fair, from a financial point of view, to Ares Capital. The full text of the written opinion of J.P. Morgan, dated October 26, 2009, which sets forth the assumptions made, matters

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considered and limits on the review undertaken, is attached as *Annex D-2* to this document and is incorporated herein by reference in its entirety. Ares Capital stockholders are urged to read the opinion in its entirety. J.P. Morgan's written opinion is addressed to the board of directors of Ares Capital, is directed only to the exchange ratio in the merger and does not constitute a recommendation to any stockholder of Ares Capital as to how such stockholder should vote at the Ares Capital special meeting. The summary of the opinion of J.P. Morgan set forth in this document is qualified in its entirety by reference to the full text of such opinion.

**Q: What do I need to do now?**

**A:**

We urge you to read carefully this entire document, including its annexes. You should also review the documents referenced under "Where You Can Find More Information" and consult with your accounting, legal and tax advisors.

**Q: If I am an Allied Capital stockholder, how do I vote my shares?**

**A:**

You may indicate how you want to vote on your proxy card and then sign and mail your proxy card in the enclosed postage-paid return envelope as soon as possible so that your shares may be represented at the Allied Capital special meeting. You may instruct the proxy solicitor on how to cast your vote by calling the proxy solicitor or via the Internet pursuant to the instructions shown on the proxy card. If you are a record stockholder, you may also attend the Allied Capital special meeting in person instead of submitting a proxy.

Unless your shares are held in a brokerage account, if you sign, date and send your proxy card and do not indicate how you want to vote on a proposal, your proxy will be voted "FOR" the approval of the merger and the merger agreement or "FOR" approval of the proposal to adjourn the Allied Capital special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the Allied Capital special meeting to approve the proposal. If your shares are held in a brokerage account, or in "street name," please see the answer to the next question.

If you fail to (1) return your proxy card, (2) instruct the proxy solicitor on how to cast your vote by telephone or via the Internet pursuant to the instructions shown on the proxy card or (3) vote at the Allied Capital special meeting, or if you "abstain," the effect will be the same as a vote "against" the merger and the merger agreement.

With respect to the adjournment proposal, a vote to "abstain" will have no effect on the vote on such matter.

**Q: If I am an Allied Capital stockholder and some or all of my shares are held in a brokerage account, or in "street name," will my broker vote my shares for me?**

**A:**

No. With respect to the merger and adjournment proposals, if you do not provide your broker with instructions on how to vote your street name shares, your broker will not be permitted to vote them.

For this reason, you should provide your broker with instructions on how to vote your shares or arrange to attend the Allied Capital special meeting and vote your shares in person. If you do not provide your broker with instructions or attend the Allied Capital special meeting, it will have the same effect as a vote "against" approval of the merger and the merger agreement. Stockholders are urged to authorize proxies by telephone or the Internet if their broker has provided them with the opportunity to do so. See your voting instruction form for details.

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If your broker holds your shares and you attend the Allied Capital special meeting in person, please bring a letter from your broker identifying you as the beneficial owner of the shares and authorizing you to vote your shares at the Allied Capital special meeting.

**Q: If I am an Ares Capital stockholder, how do I vote my shares?**

**A:**

You may indicate how you want to vote on your proxy card and then sign and mail your proxy card in the enclosed postage-paid return envelope as soon as possible so that your shares may be represented at the Ares Capital special meeting. You may also instruct the proxy solicitor on how to cast your vote by calling the proxy solicitor or via the Internet pursuant to the instructions shown on the proxy card. If you are a record stockholder, you may also attend the Ares Capital special meeting in person instead of submitting a proxy.

Unless your shares are held in a brokerage account, if you sign, date and send your proxy card and do not indicate how you want to vote on a proposal, your proxy will be voted "FOR" the approval of the issuance of Ares Capital common stock in connection with the merger or "FOR" approval of the proposal to adjourn the Ares Capital special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the Ares Capital special meeting to approve the foregoing proposal. If your shares are held in a brokerage account or in "street name," please see the answer to the next question.

If you fail to (1) return your proxy card, (2) instruct the proxy solicitor on how to cast your vote by telephone or via the Internet pursuant to the instructions shown on the proxy card or (3) vote at the Ares Capital special meeting, or if you "abstain," there will be no effect on the vote on the issuance of Ares Capital common stock in connection with the merger.

With respect to the adjournment proposal, a vote to "abstain" will also have no effect on the vote on such matter.

**Q: If I am an Ares Capital stockholder and some or all of my shares are held in a brokerage account, or in "street name," will my broker vote my shares for me?**

**A:**

No. With respect to the issuance of Ares Capital common stock in connection with the merger and the adjournment proposal, if you do not provide your broker with instructions on how to vote your street name shares, your broker will not be permitted to vote them.

For this reason, you should provide your broker with instructions on how to vote your shares or arrange to attend the Ares Capital special meeting and vote your shares in person. With respect to the proposal to approve the issuance of shares of Ares Capital common stock in connection with the merger, broker shares for which written authority to vote has not been obtained will not be treated as votes cast on the matter and will have no effect on the vote on such proposal. Stockholders are urged to authorize proxies by telephone or the Internet if their broker has provided them with the opportunity to do so. See your voting instruction form for details.

If your broker holds your shares and you attend the Ares Capital special meeting in person, please bring a letter from your broker identifying you as the beneficial owner of the shares and authorizing you to vote your shares at the Ares Capital special meeting.

**Q: If I am an Allied Capital stockholder, what happens if I sell my shares before the Allied Capital special meeting?**

**A:**

The record date of the Allied Capital special meeting is earlier than the date the merger is expected to be completed. If you transfer your shares of Allied Capital common stock after the record date but before the Allied Capital special meeting, you will retain your right to vote at the Allied Capital special meeting, but will have transferred the right to receive 0.325 shares of Ares

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Capital common stock, subject to the payment of cash instead of fractional shares, for each share of Allied Capital common stock owned immediately prior to the merger. In order to receive the 0.325 shares of Ares Capital common stock for each share of Allied Capital common stock owned, subject to the payment of cash instead of fractional shares, you must hold your shares through completion of the merger.

**Q: If I want to change my vote, what can I do?**

**A:**

You may change your vote at any time before your special meeting takes place. To do so, you may either complete and submit a new proxy card or send a written notice stating that you would like to revoke your proxy. You may also change your vote by calling the applicable proxy solicitor or via the Internet pursuant to the instructions shown on the proxy card and simply authorizing a new proxy to vote your shares. The last recorded vote will be the vote that is counted. In addition, you may elect to attend your special meeting and vote in person, as described above.

**Q: If I am an Allied Capital stockholder and my shares are represented by stock certificates, should I send them in now?**

**A:**

No. Allied Capital stockholders should not send in their stock certificates at this time. If the merger is consummated, Ares Capital's exchange agent will send former Allied Capital stockholders who held their shares in certificated form a letter of transmittal explaining what they must do to exchange their Allied Capital stock certificates for the merger consideration payable to them. Former Allied Capital stockholders who held their shares in uncertificated form will receive a confirmation as to the Ares Capital common stock issued in exchange for such Allied Capital common stock and cash instead of fractional shares without any action on the part of such holders.

**Q: Whom can I contact with any additional questions?**

**A:** If you are an Allied Capital stockholder:

**Georgeson**

199 Water Street, 26th Floor  
New York, New York 10038  
Banks and Brokers Call (212) 440-9800  
All Others Call Toll-Free (866) 695-6072  
If you are an Ares Capital stockholder:

**D.F. King & Co., Inc.**

48 Wall Street, 22nd Floor  
New York, New York 10005  
1-800-967-7635 (toll free)  
1-212-269-5550 (call collect)

**Q: Where can I find more information about Ares Capital and Allied Capital?**

**A:**

You can find more information about Ares Capital and Allied Capital in the documents described under "Where You Can Find More Information."

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**SUMMARY**

*This summary highlights some of the information contained elsewhere in this document. It is not complete and may not contain all of the information that you may want to consider. We urge you to read carefully this entire document, including "Risk Factors" beginning on page 28, and the other documents we refer you to for a more complete understanding of the merger and subsequent combination. See "Where You Can Find More Information." Certain items in this summary include a page reference directing you to a more complete description of that item.*

**Allied Capital and Ares Capital Propose a Merger of Merger Sub into Allied Capital Followed Immediately by a Merger of Allied Capital into Ares Capital (page 118)**

Pursuant to the terms of the merger agreement, in the merger, Merger Sub will be merged with and into Allied Capital and, immediately thereafter, in the subsequent combination, Allied Capital will be merged with and into Ares Capital. Ares Capital will be the surviving entity of the subsequent combination and, following the subsequent combination, Allied Capital will no longer exist as a separate corporation. As a result, all of Allied Capital's assets, liabilities and subsidiaries immediately before the subsequent combination will become assets, liabilities and subsidiaries of Ares Capital.

After the merger, based on the number of shares of Ares Capital common stock issued and outstanding on the date hereof and assuming that holders of all "in-the-money" Allied Capital stock options elect to be cashed out, Ares Capital stockholders will own approximately 70% of the combined company's outstanding common stock and Allied Capital stockholders will own approximately 30% of the combined company's outstanding common stock.

The merger agreement is attached as *Annex A* to this document and is incorporated by reference herein in its entirety. Allied Capital and Ares Capital encourage their respective stockholders to read the merger agreement carefully and in its entirety, as it is the principal legal document governing the merger.

**The Parties to the Merger**

*Allied Capital Corporation*  
1919 Pennsylvania Avenue, N.W.  
Washington, D.C. 20006  
(202) 721-6100

Like Ares Capital, Allied Capital is a specialty finance company that is a closed-end, non-diversified management investment company. Both Allied Capital and Ares Capital are incorporated in Maryland and have elected to be regulated as BDCs under the Investment Company Act. Unlike Ares Capital, Allied Capital is internally managed. Allied Capital and Ares Capital each focus on making investments in privately-held companies.

Similar to Ares Capital, Allied Capital's investment objective 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. However, from time to time, Allied Capital has invested in companies that are public, but lack access to additional public capital.

Allied Capital's private finance portfolio primarily is composed of debt and equity investments. Debt investments include senior loans, unitranche debt (an instrument that combines both senior and subordinated financing, generally in a first lien position) or subordinated debt (with or without equity features). The junior debt that Allied Capital has in its portfolio is lower in repayment priority than the senior debt and is also known as mezzanine debt. Allied Capital's portfolio contains equity investments generally for a minority equity stake in portfolio companies and includes equity features, such as nominal cost warrants, received in conjunction with its debt investments.

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Allied Capital's private finance portfolio includes buyout transactions in which it holds investments in senior debt, subordinated debt and equity (preferred and/or voting or non-voting common) where Allied Capital's equity ownership represents 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, it generally has an option to acquire a controlling stake in the voting securities of the portfolio company at fair market value. Ares Capital generally has not historically engaged in such buyout transactions.

In addition to managing its own assets, Allied Capital manages (either directly or through one or more of its consolidated subsidiaries) 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.

*Ares Capital Corporation*  
280 Park Avenue, 22nd Floor  
Building East  
New York, NY 10017  
(212) 750-7300

Like Allied Capital, Ares Capital is a specialty finance company that is a closed-end, non-diversified management investment company. Both Ares Capital and Allied Capital are incorporated in Maryland and have elected to be regulated as BDCs under the Investment Company Act. Unlike Allied Capital, Ares Capital is externally managed.

Similar to Allied Capital, Ares Capital's investment objective is to generate both current income and capital appreciation through debt and equity investments. Ares Capital invests primarily in U.S. middle-market companies, where it believes the supply of primary capital is limited and the investment opportunities are most attractive. However, Ares Capital may from time to time invest in larger companies.

Ares Capital has built an investment portfolio of primarily first and second lien loans, mezzanine debt (which in some cases include an equity component like warrants) and to a lesser extent equity investments in private middle-market companies. Ares Capital's portfolio is well diversified by industry sector and its concentration to any single issuer is limited. Ares Capital's debt investments have ranged between \$10 million and \$100 million each, although the investment sizes may be more or less than the targeted range. Ares Capital's investment sizes are expected to grow with Ares Capital's capital availability. To a lesser extent, Ares Capital also makes equity investments. Ares Capital's equity investments have generally been less than \$20 million each but may grow with Ares Capital's capital availability and are usually made in conjunction with loans extended by Ares Capital. The proportion of these investments will change over time given Ares Capital's views on, among other things, the economic and credit environment in which Ares Capital operates.

*ARCC Odyssey Corp.*  
280 Park Avenue, 22nd Floor  
Building East  
New York, NY 10017  
(212) 750-7300

Merger Sub is a Maryland corporation and a newly formed wholly owned subsidiary of Ares Capital. Merger Sub was formed in connection with and for the sole purpose of the merger with Allied Capital.

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**In the Merger, Allied Capital Common Stockholders Will Have a Right to Receive 0.325 of a Share of Ares Capital Common Stock per Share of Allied Capital Common Stock (page 118)**

If the merger is consummated, each share of Allied Capital common stock outstanding immediately prior to the effective time will be converted into the right to receive 0.325 of a share of Ares Capital common stock, subject to the payment of cash instead of fractional shares. To the extent that Allied Capital stockholders have shares represented by stock certificates, they should not send in any stock certificates until they receive written instructions to do so.

**What Holders of Allied Capital Stock Options Will Receive (page 146)**

At the effective time, each Allied Capital stock option that has not been exercised will be cancelled and, if the exercise price of such option is less than the product of (1) the average closing price per share of Ares Capital common stock for the five consecutive trading days immediately preceding the closing and (2) the exchange ratio of 0.325, then the holder of such option will have the right to receive, at such holder's election, cash or shares of Ares Capital common stock (and cash, without interest, instead of any fractional shares) in an amount equal to such difference.  **Holders of Allied Capital stock options should consult with their own tax advisors to determine the tax consequences of their election and any cash or stock received by them.**

**Special Meeting of Allied Capital Common Stockholders (page 83)**

Allied Capital plans to hold its special meeting of common stockholders on March 26, 2010 at 10:00 a.m., Eastern Time, at the offices of Sutherland Asbill & Brennan LLP, 1275 Pennsylvania Avenue, N.W., Washington D.C., United States 20004. At the Allied Capital special meeting, holders of Allied Capital common stock will be asked to consider and vote on the following matters:

a proposal to approve the merger and the merger agreement; and

a proposal to approve the adjournment of the Allied Capital special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the Allied Capital special meeting to approve the foregoing proposal.

You can vote at the Allied Capital special meeting if you owned Allied Capital common stock at the close of business on February 2, 2010. As of that date, there were approximately 179,940,040 shares of Allied Capital common stock outstanding and entitled to vote. Approximately 9,802,168 of such total outstanding shares, or 5.4%, were owned beneficially or of record by directors and executive officers of Allied Capital.

**Special Meeting of Ares Capital Common Stockholders (page 86)**

Ares Capital plans to hold its special meeting of common stockholders on March 26, 2010 at 3:00 p.m., Eastern Time, at The Westin Grand, 2350 M Street Northwest, Washington, D.C., United States 20037. At the Ares Capital special meeting, holders of Ares Capital common stock will be asked to consider and vote on the following matters:

a proposal to approve the issuance of the shares of Ares Capital common stock to be issued pursuant to the merger agreement; and

a proposal to approve the adjournment of the Ares Capital special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the Ares Capital special meeting to approve the foregoing proposal.

You can vote at the Ares Capital special meeting if you owned Ares Capital common stock at the close of business on February 2, 2010. As of that date, there were approximately 130,944,674 shares of Ares Capital common stock outstanding and entitled to vote, approximately 306,490 of which, or less



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than 1%, were owned beneficially or of record by directors and executive officers of Ares Capital. In addition, Ares Investments LLC, or "Ares Investments," an affiliate of Ares Capital's investment adviser, owned approximately 2,859,882 shares or 2.2% of the total shares of Ares Capital common stock outstanding as of such date.

**Comparative Market Price of Securities (page 185)**

Ares Capital common stock trades on NASDAQ under the symbol "ARCC." Allied Capital common stock trades on the NYSE and NASDAQ under the symbol "ALD."

The following table presents the closing prices and most recently determined net asset values per share of Ares Capital common stock and Allied Capital common stock, as well as the implied value of Allied Capital common stock (as determined by multiplying the closing price of Ares Capital common stock on those dates by the exchange ratio of 0.325), on the last full trading day before public announcement of the merger and the last full trading day prior to the date of this document.

	Ares Capital Common Stock	Allied Capital Common Stock	Implied Value of One Share of Allied Capital Common Stock
Closing Price at October 23, 2009	\$ 10.69	\$ 2.73	\$ 3.47
Net Asset Value per Share at September 30, 2009	\$ 11.16	\$ 6.70	\$ 3.63
Closing Price at February 10, 2010	\$ 11.85	\$ 3.92	\$ 3.85

The term "implied value" refers to the value of the Ares Capital common stock that Allied Capital stockholders would receive if the merger took place on a given day, based on the market price of Ares Capital common stock or its net asset value per share, as applicable, on such date. The value of Ares Capital common stock to be received in the merger will continue to fluctuate and, as a result, Allied Capital stockholders will not know the value of the Ares Capital common stock they will receive in the merger at the time they vote.

For each share of Allied Capital common stock held immediately prior to the effective date, holders of Allied Capital common stock will be entitled to receive 0.325 of a share of Ares Capital common stock, subject to the payment of cash instead of fractional shares. The market prices of both Ares Capital common stock and Allied Capital common stock will fluctuate prior to the merger. You should obtain current stock price quotations for Ares Capital common stock and Allied Capital common stock.

**Dividends (page 185)**

Ares Capital currently intends to distribute quarterly dividends to its stockholders. For a history of the dividends and distributions paid by Ares Capital since January 1, 2008, see "Market Price, Dividend and Distribution Information." The amount and timing of past dividends and distributions are not a guarantee of any future dividends or distributions, or the amount thereof, the payment, timing and amount of which will be determined by Ares Capital's board of directors and depend on Ares Capital's cash requirements, its financial condition and earnings, contractual restrictions, legal and regulatory considerations and other factors. See "Ares Capital Dividend Reinvestment Plan" for additional information regarding Ares Capital's dividend reinvestment plan.

For a history of the dividends and distributions paid by Allied Capital since January 1, 2008, see "Market Price, Dividend and Distribution Information."

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**The Merger Is Intended to Be Tax-Free to Allied Capital Common Stockholders as to the Shares of Ares Capital Common Stock They Receive (page 174)**

The merger and subsequent combination are intended to qualify as a "reorganization," within the meaning of Section 368(a) of the Code, and it is a condition to Ares Capital and Allied Capital's respective obligations to complete the merger that each of them receives a legal opinion to that effect. Accordingly, the merger generally will be tax-free to Allied Capital stockholders for U.S. federal income tax purposes as to the shares of Ares Capital common stock they receive in the merger, except for any gain or loss that may result from the receipt of cash instead of fractional shares of Ares Capital common stock that they would otherwise be entitled to receive.

Holders of Allied Capital common stock should read "Certain Material U.S. Federal Income Tax Consequences of the Merger" for a more complete discussion of the U.S. federal income tax consequences of the merger. Tax matters can be complicated and the tax consequences of the merger to Allied Capital stockholders will depend on their particular tax situation. **Holders of Allied Capital common stock should consult with their own tax advisors to determine the tax consequences of the merger to them.**

**The Merger Will Be Accounted for as a "Business Combination" (page 173)**

The merger will be treated as a "business combination" using the acquisition method of accounting, with Ares Capital treated as the acquirer under generally accepted accounting principles, or "GAAP."

**Reasons for the Merger (page 129)**

*Allied Capital*

Allied Capital's board of directors believes that the merger represents the best alternative that is reasonably available to Allied Capital. Allied Capital's board of directors consulted with Allied Capital's management as well as its financial advisors and legal advisors and considered numerous factors, including the ones described below, and, as a result, determined that the merger is in Allied Capital's best interests and the best interests of Allied Capital's stockholders. Certain material factors considered by Allied Capital's board of directors, including its independent directors, in evaluating the merger included, among others:

*Resumption of Dividend Payments.* The receipt of shares of Ares Capital common stock in exchange for shares of Allied Capital common stock will likely permit Allied Capital's stockholders to receive dividend payments again by taking advantage of Ares Capital's dividend which has been consistently paid on a quarterly basis since April 2006 in an amount of at least \$0.35 per share.

*Improved Access to Debt Capital Markets on More Favorable Terms.* It was anticipated that the combined company would be able to access debt capital with lower interest rates and longer maturities than was available to Allied Capital on a stand alone basis.

*Improved Ability to Access the Equity Capital Markets.* Ares Capital was recently able to access the equity capital markets even at a price below its net asset value per share.

*Lack of Liquidity/Flexibility.* The merger would reduce the pressure to sell assets to retire costly debt with stringent amortization requirements in an effort to de-lever the Allied Capital balance sheet.

*Increased Portfolio Diversity.* The merger will increase portfolio diversity and concentration of lower risk debt investments.

*Thorough Review of Strategic Alternatives.* Allied Capital engaged in a thorough review of the strategic alternatives reasonably believed to be available to Allied Capital, including, among



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other alternatives, to continue as a stand-alone entity, recapitalize the company and partner with a strategic investor and assessed the difficulties associated with pursuing each strategic alternative.

*Strategic and Business Considerations.* Because Allied Capital's stockholders will be stockholders of Ares Capital following the merger and subsequent combination, Allied Capital stockholders stand to participate in the future growth of Ares Capital.

*Terms of the Merger Agreement.* The exchange ratio of 0.325 shares of Ares Capital common stock to be received in exchange for each share of Allied Capital common stock represents a 27.3% premium to the closing price of Allied Capital common stock on October 23, 2009, based on the closing price of Allied Capital common stock and Ares Capital common stock on that date (which was the last full trading day before public announcement of the merger).

*Opinion of Its Financial Advisors.* The financial analyses reviewed and discussed with Allied Capital's board of directors by representatives of BofA Merrill Lynch and Sandler O'Neill (a summary of which is attached as *Annex B-1* and *Annex C-1* to this document, respectively, and incorporated by reference herein in its entirety), as well as the oral opinions of BofA Merrill Lynch and Sandler O'Neill rendered to Allied Capital's board of directors on October 25, 2009 (which were subsequently confirmed in writing by delivery of written opinions dated the same date, attached as *Annex B-2* and *Annex C-2* to this document, respectively, and incorporated by reference herein in their entirety) with respect to the fairness, from a financial point of view and as of the date of the opinions, of the exchange ratio to the holders of Allied Capital common stock.

*Tax Free Treatment of Merger.* The merger and subsequent combination are expected to be treated as a "reorganization" under Section 368(a) of the Code and will generally be tax free.

The foregoing list does not include all the factors that Allied Capital's board of directors considered in making its decision. For a further discussion of the material factors considered by Allied Capital's board of directors, see "The Merger Reasons for the Merger."

***Ares Capital***

Ares Capital's board of directors consulted with representatives of management, its investment adviser, Ares Capital Management, as well as Ares Capital's financial, legal and other advisors and considered numerous factors, including the ones described below, and, as a result, determined that the merger is in Ares Capital's best interests and the best interests of Ares Capital's stockholders.

Certain material factors considered by Ares Capital's board of directors, including its independent directors, included, among others:

*Increased Scale and Presence in Middle Market.* The unique opportunity to acquire a franchise of Allied Capital's size and scope and the fact that the combined company will have a broad and diverse platform from which to provide capital to middle-market companies, including the ability to originate larger transactions with larger final hold positions.

*Continued Access to Capital.* The combined company is expected to have access to capital even in a credit challenged environment to reinvest in its portfolio and to pursue new attractive investment opportunities in what Ares Capital's management believes is a compelling investment environment following the credit dislocation.

*More Diversified Asset Base.* The limited overlap of assets and investments of Allied Capital and Ares Capital will further limit single issuer and industry credit exposure of the combined company following the merger.

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*Strengthened Asset Management Platform.* The merger will create a large scale middle-market asset management platform that is expected to bring meaningful information and deal flow benefits.

*Accretive to NAV and Core EPS.* The merger is expected to be accretive to Ares Capital's net asset value and core earnings per share in the first year following its closing.

*Cost Savings/Synergies.* The merger is expected to result in cost savings and synergies for the combined company.

*Change of Control Payments.* As an inducement for Ares Capital and Merger Sub to enter into the merger agreement, certain Allied Capital key executives agreed to waive, contingent on the closing of the merger, a portion of the change-of-control payments that otherwise might be due to them under their respective employment or retention agreements.

*Ability to Unlock Potential Value in Allied Capital's Portfolio.* Allied Capital has limited liquidity, which has required it to sell assets in order to de-lever its balance sheet and satisfy stringent debt amortization requirements. Ares Capital's management believes that it will have the time, capital and expertise to re-position Allied Capital's existing portfolio into higher yielding, cash generating securities with less volatility because the combined company will face less pressure to sell assets in the portfolio at an inopportune time. To the extent asset sales are deemed necessary or advisable by the combined company, the combined company would have the flexibility to sell Ares Capital's assets as well.

*Opinion of Its Financial Advisor.* The financial analyses reviewed and discussed with Ares Capital's board of directors by representatives of J.P. Morgan (a summary of which is attached as *Annex D-1* to this document and incorporated by reference herein in its entirety), as well as the oral opinion of J.P. Morgan rendered to Ares Capital's board of directors on October 25, 2009, which opinion was confirmed by delivery of a written opinion dated October 26, 2009, attached as *Annex D-2* to this document and incorporated by reference herein in its entirety, to the effect that, as of that date, and based upon and subject to the factors, assumptions, qualifications and limitations set forth therein, the exchange ratio in the merger was fair, from a financial point of view, to Ares Capital.

The foregoing list does not include all the factors that Ares Capital's board of directors considered in making its decision. For a further discussion of the material factors considered by Ares Capital's board of directors, see "The Merger Reasons for the Merger."

**Risks Relating to the Proposed Merger (page 28)**

The merger and the other transactions contemplated by the merger agreement are subject to the following risks. Allied Capital and Ares Capital stockholders should carefully consider these risks before deciding how to vote on the proposals to be voted on at their respective special meetings. See "Risk Factors Risks Relating to the Merger" below for a more detailed discussion of these factors.

Because the market price of Ares Capital common stock will fluctuate, Allied Capital common stockholders cannot be sure of the market value of the merger consideration they will receive until the closing date.

Allied Capital stockholders and Ares Capital stockholders will experience a reduction in percentage ownership and voting power in the combined company as a result of the merger.

Ares Capital may be unable to realize the benefits anticipated by the merger and subsequent combination, including estimated cost savings and synergies, or it may take longer than anticipated to achieve such benefits.



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Allied Capital's and Ares Capital's inability to obtain certain third party approvals, confirmations and consents with respect to certain of their outstanding indebtedness could delay or prevent the completion of the merger.

The transactions contemplated by the merger agreement may trigger certain "change of control" provisions and other restrictions in contracts of Allied Capital, Ares Capital or their affiliates and the failure to obtain any required consents or waivers could adversely impact the combined company.

Several lawsuits have been filed against Allied Capital, members of Allied Capital's board of directors, Ares Capital and Merger Sub challenging the merger. An adverse ruling in any such lawsuit may prevent the merger from becoming effective within the expected timeframe or at all. If the merger is consummated, these lawsuits and other legal proceedings could have a material impact on the results of operations, cash flows or financial condition of the combined company.

Allied Capital has received an unsolicited non-binding acquisition proposal from Prospect Capital, which may complicate or delay or prevent completion of the merger.

The opinions obtained by Allied Capital and Ares Capital from their respective financial advisors will not reflect changes in circumstances between signing the merger agreement and completion of the merger.

If the merger does not close, neither Ares Capital nor Allied Capital will benefit from the expenses incurred in its pursuit.

Termination of the merger agreement could negatively impact Allied Capital and Ares Capital.

Under certain circumstances, Allied Capital and Ares Capital are obligated to pay each other a termination fee upon termination of the merger agreement.

The merger agreement limits Allied Capital's ability to pursue alternatives to the merger.

The merger is subject to closing conditions, including stockholder approvals, that, if not satisfied or waived, will result in the merger not being completed, which may result in material adverse consequences to Allied Capital's business and operations.

Certain persons related to Allied Capital have interests in the merger that differ from the interests of Allied Capital stockholders.

Allied Capital will be subject to business uncertainties and contractual restrictions while the merger is pending.

The shares of Ares Capital common stock to be received by Allied Capital common stockholders as a result of the merger will have different rights associated with them than shares of Allied Capital common stock currently held by them.

The market price of Ares Capital common stock after the merger may be affected by factors different from those affecting Allied Capital common stock or Ares Capital common stock currently.

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Allied Capital stockholders who hold their shares in certificated form and who do not timely surrender their Allied Capital common stock certificates for Ares Capital common stock after the completion of the merger will be deemed to have elected to receive dividends and other distributions declared after the completion of the merger with respect to Ares Capital common stock in the form of Ares Capital common stock in accordance with Ares Capital's dividend reinvestment plan and, as a result, may suffer adverse tax consequences.



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In addition, stockholders should carefully consider the other matters described in "Risk Factors" in determining whether to approve the merger and the merger agreement, in the case of Allied Capital stockholders, and approve the issuance of Ares Capital common stock in connection with the merger, in the case of Ares Capital stockholders. If any of the events described in such section occurs, Ares Capital, Allied Capital or, following the merger and subsequent combination, the combined company's business, financial condition or results of operations could be materially adversely affected.

**Allied Capital's Board of Directors Unanimously Recommends That Allied Capital Stockholders Vote "FOR" Approval of the Merger and the Merger Agreement (page 135)**

Allied Capital's board of directors, including its independent directors, believes that the merger is advisable and in the best interest of Allied Capital's stockholders and unanimously recommends that its stockholders vote "FOR" approval of the merger and the merger agreement and "FOR" approval of the proposal to adjourn the Allied Capital special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the Allied Capital special meeting to approve the foregoing proposal.

**Ares Capital's Board of Directors Unanimously Recommends That Ares Capital Stockholders Vote "FOR" Approval of the Issuance of Ares Capital Common Stock in Connection with the Merger (page 135)**

Ares Capital's board of directors, including its independent directors, unanimously approved the merger and the merger agreement, including the issuance of Ares Capital common stock in connection therewith, and recommends that Ares Capital stockholders vote "FOR" approval of the issuance of the Ares Capital common stock to be issued pursuant to the merger agreement and "FOR" approval of the proposal to adjourn the Ares Capital special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the Ares Capital special meeting to approve the foregoing proposal.

**Certain Persons Related to Allied Capital Have Interests in the Merger that Differ from Your Interests (page 146)**

Certain persons related to Allied Capital have financial interests in the merger that are different from, and/or in addition to, the interests of Allied Capital's stockholders. The members of Allied Capital's board of directors were aware of and considered these interests, among other matters, in evaluating and negotiating the merger agreement and the merger and in recommending to Allied Capital stockholders that the merger and the merger agreement be approved. These interests are described in more detail in the section of this document entitled "The Merger Interests of Certain Persons Related to Allied Capital in the Merger."

Based on the assumptions set forth in "The Merger Interests of Certain Persons Related to Allied Capital in the Merger," Allied Capital's named executive officers may be entitled to receive aggregate payments of approximately \$6,086,663 for accelerated vesting and payout of stock options upon completion of the merger. The maximum amounts that would be payable to Allied Capital's named executive officers in the aggregate under each of their current employment agreements or retention agreements, assuming that certain conditions regarding change of control and termination are met, would be approximately \$28,585,957. In addition, Allied Capital may be required to pay up to \$12,875,000 plus health care continuation coverage for up to 12 months to certain of its officers, other than its named executive officers, pursuant to the terms of certain retention agreements. Certain existing executive officers of Allied Capital may, however, become paid employees of Ares Capital, one of its portfolio companies or subsidiaries or its investment adviser. See "The Merger Interests of Certain Persons Related to Allied Capital in the Merger" for a further description of these interests,

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including the payments that each named executive officer is or may be entitled to receive upon completion of the merger.

**Ares Capital's Investment Adviser Has Interests in the Merger that Differ from the Interests of Ares Capital Stockholders (page 153)**

Ares Capital's investment adviser, Ares Capital Management, has financial interests in the merger that are different from, and/or in addition to, the interests of Ares Capital's stockholders. For example, Ares Capital Management's management fee is based on a percentage of Ares Capital's total assets. Because total assets under management will increase as a result of the merger, the dollar amount of Ares Capital Management's management fee will increase as a result of the merger. In addition, the incentive fee payable by Ares Capital to Ares Capital Management may be positively impacted as a result of the merger. See "Unaudited Pro Forma Condensed Consolidated Financial Statements."

Ares Capital Management has committed to defer up to \$15 million in base management and incentive fees for each of the first two years following the merger if certain earnings targets are not met to help support consistent cash flows and the combined company's dividend payments.

**Allied Capital and Ares Capital Stockholders Do Not Have Dissenters' Rights**

Neither Allied Capital's nor Ares Capital's stockholders will be entitled to exercise dissenters' rights in connection with the merger under Maryland law.

**Allied Capital and Ares Capital Have Agreed When and How Allied Capital Can Consider Third-Party Acquisition Proposals (page 166)**

Allied Capital has agreed to, and will cause its affiliates, consolidated subsidiaries and its and each of their respective officers, directors, managers, employees and other advisors, representatives and agents to, immediately cease and cause to be terminated all discussions and negotiations with respect to a "Takeover Proposal" (as defined in the merger agreement) from a third party and not to directly or indirectly solicit or take any other action (including providing information) with the intent to solicit any inquiry, proposal or offer with respect to a Takeover Proposal.

However, if Allied Capital receives a bona fide unsolicited Takeover Proposal from a third party and its board of directors determines in good faith, after consultation with reputable outside legal counsel and financial advisers experienced in such matters, that failure to consider such proposal would breach the duties of its directors under applicable law, and the Takeover Proposal constitutes or is reasonably likely to result in a "Superior Proposal" (as defined in the merger agreement), Allied Capital may engage in discussions and negotiations with such third party so long as certain notice and other procedural requirements are satisfied. In addition, subject to certain procedural requirements (including the ability of Ares Capital to revise its offer) and the payment of a \$30 million termination fee, Allied Capital may terminate the merger agreement and enter into an agreement with a third party who makes a Superior Proposal.

Allied Capital's board of directors, together with its external legal and financial advisors, has carefully reviewed and analyzed the proposals submitted by Prospect Capital Corporation, or "Prospect Capital." Allied Capital's board of directors has concluded that the unsolicited offer does not constitute, and is not reasonably likely to result in, a Superior Proposal and is not in the best interests of Allied Capital or its stockholders and, therefore, has not authorized any negotiations with Prospect Capital. As a part of its determination, Allied Capital sought, and obtained, permission from Ares Capital to engage in a discussion with Prospect Capital about the financial assumptions of Prospect Capital's offer, with a specific focus on the stability and safety of Prospect Capital's dividend. Allied Capital's financial advisors met with representatives of Prospect Capital (which had not retained financial advisors) on the evening of February 1, 2010 for this purpose, and did not receive any

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information that alleviated the concerns of Allied Capital's board with Prospect Capital's offer, including, without limitation, the concern about Prospect Capital's inability to generate sufficient earnings to support its current dividend levels.

**Merger Requires the Approval of Allied Capital Stockholders Holding at Least Two-Thirds of Votes Entitled to Be Cast (page 83)**

The affirmative vote of the holders of at least two-thirds of the shares of Allied Capital common stock outstanding and entitled to vote is required to approve the merger and the merger agreement. Stockholders who abstain or who fail to (1) return their proxies, (2) instruct the proxy solicitor on how to cast their vote by telephone or via the Internet pursuant to the instructions shown on the proxy card or (3) vote at the Allied Capital special meeting, will have the same effect as if they voted "against" the merger agreement and the merger.

**Votes Required to Approve the Issuance of Shares of Ares Capital Common Stock (page 86)**

The affirmative vote of at least a majority of all of the votes cast on the matter at a meeting at which a quorum is present is required to approve the issuance of the shares of Ares Capital common stock to be issued pursuant to the merger agreement.

**Completion of the Merger (page 157)**

While there can be no assurances as to the exact timing, or that the merger will be completed at all, Allied Capital and Ares Capital are working to complete the merger in the first quarter of 2010. As more fully described in this document and in the merger agreement, the completion of the merger depends on a number of conditions being satisfied or, where legally permissible, waived.

**Conditions That Must Be Satisfied or Waived for the Merger to Occur (page 168)**

While there can be no assurances as to the exact timing, or that the merger will be completed at all, we are working to complete the merger in the first quarter of 2010. As more fully described in this document and in the merger agreement, the obligations of Allied Capital and Ares Capital to complete the merger are subject to the satisfaction or, where permissible, waiver of the following conditions:

the approvals of Allied Capital and Ares Capital stockholders are obtained at their respective special meetings;

the shares of Ares Capital stock to be issued in connection with the merger have been authorized for listing on NASDAQ;

the registration statement, of which this document forms a part, has become effective and no stop order suspending its effectiveness has been issued and no proceedings for that purpose have been initiated by the SEC;

no order or law preventing or making illegal the consummation of the merger or any of the other transactions contemplated by the merger agreement is in effect;

all regulatory approvals required to consummate the merger and the other transactions contemplated by the merger agreement and all statutory waiting periods required by applicable law have expired;

the receipt by each of Ares Capital and Allied Capital of a legal opinion with respect to certain U.S. federal income tax consequences of the merger;

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the truth and correctness of the representations and warranties of each other party in the merger agreement, subject to the materiality standards provided in the merger agreement, and the receipt by each party of a certificate from the other party to that effect;

the performance by each other party in all material respects of their obligations under the merger agreement and the receipt by each party of a certificate from the other party to that effect;

since the date of the merger agreement, there has not occurred any condition, change or event that, individually or in the aggregate, has had or would reasonably be expected to have, a material adverse effect in respect of the other party, other than certain previously disclosed matters; and

the absence of certain bankruptcy and insolvency related events with respect to the other party and its consolidated subsidiaries (other than, in the case of Allied Capital, Ciena Capital LLC, or "Ciena").

In addition, the obligation of Ares Capital to complete the merger is subject to the satisfaction or, where permissible, waiver of the following conditions:

Allied Capital has delivered a certificate stating that it is not and has not been within the preceding five years a "United States real property holding corporation" for U.S. federal income tax purposes; and

consents in respect of certain outstanding debt of Allied Capital and Ares Capital have been obtained.

We cannot be certain when, or if, the conditions to the merger will be satisfied or waived or that the merger will ever be completed.

**Termination of the Merger Agreement (page 170)**

The merger agreement contains certain termination rights for Allied Capital or Ares Capital, as applicable, including if:

the parties mutually agree to terminate;

a government entity that must grant a regulatory approval has issued a final and non-appealable denial;

a governmental entity has issued a final and non-appealable order or promulgated a law prohibiting or making illegal the merger or any of the other transactions contemplated by the merger agreement;

the merger has not been completed by June 30, 2010;

the stockholders of Allied Capital fail to approve the merger and the merger agreement;

the stockholders of Ares Capital fail to approve the issuance of Ares Capital common stock in connection with the merger;

a Special Termination Event occurs;

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there is a breach by Allied Capital, on the one hand, or Ares Capital or Merger Sub, on the other, that would result in a failure of the conditions of Ares Capital and Merger Sub or Allied Capital, as the case may be, to close (subject to cure, if curable);

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either Allied Capital or Ares Capital changes its recommendation that its stockholders vote to approve the matters described in this document to be voted on at their respective special meetings;

either Allied Capital or Ares Capital fails to cause a vote of its respective stockholders to occur in respect of the matters described in this document to be voted on at their respective special meetings prior to June 30, 2010;

Allied Capital enters into an agreement with respect to a Superior Proposal, provided that prior to doing so it pays Ares Capital a \$30 million termination fee;

a tender or exchange offer or a Takeover Proposal is publicly announced and Allied Capital fails to recommend against such offer or reaffirm its recommendation of the merger;

Allied Capital or Ares Capital materially breaches its obligation to use reasonable best efforts to obtain stockholder approval or recommend the matters described in this document to be voted on at their respective special meetings; or

Allied Capital breaches the non-solicitation provisions.

The Prospect Capital proposal is a third party acquisition proposal for purposes of the eleventh and twelfth bullet points above.

**Termination Fee (page 170)**

The merger agreement provides that, in connection with the termination of the merger agreement under specified circumstances, Allied Capital may be required to pay Ares Capital a termination fee of \$30 million (\$15 million if Allied Capital stockholders do not approve the merger and the merger agreement) and Ares Capital may be required to pay Allied Capital a reverse termination fee of \$30 million (\$30 million if Ares Capital stockholders do not approve the issuance of shares of Ares Capital common stock in the merger).

**Board of Directors and Management of the Combined Company Following Completion of the Merger (page 156)**

Upon completion of the merger and subsequent combination, the current directors and officers of Ares Capital are expected to continue in their current positions and Ares Capital's investment adviser, Ares Capital Management, will externally manage the combined company. At the effective time, Ares Capital's board of directors will be increased by at least one member and Ares Capital will submit the name of one member of Allied Capital's board of directors for consideration to Ares Capital's nominating and governance committee to fill the vacancy.

**Third Party Consents Required for the Merger (page 154)**

Under the merger agreement, Ares Capital's obligation to complete the merger is subject to the prior receipt of certain approvals, confirmations and consents required to be obtained from certain agents, lenders, noteholders and other parties. As of the date of this document, Ares Capital and Allied Capital believe that, subject to the satisfaction of certain conditions, they have obtained all necessary third party consents other than stockholder approvals and, if necessary, rating agency confirmation with respect to the Debt Securitization.

On January 22, 2010, Ares Capital amended and restated the Credit Facility. The amendment and restatement, among other things, increases the size of the Credit Facility from \$525 million to \$690 million (comprised of \$615 million in commitments on a stand-alone basis and an additional \$75 million in commitments contingent upon the closing of the merger), extends the maturity date to January 22, 2013, modifies pricing and permits certain mergers, including a merger of the type currently

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contemplated by the merger agreement. The Credit Facility also includes an "accordion" feature that allows Ares Capital, under certain circumstances, to increase the Credit Facility's size to a maximum of \$897.5 million prior to the closing of the merger and up to a maximum of \$1.05 billion upon the closing of the merger.

On that same date, Ares Capital also combined its existing \$225 million amortizing CP Funding Facility with its existing \$200 million revolving CP Funding II Facility into a single \$400 million revolving securitized facility. The combined CP Funding Facility, among other things, converted the existing facility from an amortizing facility to a revolving facility, extended the maturity date to January 22, 2013 (with two one-year extension options, subject to mutual consent), modified the pricing structure of the CP Funding Facility and pre-approved the merger. In connection with the combination, Ares Capital terminated the CP Funding II Facility.

On January 29, 2010, Allied Capital entered into the Credit Agreement pursuant to which Allied Capital obtained the Term Loan. The proceeds of the Term Loan were used to refinance Allied Capital's private notes and bank facility. In connection with entering into the Term Loan, Allied Capital used the proceeds from the Term Loan and cash on hand from asset sales and repayments to repay its private notes and bank facility in full. On January 29, 2010, after giving effect to the refinancing and the full repayment of the private notes and bank facility, Allied Capital 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 and is subject to certain mandatory prepayments prior to maturity, including repayments related to asset dispositions. The Term Loan generally becomes due and payable upon a change of control or merger; except that, in certain circumstances, the Term Loan may be assumed by Ares Capital in connection with the consummation of the merger. Borrowings under the Term Loan will bear interest based on LIBOR or a base rate and the Term Loan will initially bear interest at a rate per annum of 4.74%. In addition to the interest paid on the Term Loan, Allied Capital 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 private notes and bank facility, Allied Capital has granted the Term Loan lenders a blanket lien on a substantial portion of its assets.

Although not a condition to either Allied Capital's or Ares Capital's obligation to complete the merger, certain agreements of Allied Capital and Ares Capital or their affiliates, including with respect to certain managed funds of Allied Capital and its affiliates, will or may require the consent or waiver of one or more counterparties in connection with the merger or subsequent combination. The failure to obtain any such consent or waiver may permit such counter-parties to terminate, or otherwise increase their rights or the combined company's obligations under, such agreements because the merger, subsequent combination or other transactions contemplated by the merger agreement may violate an anti-assignment, change of control or other provision relating to any of such transactions. If this happens, Ares Capital may have to seek to replace that agreement with a new agreement or seek an amendment to such agreement. Allied Capital and Ares Capital cannot assure you that Ares Capital will be able to replace or amend any such agreement on comparable terms or at all.

**The Rights of Allied Capital Common Stockholders Following the Merger Will Be Different (page 406)**

The rights of Allied Capital's stockholders are currently governed by Maryland law and Allied Capital's charter and bylaws. When the merger is completed, Allied Capital's stockholders will become stockholders of Ares Capital, a Maryland corporation, and their rights will be governed by Maryland law and Ares Capital's charter and bylaws. The rights of Allied Capital's stockholders and the rights of Ares Capital's stockholders differ in certain respects.

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**The Unsolicited Offer from Prospect Capital (page 137)**

On January 14, 2010, Prospect Capital proposed to acquire all of the issued and outstanding shares of Allied Capital in a stock-for-stock merger. On January 19, 2010, the board of directors of Allied Capital unanimously rejected the unsolicited non-binding offer. On January 26, 2010, Prospect Capital renewed its unsolicited non-binding proposal and increased its proposed share exchange ratio from 0.385 Prospect Capital shares for each Allied Capital share to 0.40 Prospect Capital shares for each Allied Capital share. The Allied Capital board, after consulting with its management and its financial and legal advisors, has determined that Prospect Capital's proposal does not constitute, and is not reasonably likely to result in, a Superior Proposal. On February 9, 2010, Prospect Capital issued a third unsolicited non-binding proposal and increased its proposed share exchange ratio from 0.40 Prospect Capital shares for each Allied Capital share to 0.4416 Prospect Capital shares for each Allied Capital share. The Allied Capital board, after consulting with its management and its financial and legal advisors, has determined that Prospect Capital's proposal does not constitute, and is not reasonably likely to result in, a Superior Proposal.

In reaching that determination, Allied Capital's board took into account, among other things, its belief that a merger with Allied Capital would put Prospect Capital's dividend at risk, resulting in a near term dividend cut, Ares Capital Management's commitment to defer up to \$15 million in base management and incentive fees for each of the first two years following the merger if certain earnings targets are not met, Prospect Capital's lack of managerial expertise, the conditional nature of Prospect Capital's offer, the relative liquidity of Prospect Capital and Ares Capital, the belief that Prospect Capital's management platform is inferior to that of Ares Capital, the belief that Prospect Capital's recent acquisition of Patriot Capital Funding, Inc. weakens, rather than strengthens, Prospect Capital, Prospect Capital's track record of highly dilutive equity capital raises and the belief that Prospect Capital's portfolio is riskier than that of Ares Capital. Allied Capital's board further determined that the Prospect Capital offer did not measure up to the merger on all of the criteria that Allied Capital's board considered in determining to accept the Ares Capital proposal and enter into the merger agreement. Accordingly, Allied Capital's board also unanimously reaffirmed its recommendation that Allied Capital's stockholders vote in favor of the merger and the merger agreement. See "The Merger The Unsolicited Proposal from Prospect."



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**RISK FACTORS**

*In addition to the other information included in this document, stockholders should carefully consider the matters described below in determining whether to approve the merger and the merger agreement, in the case of Allied Capital stockholders, and approve the issuance of Ares Capital common stock in connection with the merger, in the case of Ares Capital stockholders. The risks set out below are not the only risks Ares Capital, Allied Capital and, following the merger and subsequent combination, the combined company face. Additional risks and uncertainties not currently known to Ares Capital or Allied Capital or that they currently deem to be immaterial also may materially adversely affect their or, following the merger and subsequent combination, the combined company's business, financial condition or operating results. If any of the following events occur, Ares Capital, Allied Capital or, following the merger and subsequent combination, the combined company's business, financial condition or results of operations could be materially adversely affected.*

**Risks Relating to Ares Capital**

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

Beginning in 2007, the U.S. capital markets entered into a period of disruption as evidenced by a lack of liquidity in the debt capital markets, significant write-offs in the financial services sector, the re-pricing of credit risk in the broadly syndicated credit market and the failure of major financial institutions. Despite actions of the U.S. federal government, these events contributed to worsening general economic conditions that materially and adversely impacted the broader financial and credit markets and reduced the availability of debt and equity capital for the market as a whole and financial services firms in particular. While these conditions appear to be improving, they could continue for a prolonged period of time or worsen in the future. While these conditions persist, Ares Capital and other companies in the financial services sector may have to access, if available, alternative markets for debt and equity capital in order to grow. Equity capital may be difficult to raise because, subject to some limited exceptions, as a BDC, Ares Capital is generally not able to issue additional shares of Ares Capital common stock at a price less than net asset value without first obtaining approval for such issuance from Ares Capital's stockholders and its independent directors. At Ares Capital's 2009 annual stockholders meeting, subject to certain determinations required to be made by Ares Capital's board of directors, Ares Capital stockholders approved its ability to sell or otherwise issue shares of Ares Capital common stock, not exceeding 25% of its outstanding common stock at the time of such issuance, at a price below its then current net asset value per share during a period beginning on May 4, 2009 and expiring on the earlier of the anniversary of the date of the 2009 annual stockholders meeting and the date of the Ares Capital 2010 annual stockholders meeting, which is expected to be held in May 2010. In addition, Ares Capital's ability to incur indebtedness (including by issuing preferred stock) is limited by applicable regulations such that Ares Capital's asset coverage, as defined in the Investment Company Act, must equal at least 200% immediately after each time Ares Capital incurs indebtedness. The debt capital that will be available, if at all, may be at a higher cost and on less favorable terms and conditions in the future. Any inability to raise capital could have a negative effect on Ares Capital's business, financial condition and results of operations.

Moreover, recent market conditions have made, and may in the future make, it difficult to extend the maturity of or refinance Ares Capital's existing indebtedness and any failure to do so could have a material adverse effect on Ares Capital's business. The illiquidity of Ares Capital's investments may make it difficult for Ares Capital to sell such investments if required. As a result, Ares Capital may realize significantly less than the value at which Ares Capital has recorded its investments.

Capital markets volatility also affects Ares Capital's investment valuations. While most of Ares Capital's investments are not publicly traded, applicable accounting standards require Ares Capital to

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assume as part of its valuation process that its investments are sold in a principal market to market participants (even if Ares Capital plans on holding an investment through its maturity). As a result, volatility in the capital markets can adversely affect Ares Capital's valuations.

Given the recent extreme volatility and dislocation in the capital markets, many BDCs have faced, and may in the future face, a challenging environment in which to raise capital. As a result of the recent significant changes in the capital markets affecting Ares Capital's ability to raise capital, the pace of Ares Capital's investment activity has slowed. In addition, significant changes in the capital markets, including the recent extreme volatility and disruption, has had, and may in the future have, a negative effect on the valuations of Ares Capital's investments and on the potential for liquidity events involving Ares Capital's investments. An inability to raise capital, and any required sale of Ares Capital's investments for liquidity purposes, could have a material adverse impact on Ares Capital's business, financial condition or results of operations.

***A failure on Ares Capital's part to maintain its status as a BDC would significantly reduce Ares Capital's operating flexibility.***

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

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

Ares Capital depends on the diligence, skill and network of business contacts of Ares Capital Management's key personnel, including its investment committee. Ares Capital also depends, to a significant extent, on Ares Capital Management's access to the investment professionals of Ares and the information and deal flow generated by Ares' investment professionals in the course of their investment and portfolio management activities. Ares Capital's future success depends on the continued service of Ares Capital Management's key personnel, including its investment committee. The departure of any of Ares Capital Management's key personnel, including members of its investment committee, or of a significant number of the investment professionals or partners of Ares, could have a material adverse effect on Ares Capital's business, financial condition or results of operations. In addition, Ares Capital cannot assure you that Ares Capital Management will remain Ares Capital's investment adviser or that Ares Capital will continue to have access to Ares' investment professionals or its information and deal flow.

***Ares Capital's financial condition and results of operations depend on Ares Capital's ability to manage future growth effectively.***

Ares Capital's ability to achieve its investment objective depends on its ability to acquire suitable investments and monitor and administer those investments, which depends, in turn, on Ares Capital Management's ability to identify, invest in and monitor companies that meet Ares Capital's investment criteria.

Accomplishing this result on a cost-effective basis is largely a function of Ares Capital Management's structuring of the investment process and its ability to provide competent, attentive and efficient services to Ares Capital. Ares Capital's executive officers and the members of Ares Capital Management's investment committee have substantial responsibilities in connection with their roles at Ares and with the other Ares funds, as well as responsibilities under the investment advisory and management agreement. They may also be called upon to provide significant managerial assistance to certain of Ares Capital's portfolio companies on behalf of Ares Capital's administrator. These demands

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on their time, which will increase as the number of investments grow, may distract them or slow the rate of investment. In order to grow, Ares Capital Management will need to hire, train, supervise and manage new employees. However, Ares Capital cannot assure you that any such employees will be retained. Any failure to manage Ares Capital's future growth effectively could have a material adverse effect on Ares Capital's business, financial condition and results of operations.

In addition, as Ares Capital grows, Ares Capital may open up new offices in new geographic regions that may increase its direct operating expenses without corresponding revenue growth.

***Ares Capital's ability to grow depends on its ability to raise capital.***

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

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

***Regulations governing Ares Capital's operation as a BDC affect its ability to raise, and the way in which Ares Capital raises, additional capital.***

Ares Capital may issue debt securities or preferred stock, which Ares Capital refers to collectively as "senior securities," or borrow money from banks or other financial institutions, up to the maximum amount permitted by the Investment Company Act. Under the provisions of the Investment Company Act, Ares Capital is permitted, as a BDC, to incur indebtedness or issue senior securities only in amounts such that Ares Capital's asset coverage, as defined in the Investment Company Act, equals at least 200% after each such incurrence or issuance. If the value of Ares Capital's assets declines, Ares Capital may be unable to satisfy this test, which may prohibit it from paying dividends and could prevent Ares Capital from maintaining its status as a RIC or may prohibit Ares Capital from repurchasing shares of its common stock. If Ares Capital cannot satisfy this test, Ares Capital may be required to sell a portion of its investments at a time when such sales may be disadvantageous and, depending on the nature of its leverage, repay a portion of its indebtedness. As of September 30, 2009, Ares Capital's asset coverage for senior securities was 259%.

Ares Capital is not generally able to issue and sell Ares Capital common stock at a price below net asset value per share. Ares Capital may, however, sell Ares Capital common stock, or warrants, options or rights to acquire Ares Capital common stock, at a price below the current net asset value per share of Ares Capital common stock if Ares Capital's board of directors determines that such sale is in Ares

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Capital's best interests and the best interests of Ares Capital's stockholders, and Ares Capital's stockholders approve such sale. Any such sale would be dilutive to the net asset value per share of Ares Capital common stock. In any such case, the price at which Ares Capital's securities are to be issued and sold may not be less than a price which, in the determination of Ares Capital's board of directors, closely approximates the market value of such securities (less any commission or discount). If Ares Capital common stock trades at a discount to net asset value, this restriction could adversely affect its ability to raise capital.

At Ares Capital's 2009 annual stockholders meeting, subject to the board of directors determination described above, Ares Capital stockholders approved its ability to sell or otherwise issue shares of Ares Capital common stock, not exceeding 25% of its outstanding common stock at the time of such issuance, at a price below its then current net asset value per share during a period beginning on May 4, 2009 and expiring on the earlier of the anniversary of the date of the 2009 annual stockholders meeting and the date of the Ares Capital 2010 annual stockholders meeting, which is expected to be held in May 2010.

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

***Ares Capital borrows money, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing with Ares Capital.***

As of September 30, 2009, Ares Capital had \$271.1 million of outstanding borrowings under the Credit Facility, \$223 million of outstanding borrowings under the CP Funding Facility and \$273.8 million of CLO Notes. In order for Ares Capital to cover its annual interest payments on indebtedness, Ares Capital must achieve annual returns on Ares Capital's September 30, 2009 total assets of at least 1.21%. The weighted average interest rate charged on Ares Capital's borrowings as of September 30, 2009 was 2.02%. Ares Capital intends to continue borrowing under its credit facilities in the future and Ares Capital may increase the size of its credit facilities or issue debt securities or other evidences of indebtedness (although there can be no assurance that it will be successful in doing so). Ares Capital's ability to service its debt depends largely on its financial performance and is subject to prevailing economic conditions and competitive pressures. The amount of leverage that Ares Capital employs at any particular time will depend on its investment adviser's and its board of directors' assessment of market and other factors at the time of any proposed borrowing.

Ares Capital's credit facilities and CLO Notes impose financial and operating covenants that restrict Ares Capital's business activities, including limitations that could hinder Ares Capital's ability to finance additional loans and investments or to make the distributions required to maintain its status as a RIC. A failure to renew Ares Capital's credit facilities or to add new or replacement debt facilities

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could have a material adverse effect on Ares Capital's business, financial condition or results of operations.

Borrowings, also known as leverage, magnify the potential for gain or loss on amounts invested and, therefore, increase the risks associated with investing in Ares Capital's securities. Ares Capital currently borrows under Ares Capital's credit facilities and, in the future, may borrow from or issue debt securities to banks, insurance companies and other lenders. Holders of such debt securities have fixed dollar claims on Ares Capital's consolidated assets that are superior to the claims of its common stockholders or any preferred stockholders. If the value of Ares Capital's consolidated assets increases, then leveraging would cause the net asset value per share of its common stock to increase more sharply than it would have had Ares Capital not leveraged.

Conversely, if the value of Ares Capital's consolidated assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had Ares Capital not leveraged. Similarly, any increase in Ares Capital's consolidated income in excess of consolidated interest payable on the borrowed funds would cause Ares Capital's net income to increase more than it would without the leverage, while any decrease in Ares Capital's consolidated income would cause net income to decline more sharply than it would have had Ares Capital not borrowed. Such a decline could negatively affect Ares Capital's ability to make common stock dividend payments. There can be no assurance that a leveraging strategy will be successful.

The following table illustrates the effect on return to a holder of Ares Capital common stock of the leverage created by Ares Capital's use of borrowing at the interest rate of 2.02% and assumes (1) Ares Capital's total value of net assets as of September 30, 2009; (2) \$767.9 million debt outstanding as of September 30, 2009 and (3) hypothetical annual returns on Ares Capital's portfolio of minus 15 to plus 15 percent.

Assumed Return on Portfolio (Net of Expenses)(1)	-15%	-10%	-5%	0%	5%	10%	15%
Corresponding Return to Common Stockholders(2)	-27%	-18%	-10%	-1%	7%	16%	24%

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

(2) In order to compute the "Corresponding Return to Common Stockholders," the "Assumed Return on Portfolio" is multiplied by the total value of Ares Capital's assets at September 30, 2009 to obtain an assumed return to Ares Capital. From this amount, the interest expense calculated by multiplying the interest rate of 2.02% times the \$767.9 million debt is subtracted to determine the return available to stockholders. The return available to stockholders is then divided by the total value of Ares Capital's net assets as of September 30, 2009 to determine the "Corresponding Return to Common Stockholders."

***In addition to regulatory requirements that restrict Ares Capital's ability to raise capital, its Credit Facility, CP Funding Facility and CLO Notes contain various covenants which, if not complied with, could accelerate repayment under the Credit Facility, CP Funding Facility and CLO Notes, thereby materially and adversely affecting Ares Capital's liquidity, financial condition and results of operations.***

The agreements governing Ares Capital's Credit Facility, CP Funding Facility and CLO Notes require Ares Capital to comply with certain financial and operational covenants. These covenants include:

restrictions on the level of indebtedness that Ares Capital is permitted to incur in relation to the value of Ares Capital's assets;

restrictions on Ares Capital's ability to incur liens; and

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maintenance of a minimum level of stockholders' equity.

As of the date of this document, Ares Capital is in compliance with the covenants of Ares Capital's Credit Facility, CP Funding Facility and CLO Notes. However, Ares Capital's continued compliance with these covenants depends on many factors, some of which are beyond Ares Capital's control. For example, depending on the condition of the public debt and equity markets and pricing levels, net unrealized depreciation in Ares Capital's portfolio may increase in the future. Any such increase could result in Ares Capital's inability to comply with its obligation to restrict the level of indebtedness that Ares Capital is able to incur in relation to the value of its assets or to maintain a minimum level of stockholders' equity.

Accordingly, although Ares Capital believes it will continue to be in compliance, there are no assurances that Ares Capital will continue to comply with the covenants in its Credit Facility, CP Funding Facility and CLO Notes. Failure to comply with these covenants would result in a default under its Credit Facility, CP Funding Facility or CLO Notes, which, if Ares Capital were unable to obtain a waiver from the lenders under its Credit Facility, the purchasers under its CP Funding Facility or the trustee or holders of CLO Notes, respectively, could accelerate repayment under its Credit Facility, CP Funding Facility or CLO Notes, respectively, and thereby have a material adverse impact on Ares Capital's business, financial condition and results of operations.

***Ares Capital operates in a highly competitive market for investment opportunities.***

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

Ares Capital does not seek to compete primarily based on the interest rates it offers and Ares Capital believes that some of its competitors may make loans with interest rates that are comparable to or lower than the rates Ares Capital offers. Rather, Ares Capital competes with its competitors based on its existing investment platform, seasoned management team, experience and focus on middle-market companies, disciplined investment philosophy, extensive industry focus and flexible transaction structuring. For a more detailed discussion of these competitive advantages, see "Business of Ares Capital Competitive Advantages."

Ares Capital may lose investment opportunities if it does not match its competitors' pricing, terms and structure. If Ares Capital matches its competitors' pricing, terms and structure, Ares Capital may experience decreased net interest income and increased risk of credit loss. As a result of operating in such a competitive environment, Ares Capital may make investments that are on better terms to its portfolio companies than what Ares Capital may have originally anticipated, which may impact its return on these investments.

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***Ares Capital may be subject to certain corporate-level taxes regardless of whether Ares Capital continues to qualify as a RIC.***

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

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

To qualify as a RIC, Ares Capital must also meet certain annual income source requirements at the end of each taxable year and asset diversification requirements at the end of each calendar quarter. Failure to meet these tests may result in Ares Capital's having to (1) dispose of certain investments quickly or (2) raise additional capital to prevent the loss of RIC status. Because most of Ares Capital's investments are in private companies and are generally illiquid, any such dispositions may be at disadvantageous prices and may result in losses. Also, the rules applicable to Ares Capital's qualification as a RIC under the Code are complex with many areas of uncertainty. Accordingly, no assurance can be given that Ares Capital has qualified or will qualify as a RIC. If Ares Capital fails to qualify as a RIC for any reason and becomes subject to regular "C" corporation income tax, the resulting corporate taxes could substantially reduce Ares Capital's net assets, the amount of income available for distribution and the amount of Ares Capital's distributions. Such a failure would have a material adverse effect on Ares Capital and its stockholders. See "Certain Material U.S. Federal Income Tax Consequences of the Merger U.S. Federal Income Taxation of an Investment in Ares Capital Common Stock Qualification as a Regulated Investment Company."

***Ares Capital may have difficulty paying its required distributions under applicable tax rules if Ares Capital recognizes income before or without receiving cash representing such income.***

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

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Since, in certain cases, Ares Capital may recognize income before or without receiving cash representing such income, Ares Capital may have difficulty meeting the U.S. federal income tax requirement to distribute generally an amount equal to at least 90% of its investment company taxable income to maintain its status as a RIC. Accordingly, Ares Capital may have to sell some of its investments at times Ares Capital would not consider advantageous, raise additional debt or equity capital or reduce new investment originations to meet these distribution requirements. If Ares Capital is not able to obtain cash from other sources, Ares Capital may fail to qualify as a RIC and thus be subject to additional corporate-level taxes. See "Certain Material U.S. Federal Income Tax Consequences of the Merger U.S. Federal Income Taxation of an Investment in Ares Capital Common Stock Qualification as a Regulated Investment Company."

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

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

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

***Ares Capital is exposed to risks associated with changes in interest rates.***

General interest rate fluctuations may have a substantial negative impact on Ares Capital's investments and investment opportunities and, accordingly, may have a material adverse effect on Ares Capital's investment objective and rate of return on invested capital. Because Ares Capital borrows money and may issue debt securities or preferred stock to make investments, Ares Capital's net investment income is dependent upon the difference between the rate at which Ares Capital borrows funds or pays interest or dividends on such debt securities or preferred stock and the rate at which Ares Capital invests these funds. As a result, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on Ares Capital's net investment income. Trading prices for debt that pays a fixed rate of return tend to fall as interest rates rise. Trading prices tend to fluctuate more for fixed-rate securities that have longer maturities. Ares Capital has entered into certain hedging transactions, such as interest rate swap agreements, to mitigate its exposure to adverse fluctuations in interest rates, and Ares Capital may continue to do so in the future. However, Ares Capital cannot assure you that such transactions will be successful in mitigating Ares Capital's exposure to credit risk. Hedging transactions may also limit Ares Capital's ability to participate in the benefits of lower interest rates with respect to Ares Capital's portfolio investments. Although Ares Capital has no policy governing the maturities of its investments, under current market conditions, Ares Capital expects that it will invest in a portfolio of debt generally having maturities of up to 10 years. This means that Ares Capital is subject to greater risk (other things being equal) than a fund invested solely in shorter-term securities. A decline in the prices of the debt Ares Capital owns could adversely affect the trading price of its shares. Also, an increase in interest rates available to investors could make investment in Ares Capital common stock less attractive if Ares Capital is not able to increase its dividend rate, which could reduce the value of its common stock.



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***Many of Ares Capital's portfolio investments are not publicly traded and, as a result, there is uncertainty as to the value of Ares Capital's portfolio investments.***

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

***The lack of liquidity in Ares Capital's investments may adversely affect Ares Capital's business.***

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

***Ares Capital may experience fluctuations in its quarterly results.***

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

***There are significant potential conflicts of interest that could impact Ares Capital's investment returns.***

Certain of Ares Capital's executive officers and directors, and members of the investment committee of Ares Capital's investment adviser, serve or may serve as officers, directors or principals of other entities and affiliates of Ares Capital's investment adviser and investment funds managed by Ares Capital's affiliates. Accordingly, they may have obligations to investors in those entities, the fulfillment

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of which might not be in the best interests of Ares Capital or its stockholders or that may require them to devote time to services for other entities, which could interfere with the time available to provide services to Ares Capital. For example, Messrs. Ressler, Rosenthal, Kissick and Sachs each will continue to have significant responsibilities for other Ares funds. Messrs. Ressler and Rosenthal are required to devote a substantial majority of their business time, and Mr. Kissick is required to devote a majority of his business time, to the affairs of ACOF (as defined below). However, Ares believes that the efforts of Messrs. Ressler, Rosenthal and Kissick relative to Ares Capital and ACOF are synergistic with and beneficial to the affairs of each of Ares Capital and ACOF.

Although other Ares funds generally have different primary investment objectives than Ares Capital, they may from time to time invest in asset classes similar to those targeted by Ares Capital. In addition, Ares is not restricted from raising an investment fund with investment objectives similar to that of Ares Capital. Any such funds may also, from time to time, invest in asset classes similar to those targeted by Ares Capital. Ares Capital Management endeavors to allocate investment opportunities in a fair and equitable manner, and in any event consistent with any fiduciary duties owed to Ares Capital. Nevertheless, it is possible that Ares Capital may not be given the opportunity to participate in certain investments made by investment funds managed by investment managers affiliated with Ares Capital Management. In addition, there may be conflicts in the allocation of investment opportunities among Ares Capital and the funds managed by it or one or more of its controlled affiliates, including Ares Capital's portfolio company Ivy Hill Asset Management, L.P., or "IHAM," or among the funds they manage. Ares Capital may or may not participate in investments made by funds managed by Ares Capital or one or more of its controlled affiliates.

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

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

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

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

Ares Capital's investment adviser, Ares Capital Management, also has financial interests in the merger that are different from, and/or in addition to, the interests of Ares Capital's stockholders. For example, Ares Capital Management's management fee is based on a percentage of Ares Capital's total assets. Because total assets under management will increase as a result of the merger, the dollar

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amount of Ares Capital Management's management fee will increase as a result of the merger. In addition, the incentive fee payable by Ares Capital to Ares Capital Management may be positively impacted as a result of the merger. See "Unaudited Pro Forma Condensed Consolidated Financial Statements."

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

Pursuant to a separate amended and restated administration agreement, referred to herein as Ares Capital's "administration agreement," Ares Operations, an affiliate of Ares Capital Management, furnishes Ares Capital with administrative services and Ares Capital pays Ares Operations its allocable portion of overhead and other expenses incurred by Ares Operations in performing its obligations under the administration agreement, including Ares Capital's allocable portion of the cost of its officers and their respective staffs.

Ares Capital's portfolio company, IHAM, is party to a services agreement with Ares Capital Management, pursuant to which Ares Capital Management provides IHAM with the facilities, investment advisory services and administrative services necessary for the operations of IHAM. IHAM reimburses Ares Capital Management for the 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 such services agreement.

Ares Capital rents office space directly from a third party pursuant to a lease that expires on February 27, 2011. In addition, Ares Capital has entered into a sublease with Ares Management whereby Ares Management subleases approximately 25% of the office space for a fixed rent equal to 25% of the basic annual rent payable by Ares Capital under this lease, plus certain additional costs and expenses.

As a result of the arrangements described above, there may be times when the management team of Ares Management has interests that differ from those of Ares Capital's stockholders, giving rise to a conflict.

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

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

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

***Ares Capital may be obligated to pay Ares Capital's investment adviser incentive compensation even if Ares Capital incurs a loss.***

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

Under the investment advisory and management agreement, Ares Capital will defer cash payment of any incentive fee otherwise earned by Ares Capital's investment adviser if, during the most recent four full calendar quarter periods ending on or prior to the date such payment is to be made, the sum of (a) Ares Capital's aggregate distributions to Ares Capital's stockholders and (b) Ares Capital's 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 Ares Capital's net assets at the beginning of such period. These calculations will be adjusted for any share issuances or repurchases. Any deferred incentive fees will be carried over for payment in subsequent calculation periods to the extent such payment can then be made under the investment advisory and management agreement.

***Changes in laws or regulations governing Ares Capital's operations, or changes in the interpretation thereof, and any failure by Ares Capital to comply with laws or regulations governing Ares Capital's operations may adversely affect Ares Capital's business.***

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

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

Ares Capital's primary focus in making investments differs from those of other private funds that are or have been managed by Ares' investment professionals. Further, investors in Ares Capital are not acquiring an interest in other Ares managed funds. Accordingly, Ares Capital cannot assure you that Ares Capital will replicate Ares' historical success, and Ares Capital cautions you that its investment returns could be substantially lower than the returns achieved by those private funds.

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

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

***Price declines and illiquidity in the corporate debt markets have adversely affected, and may in the future adversely affect, the fair value of Ares Capital's portfolio investments, reducing Ares Capital's net asset value through increased net unrealized depreciation.***

As a BDC, Ares Capital is required to carry Ares Capital's investments at market value or, if no market value is ascertainable, at fair value as determined in good faith by or under the direction of Ares Capital's board of directors. Ares Capital may take into account the following types of factors, if relevant, in determining the fair value of Ares Capital's 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 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, Ares Capital uses the pricing indicated by the external event to corroborate Ares Capital's valuation. Decreases in the market values or fair values of Ares Capital's investments are recorded as unrealized depreciation. Unprecedented declines in prices and liquidity in the corporate debt markets resulted in significant net unrealized depreciation in Ares Capital's

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portfolio in the recent past. The effect of all of these factors on Ares Capital's portfolio has reduced Ares Capital's net asset value by increasing net unrealized depreciation in Ares Capital's portfolio. Depending on market conditions, Ares Capital could incur substantial realized losses and may suffer additional unrealized losses in future periods, which could have a material adverse impact on Ares Capital's business, financial condition and results of operations.

***Economic recessions or downturns could impair Ares Capital's portfolio companies and harm Ares Capital's operating results.***

As of the date of this document, the economy recently has been in the midst of a recession and in the difficult part of a credit cycle with industry defaults increasing. Many of Ares Capital's portfolio companies may be materially and adversely affected by the credit cycle and, in turn, may be unable to satisfy their financial obligations (including their loans to Ares Capital) over the coming months.

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

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

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

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

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

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

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

there is generally little public information about these companies. These companies and their financial information are not subject to the Sarbanes Oxley Act of 2002 and other rules that govern public companies, and Ares Capital may be unable to uncover all material information

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about these companies, which may prevent Ares Capital from making a fully informed investment decision and cause Ares Capital to lose money on its investments;

they generally have less predictable operating results, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position. In addition, Ares Capital's executive officers, directors and Ares Capital's investment adviser may, in the ordinary course of business, be named as defendants in litigation arising from Ares Capital's investments in the portfolio companies; and

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

***Ares Capital's debt investments may be risky, and Ares Capital could lose all or part of its investment.***

The debt that Ares Capital invests in is typically not initially rated by any rating agency, but Ares Capital believes that if such investments were rated, they would be below investment grade (rated lower than "Baa3" by Moody's Investors Service or lower than "BBB-" by Standard & Poor's). Indebtedness of below investment grade quality is regarded as having predominantly speculative characteristics with respect to the issuer's capacity to pay interest and repay principal. Ares Capital's mezzanine investments may result in an above average amount of risk and volatility or loss of principal. Ares Capital also invests in assets other than mezzanine investments, including first and second lien loans, high-yield securities, U.S. government securities, credit derivatives and other structured securities and certain direct equity investments. These investments will entail additional risks that could adversely affect Ares Capital's investment returns. In addition, to the extent interest payments associated with such debt are deferred, such debt will be subject to greater fluctuations in value based on changes in interest rates. Also, such debt could subject Ares Capital to phantom income, and since Ares Capital generally does not receive any cash prior to maturity of the debt, the investment is of greater risk.

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

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

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

to the extent that the portfolio company requires additional capital and is unable to obtain it, Ares Capital may not recover its investment in equity securities; and

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

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

preferred securities may include provisions that permit the issuer, at its discretion, to defer distributions for a stated period without any adverse consequences to the issuer. If Ares Capital owns a preferred security that is deferring its distributions, Ares Capital may be required to report income for tax purposes although it has not yet received such income;

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

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

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

Additionally, when Ares Capital invests in first and second lien senior loans or mezzanine debt, Ares Capital may acquire warrants or other equity securities as well. Ares Capital's goal is ultimately to dispose of such equity interests and realize gains upon its disposition of such interests. However, the equity interests Ares Capital receives may not appreciate in value and, in fact, may decline in value. Accordingly, Ares Capital may not be able to realize gains from its equity interests, and any gains that Ares Capital does realize on the disposition of any equity interests may not be sufficient to offset any other losses it experiences.

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

***There may be circumstances where Ares Capital's debt investments could be subordinated to claims of other creditors or Ares Capital could be subject to lender liability claims.***

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

***Ares Capital's portfolio companies may incur debt or issue equity securities that rank equally with, or senior to, Ares Capital's investments in such companies.***

Ares Capital's portfolio companies may have, or may be permitted to incur, other debt, or issue other equity securities, that rank equally with, or senior to, Ares Capital's investments. By their terms, such instruments may provide that the holders are entitled to receive payment of dividends, interest or principal on or before the dates on which Ares Capital is entitled to receive payments in respect of its investments. These debt instruments usually prohibit the portfolio companies from paying interest on or repaying Ares Capital's investments in the event and during the continuance of a default under such debt. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a



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portfolio company, holders of securities ranking senior to Ares Capital's investment in that portfolio company typically are entitled to receive payment in full before Ares Capital receives any distribution in respect of its investment. After repaying such holders, the portfolio company may not have any remaining assets to use for repaying its obligation to Ares Capital. In the case of securities ranking equally with Ares Capital's investments, Ares Capital would have to share on an equal basis any distributions with other security holders in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant portfolio company.

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

***When Ares Capital is a debt or minority equity investor in a portfolio company, Ares Capital may not be in a position to exert influence on the entity, and management of the company may make decisions that could decrease the value of Ares Capital's portfolio holdings.***

Ares Capital makes both debt and minority equity investments; therefore, Ares Capital is subject to the risk that a portfolio company may make business decisions with which Ares Capital disagrees, and the stockholders and management of such company may take risks or otherwise act in ways that do not serve Ares Capital's interests. As a result, a portfolio company may make decisions that could decrease the value of Ares Capital's investment.

***Ares Capital's portfolio companies may be highly leveraged.***

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

***Ares Capital's investment adviser's incentive fee may induce Ares Capital Management to make certain investments, including speculative investments.***

The incentive fee payable by Ares Capital to Ares Capital Management may create an incentive for Ares Capital Management to make investments on Ares Capital's behalf that are risky or more speculative than would be the case in the absence of such compensation arrangement. The way in which the incentive fee payable to Ares Capital's investment adviser is determined, which is calculated as a percentage of the return on invested capital, may encourage Ares Capital's investment adviser to use leverage to increase the return on Ares Capital's investments. Under certain circumstances, the use of leverage may increase the likelihood of default, which would disfavor the holders of Ares Capital common stock, including investors in offerings of common stock, securities convertible into Ares Capital common stock or warrants representing rights to purchase Ares Capital common stock or securities convertible into Ares Capital common stock. In addition, the investment adviser will receive the incentive fee based, in part, upon net capital gains realized on Ares Capital's investments. Unlike

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the portion of the incentive fee based on income, there is no hurdle rate applicable to the portion of the incentive fee based on net capital gains. As a result, the investment adviser may have a tendency to invest more in investments that are likely to result in capital gains as compared to income producing securities. Such a practice could result in Ares Capital's investing in more speculative securities than would otherwise be the case, which could result in higher investment losses, particularly during economic downturns. The part of the incentive fee payable by Ares Capital that relates to Ares Capital's pre-incentive fee net investment income will be computed and paid on income that may include interest that is accrued but not yet received in cash. If a portfolio company defaults on a loan that is structured to provide accrued interest, it is possible that accrued interest previously used in the calculation of the incentive fee will become uncollectible. The investment adviser is not under any obligation to reimburse Ares Capital for any part of the incentive fee it received that was based on such accrued interest that Ares Capital never actually receives.

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

***Ares Capital's investments in foreign debt may involve significant risks in addition to the risks inherent in U.S. investments. Ares Capital may expose itself to risks if it engages in hedging transactions.***

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

Although most of Ares Capital's investments will be U.S. dollar denominated, Ares Capital's investments that are denominated in a foreign currency will be subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation, and political developments. Ares Capital may employ hedging techniques to minimize these risks, but Ares Capital cannot assure you that such strategies will be effective.

Ares Capital has and may in the future enter into hedging transactions, which may expose it to risks associated with such transactions. Ares Capital may utilize instruments such as forward contracts, currency options and interest rate swaps, caps, collars and floors to seek to hedge against fluctuations in the relative values of Ares Capital's portfolio positions from changes in currency exchange rates and market interest rates. Use of these hedging instruments may include counter party credit risk. Hedging against a decline in the values of Ares Capital's portfolio positions does not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of such positions decline. However, such hedging can establish other positions designed to gain from those same developments, thereby offsetting the decline in the value of such portfolio positions. Such hedging transactions may also limit the opportunity for gain if the values of the underlying portfolio positions should increase. Moreover, it may not be possible to hedge against an exchange rate or interest rate fluctuation that is

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so generally anticipated that Ares Capital is not able to enter into a hedging transaction at an acceptable price.

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

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

Shares of closed-end investment companies frequently trade at a market price that is less than the net asset value that is attributable to those shares. This characteristic of closed-end investment companies is separate and distinct from the risk that Ares Capital's net asset value per share may decline. It is not possible to predict whether any shares of common stock offered hereby will trade at, above, or below net asset value. As of the date of this document, the stocks of BDCs as an industry, including at times shares of Ares Capital common stock, have been trading below net asset value and at near historic lows as a result of concerns over liquidity, leverage restrictions and distribution requirements. When Ares Capital common stock is trading below its net asset value per share, Ares Capital will generally not be able to issue additional shares of Ares Capital common stock at its market price without first obtaining approval for such issuance from its stockholders and independent directors.

***There is a risk that investors in Ares Capital's equity securities may not receive dividends or that Ares Capital's dividends may not grow over time and that investors in Ares Capital's debt securities may not receive all of the interest income to which they are entitled.***

Ares Capital intends to make distributions on a quarterly basis to its stockholders out of assets legally available for distribution. Ares Capital cannot assure you that it will achieve investment results that will allow it to make a specified level of cash distributions or year-to-year increases in cash distributions. If Ares Capital declares a dividend and if more stockholders opt to receive cash distributions rather than participate in Ares Capital's dividend reinvestment plan, Ares Capital may be forced to sell some of Ares Capital's investments in order to make cash dividend payments.

In addition, due to the asset coverage test applicable to Ares Capital as a BDC, Ares Capital may be limited in its ability to make distributions. Further, if Ares Capital invests a greater amount of assets in equity securities that do not pay current dividends, it could reduce the amount available for distribution. See "Market Price, Dividend and Distribution Information."

The above referenced distribution requirement may also inhibit Ares Capital's ability to make required interest payments to holders of its debt securities, which may cause a default under the terms of its debt securities. Such a default could materially increase Ares Capital's cost of raising capital, as well as cause Ares Capital to incur penalties under the terms of its debt securities.

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

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

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

***Investing in Ares Capital's securities may involve an above average degree of risk.***

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

***The market price of Ares Capital common stock may fluctuate significantly.***

The capital and credit markets have experienced a period of extreme volatility and disruption since 2007. The market price and liquidity of the market for shares of Ares Capital common stock may be significantly affected by numerous factors, some of which are beyond Ares Capital's control and may not be directly related to Ares Capital's operating performance. These factors include:

significant volatility in the market price and trading volume of securities of publicly traded RICs, business development companies or other companies in Ares Capital's sector, which are not necessarily related to the operating performance of these companies;

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

changes in regulatory policies or tax guidelines, particularly with respect to RICs or business development companies;

loss of RIC status;

changes in Ares Capital's earnings or variations in its operating results;

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changes in the value of Ares Capital's portfolio of investments;

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

departure of Ares Capital Management's key personnel;

operating performance of companies comparable to Ares Capital;

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

general economic trends and other external factors; and

loss of a major funding source.

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

***The net asset value per share of Ares Capital common stock may be diluted if Ares Capital sells shares of its common stock in one or more offerings at prices below the then current net asset value per share of its common stock or securities to subscribe for or convertible into shares of its common stock.***

At Ares Capital's 2009 Annual Stockholders Meeting, Ares Capital's stockholders approved two proposals designed to allow Ares Capital to access the capital markets in ways that it would otherwise be unable to as a result of restrictions that, absent stockholder approval, apply to BDCs under the Investment Company Act. Specifically, Ares Capital's stockholders have authorized Ares Capital to sell or otherwise issue (1) shares of Ares Capital common stock below its then current net asset value per share in one or more offerings subject to certain limitations (including, without limitation, that the number of shares issuable does not exceed 25% of Ares Capital's then outstanding common stock) and (2) warrants or securities to subscribe for or convertible into shares of Ares Capital common stock subject to certain limitations (including, without limitation, that the number of shares issuable does not exceed 25% of Ares Capital's then outstanding common stock and that the exercise or conversion price thereof is not, at the date of issuance, less than the greater of the market value per share and the net asset value per share of Ares Capital common stock). Any decision to sell shares of Ares Capital common stock below its then current net asset value per share or securities to subscribe for or convertible into shares of Ares Capital common stock would be subject to the determination by Ares Capital's board of directors that such issuance is in Ares Capital's and its stockholders' best interests.

If Ares Capital was to sell shares of its common stock below its then current net asset value per share, such sales would result in an immediate dilution to the net asset value per share of Ares Capital common stock. This dilution would occur as a result of the sale of shares at a price below the then current net asset value per share of Ares Capital common stock and a proportionately greater decrease in the stockholders' interest in Ares Capital's earnings and assets and their voting interest in Ares Capital than the increase in Ares Capital's assets resulting from such issuance. Because the number of shares of common stock that could be so issued and the timing of any issuance is not currently known, the actual dilutive effect cannot be predicted.

In addition, if Ares Capital issues warrants or securities to subscribe for or convertible into shares of Ares Capital common stock, subject to certain limitations, the exercise or conversion price per share could be less than net asset value per share at the time of exercise or conversion (including through the operation of anti-dilution protections). Because Ares Capital would incur expenses in connection with any issuance of such securities, such issuance could result in a dilution of the net asset value per share at the time of exercise or conversion. This dilution would include reduction in net asset value per share

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as a result of the proportionately greater decrease in the stockholders' interest in Ares Capital's earnings and assets and their voting interest than the increase in Ares Capital's assets resulting from such issuance.

Further, if current stockholders of Ares Capital do not purchase any shares to maintain their percentage interest, regardless of whether such offering is above or below the then current net asset value per share, their voting power will be diluted.

In addition, Ares Capital common stock will suffer immediate dilution of their voting power if the merger is consummated. See "Risk Factors Risks Related to the Merger Allied Capital stockholders and Ares Capital stockholders will experience a reduction in percentage ownership and voting power with respect to their shares as a result of the merger."

***Ares Capital stockholders will experience dilution in their ownership percentage if they do not participate in Ares Capital's dividend reinvestment plan.***

All dividends declared in cash payable to stockholders that are participants in Ares Capital's dividend reinvestment plan are automatically reinvested in shares of Ares Capital common stock. As a result, stockholders that do not participate in the Ares Capital dividend reinvestment plan will experience dilution in their ownership percentage of Ares Capital common stock over time.

***You may receive shares of Ares Capital common stock as dividends, which could result in adverse tax consequences to you.***

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

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

Sales of substantial amounts of Ares Capital common stock, or the availability of such common stock for sale, could adversely affect the prevailing market prices for Ares Capital common stock. If this occurs and continues, it could impair Ares Capital's ability to raise additional capital through the sale of securities should Ares Capital desire to do so.

**Comparison of Risks between Ares Capital and Allied Capital**

Allied Capital and Ares Capital are both specialty finance companies that are closed-end, non-diversified management investment companies that invest mainly in private middle-market companies. They are both incorporated in Maryland and have elected to be regulated as BDCs under the Investment Company Act. Ares Capital's investment objective is to generate both current income and capital appreciation through debt and equity investments. Allied Capital has a similar investment objective to achieve current income and capital gains. As such, they are subject to many of the same risks and uncertainties such as, among others, the use of leverage magnifying the potential for gain or loss on amounts invested and increasing the risk of investing in them, uncertainty as to the value of their portfolio investments, investing in illiquid securities for which there is no readily available market value, needing additional capital for growth and being subject to various regulatory requirements in order to operate as a BDC and qualify as a RIC.

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However, Allied Capital and Ares Capital are subject to certain different risks and uncertainties as a result of differences in their portfolios and operations. These differences include, among others: while Allied Capital is internally managed, Ares Capital is externally managed and is dependent upon its investment adviser's key personnel for its future success and upon their access to Ares' investment professionals; Ares Capital's investment adviser's liability is limited under the investment advisory and management agreement, and Ares Capital is required to indemnify its investment adviser against certain liabilities, which may lead its investment adviser to act in a riskier manner on Ares Capital's behalf than it would when acting for its own account; Ares Capital's investment adviser is subject to certain conflicts of interest that are different from those faced by Allied Capital; as of September 30, 2009, unlike Ares Capital, Allied Capital did not meet the asset coverage threshold under the Investment Company Act and, therefore, was restricted in its ability to incur additional indebtedness, pay dividends or repurchase shares of its common stock; Allied Capital has been significantly more limited in its ability to raise additional new equity capital; and, unlike Ares Capital who has regularly paid dividends, Allied Capital has not paid any quarterly dividends or distributions to holders of its common stock since the fourth quarter of fiscal year 2008.

**Risks Relating to Allied Capital**

*Allied Capital's use of leverage magnifies the potential for gain or loss on amounts invested and may increase the risk of investing in Allied Capital.*

Borrowings, also known as leverage, magnify the potential for gain or loss on amounts invested and, therefore, increase the risks associated with investing in Allied Capital's securities. Allied Capital borrows from, and issues senior debt securities to, banks, insurance companies and other lenders or investors. Holders of these senior securities have fixed dollar claims on Allied Capital's consolidated assets that are superior to the claims of Allied Capital's common stockholders. In the case of the lenders under Allied Capital's Term Loan, these claims are secured by a substantial portion of Allied Capital's assets. If the value of Allied Capital's consolidated assets increases, then leveraging would cause the net asset value attributable to Allied Capital common stock to increase more sharply than it would have had Allied Capital not leveraged. Conversely, if the value of Allied Capital's consolidated assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had Allied Capital not leveraged. Similarly, any increase in Allied Capital's consolidated income in excess of consolidated interest payable on the borrowed funds would cause Allied Capital's net income to increase more than it would without the leverage, while any decrease in Allied Capital's consolidated income would cause net income to decline more sharply than it would have had Allied Capital not borrowed. Leverage is generally considered a speculative investment technique. Allied Capital and, indirectly, Allied Capital's stockholders will bear the cost associated with Allied Capital's leverage activity.

Allied Capital's Term Loan contains financial and operating covenants that restrict certain of Allied Capital's business activities, including Allied Capital's ability to declare dividends. Breach of any of those covenants could cause a default under those instruments. Such a default, if not cured or waived, could have a material adverse effect on Allied Capital.

At September 30, 2009, Allied Capital had \$1.6 billion of outstanding indebtedness bearing a weighted average annual interest cost of 10.7% and a debt to equity ratio of 1.33 to 1.00. If Allied Capital's portfolio of investments fails to produce adequate returns, Allied Capital may be unable to make interest or principal payments on Allied Capital's indebtedness when they are due. In order for Allied Capital to cover annual interest payments on indebtedness, Allied Capital must achieve annual returns on Allied Capital's assets of at least 6.12% as of September 30, 2009.

*Illustration.* The following table illustrates the effect of leverage on returns from an investment in Allied Capital common stock assuming various annual returns net of expenses. The calculations in the

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table below are hypothetical and actual returns may be higher or lower than those appearing below. The calculation (1) assumes \$2.8 billion in total assets, (2) an average cost of funds of 10.7%, (3) \$1.6 billion in debt outstanding and (4) \$1.2 billion of stockholders' equity.

Assumed Return on Portfolio (Net of Expenses)	-15%	-10%	-5%	0%	5%	10%	15%
Corresponding Return to Common Stockholders	-49.7%	-37.8%	-26.0%	-14.2%	-2.4%	9.5%	21.3%

***Regulations governing Allied Capital's operation as a BDC affect its ability to, and the way in which it, raises additional debt and equity capital.***

Allied Capital will continue to need capital to fund growth in its investments. Under the Investment Company Act, Allied Capital is not permitted to issue indebtedness unless immediately after such borrowing Allied Capital has an asset coverage for total borrowings of at least 200%. As of September 30, 2009, Allied Capital's asset coverage was 175%. There can be no assurance as to when Allied Capital will be able to satisfy the asset coverage requirements of the Investment Company Act, if at all, and Allied Capital's failure to do so would have a material adverse impact on Allied Capital's liquidity, financial condition, results of operations and ability to pay dividends.

Allied Capital generally is not able to issue and sell its common stock at a price below net asset value per share. Allied Capital may, however, sell its common stock, warrants, options or rights to acquire its common stock at a price below the current net asset value per share of its common stock if Allied Capital's board of directors determines that such sale is in Allied Capital's best interests and the best interests of its stockholders and its stockholders approve such sale. In any such case, the price at which Allied Capital's securities are to be issued and sold may not be less than the price which, in the determination of Allied Capital's board of directors, closely approximates the market value of such securities (less any commission or discount). If Allied Capital common stock continues to trade at a discount to net asset value, this restriction could adversely affect its ability to raise capital. Shares of many BDCs, including shares of Allied Capital common stock, have been trading at discounts to their net asset values. As of September 30, 2009, Allied Capital's net asset value per share was \$6.70. The closing price of Allied Capital's shares on the NYSE at February 10, 2010 was \$3.92. If Allied Capital's common stock continues trading below net asset value, the higher cost of equity capital may result in it being unattractive to raise new equity, which may limit Allied Capital's ability to grow. The risk of trading below net asset value is separate and distinct from the risk that Allied Capital's net asset value per share may decline.

***Allied Capital's credit ratings may change and may not reflect all risks of an investment in its debt securities.***

At September 30, 2009, Allied Capital's long-term debt carries a non-investment grade credit rating of "B1" by Moody's Investors Service, "BB+" by Standard & Poor's and "BB" by Fitch Ratings. Allied Capital's credit ratings are an assessment of Allied Capital's ability to pay its obligations. Consequently, real or anticipated changes in its credit ratings will generally affect the market value of its publicly issued debt securities. There can be no assurance that the long-term debt ratings will be maintained.

***Allied Capital's independent registered public accounting firm has expressed substantial doubt about its ability to continue as a going concern.***

Prior to its debt restructuring, certain events of default occurred under Allied Capital's bank facility and its private notes. These events of default provided the respective lenders the right to declare immediately due and payable unpaid amounts approximating \$1.1 billion at June 30, 2009. Had the lenders accelerated these obligations, Allied Capital would not have had available cash resources to



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satisfy all of the obligations under the bank facility and the private notes. These factors raised substantial doubt about Allied Capital's ability to continue as a going concern. In its audit report on Allied Capital's financial statements for its fiscal year ended December 31, 2008, Allied Capital's independent registered public accounting firm included an explanatory paragraph indicating that Allied Capital's consolidated financial statements were prepared assuming that Allied Capital will continue as a going concern.

***The U.S. capital markets are currently in a period of disruption and the United States and global economies are in a severe recession and Allied Capital does not expect these conditions to improve in the near future. These market conditions have materially and adversely affected the debt and equity capital markets in the United States, which has had and could continue to have a negative impact on Allied Capital's business and operations.***

The U.S. capital markets have been experiencing extreme volatility and disruption for more than 12 months as evidenced by a lack of liquidity in the debt capital markets, significant write-offs in the financial services sector, the repricing of credit risk in the credit market and the failure of major financial institutions. These events have contributed to worsening general economic conditions that are materially and adversely impacting the broader financial and credit markets and reducing the availability of credit and equity capital for the markets as a whole and financial services firms in particular. Allied Capital believes these conditions may continue for a prolonged period of time or worsen in the future. A prolonged period of market illiquidity will continue to have an adverse effect on Allied Capital's business, financial condition and results of operations. Unfavorable economic conditions also could increase Allied Capital's funding costs, limit Allied Capital's access to the capital markets or result in a decision by lenders not to extend credit to Allied Capital. Equity capital may be difficult to raise because, subject to some limited exceptions, Allied Capital generally is not able to issue and sell its common stock at a price below its net asset value per share. In addition, the debt capital that will be available, if at all, may be at a higher cost and on less favorable terms and conditions. These events and the inability to raise capital has significantly limited Allied Capital's investment originations and ability to grow and negatively impacted Allied Capital's operating results.

***Economic recessions, including the current global recession, could impair Allied Capital's portfolio companies and harm Allied Capital's operating results.***

Many of the companies in which Allied Capital has made or will make investments are susceptible to economic slowdowns or recessions. An economic recession, including the current and any future recessions or economic slowdowns, may affect the ability of a company to repay Allied Capital's loans or engage in a liquidity event such as a sale, recapitalization or initial public offering. Allied Capital's non-performing assets are likely to increase and the value of Allied Capital's portfolio is likely to decrease during these periods. Current adverse economic conditions also have decreased the value of any collateral securing Allied Capital's loans and a prolonged recession or depression may further decrease such value. These conditions are contributing to and, if prolonged, could lead to further losses of value in Allied Capital's portfolio and a decrease in Allied Capital's revenues, net income, assets and net worth.

***Declining asset values and illiquidity in the corporate debt markets have adversely affected, and may continue to adversely affect, the fair value of Allied Capital's portfolio investments, reducing the value of Allied Capital's assets.***

As a BDC, Allied Capital is required to carry Allied Capital's investments at market value or, if no market value is readily available, at fair value as determined in good faith by Allied Capital's board of directors. Decreases in the values of Allied Capital's investments are recorded as unrealized depreciation. The unprecedented declines in asset values and liquidity in the corporate debt markets have resulted in significant net unrealized depreciation in Allied Capital's portfolio. Conditions in the debt and equity markets may continue to deteriorate and pricing levels may continue to decline. As a result, Allied Capital has incurred and, depending on market conditions, Allied Capital may incur further unrealized depreciation in future periods, which could have a material adverse impact on Allied Capital's business, financial condition and results of operations.

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***Substantially all of Allied Capital's portfolio investments, which are generally illiquid, are recorded at fair value as determined in good faith by Allied Capital's board of directors and, as a result, there is uncertainty regarding the value of Allied Capital's portfolio investments.***

At September 30, 2009, portfolio investments recorded at fair value were 88% of Allied Capital's total assets. Pursuant to the requirements of the Investment Company Act, Allied Capital values substantially all of its investments at fair value as determined in good faith by Allied Capital's board of directors on a quarterly basis. Since there is typically no market quotation in an active market for the investments in Allied Capital's portfolio, Allied Capital's board of directors determines in good faith the fair value of these investments pursuant to a valuation policy and a consistently applied valuation process.

There is no single approach for determining fair value in good faith. As a result, determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment while employing a consistently applied valuation process for the types of investments Allied Capital makes. In determining fair value in good faith, Allied Capital generally obtains financial and other information from portfolio companies, which may represent unaudited, projected or pro forma financial information. Unlike banks, Allied Capital is not permitted to provide a general reserve for anticipated loan losses; Allied Capital is instead required by the Investment Company Act to specifically value each individual investment on a quarterly basis. Allied Capital will record unrealized depreciation on investments when it determines that the fair value of a security is less than its cost basis and unrealized appreciation when it determines that the fair value of a security is greater than its cost basis. Without a market quotation in an active market and because of the inherent uncertainty of valuation, the fair value of Allied Capital's investments determined in good faith by Allied Capital's 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. Allied Capital's net asset value could be affected if Allied Capital's determination of the fair value of Allied Capital's investments is materially different than the value that Allied Capital ultimately realizes.

***Allied Capital's portfolio of investments is illiquid.***

Allied Capital generally acquires its investments directly from the issuer in privately negotiated transactions. The majority of the investments in Allied Capital's portfolio are subject to certain restrictions on resale or otherwise have no established trading market. Allied Capital typically exits its investments when the portfolio company has a liquidity event such as a sale, recapitalization or initial public offering. The illiquidity of Allied Capital's investments may adversely affect its ability to dispose of debt and equity securities at times when Allied Capital may need to or when it may be otherwise advantageous for Allied Capital to liquidate such investments. In addition, if Allied Capital were forced to immediately liquidate some or all of the investments in its portfolio, the proceeds of such liquidation could be significantly less than the current value of such investments.

Allied Capital's business of making private equity investments and positioning them for liquidity events also may be affected by current and future market conditions. Current economic and capital markets conditions in the United States have severely reduced capital availability, senior lending activity and middle-market merger and acquisition activity. The absence of an active senior lending environment and the slowdown or stalling in middle-market merger and acquisition activity has slowed the amount of private equity investment activity generally. As a result, Allied Capital's investment activity has also significantly slowed. In addition, significant changes in the capital markets, including the recent extreme volatility and disruption, has had, and may continue to have, a negative effect on the valuations of Allied Capital's investments and on the potential for liquidity events involving such investments. This could affect the timing of exit events in Allied Capital's portfolio, reduce the level of net realized gains from exit events in a given year and negatively affect the amount of gains or losses upon exit.

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***Investing in private companies involves a high degree of risk.***

Allied Capital's portfolio primarily consists of long-term loans to, and investments in, middle-market private companies. Investments in private businesses involve a high degree of business and financial risk, which can result in substantial losses for Allied Capital in those investments and, accordingly, should be considered speculative. There is generally no publicly available information about the companies in which Allied Capital invests and Allied Capital relies significantly on the diligence of its employees and agents to obtain information in connection with its investment decisions. If Allied Capital is unable to identify all material information about these companies, among other factors, Allied Capital may fail to receive the expected return on its investment or lose some or all of the money invested in these companies. In addition, these businesses may have shorter operating histories, narrower product lines, smaller market shares and less experienced management than their competition and may be more vulnerable to customer preferences, market conditions, loss of key personnel or economic downturns, which may adversely affect the return on, or the recovery of, Allied Capital's investment in such businesses. As an investor, Allied Capital is subject to the risk that a portfolio company may make a business decision that does not serve its interest, which could decrease the value of Allied Capital's investment. Deterioration in a portfolio company's financial condition and prospects may be accompanied by deterioration in the collateral for a loan, if any.

***Allied Capital's borrowers may default on their payments, which may have a negative effect on Allied Capital's financial performance.***

Allied Capital makes long-term loans and invests in equity securities primarily in private middle-market companies, which may involve a higher degree of repayment risk. Allied Capital primarily invests in companies that may have limited financial resources, may be highly leveraged and may be unable to obtain financing from traditional sources. Numerous factors may affect a borrower's ability to repay its loan, including the failure to meet its business plan, a downturn in its industry or negative economic conditions. A portfolio company's failure to satisfy financial or operating covenants imposed by Allied Capital or other lenders could lead to defaults and, potentially, termination of its loans or foreclosure on its secured assets, which could trigger cross defaults under other agreements and jeopardize the ability of Allied Capital's portfolio company to meet its obligations under the loans or debt securities that Allied Capital holds. In addition, Allied Capital's portfolio companies may have, or may be permitted to incur, other debt that ranks senior to or equally with Allied Capital's securities. This means that payments on such senior-ranking securities may have to be made before Allied Capital receives any payments on Allied Capital's subordinated loans or debt securities. Deterioration in a borrower's financial condition and prospects may be accompanied by deterioration in any related collateral and may have a negative effect on Allied Capital's financial results.

***Allied Capital may be unable to fund its commitments to its portfolio companies as they become due, which may have a material adverse effect on Allied Capital's business.***

Allied Capital has outstanding investment commitments that at September 30, 2009 totaled \$543.9 million. At September 30, 2009, Allied Capital's asset coverage was less than the 200% required by the Investment Company Act for Allied Capital to issue new debt. As a result, Allied Capital would be unable to borrow additional money to fund these commitments. In addition, because Allied Capital's common stock trades at a price that is less than Allied Capital's net asset value per share, Allied Capital may not be able to raise funds through additional equity offerings in order to fund these commitments. To the extent Allied Capital is unable to fund these commitments, it could have a material adverse effect on its portfolio companies and, as a result, have a material adverse effect on Allied Capital's results of operations.

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***Allied Capital's private finance investments may not produce current returns or capital gains.***

Allied Capital's private finance portfolio includes loans and debt securities that require the payment of interest currently and equity securities such as conversion rights, warrants or options, minority equity co-investments or more significant equity investments in the case of buyout transactions. Allied Capital's private finance debt investments are generally structured to generate interest income from the time they are made and Allied Capital's equity investments may also produce a realized gain. Allied Capital cannot be sure that its portfolio will generate a current return or capital gains.

***Allied Capital's financial results could be negatively affected if a significant portfolio company fails to perform as expected.***

Allied Capital's total investment in its portfolio companies may be significant individually or in the aggregate. As a result, if a significant investment in one or more portfolio companies fails to perform as expected, Allied Capital's financial results could be more negatively affected and the magnitude of the loss could be more significant than if Allied Capital had made smaller investments in more portfolio companies.

At September 30, 2009, Allied Capital's investment in Ciena totaled \$547.6 million at cost and \$102.2 million at value, after the effect of unrealized depreciation of \$445.3 million. Other assets includes additional amounts receivable from or related to Ciena totaling \$112.7 million, which have a value of \$2.0 million at September 30, 2009. During the three months ended September 30, 2009, Allied Capital funded the remaining \$46.0 million of standby letters of credit issued in connection with term securitization transactions completed by Ciena. In addition, Allied Capital has issued a performance guarantee in connection with Ciena's non-recourse warehouse facility. On September 30, 2008, Ciena voluntarily filed for bankruptcy.

Ciena has been a participant in the 7(a) Guaranteed Loan Program of the Small Business Administration, or "SBA," and its wholly owned subsidiary is licensed by the SBA as a Small Business Lending Company. Ciena remains subject to SBA rules and regulations. The Office of the Inspector General of the SBA, or "OIG," and the United States Secret Service are conducting ongoing investigations of allegedly fraudulently obtained SBA-guaranteed loans issued by Ciena. Ciena is also 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 program. The OIG and the U.S. Department of Justice are also conducting a civil investigation of Ciena's lending practices in various jurisdictions. These investigations, audits and reviews are ongoing. These investigations, audits and reviews have had and may continue to have a material adverse impact on Ciena and, as a result, could negatively affect Allied Capital's financial results. 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.

***Allied Capital operates in a competitive market for investment opportunities.***

Allied Capital competes for investments with a large number of private equity funds and mezzanine funds, other BDCs, investment banks, other equity and non-equity based investment funds and other sources of financing, including specialty finance companies and traditional financial services companies such as commercial banks. Some of Allied Capital's competitors have greater resources than Allied Capital does. Increased competition would make it more difficult for Allied Capital to purchase or originate investments at attractive prices. As a result of this competition, sometimes Allied Capital may be precluded from making otherwise attractive investments.

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***Loss of RIC tax treatment could negatively impact Allied Capital's ability to service its debt and pay dividends.***

Allied Capital has operated so as to qualify as a RIC. If Allied Capital meets source of income, asset diversification and distribution requirements, Allied Capital generally will not be subject to corporate-level income taxation on income Allied Capital timely distributes, or is deemed to distribute, to its stockholders as dividends. Allied Capital would cease to qualify for such tax treatment if it were unable to comply with these requirements. Allied Capital may have difficulty meeting the requirement to make distributions to its stockholders because in certain cases Allied Capital may recognize income before or without receiving cash representing such income. If Allied Capital fails to qualify as a RIC, Allied Capital will have to pay corporate-level taxes on all of its income whether or not Allied Capital distributes it, which could negatively impact Allied Capital's ability to service its debt and pay dividends to its stockholders. Even if Allied Capital qualifies as a RIC, Allied Capital generally will be subject to a corporate-level income tax on the income it does not distribute. If Allied Capital does not distribute at least 98% of its annual taxable income (excluding net long-term capital gains retained or deemed to be distributed) in the year earned, Allied Capital generally will be required to pay an excise tax on amounts carried over and distributed to stockholders in the next year equal to 4% of the amount by which 98% of Allied Capital's annual taxable income available for distribution exceeds the distributions from such income for the current year.

***Failure to invest a sufficient portion of Allied Capital's assets in qualifying assets could preclude Allied Capital from investing in accordance with its current business strategy.***

As a BDC, Allied Capital may not acquire any assets other than "qualifying assets" unless, at the time of and after giving effect to such acquisition, at least 70% of Allied Capital's total assets are qualifying assets. Therefore, Allied Capital may be precluded from investing in what Allied Capital believes are attractive investments if such investments are not qualifying assets for purposes of the Investment Company Act. If Allied Capital does not invest a sufficient portion of its assets in qualifying assets, Allied Capital could lose its status as a BDC, which would have a material adverse effect on Allied Capital's business, financial condition and results of operations. Similarly, these rules could prevent Allied Capital from making additional investments in existing portfolio companies, which could result in the dilution of Allied Capital's position or could require Allied Capital to dispose of investments at inopportune times in order to comply with the Investment Company Act. If Allied Capital was forced to sell nonqualifying investments for compliance purposes, the proceeds from such sale could be significantly less than the current value of such investments.

***Changes in the law or regulations that govern Allied Capital could have a material impact on Allied Capital or its operations.***

Allied Capital is regulated by the SEC. In addition, changes in the laws or regulations that govern BDCs, RICs, asset managers and real estate investment trusts may significantly affect Allied Capital's business. There are proposals being considered by the current administration to change the regulation of financial institutions that may affect, possibly adversely, investment managers or investment funds. Any change in the laws or regulations that govern Allied Capital's business could have a material impact on Allied Capital or its operations. Laws and regulations may be changed from time to time and the interpretations of the relevant laws and regulations also are subject to change, which may have a material effect on Allied Capital's operations.

***There is a risk that Allied Capital's common stockholders may not receive dividends or distributions.***

Allied Capital may not be able to achieve operating results that will allow Allied Capital to make distributions at a specific level or at all. In addition, due to the asset coverage test applicable to Allied

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Capital as a BDC, Allied Capital may be precluded from making distributions. Also, Allied Capital's currently outstanding debt limits Allied Capital's ability to declare dividends.

If Allied Capital does not meet the distribution requirements for RICs, Allied Capital will suffer adverse tax consequences. In addition, in accordance with U.S. generally accepted accounting principles and tax regulations, Allied Capital includes in income certain amounts that Allied Capital has not yet received in cash, such as contractual payment-in-kind interest, which represents contractual interest added to the loan balance that becomes due at the end of the loan term, or the accrual of original issue discount. The increases in loan balances as a result of contractual payment-in-kind arrangements are included in income in advance of receiving cash payment and are separately included in payment-in-kind interest and dividends, net of cash collections, in Allied Capital's consolidated statement of cash flows. Since Allied Capital may recognize income before or without receiving cash representing such income, Allied Capital may have difficulty meeting the requirement to distribute at least 90% of its investment company taxable income to obtain tax benefits as a RIC.

***Changes in interest rates may affect Allied Capital's cost of capital and net investment income.***

Because Allied Capital borrows money to make investments, Allied Capital's net investment income is dependent upon the difference between the rate at which Allied Capital borrows funds and the rate at which Allied Capital invests these funds. As a result, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on Allied Capital's net investment income. In periods of rising interest rates, Allied Capital's cost of funds would increase, which would reduce Allied Capital's net investment income. In addition, defaults under Allied Capital's borrowing arrangements may result in higher interest costs during the continuance of an event of default. Allied Capital may use interest rate risk management techniques in an effort to limit its exposure to interest rate fluctuations. Such techniques may include various interest rate hedging activities to the extent permitted by the Investment Company Act.

***There are potential conflicts of interest between Allied Capital and the funds managed by Allied Capital.***

Certain of Allied Capital's officers serve or may serve in an investment management capacity to funds managed by Allied Capital or its affiliates. As a result, investment professionals may allocate such time and attention as is deemed appropriate and necessary to carry out the operations of the managed funds. In this respect, they may experience diversions of their attention from Allied Capital and potential conflicts of interest between their work for Allied Capital and their work for the managed funds in the event that the interests of the managed funds run counter to Allied Capital's interests.

Although the managed funds may have a different primary investment objective than Allied Capital does, the managed funds may, from time to time, invest in the same or similar asset classes that Allied Capital targets. In addition, more than one fund managed by Allied Capital may invest in the same or similar asset classes. These investments may be made at the direction of the same individuals acting in their capacity on behalf of Allied Capital and one or more of the managed funds. As a result, there may be conflicts in the allocation of investment opportunities between Allied Capital and the managed funds or among the managed funds. Allied Capital may or may not participate in investments made by funds managed by Allied Capital or one of its affiliates.

Allied Capital has sold assets to certain managed funds and, as part of its investment strategy, Allied Capital may offer to sell additional assets to managed funds or Allied Capital may purchase assets from managed funds. In addition, funds managed by Allied Capital may offer assets to or may purchase assets from one another. While assets may be sold or purchased at prices that are consistent with those that could be obtained from third parties in the marketplace, there is an inherent conflict of interest in such transactions between Allied Capital and funds Allied Capital manages.

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***Allied Capital's financial results could be negatively affected if Allied Capital's managed funds fail to perform as expected.***

In the event that any of Allied Capital's managed funds were to perform below Allied Capital's expectations, Allied Capital's financial results could be negatively affected as a result of a reduction in management fees, the deferral in payment of management fees or a reduction in incentive fees Allied Capital earns. Also, if the managed funds perform below expectations, investors could demand lower fees or fee concessions which could also cause a decline in Allied Capital's income. In addition, certain of Allied Capital's managed funds are required to meet various compliance and maintenance tests related to, among other things, the ratings on fund assets and the ratio of collateral to a fund's outstanding debt. If a managed fund fails to comply with these tests, the payment of a portion of Allied Capital's fees could be deferred until a fund regains compliance with such tests.

Moreover, because Allied Capital is also an investor in certain of its managed funds, Allied Capital could experience losses on Allied Capital's investments if such managed funds were to fail to perform as expected.

***Allied Capital's business depends on Allied Capital's key personnel.***

Allied Capital depends on the continued services of its executive officers and other key management personnel. If Allied Capital were to lose certain of these officers or other management personnel, such a loss could result in inefficiencies in Allied Capital's operations and lost business opportunities, which could have a negative effect on Allied Capital's business.

***Allied Capital's operating results may fluctuate and may not be indicative of future performance.***

Allied Capital's operating results may fluctuate and, therefore, Allied Capital's stockholders should not rely on current or historical period results to be indicative of Allied Capital's performance in future reporting periods. Factors that could cause operating results to fluctuate include, but are not limited to, variations in the investment origination volume and fee income earned, changes in the accrual status of Allied Capital's loans and debt securities, variations in timing of prepayments, variations in and the timing of the recognition of net realized gains or losses and changes in unrealized appreciation or depreciation, the level of Allied Capital's expenses, the degree to which Allied Capital encounters competition in its markets and general economic conditions.

***Allied Capital's common stock price may be volatile.***

The trading price of Allied Capital common stock may fluctuate substantially. The capital and credit markets have been experiencing extreme volatility and disruption since 2007, reaching unprecedented levels. Allied Capital has experienced significant stock price volatility. In general, the price of Allied Capital common stock may be higher or lower than the price paid by its stockholders, depending on many factors, some of which are beyond Allied Capital's control and may not be directly related to Allied Capital's operating performance. These factors include, but are not limited to, the following:

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

significant volatility in the market price and trading volume of securities of BDCs or other financial services companies;

volatility resulting from trading in derivative securities related to Allied Capital's common stock, including puts, calls, long-term equity anticipation securities or short trading positions;

the financial performance of the specific industries in which Allied Capital invests on a recurring basis;

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changes in laws or regulatory policies or tax guidelines with respect to BDCs or RICs;

actual or anticipated changes in Allied Capital's earnings or fluctuations in Allied Capital's operating results or changes in the expectations of securities analysts;

general economic conditions and trends;

loss of a major funding source; or

departures of key personnel.

***The trading market or market value of Allied Capital's publicly issued debt securities may be volatile.***

Allied Capital's publicly issued debt securities may or may not have an established trading market. Allied Capital cannot assure that a trading market for its publicly issued debt securities will ever develop or be maintained if developed. In addition to Allied Capital's creditworthiness, many factors may materially adversely affect the trading market for, and market value of, Allied Capital's publicly issued debt securities. These factors include, but are not limited to, the following:

the time remaining to the maturity of these debt securities;

the outstanding principal amount of debt securities with terms identical to these debt securities;

the ratings assigned by national statistical ratings agencies;

the general economic environment;

the supply of debt securities trading in the secondary market, if any;

the redemption or repayment features, if any, of these debt securities;

the level, direction and volatility of market interest rates generally; and

market rates of interest higher or lower than rates borne by the debt securities.

There also may be a limited number of buyers for Allied Capital's debt securities. This too may materially adversely affect the market value of the debt securities or the trading market for the debt securities.

***Allied Capital common stock could be delisted from the NYSE if it trades below \$1.00 or if Allied Capital fails to meet other listing criteria.***

In order to maintain its listing on the NYSE, Allied Capital must continue to meet the minimum share price listing rule, the minimum market capitalization rule and other continued listing criteria. Under the continued listing criteria, the average closing price of Allied Capital common stock must not be below \$1.00 per share for 30 or more consecutive trading days. In the event that the average closing price of Allied



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Capital common stock is below \$1.00 per share over a consecutive 30-day trading period, Allied Capital would have a six-month cure period to attain both a \$1.00 share price and a \$1.00 average share price over 30 trading days.

If Allied Capital's common stock were delisted, it could (1) reduce the liquidity and market price of Allied Capital common stock, (2) negatively impact Allied Capital's ability to raise equity financing and access the public capital markets and (3) materially adversely impact Allied Capital's results of operations and financial condition.

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**Risks Relating to the Merger**

***Because the market price of Ares Capital common stock will fluctuate, Allied Capital common stockholders cannot be sure of the market value of the merger consideration they will receive until the closing date.***

The exchange ratio of 0.325 of a share of Ares Capital common stock for each share of Allied Capital common stock was fixed on October 26, 2009, the date of the signing of the merger agreement, and is not subject to adjustment based on changes in the trading price of Ares Capital or Allied Capital common stock before the closing of the merger.

The market value of the merger consideration may vary from the closing price of Ares Capital common stock on the date the merger was announced, on the date that this document was mailed to stockholders, on the date of the Allied Capital special meeting or the date of the Ares Capital special meeting and on the date the merger is completed and thereafter. Any change in the market price of Ares Capital common stock prior to completion of the merger will affect the market value of the merger consideration that Allied Capital common stockholders will receive upon completion of the merger.

Accordingly, at the time of their special meeting, Allied Capital common stockholders will not know or be able to calculate the market value of the merger consideration they would receive upon completion of the merger. Neither Allied Capital nor Ares Capital is permitted to terminate the merger agreement or re-solicit the vote of Allied Capital's or Ares Capital common stockholders solely because of changes in the market prices of either company's stock. There will be no adjustment to the merger consideration for changes in the market price of either shares of Ares Capital common stock or shares of Allied Capital common stock. Stock price changes may result from a variety of factors, including, among other things:

changes in the business, operations or prospects of Ares Capital or Allied Capital;

the financial condition of current or prospective portfolio companies of Ares Capital or Allied Capital;

interest rates or general market or economic conditions;

market assessments of the likelihood that the merger will be completed and the timing of the merger; and

market perception of the future profitability of the combined company.

See "Special Note Regarding Forward-Looking Statements" for other factors that could cause the price of Allied Capital and Ares Capital common stock to change.

These factors are generally beyond the control of either Ares Capital or Allied Capital. It should be noted that during the 12-month period ending February 10, 2010, the closing price per share of Ares Capital common stock varied from a low of \$3.12 to a high of \$14.32. However, historical trading prices are not necessarily indicative of future performance. You should obtain current market quotations for shares of Ares Capital common stock and for shares of Allied Capital common stock prior to voting your shares.

***Allied Capital stockholders and Ares Capital stockholders will experience a reduction in percentage ownership and voting power in the combined company as a result of the merger.***

Allied Capital stockholders will experience a substantial reduction in their respective percentage ownership interests and effective voting power in respect of the combined company relative to their respective percentage ownership interests in Allied Capital prior to the merger. Consequently, Allied Capital stockholders should expect to exercise less influence over the management and policies of the

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combined company following the merger and subsequent combination than they currently exercise over the management and policies of Allied Capital. Ares Capital stockholders will experience a substantial reduction in their respective percentage ownership interests and effective voting power in respect of the combined company relative to their respective ownership interests in Ares Capital prior to the merger. Consequently, Ares Capital stockholders should expect to exercise less influence over the management and policies of the combined company following the merger and subsequent combination than they currently exercise over the management and policies of Ares Capital.

If the merger is consummated, based on the number of shares of Ares Capital common stock issued and outstanding on the date hereof and assuming that holders of all "in-the-money" Allied Capital stock options elect to be cashed out), Ares Capital stockholders will own approximately 70% of the combined company's outstanding common stock and Allied Capital stockholders will own approximately 30% of the combined company's outstanding common stock. In addition, both prior to and after completion of the merger, Ares Capital may issue additional shares of common stock (including, subject to certain restrictions under the Investment Company Act, at prices below Ares Capital common stock's then current net asset value per share), all of which would further reduce the percentage ownership of the combined company held by former Allied Capital stockholders and current Ares Capital stockholders. In addition, the issuance or sale by Ares Capital of shares of its common stock at a discount to net asset value poses a risk of dilution to stockholders.

***Ares Capital may be unable to realize the benefits anticipated by the merger and subsequent combination, including estimated cost savings and synergies, or it may take longer than anticipated to achieve such benefits.***

The realization of certain benefits anticipated as a result of the merger will depend in part on the integration of Allied Capital's investment portfolio with Ares Capital's and the integration of Allied Capital's business with Ares Capital's. There can be no assurance that Allied Capital's investment portfolio or business can be operated profitably or integrated successfully into Ares Capital's in a timely fashion or at all. The dedication of management resources to such integration may detract attention from the day-to-day business of Ares Capital and there can be no assurance that there will not be substantial costs associated with the transition process or there will not be other material adverse effects as a result of these integration efforts. Such effects, including but not limited to, incurring unexpected costs or delays in connection with such integration and failure of Allied Capital's investment portfolio to perform as expected, could have a material adverse effect on the financial results of Ares Capital.

Ares Capital also expects to achieve certain cost savings and synergies from the merger when the two companies have fully integrated their portfolios. It is possible that the estimates of the potential cost savings and synergies could turn out to be incorrect. As is shown in more detail in "Comparative Fees and Expenses," based on the assumptions described in that section, in the first year following the merger, absent any change in Allied Capital's interest expense, annual expenses as a percentage of consolidated net assets attributable to common stock is estimated to increase for Ares Capital stockholders on a *pro forma* combined basis primarily as result of Allied Capital's significantly higher average borrowings and interest expense of 10.7% for the nine months ended September 30, 2009. In addition, the cost savings and synergies estimates also assume Ares Capital's ability to pay down or refinance certain portions of Allied Capital's debt and to combine the investment portfolios and businesses of Ares Capital and Allied Capital in a manner that permits those cost savings and synergies to be fully realized. If the estimates turn out to be incorrect or Ares Capital is not able to successfully refinance or pay down Allied Capital's debt and combine the investment portfolios and businesses of the two companies, the anticipated cost savings and synergies may not be fully realized or realized at all or may take longer to realize than expected.

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***Allied Capital's and Ares Capital's inability to obtain certain third party approvals, confirmations and consents with respect to certain of their outstanding indebtedness could delay or prevent the completion of the merger.***

Under the merger agreement, Ares Capital's obligation to complete the merger is subject to the prior receipt of certain approvals, confirmations and consents required to be obtained from certain agents, lenders, noteholders and other parties. As of the date of this document, Ares Capital and Allied Capital believe that, subject to the satisfaction of certain conditions, they have obtained all necessary third party consents other than stockholder approvals and, if necessary, rating agency confirmation with respect to the Debt Securitization.

Although Allied Capital and Ares Capital expect that all such approvals, confirmations and consents will be obtained and remain in effect and all conditions related to such consents will be satisfied, if they are not, the closing of the merger could be significantly delayed or the merger may not occur at all.

***The transactions contemplated by the merger agreement may trigger certain "change of control" provisions and other restrictions in contracts of Allied Capital, Ares Capital or their affiliates and the failure to obtain any required consents or waivers could adversely impact the combined company.***

Certain agreements of Allied Capital and Ares Capital or their affiliates, including with respect to certain managed funds of Allied Capital and its affiliates, will or may require the consent or waiver of one or more counter-parties in connection with the merger or subsequent combination. The failure to obtain any such consent or waiver may permit such counter-parties to terminate, or otherwise increase their rights or the combined company's obligations under, any such agreement because the merger, subsequent combination or other transactions contemplated by the merger agreement may violate an anti-assignment, change of control or other provision relating to any of such transactions. If this happens, Ares Capital may have to seek to replace that agreement with a new agreement or seek an amendment to such agreement. Allied Capital and Ares Capital cannot assure you that Ares Capital will be able to replace or amend any such agreement on comparable terms or at all.

If any such agreement is material, the failure to obtain consents, amendments or waivers under, or to replace on similar terms or at all, any of these agreements could adversely affect the financial performance or results of operations of the combined company following the merger and subsequent combination, including preventing Ares Capital from operating a material part of Allied Capital's business.

In addition, the consummation of the merger and subsequent combination may violate, conflict with, result in a breach of any provision of or the loss of any benefit under, constitute a default (or an event that, with or without notice or lapse of time or both, would constitute a default) under, or result in the termination, cancellation, acceleration or other change of any right or obligation (including any payment obligation) under agreements of Allied Capital or Ares Capital. Any such violation, conflict, breach, loss, default or other effect could, either individually or in the aggregate, have a material adverse effect on the financial condition, results of operations, assets or business of the combined company following completion of the merger and subsequent combination.

On January 22, 2010, both the Credit Facility and the CP Funding Facility were amended to permit the merger.

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***Several lawsuits have been filed against Allied Capital, members of Allied Capital's board of directors, Ares Capital and Merger Sub challenging the merger. An adverse ruling in any such lawsuit may prevent the merger from becoming effective within the expected timeframe or at all. If the merger is consummated, these lawsuits and other legal proceedings could have a material impact on the results of operations, cash flows or financial condition of the combined company.***

Allied Capital and Ares Capital are aware that a number of lawsuits have been filed by stockholders of Allied Capital challenging the merger. The suits are filed either as putative stockholder class actions, shareholder derivative actions or both. All of the actions assert similar claims against the members of Allied Capital's board of directors alleging that the merger agreement is 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 and by failing to adequately value and obtain fair consideration for Allied Capital's shares. They also claim 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. All of the actions demand, among other things, a preliminary and permanent injunction enjoining the merger and rescinding the transaction or any part thereof that may be implemented. Such legal proceedings could delay or prevent the transaction from becoming effective within the agreed upon timeframe or at all, and, if the merger is consummated, may be material to the results of operations, cash flows or financial condition of the combined company.

Allied Capital is also involved in various other legal proceedings. In addition, Allied Capital's portfolio company, Ciena, is the subject of ongoing governmental investigations, audits and reviews being conducted by the Small Business Administration, the United States Secret Service, the U.S. Department of Agriculture and the U.S. Department of Justice. Neither Ares Capital nor Allied Capital can predict the eventual outcome of these investigations, audits and reviews or other legal proceedings and the ultimate outcome of such matters could, upon consummation of the merger, be material to the results of operations, cash flows or financial condition of the combined company. It is possible that third parties could try to seek to impose liability against the combined company in connection with these matters. See "Business of Allied Capital Legal Proceedings."

***Allied Capital has received an unsolicited non-binding acquisition proposal from Prospect Capital, which may complicate or delay or prevent completion of the merger.***

Prospect Capital has made an unsolicited non-binding acquisition proposal for Allied Capital and has begun an aggressive campaign to stop the merger. As part of its campaign, Prospect Capital may attempt to solicit votes against the merger, which could result in a failure of Allied Capital to obtain the required stockholder approval. In addition, Prospect Capital's campaign includes the potential for lawsuits. There have been lawsuits related to the merger initiated by persons other than Prospect Capital. See "The Merger Litigation Relating to the Merger."

The boards of directors of both Ares Capital and Allied Capital remain committed to the merger. However, there can be no assurance that Prospect Capital's aggressive tactics, or any potential lawsuits related to Prospect Capital's campaign, will not complicate or delay or prevent completion of the merger.

***The opinions obtained by Allied Capital and Ares Capital from their respective financial advisors will not reflect changes in circumstances between signing the merger agreement and completion of the merger.***

Neither Allied Capital nor Ares Capital has obtained an updated opinion as of the date of this document from their respective financial advisors and neither anticipates obtaining an updated opinion prior to closing. Changes in the operations and prospects of Allied Capital or Ares Capital, general market and economic conditions and other factors that may be beyond the control of Allied Capital or Ares Capital, and on which their respective financial advisors' opinions were based, may significantly

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alter the value of Allied Capital or the prices of shares of Ares Capital common stock or Allied Capital common stock by the time the merger is completed. The opinions do not speak as of the time the merger will be completed or as of any date other than the date of such opinions. Because neither Allied Capital nor Ares Capital currently anticipates asking their respective financial advisors to update their opinions, the opinions will not address the fairness of the exchange ratio from a financial point of view at the time the merger is completed. The recommendations of the boards of directors of Allied Capital and Ares Capital that their respective stockholders vote "FOR" approval of the matters described in this document are made as of the date of this document. For a description of the opinions that Allied Capital received from its financial advisors, see "The Merger Opinion of Allied Capital's Financial Advisors." For a description of the opinion that Ares Capital received from its financial advisor, see "The Merger Opinion of Ares Capital's Financial Advisor."

***If the merger does not close, neither Ares Capital nor Allied Capital will benefit from the expenses incurred in its pursuit.***

The merger may not be completed. If the merger is not completed, Ares Capital and Allied Capital will have incurred substantial expenses for which no ultimate benefit will have been received. Both companies have incurred out-of-pocket expenses in connection with the merger for investment banking, legal and accounting fees and financial printing and other related charges, much of which will be incurred even if the merger is not completed.

***Termination of the merger agreement could negatively impact Allied Capital and Ares Capital.***

If the merger agreement is terminated, there may be various consequences, including:

Allied Capital's and Ares Capital's businesses may have been adversely impacted by the failure to pursue other beneficial opportunities due to the focus of management on the merger, without realizing any of the anticipated benefits of completing the merger;

the market price of Allied Capital common stock and Ares Capital common stock might decline to the extent that the market price prior to termination reflects a market assumption that the merger will be completed;

in the case of Allied Capital, it may not be able to find a party willing to pay an equivalent or more attractive price than the price Ares Capital has agreed to pay in the merger; and

the payment of any termination fee or reverse termination fee, if required under the circumstances, could adversely affect the financial condition and liquidity of Allied Capital or Ares Capital.

***Under certain circumstances, Allied Capital and Ares Capital are obligated to pay each other a termination fee upon termination of the merger agreement.***

No assurance can be given that the merger will be completed. The merger agreement provides for the payment by Allied Capital to Ares Capital of a termination fee of \$30 million if the merger is terminated by Allied Capital or Ares Capital under certain circumstances (\$15 million if Allied Capital stockholders do not approve the merger and the merger agreement). In addition, the merger agreement provides for a payment by Ares Capital to Allied Capital of a reverse termination fee of \$30 million under certain other circumstances (\$30 million if Ares Capital stockholders do not approve the issuance of shares of Ares Capital common stock in the merger). See "Description of the Merger Agreement Termination of the Merger Agreement" for a discussion of the circumstances that could result in the payment of a termination fee.

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***The merger agreement limits Allied Capital's ability to pursue alternatives to the merger.***

The merger agreement contains provisions that limit Allied Capital's ability to discuss, facilitate or commit to competing third-party proposals to acquire all or a significant part of Allied Capital. These provisions, which are typical for transactions of this type, and include a \$30 million termination fee payable under certain circumstances, might discourage a potential competing acquiror that might have an interest in acquiring all or a significant part of Allied Capital from considering or proposing that acquisition even if it were prepared to pay consideration with a higher per share market price than that proposed in the merger or might result in a potential competing acquiror proposing to pay a lower per share price to acquire Allied Capital than it might otherwise have proposed to pay.

***The merger is subject to closing conditions, including stockholder approvals, that, if not satisfied or waived, will result in the merger not being completed, which may result in material adverse consequences to Allied Capital's business and operations.***

The merger is subject to closing conditions, including certain approvals of Allied Capital's and Ares Capital's respective stockholders that, if not satisfied, will prevent the merger from being completed. The closing condition that Allied Capital's stockholders approve the merger and the merger agreement may not be waived under applicable law and must be satisfied for the merger to be completed. Allied Capital currently expects that all directors and executive officers of Allied Capital will vote their shares of Allied Capital common stock in favor of the proposals presented at the Allied Capital special meeting. If Allied Capital's stockholders do not approve the merger and the merger agreement and the merger is not completed, the resulting failure of the merger could have a material adverse impact on Allied Capital's business and operations and may result in the payment by Allied Capital to Ares Capital of a \$15.0 million termination fee. In addition to the required approvals of Allied Capital's and Ares Capital's stockholders, the merger is subject to a number of other conditions beyond Allied Capital's control that may prevent, delay or otherwise materially adversely affect its completion. Neither Allied Capital nor Ares Capital can predict whether and when these other conditions will be satisfied.

***Certain persons related to Allied Capital have interests in the merger that differ from the interests of Allied Capital stockholders.***

Certain persons related to Allied Capital have financial interests in the merger that are different from, or in addition to, the interests of Allied Capital's stockholders. The members of the Allied Capital board of directors were aware of and considered these interests, among other matters, in evaluating and negotiating the merger agreement and the merger and in recommending to Allied Capital stockholders that the merger agreement and merger be approved. These interests are described in more detail in the section of this document entitled "The Merger Interests of Certain Persons Related to Allied Capital in the Merger."

Based on the assumptions set forth in "The Merger Interests of Certain Persons Related to Allied Capital in the Merger," Allied Capital's named executive officers may be entitled to receive aggregate payments of approximately \$6,086,663 for accelerated vesting and payout of stock options upon completion of the merger. The maximum amounts that would be payable to Allied Capital's named executive officers in the aggregate under each of their current employment agreements or retention agreements, assuming that certain conditions regarding change of control and termination are met, would be approximately \$28,585,957. In addition, Allied Capital may be required to pay up to \$12,875,000 plus health care continuation coverage for up to 12 months to certain of its officers, other than its named executive officers, pursuant to the terms of certain retention agreements. Certain existing executive officers of Allied Capital may, however, become paid employees of Ares Capital, one of its portfolio companies or subsidiaries or its investment adviser. See "The Merger Interests of Certain Persons Related to Allied Capital in the Merger" for a further description of these interests,

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including the payments that each named executive officer is or may be entitled to receive upon completion of the merger.

***Allied Capital will be subject to business uncertainties and contractual restrictions while the merger is pending.***

Uncertainty about the effect of the merger may have an adverse effect on Allied Capital and, consequently, on the combined company following completion of the merger. These uncertainties may impair Allied Capital's ability to retain and motivate key personnel until the merger is consummated and could cause those that deal with Allied Capital to seek to change their existing business relationships with Allied Capital. Retention of certain employees may be challenging during the pendency of the merger, as certain employees may experience uncertainty about their future following completion of the merger. If key Allied Capital employees depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain affiliated with the combined company following completion of the merger, the combined company's business following the merger could be harmed. In addition, the merger agreement restricts Allied Capital from taking actions that it might otherwise consider to be in its best interests. These restrictions may prevent Allied Capital from pursuing certain business opportunities that may arise prior to the completion of the merger. Please see the section entitled "Description of the Merger Agreement Conduct of Business Pending Completion of the Merger" for a description of the restrictive covenants to which Allied Capital is subject.

***The shares of Ares Capital common stock to be received by Allied Capital common stockholders as a result of the merger will have different rights associated with them than shares of Allied Capital common stock currently held by them.***

The rights associated with Allied Capital common stock are different from the rights associated with Ares Capital common stock. See the section of this document entitled "Comparison of Stockholder Rights."

***The market price of Ares Capital common stock after the merger may be affected by factors different from those affecting Allied Capital common stock or Ares Capital common stock currently.***

The businesses of Ares Capital and Allied Capital differ in some respects and, accordingly, the results of operations of the combined company and the market price of Ares Capital common stock after the merger may be affected by factors different from those currently affecting the independent results of operations of each of Ares Capital and Allied Capital. These factors include:

greater number of shares outstanding;

different composition of stockholder base;

different portfolio composition and asset management activities;

different management structure; and

different asset allocation and capitalization.

Accordingly, the historical trading prices and financial results of Ares Capital and Allied Capital may not be indicative of these matters for the combined company following the merger and subsequent combination. For a discussion of the business of Ares Capital and of certain factors to consider in connection with its business, see "Business of Ares Capital." For a discussion of the business of Allied Capital and of certain factors to consider in connection with its business, see "Business of Allied Capital."



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***Allied Capital stockholders who hold their shares in certificated form and who do not timely surrender their Allied Capital common stock certificates for Ares Capital common stock after the completion of the merger will be deemed to have elected to receive dividends and other distributions declared after the completion of the merger with respect to Ares Capital common stock in the form of Ares Capital common stock in accordance with Ares Capital's dividend reinvestment plan and, as a result, may suffer adverse tax consequences.***

As soon as reasonably practicable after completion of the merger, the exchange agent will mail a letter of transmittal to each record holder of Allied Capital common stock who holds their shares in certificated form. This mailing will contain instructions on how to surrender Allied Capital common stock certificates in exchange for statements indicating book-entry ownership of Ares Capital common stock and a check in the amount of cash to be paid instead of fractional shares. Until Allied Capital common stock is surrendered for exchange, any dividends or other distributions declared after the completion of the merger with respect to Ares Capital common stock into which shares of Allied Capital common stock may have been converted will accrue, without interest, but will not be paid. Ares Capital will pay to such former Allied Capital stockholders any unpaid dividends or other distributions, without interest, only after they have duly surrendered their Allied Capital stock certificates.

In addition, any such unpaid dividends or other distributions will be payable in the form of shares of Ares Capital common stock in accordance with Ares Capital's dividend reinvestment plan for stockholders who have not opted out of the plan. Because stockholders who receive distributions in the form of stock generally will be subject to the same U.S. federal, state and local tax consequences as stockholders who elect to receive their distributions in cash, Allied Capital stockholders who do not timely surrender their Allied Capital common stock certificates for Ares Capital common stock after the completion of the merger may suffer adverse tax consequences attributable to non-cash income realized with respect to any dividends.

Table of Contents**COMPARATIVE FEES AND EXPENSES**

The following tables are intended to assist you in understanding the costs and expenses that an investor in the common stock of Allied Capital and Ares Capital bears directly or indirectly and, based on the assumptions set forth below, the pro forma costs and expenses estimated to be incurred by the combined company in the first year following the merger. Allied Capital and Ares Capital 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 document contains a reference to fees or expenses paid or to be paid by "you," "Allied Capital" or "Ares Capital," stockholders will indirectly bear such fees or expenses as investors in Allied Capital or Ares Capital, as applicable.

	<b>Allied Capital</b>	<b>Ares Capital</b>	<b>Pro Forma Combined(1)</b>
<b><i>Stockholder transaction expenses</i></b> (as a percentage of offering price)			
Sales load paid by Allied Capital and Ares Capital	None(1)	None(1)	None(1)
Offering expenses borne by Allied Capital and Ares Capital	None(1)	None(1)	None(1)
Dividend reinvestment plan expenses	None(2)	None(2)	None(2)
<b>Total stockholder transaction expenses paid by Allied Capital and Ares Capital</b>	<b>None</b>	<b>None</b>	<b>None</b>
	<b>Allied Capital</b>	<b>Ares Capital</b>	<b>Pro Forma Combined(1)</b>
<b><i>Estimated annual expenses</i></b> (as a percentage of consolidated net assets attributable to common stock):(3)(4)			
Management fees(5)		2.53%	2.63%
Incentive fees(6)		2.61%	1.42%
Interest payments on borrowed funds(7)	14.32%	2.04%	8.85%(8)
Other expenses(9)	6.75%	1.70%	3.24%
Acquired fund fees and expenses(10)	0.22%	0.03%	0.10%
<b>Total annual expenses (estimated)(11)</b>	<b>21.29%</b>	<b>8.91%</b>	<b>16.24%</b>

- (1) Purchases of shares of common stock of Allied Capital or Ares Capital on the secondary market are not subject to sales charges, but may be subject to brokerage commissions or other charges. The table does not include any sales load (underwriting discount or commission) that stockholders may have paid in connection with their purchase of shares of Allied Capital or Ares Capital common stock.
- (2) The expenses of the dividend reinvestment plan are included in "Other expenses."
- (3) "Consolidated net assets attributable to common stock" equals stockholders' equity at September 30, 2009. For Pro Forma Combined, the stockholders' equity for Pro Forma Ares Capital Combined as of September 30, 2009 was used from the pro forma information beginning on page 89.
- (4) Allied Capital does not have an investment adviser and is internally managed by its management team under the supervision of its board of directors. Therefore, Allied Capital pays operating costs associated with employing a management team and investment professionals instead of paying investment advisory fees. As a result, the estimate of the annual expenses Allied Capital incurs in connection with the employment of such employees is included in the line item "Other expenses" and, accordingly, any comparison of the individual items of Allied Capital and Ares Capital set forth under "Estimated annual expenses" above may not be informative because Allied Capital is



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internally managed and Ares Capital is externally managed. The pro forma combined company estimated annual expenses are consistent with the information presented in the unaudited pro forma condensed consolidated financial statements included in this document. See "Unaudited Selected Pro Forma Consolidated Financial Data."

- (5) Ares Capital is externally managed by its investment adviser, Ares Capital Management. Following completion of the merger, the combined company will continue to be externally managed by Ares Capital Management and the pro forma combined company management fee has been calculated in a manner consistent with Ares Capital's investment advisory and management agreement. Ares Capital's management fee is currently 1.5% of its total assets other than cash and cash equivalents (which includes assets purchased with borrowed amounts). For the purposes of this table, Ares Capital has assumed that it maintains no cash or cash equivalents and that the management fee remains at 1.5% as set forth in its current investment advisory and management agreement. Ares Capital may from time to time decide it is appropriate to change the terms of such agreement. Under the Investment Company Act, any material change to its investment advisory and management agreement must be submitted to its stockholders for approval. The 2.53% reflected on the table is calculated on Ares Capital's net assets (rather than its total assets). See "Management of Ares Capital Investment Advisory and Management Agreement."
- (6) This item represents Ares Capital's investment adviser's incentive fees based on annualizing actual amounts earned on its pre-incentive fee net income for the nine months ended September 30, 2009 and assumes that the incentive fees earned at the end of September 30, 2009 will be based on the actual realized capital gains as of September 30, 2009, computed net of realized capital losses and unrealized capital depreciation. It also assumes 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. The combined company may have capital gains and interest income that could result in the payment of an incentive fee to its investment adviser in the first year after completion of the merger. Since its inception, the average quarterly incentive fee payable to its investment adviser has been approximately 0.56% of its weighted net assets (2.24% on an annualized basis). The pro forma combined company incentive fees have been calculated in a manner consistent with Ares Capital's investment advisory and management agreement. For more detailed information about incentive fees previously incurred by Ares Capital, please see Note 3 to its consolidated financial statements for the period ended September 30, 2009.

The incentive fee consists of two parts:

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

The second part, payable annually in arrears for each calendar year, equals 20% of Ares Capital's 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.

Ares Capital will defer cash payment of any incentive fee otherwise earned by its investment adviser if, during the most recent four full calendar quarter period ending on or prior to the date

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such payment is to be made, the sum of (1) its aggregate distributions to its stockholders and (2) its 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 its net assets at the beginning of such period. These calculations will be adjusted for any share issuances or repurchases. See "Management of Ares Capital Investment Advisory and Management Agreement."

- (7) "Interest payments on borrowed funds" represents an estimate of annualized interest expenses based on actual interest and credit facility expenses incurred for the nine months ended September 30, 2009. During the nine months ended September 30, 2009, Allied Capital's average borrowings were \$1.8 billion and cash paid for interest expense was \$141 million and Ares Capital's average borrowings were \$865 million and cash paid for interest expense was \$15.1 million. Allied Capital had outstanding borrowings of \$1.6 billion at September 30, 2009. Ares Capital had outstanding borrowings of \$767.9 million at September 30, 2009. The amount of leverage that Allied Capital or Ares Capital may employ at any particular time will depend on, among other things, Allied Capital and Ares Capital's boards of directors' and, in the case of Ares Capital, its investment adviser's assessment of market and other factors at the time of any proposed borrowing. See "Risk Factors Risks Relating to Ares Capital Ares Capital borrows money, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing with Ares Capital." See "Risk Factors Risks Relating to Allied Capital Allied Capital's use of leverage magnifies the potential for gain or loss on amounts invested and may increase the risk of investing in Allied Capital."
- (8) This is based on the assumption that borrowings and interest costs after the merger will remain the same as those costs prior to the merger. Ares Capital and Allied Capital expect that as a result of completed and anticipated asset sales, debt repayments and refinancings the combined company's interest payments on borrowed funds in the first year following the merger will be less than the amounts used in the pro forma combined estimate and, accordingly, that estimated total expenses will be lower than as reflected in the pro forma combined estimate as of September 30, 2009.
- (9) Includes overhead expenses, including, in the case of Ares Capital, payments under its administration agreement based on its allocable portion of overhead and other expenses incurred by Ares Operations in performing its obligations under such administration agreement. In the case of Allied Capital, such expenses are based on annualized employee, employee stock options and administrative expenses for the nine months ended September 30, 2009. In the case of Ares Capital, such expenses are based on annualized "Other expenses" for the nine months ended September 30, 2009. See "Management of Ares Capital Administration Agreement." For the pro forma combined company, "Other expenses" were based on the amount indicated in the unaudited pro forma condensed consolidated financial statements for the nine months ended September 30, 2009. The holders of shares of Allied Capital and Ares Capital common stock (and not the holders of their debt securities or preferred stock, if any) indirectly bear the cost associated with their annual expenses.
- (10) With respect to "Acquired fund fees and expenses," Allied Capital and Ares Capital stockholders indirectly bear the expenses of underlying investment companies managed by third parties in which Allied Capital and Ares Capital invest. This amount includes the fees and expenses of investment companies in which Allied Capital or Ares Capital is invested as of September 30, 2009. Certain of these investment companies 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 investment companies. For those investment companies with little or no operating history, fees and expenses are based on expected fees and expenses stated in the investment companies' offering memorandum, private placement memorandum or other similar communication without giving effect to any performance. Future fees and expenses for these investment companies may be

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substantially higher or lower because certain fees and expenses are based on the performance of the investment companies, which may fluctuate over time. The amount of Allied Capital's average net assets used in calculating this percentage was based on average net assets of \$1.3 billion for the nine month period ended September 30, 2009. The amount of Ares Capital's average net assets used in calculating this percentage was based on average net assets of \$1.1 billion for the nine month period ended September 30, 2009.

(11)

"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. Allied Capital and Ares Capital borrow money to leverage and increase their 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.

**Example**

The following example demonstrates the projected dollar amount of total cumulative expenses over various periods with respect to a hypothetical investment in Allied Capital, Ares Capital or, following the merger, the combined company's common stock. In calculating the following expense amounts, each of Allied Capital and Ares Capital has assumed that it would have no additional leverage, that none of its assets are cash or cash equivalents and that its annual operating expenses would remain at the levels set forth in the table above. Transaction expenses related to the merger are not included in the following example.

	1 year	3 years	5 years	10 years
<b>You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return in(1):</b>				
Allied Capital	\$ 207	\$ 596	\$ 955	\$ 1,738
Ares Capital	\$ 65	\$ 191	\$ 314	\$ 605
The <i>pro forma</i> combined company following the merger	\$ 152	\$ 411	\$ 620	\$ 982

(1)

The above illustration assumes that Allied Capital, Ares Capital and, following the merger, the combined company will not realize any capital gains computed net of all realized capital losses and unrealized capital depreciation. In the case of Ares Capital, 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, \$75; 3 years, \$220; 5 years, \$359; and 10 years, \$683. In the case of the pro forma combined company following the merger, 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, \$162; 3 years, \$437; 5 years, \$657; and 10 years, \$1,033. 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) Ares Capital's aggregate distributions to its stockholders and (b) its 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 8.0% of its net assets at the beginning of such period (as adjusted for any share issuances or repurchases).

The foregoing table is to assist you in understanding the various costs and expenses that an investor in Allied Capital, Ares Capital or, following the merger, the combined company's common

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stock will bear directly or indirectly. While the example assumes, as required by the SEC, a 5% annual return, performance will vary and may result in a return greater or less than 5%. In the case of Ares Capital, 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 Ares Capital were to achieve sufficient returns on its investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, its expenses, and returns to its investors, would be higher.

In addition, while the example assumes reinvestment of all dividends and distributions at net asset value, if Ares Capital's board of directors authorizes and Ares Capital declares a cash dividend, participants in its dividend reinvestment plan who have not otherwise elected to receive cash will receive a number of shares of its common stock determined by dividing the total dollar amount of the dividend payable to a participant by the market price per share of Ares Capital common stock at the close of trading on the valuation date for the dividend. See "Ares Capital Dividend Reinvestment Plan" for additional information regarding Ares Capital's dividend reinvestment plan.

**This example and the expenses in the table above should not be considered a representation of Allied Capital, Ares Capital or, following the merger, the combined company's future expenses as actual expenses (including the cost of debt, if any, and other expenses) may be greater or less than those shown.**

Table of Contents**SELECTED CONDENSED CONSOLIDATED FINANCIAL DATA OF ALLIED CAPITAL**

You should read the condensed consolidated financial information below with Allied Capital's consolidated financial statements and notes thereto included herein. Financial information at and for the years ended December 31, 2008, 2007, 2006, 2005 and 2004 has been derived from Allied Capital's financial statements that were audited by KPMG LLP. Quarterly financial information is derived from unaudited financial data, but in the opinion of Allied Capital's management, reflects all adjustments (consisting only of normal recurring adjustments) that are necessary to present fairly the results for such interim periods. Interim results at and for the nine months ended September 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. See "Management's Discussion and Analysis of Financial Condition and Results of Operations of Allied Capital" and "Senior Securities of Allied Capital" below for more information.

(in thousands, except per share data)	At and for the Nine Months Ended September 30,		At and for the Year Ended December 31,				
	2009	2008	2008	2007	2006	2005	2004
	(unaudited)						
<b>Operating Data:</b>							
Interest and related portfolio income:							
Interest and dividends	\$ 230,017	\$ 366,079	\$ 457,418	\$ 417,576	\$ 386,427	\$ 317,153	\$ 319,642
Fees and other income	22,233	34,105	44,826	44,129	66,131	56,999	47,448
Total interest and related portfolio income	252,250	400,184	502,244	461,705	452,558	374,152	367,090
Expenses:							
Interest	129,023	109,974	148,930	132,080	100,600	77,352	75,650
Employee	32,939	57,439	76,429	89,155	92,902	78,300	53,739
Employee stock options(1)	2,369	9,531	11,781	35,233	15,599		
Administrative	25,509	36,100	49,424	50,580	39,005	69,713	34,686
Impairment of long-lived asset	2,873						
Total operating expenses	192,713	213,044	286,564	307,048	248,106	225,365	164,075
Net investment income before income taxes	59,537	187,140	215,680	154,657	204,452	148,787	203,015
Income tax expense (benefit), including excise tax	4,205	8,141	2,506	13,624	15,221	11,561	2,057
Net investment income	55,332	178,999	213,174	141,033	189,231	137,226	200,958
Net realized and unrealized gains (losses):							
Net realized gains (losses)	(158,255)	47,330	(129,418)	268,513	533,301	273,496	117,240
Net change in unrealized appreciation or depreciation	(380,528)	(687,506)	(1,123,762)	(256,243)	(477,409)	462,092	(68,712)
Total net gains (losses)	(538,783)	(640,176)	(1,253,180)	12,270	55,892	735,588	48,528
Gain on repurchase of debt	83,532						
Loss on extinguishment of debt	(117,497)						
Net increase (decrease) in net assets resulting from operations	\$ (517,416)	\$ (461,177)	\$ (1,040,006)	\$ 153,303	\$ 245,123	\$ 872,814	\$ 249,486
<b>Per Share:</b>							
Diluted earnings (loss) per common share	\$ (2.89)	\$ (2.70)	\$ (6.01)	\$ 0.99	\$ 1.68	\$ 6.36	\$ 1.88
Net investment income, net realized gains (losses), gain on repurchase of debt and loss on extinguishment of debt per share(2)	\$ (0.77)	\$ 1.32	\$ 0.48	\$ 2.65	\$ 4.96	\$ 2.99	\$ 2.40
Dividends per common share(2)	\$	\$ 0.65	\$ 2.60	\$ 2.64	\$ 2.47	\$ 2.33	\$ 2.30
Weighted average common shares outstanding diluted	178,815	171,084	172,996	154,687	145,599	137,274	132,458





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(in thousands, except per share data)	At and for the Nine Months Ended September 30,				At and for the Year Ended December 31,		
	2009	2008	2007	2006	2005	2004	
	(unaudited)						
<b>Balance Sheet Data:</b>							
Portfolio at value	\$ 2,511,194	\$ 3,492,950	\$ 4,780,521	\$ 4,496,084	\$ 3,606,355	\$ 3,013,411	
Total assets	2,840,216	3,722,186	5,214,576	4,887,505	4,025,880	3,260,998	
Total debt outstanding(3)	1,593,867	1,945,000	2,289,470	1,899,144	1,284,790	1,176,568	
Undistributed (distributions in excess of) earnings	47,826	184,715	535,853	502,163	112,252	12,084	
Shareholders' equity	1,201,265	1,718,400	2,771,847	2,841,244	2,620,546	1,979,778	
Shareholders' equity per common share (net asset value)(4)	\$ 6.70	\$ 9.62	\$ 17.54	\$ 19.12	\$ 19.17	\$ 14.87	
Common shares outstanding at end of period	179,362	178,692	158,002	148,575	136,697	133,099	
Asset coverage ratio	175%	188%	221%	250%	309%	280%	
Debt to equity ratio	1.33	1.13	0.83	0.67	0.49	0.59	
<b>Other Data:</b>							
Investments funded	\$ 118,095	\$ 1,078,171	\$ 1,845,973	\$ 2,437,828	\$ 1,675,773	\$ 1,524,523	
Principal collections related to investment repayments or sales	479,815	1,037,348	1,211,550	1,055,347	1,503,388	909,189	
Realized gains	35,897	150,468	400,510	557,470	343,061	267,702	
Realized losses	(194,152)	(279,886)	(131,997)	(24,169)	(69,565)	(150,462)	

(in thousands, except per share data)	2009				2008				2007			
	Qtr 3	Qtr 2	Qtr 1	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4	Qtr 3	Qtr 2	Qtr 1	
<b>Quarterly Data (unaudited):</b>												
Total interest and related portfolio income	72,438	84,630	95,182	102,060	120,662	134,578	144,944	\$ 117,709	\$ 118,368	\$ 117,676	\$ 107,952	
Net investment income	9,585	18,233	29,509	34,175	45,595	63,855	69,549	58,040	18,318	25,175	39,500	
Net increase (decrease) in net assets resulting from operations	(140,683)	(29,063)	(347,670)	(578,829)	(318,262)	(102,203)	(40,712)	27,527	(96,468)	89,158	133,086	
Diluted earnings (loss) per common share	(0.79)	(0.16)	(1.95)	(3.24)	(1.78)	(0.59)	(0.25)	\$ 0.18	\$ (0.63)	\$ 0.57	\$ 0.87	
Dividends declared per common share(5)				0.65	0.65	0.65	0.65	0.72	0.65	0.64	0.63	
Net asset value per common share(4)	6.70	7.49	7.67	9.62	13.51	15.93	16.99	17.54	17.90	19.59	19.58	

(1) Effective January 1, 2006, Allied Capital adopted the provisions of ASC Topic 718, *Compensation - Stock Compensation*, which codified Statement No. 123 (Revised 2004), *Share-Based Payment*. See "Management's Discussion and Analysis of Financial Condition and Results of Operations of Allied Capital" below.

(2) Dividends are based on taxable income, which differs from income for financial reporting purposes. Net investment income and net realized gains have been the most significant components of Allied Capital's annual taxable income from which dividends have been paid. See "Management's Discussion and Analysis of Financial Condition and Results of Operations of Allied Capital" below.

(3) See "Senior Securities of Allied Capital" and "Management's Discussion and Analysis of Financial Condition and Results of Operations of Allied Capital" for more information regarding Allied Capital's level of indebtedness.

(4)

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Allied Capital determines net asset value per common share as of the last day of the period presented. The net asset values shown are based on outstanding shares at the end of each period presented.

(5)

Dividends declared per common share for the fourth quarter of 2007 included the regular quarterly dividend of \$0.65 per common share and an extra dividend of \$0.07 per common share. Dividends paid in 2008 primarily were paid from taxable income earned in 2007 that was carried over for distribution in 2008.

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**SELECTED CONDENSED CONSOLIDATED FINANCIAL DATA OF ARES CAPITAL**

The following selected financial and other data for the years ended December 31, 2008, 2007, 2006 and 2005, and for the period from June 23, 2004 (inception) through December 31, 2004 are derived from Ares Capital's consolidated financial statements, which have been audited by KPMG LLP, an independent registered public accounting firm whose report thereon is included elsewhere in this document. The selected financial and other data for the nine months ended September 30, 2009 and other quarterly financial information is derived from Ares Capital's unaudited financial statements, but in the opinion of Ares Capital's 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, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. The data should be read in conjunction with Ares Capital's consolidated financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations of Ares Capital" and "Senior Securities of Ares Capital," which are included elsewhere in this document.

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

**As of and For the Nine Months Ended September 30, 2009, As of and For the Years Ended December 31, 2008, 2007, 2006 and 2005 and As of and For the Period June 23, 2004 (inception) Through December 31, 2004**

(dollar amounts in thousands, except per share data and as otherwise indicated)

	As of and For the Nine Months Ended September 30, 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	As of and For the Year Ended December 31, 2005	As of and For the Period June 23, 2004 (inception) Through December 31, 2004
Total Investment Income	\$ 176,008	\$ 240,461	\$ 188,874	\$ 120,020	\$ 41,850	\$ 4,381
Total Expenses	80,391	113,221	94,751	58,458	14,569	1,666
Net Investment Income Before Income Taxes	95,617	127,240	94,123	61,562	27,282	2,715
Income Tax Expense (Benefit), Including Excise Tax	563	248	(826)	4,931	158	
Net Investment Income	95,054	126,992	94,949	56,631	27,124	2,715
Net Realized and Unrealized Gains (Losses) on Investments, Foreign Currencies and Extinguishment of Debt	38,009	(266,447)	(4,117)	13,064	14,727	475
Net Increase (Decrease) in Stockholders' Equity Resulting from Operations	\$ 133,063	\$ (139,455)	\$ 90,832	\$ 69,695	\$ 41,851	\$ 3,190
Per Share Data:						
Net Increase (Decrease) in Stockholder's Equity Resulting from Operations:						
Basic(1):	\$ 1.34	\$ (1.56)	\$ 1.34	\$ 1.58	\$ 1.75	\$ 0.28
Diluted(1):	\$ 1.34	\$ (1.56)	\$ 1.34	\$ 1.58	\$ 1.75	\$ 0.28
Cash Dividend Declared:	\$ 1.12	\$ 1.68	\$ 1.66	\$ 1.64	\$ 1.30	\$ 0.30
Total Assets	\$ 2,065,081	\$ 2,091,333	\$ 1,829,405	\$ 1,347,991	\$ 613,645	\$ 220,456
Total Debt	\$ 767,871	\$ 908,786	\$ 681,528	\$ 482,000	\$ 18,000	\$ 55,500
Total Stockholders' Equity	\$ 1,222,591	\$ 1,094,879	\$ 1,124,550	\$ 789,433	\$ 569,612	\$ 159,708
Other Data:						
Number of Portfolio Companies at Period End(2)	94	91	78	60	38	20
Principal Amount of Investments Purchased(3)	220,141	\$ 925,945	\$ 1,251,300	\$ 1,087,507	\$ 504,299	\$ 234,102
Principal Amount of Investments Sold and Repayments(4)	271,786	\$ 485,270	\$ 718,695	\$ 430,021	\$ 108,415	\$ 52,272
Total Return Based on Market Value(5)	91.94 %	(45.25)%	(14.76)%	29.12 %	(10.60)%	31.53 %
Total Return Based on Net Asset Value(6)	12.02 %	(11.17)%	8.98 %	10.73%	12.04 %	(1.80)%
Weighted Average Yield of Debt and Income Producing Equity Securities at Fair Value(7):	12.53 %	12.79 %	11.68 %	11.95%	11.25 %	12.36 %
Weighted Average Yield of Debt and Income Producing Equity Securities at Amortized Cost(7):	11.70 %	11.73 %	11.64 %	11.63%	11.40 %	12.25 %

(1)

In accordance with Accounting Standards Codification, or "ASC," 260 (formerly Statement of Financial Accounting Standards No. 128, *Earnings Per Share*) the weighted average shares of common stock outstanding used in computing basic and diluted earnings per common share have been adjusted retroactively by a factor of 1.02% to recognize the bonus element associated with rights to acquire shares of common stock that Ares Capital issued to stockholders of record as of March 24, 2008 in connection with a rights offering.

(2)

Includes commitments to portfolio companies for which funding has yet to occur.

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- (3) The information presented for the period June 23, 2004 (inception) through December 31, 2004 includes \$140.8 million of the assets purchased from Royal Bank of Canada and excludes \$9.7 million of publicly traded fixed income securities.
- (4) The information presented for the period June 23, 2004 (inception) through December 31, 2004 excludes \$9.7 million of publicly traded fixed income securities.
- (5) Total return based on market value for the nine months ended September 30, 2009 equals the increase of the ending market value at September 30, 2009 of \$11.02 per share over the ending market value at December 31, 2008 of \$6.33 per share, plus the declared dividends of \$1.12 per share for the nine months ended September 30, 2009, divided by the market value at December 31, 2008. 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 over 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 for the year ended December 31, 2007 equals the decrease of the ending market value at December 31, 2007 of \$14.63 per share over the ending market value at December 31, 2006 of \$19.11 per share, plus the declared dividends of \$1.66 per share for the year ended December 31, 2007, divided by the market value at December 31, 2006. Total return based on market value for the year ended December 31, 2006 equals the increase of the ending market value at December 31, 2006 of \$19.11 per share over the ending market value at December 31, 2005 of \$16.07 per share, plus the declared dividends of \$1.64 per share for the year ended December 31, 2006, divided by the market value at December 31, 2005. Total return based on market value for the year ended December 31, 2005 equals the decrease of the ending market value at December 31, 2005 of \$16.07 per share over the ending market value at December 31, 2004 of \$19.43 per share, plus the declared dividends of \$1.30 per share for the year ended December 31, 2005, divided by the market value at December 31, 2004. Total return based on market value for the period June 23, 2004 (inception) through December 31, 2004 equals the increase of the ending market value at December 31, 2004 of \$19.43 per share over the offering price of \$15.00 per share, plus the declared dividend of \$0.30 per share (includes return of capital of \$0.01 per share) for holders of record on December 27, 2004, divided by the offering price. Total return based on market value is not annualized. Ares Capital's shares fluctuate in value. Ares Capital's performance changes over time and currently may be different than that shown. Past performance is no guarantee of future results.
- (6) Total return based on net asset value for the nine months ended September 30, 2009 equals the change in net asset value during the period (adjusted for share issuances) plus the declared dividends of \$1.12 per share for the nine months ended September 30, 2009, divided by the beginning net asset value. Total return based on net asset value for the year ended December 31, 2008 equals the change in net asset value during the period (adjusted for share issuances) plus the declared dividends of \$1.68 per share for the year ended December 31, 2008, divided by the beginning net asset value. Total return based on net asset value for the year ended December 31, 2007 equals the change in net asset value during the period (adjusted for share issuances) plus the declared dividends of \$1.66 per share for the year ended December 31, 2007, divided by the beginning net asset value. Total return based on net asset value for the year ended December 31, 2006 equals the change in net asset value during the period (adjusted for share issuances) plus the declared dividends of \$1.64 per share for the year ended December 31, 2006, divided by the beginning net asset value. Total return based on net asset value for the year ended December 31, 2005 equals the change in net asset value during the period (adjusted for share issuances) plus the declared dividends of \$1.30 per share for the year ended December 31, 2005, divided by the beginning net asset value. Total return based on net asset value for the period June 23, 2004 (inception) through December 31, 2004 equals the change in net asset value during the period plus the declared dividend of \$0.30 per share (includes return of capital of \$0.01 per share) for holders of record on December 27, 2004, divided by the beginning net asset value. Total return based on net asset value is not annualized. Ares Capital's performance changes over time and currently may be different than that shown. Past performance is no guarantee of future results.
- (7) Weighted average yield on debt and income producing equity securities at fair value is computed as (a) the annual stated interest rate or yield earned plus the net annual amortization of original issue discount and market discount on accruing debt divided by (b) total income producing equity securities and debt at fair value. Weighted average yield on debt and income producing equity securities at amortized cost is computed as (a) the annual stated interest rate or yield earned plus the net annual amortization of original issue discount and market discount on accruing debt divided by (b) total income producing equity securities and debt at amortized cost.

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**SELECTED QUARTERLY DATA (Unaudited)**  
**(dollar amounts in thousands, except per share data)**

	<b>2009</b>			
	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>	
Total Investment Income	\$ 60,881	\$ 59,111	\$ 56,016	
Net investment income before net realized and unrealized gain (losses) and incentive compensation	\$ 41,133	\$ 39,935	\$ 37,750	
Incentive compensation	\$ 8,227	\$ 7,987	\$ 7,550	
Net investment income before net realized and unrealized gain (losses)	\$ 32,906	\$ 31,948	\$ 30,200	
Net realized and unrealized gains (losses)	\$ 30,370	\$ 2,805	\$ 4,834	
Net increase (decrease) in stockholders' equity resulting from operations	\$ 63,276	\$ 34,753	\$ 35,034	
Basic and diluted earnings per common share	\$ 0.62	\$ 0.36	\$ 0.36	
Net asset value per share as of the end of the quarter	\$ 11.16	\$ 11.21	\$ 11.20	
	<b>2008</b>			
	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
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 increase (decrease) in stockholders' equity resulting from operations	\$ (110,500)	\$ (41,393)	\$ 3,272	\$ 9,166
Basic and diluted earnings per common share	\$ (1.14)	\$ (0.43)	\$ 0.04	\$ 0.13
Net asset value per share as of the end of the quarter	\$ 11.27	\$ 12.83	\$ 13.67	\$ 15.17
	<b>2007</b>			
	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
Total Investment Income	\$ 53,828	\$ 47,931	\$ 47,399	\$ 39,715
Net investment income before net realized and unrealized gain (losses) and incentive compensation	\$ 33,677	\$ 29,875	\$ 31,220	\$ 23,699
Incentive compensation	\$ 6,573	\$ 5,966	\$ 6,229	\$ 4,755
Net investment income before net realized and unrealized gain (losses)	\$ 27,104	\$ 23,909	\$ 24,991	\$ 18,944
Net realized and unrealized gains (losses)	\$ (16,353)	\$ (984)	\$ 8,576	\$ 4,645
Net increase (decrease) in stockholders' equity resulting from operations	\$ 10,752	\$ 22,924	\$ 33,567	\$ 23,589
Basic and diluted earnings per common share	\$ 0.15	\$ 0.32	\$ 0.48	\$ 0.44
Net asset value per share as of the end of the quarter	\$ 15.47	\$ 15.74	\$ 15.84	\$ 15.34



Table of Contents**UNAUDITED SELECTED PRO FORMA CONSOLIDATED FINANCIAL DATA**

The following tables set forth unaudited pro forma condensed consolidated financial data for Ares Capital and Allied Capital as a consolidated entity. The information as of September 30, 2009 is presented as if the merger had been completed on September 30, 2009 and after giving effect to certain transactions that occurred subsequent to September 30, 2009. The unaudited pro forma condensed consolidated operating data for the nine months ended September 30, 2009 and for the year ended December 31, 2008 are presented as if the merger had been completed January 1, 2008. In the opinion of management, all adjustments necessary to reflect the effect of these transactions have been made. The merger will be accounted for under the acquisition method of accounting as provided by Accounting Standards Codification, or "ASC," 805-10 (previously Statement of Financial Accounting Standards, or "SFAS," No. 141(R)), *Business Combinations*.

The unaudited pro forma condensed consolidated financial data should be read together with the respective historical audited and unaudited consolidated financial statements and financial statement notes of Allied Capital and Ares Capital in this document. The unaudited pro forma condensed consolidated financial data are presented for comparative purposes only and do not necessarily indicate what the future operating results or financial position of Ares Capital will be following completion of the merger. The unaudited pro forma condensed consolidated financial data does not include adjustments to reflect any cost savings or other operational efficiencies that may be realized as a result of the merger of Allied Capital and Ares Capital or any future merger related restructuring or integration expenses.

(dollar amounts in thousands, except per share data and as otherwise indicated)

	<b>For the Nine Months Ended September 30, 2009</b>	<b>For the Year Ended December 31, 2008</b>
Total Investment Income	\$ 428,258	\$ 742,705
Total Expenses	281,685	419,671
Net Investment Income Before Income Taxes	146,573	323,034
Income Tax Expense (Benefit), Including Excise Tax	4,768	2,754
Net Investment Income	141,805	320,280
Net Realized and Unrealized Gains (Losses) on Investments, Foreign Currencies and Extinguishment of Debt	(534,739)	(1,519,627)
Net Increase (Decrease) in Stockholders' Equity Resulting from Operations	\$ (392,934)	\$ (1,199,347)
	<b>As of September 30, 2009</b>	
Total Assets	\$ 3,920,293	
Total Debt	\$ 1,531,114	
Total Stockholders' Equity	\$ 2,236,979	

Table of Contents**UNAUDITED PRO FORMA PER SHARE DATA**

The following selected unaudited pro forma per share information for the nine months ended September 30, 2009 and for the year ended December 31, 2008 reflects the merger and related transactions as if they had occurred on July 1, 2008. The unaudited pro forma combined net asset value per common share outstanding reflects the merger and related transactions as if they had occurred on September 30, 2009 and certain other transactions that occurred subsequent to September 30, 2009.

Such unaudited pro forma combined per share information is based on the historical financial statements of Ares Capital and Allied Capital and on publicly available information and certain assumptions and adjustments as discussed in the section entitled "Unaudited Pro Forma Condensed Consolidated Financial Statements." This unaudited pro forma combined per share information is provided for illustrative purposes only and is not necessarily indicative of what the operating results or financial position of Ares Capital or Allied Capital would have been had the merger and related transactions been completed at the beginning of the periods or on the dates indicated, nor are they necessarily indicative of any future operating results or financial position. The following should be read in connection with the section entitled "Unaudited Pro Forma Condensed Consolidated Financial Statements" and other information included in or incorporated by reference into this document.

	As of and For the Nine Months Ended September 30, 2009				For the Year Ended December 31, 2008			
	Ares Capital	Allied Capital	Pro forma Combined Ares Capital	Per Equivalent Allied Capital Share(3)	Ares Capital	Allied Capital	Pro forma Combined Ares Capital	Per Equivalent Allied Capital Share(3)
Net Increase (Decrease) in Stockholders' Equity Resulting from Operations:								
Basic	\$ 1.34	\$ (2.89)	\$ (2.50)	\$ (0.81)	\$ (1.56)	\$ (6.01)	\$ (8.11)	\$ (2.63)
Diluted	\$ 1.34	\$ (2.89)	\$ (2.50)	\$ (0.81)	\$ (1.56)	\$ (6.01)	\$ (8.11)	\$ (2.63)
Cash Dividends Declared(1)	\$ 1.12	\$	\$ 1.12	\$ 0.36	\$ 1.68	\$ 2.60	\$ 1.68	\$ 0.55
Net Asset Value per Share(2)	\$ 11.16	\$ 6.70	\$ 13.32	\$ 4.33	\$ 11.27	\$ 9.62		

- (1) The cash dividends declared per share represent the actual dividends declared per share for the period presented. The pro forma combined dividends declared is the dividends per share as declared by Ares Capital.
- (2) The pro forma combined net asset value per share is computed by dividing the pro forma combined net assets as of September 30, 2009 by the pro forma combined number of shares outstanding.
- (3) The Allied Capital equivalent pro forma per share amount is calculated by multiplying the combined pro forma share amounts by the common stock exchange ratio of 0.325.

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**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Some of the statements in this document constitute forward-looking statements, which relate to future events or the future performance or financial condition of Ares Capital, Allied Capital or, following the merger and subsequent combination, the combined company. The forward-looking statements contained in this document involve a number of risks and uncertainties, including statements concerning:

Ares Capital, Allied Capital or, following the merger and subsequent combination, the combined company's, or their 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;

the impact of fluctuations in interest rates;

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

Ares Capital's, Allied Capital's or, following the merger and subsequent combination, the combined company's ability to recover unrealized losses;

market conditions and Ares Capital's, Allied Capital's or, following the merger and subsequent combination, the combined company's ability to access alternative debt markets and additional debt and equity capital;

contractual arrangements and relationships with third parties;

the general economy and its impact on the industries in which Ares Capital, Allied Capital or, following the merger and subsequent combination, the combined company invests;

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

expected financings and investments;

the adequacy of 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 portfolio companies;

the ability of Ares Capital's and, following the merger and subsequent combination, the combined company's investment adviser to locate suitable investments and to monitor and administer investments;

the outcome and impact of any litigation relating to the merger;

the likelihood that the merger and subsequent combination are completed and the anticipated timing of their completion;

the period following the completion of the merger and subsequent combination;

the ability of Ares Capital and Allied Capital's businesses to successfully integrate if the merger and subsequent combination are completed; and

Allied Capital's future operating results and business prospects if the merger and subsequent combination are not completed.

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Words such as "anticipates," "believes," "expects," "intends," "will," "should," "may" and similar expressions identify forward-looking statements, although not all forward-looking statements include these words. Actual results and condition could differ materially from those implied or expressed in the forward-looking statements for any reason, including the factors set forth in "Risk Factors" and elsewhere in this document.

The forward-looking statements included in this document have been based on information available to Ares Capital and Allied Capital on the date of this document, as appropriate, and neither Ares Capital nor Allied Capital assumes any obligation to update any such forward-looking statements. Although neither Ares Capital nor Allied Capital undertakes any 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 Ares Capital or Allied Capital may make directly to you or through reports that they 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 document are excluded from the safe harbor protection provided by Section 27A of the Securities Act and Section 21E of the Exchange Act.

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**THE SPECIAL MEETING OF ALLIED CAPITAL**

**Date, Time and Place of the Allied Capital Special Meeting**

The Allied Capital special meeting will take place on March 26, 2010, at 10:00 a.m. (Eastern Time), at the offices of Sutherland Asbill & Brennan LLP, 1275 Pennsylvania Avenue, N.W., Washington D.C. 20004.

**Purpose of the Allied Capital Special Meeting**

Allied Capital stockholders are being asked to consider and vote on the following matters at the Allied Capital special meeting:

a proposal to approve the merger and the merger agreement among Ares Capital, Allied Capital and Merger Sub, as such agreement may be amended from time to time; and

a proposal to approve the adjournment of the Allied Capital special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the Allied Capital special meeting to approve the foregoing proposal.

See "The Merger" and "Description of the Merger Agreement."

**Allied Capital's board of directors, including its independent directors, unanimously recommends that stockholders vote "FOR" approval of the merger and the merger agreement and "FOR" approval of the proposal to adjourn the Allied Capital special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the Allied Capital special meeting to approve the foregoing proposal.**

**Record Date**

Only holders of record of Allied Capital common stock at the close of business on February 2, 2010, the record date, are entitled to notice of and to vote at the Allied Capital special meeting. On the record date, approximately 179,940,040 shares of common stock were issued and outstanding and entitled to vote and held by approximately 3,500 holders of record.

**Quorum and Adjournments**

A quorum is required to be present in order to conduct business at the Allied Capital special meeting. The presence at the Allied Capital special meeting, in person or by proxy, of the holders of shares of Allied Capital common stock entitled to cast a majority of all of the votes entitled to be cast will constitute a quorum for the Allied Capital special meeting. Proxies properly executed and marked with a positive vote, a negative vote or an abstention will be considered to be present at the Allied Capital special meeting for purposes of determining whether a quorum is present for the transaction of all business at the Allied Capital special meeting. However, abstentions and broker non-votes are not counted as votes cast on the matter.

Stockholders will also be asked to consider a proposal to adjourn or postpone the Allied Capital special meeting for the solicitation of additional votes, if necessary. Any such adjournment will only be permitted if approved by a majority of the votes cast on the matter by the holders of shares present in person or by proxy at the Allied Capital special meeting, whether or not a quorum exists. Abstentions and broker non-votes will have no effect on the adjournment vote.

**Vote Required**

Holders of record of shares of Allied Capital common stock on the record date are entitled to one vote per share.



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***Merger Proposal***

The affirmative vote of the holders of two-thirds of Allied Capital's outstanding shares entitled to vote on the matter is required to approve the merger and the merger agreement. Stockholders who abstain, fail to return their proxies or do not otherwise vote, effectively will be voting "against" the merger and the merger agreement. Brokers who hold shares of stock in street name cannot vote those shares if the brokers are not provided with voting instructions in accordance with their procedures and this would also be counted as a vote "against" the merger and the merger agreement.

***Adjournment Proposal***

The affirmative vote of a majority of the votes cast on the matter by the holders of Allied Capital's shares present in person or represented by proxy at the Allied Capital special meeting is required to approve the adjournment proposal. Stockholders present in person or represented by proxy at the Allied Capital special meeting who abstain will have no effect on the vote on the adjournment proposal. It is expected that brokers and other nominees will not have discretionary authority to vote on the proposal to adjourn the Allied Capital special meeting. However, broker shares for which written authority to vote has not been obtained will not be treated as votes cast on the matter and will have no effect on the vote on such proposal.

**Voting of Management**

At the close of business on February 2, 2010, Allied Capital's executive officers and directors owned and were entitled to vote 9,802,168 shares of Allied Capital common stock, representing 5.4% of Allied Capital's outstanding shares of common stock on that date. None of Allied Capital's executive officers or directors has entered into any voting agreement relating to the merger; however, each of Allied Capital's executive officers and directors has indicated that he intends to vote his shares of common stock in favor of the approval of the merger and the merger agreement as long as the merger agreement is in effect.

As of February 2, 2010, Allied Capital's 401(k) Plan owns less than 1% of Allied Capital's total outstanding shares. The administrator of the 401(k) Plan will vote the shares on behalf of the participants pursuant to their instructions.

**Voting of Proxies**

All shares represented by properly executed proxies received in time for the Allied Capital special meeting will be voted at the Allied Capital special meeting in the manner specified by the stockholders giving those proxies. Properly executed proxies that do not contain voting instructions will be voted "FOR" the approval of each matter to be voted on at the Allied Capital special meeting, including approval of the merger and the merger agreement and approval of the proposal to adjourn the Allied Capital special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the Allied Capital special meeting to approve the proposal. Stockholders may also instruct the proxy solicitor on how to cast their vote by calling the proxy solicitor or via the Internet pursuant to the instructions shown on the proxy card.

Under Maryland law and Allied Capital's bylaws, only the matters stated in the notice of special meeting will be presented for action at the Allied Capital special meeting or at any adjournment or postponement of the Allied Capital special meeting.

**Revocability of Proxies**

Submitting a proxy on the enclosed form does not preclude a stockholder from voting in person at the Allied Capital special meeting. A stockholder may revoke a proxy at any time before it is voted by



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filing with Allied Capital a duly executed revocation of proxy, by submitting a duly executed proxy to Allied Capital with a later date, by instructing the proxy solicitor to change their vote either by calling the proxy solicitor or via Internet pursuant to the instructions shown on the proxy card or by appearing at the Allied Capital special meeting and voting in person. Stockholders may revoke a proxy by any of these methods, regardless of the method used to deliver a stockholder's previous proxy. Attendance at the Allied Capital special meeting without voting will not itself revoke a proxy.

**Solicitation of Proxies**

Allied Capital will bear the cost of solicitation of proxies in the form accompanying this document. The costs and expenses of printing and mailing the registration statement (of which this document forms a part) and all filing and other fees paid to the SEC in connection with the merger will be borne equally by Allied Capital and Ares Capital. In addition to solicitation by mail, Allied Capital's executive officers, who will not be specially compensated, may solicit proxies from Allied Capital's stockholders by telephone, facsimile, telegram or other electronic means or in person. Allied Capital has retained Georgeson to assist in the solicitation of proxies from stockholders for a fee of \$75,000 plus out-of-pocket expenses. Arrangements may also be made with brokerage houses and other custodians, nominees and fiduciaries for the forwarding of solicitation materials to the beneficial owners of shares held of record by these persons and Allied Capital will reimburse them for their reasonable out-of-pocket expenses.

Allied Capital will mail a copy of this document, including the Notice of Special Meeting and the proxy card included with these materials, to each holder of record of its common stock on the record date.

**Dissenters' Rights**

Allied Capital stockholders do not have the right to exercise dissenters' rights with respect to any matter to be voted upon at the Allied Capital special meeting, including approval of the merger and the merger agreement.

**Principal Accountants of Allied Capital**

Allied Capital expects that a representative of KPMG LLP will be present at the Allied Capital special meeting, will have an opportunity to make a statement if he or she so chooses and will be available to answer questions.

**Stockholders Who Hold Their Shares in a Brokerage Account**

If you hold some or all of your shares in a brokerage account, your broker will not be permitted to vote your shares unless you provide them with instructions on how to vote your shares. For this reason, you should provide your broker with instructions on how to vote your shares or arrange to attend the Allied Capital special meeting and vote your shares in person. Stockholders are urged to authorize proxies by telephone or the Internet if their broker has provided them with the opportunity to do so. See your voting instruction form for details. If your broker holds your shares and you attend the Allied Capital special meeting in person, please bring a letter from your broker identifying you as the beneficial owner of the shares and authorizing you to vote your shares at the Allied Capital special meeting.

With respect to the merger proposal, if you do not provide your broker with instructions or attend the Allied Capital special meeting, it will have the same effect as a vote "against" approval of the merger and the merger agreement.

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**THE SPECIAL MEETING OF ARES CAPITAL**

**Date, Time and Place of the Ares Capital Special Meeting**

The Ares Capital special meeting will take place on March 26, 2010 at 3:00 p.m., Eastern Time, at The Westin Grand, 2350 M Street Northwest, Washington, D.C., United States 20037.

**Purpose of the Ares Capital Special Meeting**

Ares Capital stockholders are being asked to consider and vote on the following matters at the Ares Capital special meeting:

a proposal to approve the issuance of the shares of Ares Capital common stock to be issued pursuant to the merger agreement; and

a proposal to approve the adjournment of the Ares Capital special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the Ares Capital special meeting to approve the foregoing proposal.

See "The Merger" and "Description of the Merger Agreement."

Ares Capital's board of directors, including its independent directors, unanimously recommends that stockholders vote "FOR" approval of the issuance of the shares of Ares Capital common stock to be issued pursuant to the merger agreement and "FOR" approval of the proposal to adjourn the Ares Capital special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the Ares Capital special meeting to approve the foregoing proposal.

**Record Date**

The record date for determination of stockholders entitled to vote at the Ares Capital special meeting is the close of business on February 2, 2010. As of February 2, 2010, there were 130,944,674 shares of Ares Capital common stock outstanding and entitled to vote and held by approximately 30 holders of record.

**Quorum and Adjournments**

A quorum is required to be present in order to conduct business at the Ares Capital special meeting. The presence, in person or by proxy, of the holders of shares of stock of Ares Capital entitled to cast a majority of all of the votes entitled to be cast shall constitute a quorum for the purposes of the Ares Capital special meeting. Proxies properly executed and marked with a positive vote, a negative vote or an abstention and broker non-votes will be considered present at the Ares Capital special meeting for purposes of determining whether a quorum is present for the transaction of all business at the Ares Capital special meeting. However, abstentions and broker non-votes are not counted as votes cast on the matter.

Stockholders will also be asked to consider a proposal to adjourn or postpone the Ares Capital special meeting for the solicitation of additional votes, if necessary. Any such adjournment will only be permitted if approved by a majority of the votes cast on the matter by the holders of shares present in person or by proxy at the Ares Capital special meeting, whether or not a quorum exists. Abstentions and broker non-votes will have no effect on the adjournment vote.

**Vote Required**

Each share of Ares Capital common stock has one vote.



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***Proposal to Issue Shares.***

The affirmative vote of at least a majority of all of the votes cast on the matter at a meeting at which a quorum is present is required to approve the issuance of the shares of Ares Capital common stock to be issued pursuant to the merger agreement. Abstentions and broker non-votes will not be counted as votes cast on the matter and will have no effect on the vote on such proposal.

***Adjournment Proposal.***

The affirmative vote of a majority of the votes cast on the matter by the holders of Ares Capital's shares present in person or represented by proxy at the Ares Capital special meeting is required to approve the adjournment proposal. Stockholders present in person or represented by proxy at the Ares Capital special meeting who abstain will have no effect on the vote on the adjournment proposal. It is expected that brokers and other nominees will not have discretionary authority to vote on the proposal to adjourn the Ares Capital special meeting. However, broker shares for which written authority to vote has not been obtained will not be treated as votes cast on the matter and will have no effect on the vote on such proposal.

**Voting of Management**

At the close of business on February 2, 2010, Ares Capital's executive officers and directors owned beneficially or of record 306,490 shares of Ares Capital common stock, representing less than 1% of Ares Capital's outstanding shares of common stock on that date. In addition, Ares Investments, an affiliate of Ares Capital's investment adviser, owned approximately 2,859,882 shares or 2.2% of the total shares of Ares Capital common stock outstanding as of such date. None of Ares Capital's officers or directors has entered into any voting agreements relating to the merger. Ares Investments also has not entered into any voting agreements relating to the merger.

**Voting of Proxies**

All shares represented by properly executed proxies received in time for the Ares Capital special meeting will be voted in the manner specified by the stockholders giving those proxies. Properly executed proxies that do not contain voting instructions will be voted "FOR" the approval of each matter to be voted on at the Ares Capital special meeting, including approval of the issuance of the shares of Ares Capital common stock to be issued pursuant to the merger agreement and approval of the proposal to adjourn the Ares Capital special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the Ares Capital special meeting to approve the foregoing proposal. Stockholders may also instruct the proxy solicitor on how to cast their vote by calling the proxy solicitor or via the Internet pursuant to the instructions shown on the proxy card.

Under Maryland law and Ares Capital's bylaws, only the matters stated in the notice of special meeting will be presented for action at the Ares Capital special meeting or at any adjournment or postponement of the Ares Capital special meeting.

**Revocability of Proxies**

Any Ares Capital stockholder "of record" (i.e., you hold shares directly in your name) giving a valid proxy for the Ares Capital special meeting may revoke it before it is exercised by giving a later-dated properly executed proxy, by giving notice of revocation to Ares Capital in writing before or at the Ares Capital special meeting, by instructing the proxy solicitor to change their vote either by calling the proxy solicitor or via Internet pursuant to the instructions shown on the proxy card or by attending the Ares Capital special meeting and voting in person. However, the mere presence at the Ares Capital special meeting by the stockholder does not revoke the proxy. If your shares are held for your account

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by a broker, bank or other institution or nominee, you may vote such shares at the Ares Capital special meeting only if you obtain proper written authority from such institution or nominee and present it at the meeting.

Unless revoked as stated above, the shares of common stock represented by valid proxies will be voted on all matters to be acted upon at the Ares Capital special meeting. Stockholders may revoke a proxy by any of these methods regardless of the method used to deliver a stockholder's previous proxy.

**Solicitation of Proxies**

Ares Capital will bear the cost of solicitation of proxies in the form accompanying this document. The costs and expenses of printing and mailing the registration statement (of which this document forms a part) and all filing and other fees paid to the SEC in connection with the merger will be borne equally by Allied Capital and Ares Capital. Proxies will be solicited by mail or by requesting brokers and other custodians, nominees and fiduciaries to forward proxy soliciting material to the beneficial owners of shares of common stock held of record by such brokers, custodians, nominees and fiduciaries, each of whom Ares Capital will reimburse for its expenses in so doing. In addition to the use of mail, directors, officers and regular employees of Ares Capital's investment adviser, without special compensation therefor, may solicit proxies personally, by telephone, by electronic mail or by facsimile, telegram or other electronic means from stockholders.

Ares Capital has engaged the services of D.F. King & Co., Inc., for the purpose of assisting in the solicitation of proxies at an anticipated cost of approximately \$15,000 plus reimbursement of certain expenses and fees for additional services requested. Please note that D.F. King & Co., Inc. may solicit proxies by telephone on behalf of Ares Capital. They will not attempt to influence how you vote your shares, but will only ask that you take the time to cast a vote. You may also be asked if you would like to authorize a proxy over the telephone.

Ares Capital will mail a copy of this document, including the Notice of Special Meeting and the proxy card included with these materials, to each holder of record of its common stock on the record date.

**Dissenters' Rights**

Ares Capital stockholders do not have the right to exercise dissenters' rights with respect to any matter to be voted upon at the Ares Capital special meeting.

**Principal Accountants of Ares Capital**

Ares Capital expects that a representative of KPMG LLP will be present at the Ares Capital special meeting, will have an opportunity to make a statement if he or she so chooses and will be available to answer questions.

**Stockholders Who Hold Their Shares in a Brokerage Account**

If you hold some or all of your shares in a brokerage account, your broker will not be permitted to vote your shares unless you provide them with instructions on how to vote your shares. For this reason, you should provide your broker with instructions on how to vote your shares or arrange to attend the Ares Capital special meeting and vote your shares in person. Stockholders are urged to authorize proxies by telephone or the Internet if their broker has provided them with the opportunity to do so. See your voting instruction form for details. If your broker holds your shares and you attend the Ares Capital special meeting in person, please bring a letter from your broker identifying you as the beneficial owner of the shares and authorizing you to vote your shares at the Ares Capital special meeting.

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**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The merger agreement provides that the holders of Allied Capital common stock will be entitled to receive 0.325 shares of Ares Capital common stock for each share of Allied Capital common stock held by them immediately prior to the effective time. This is estimated to result in approximately 58.3 million shares of Ares Capital common stock being issued in connection with the merger (assuming that holders of all "in-the-money" Allied Capital stock options elect to be cashed out). The unaudited pro forma condensed consolidated financial information has been derived from and should be read in conjunction with the historical consolidated financial statements and the related notes of both Allied Capital and Ares Capital, which are included elsewhere in this document. See "Index to Financial Statements."

The following unaudited pro forma condensed consolidated financial information and explanatory notes illustrate the effect of the merger on Ares Capital's financial position and results of operations based upon the companies' respective historical financial positions and results of operations under the acquisition method of accounting with Ares Capital treated as the acquirer.

In accordance with GAAP, the assets and liabilities of Allied Capital will be recorded by Ares Capital at their estimated fair values as of the date the merger is completed. The unaudited pro forma condensed consolidated financial information of Ares Capital and Allied Capital reflects the unaudited pro forma condensed consolidated balance sheet as of September 30, 2009 and the unaudited pro forma condensed consolidated income statements for the nine months ended September 30, 2009 and the year ended December 31, 2008. The unaudited pro forma condensed consolidated balance sheet as of September 30, 2009 assumes the acquisition took place on that date. The unaudited pro forma condensed consolidated statements of income for the nine months ended September 30, 2009 and the year ended December 31, 2008 assumes the acquisition took place on January 1, 2008. The unaudited pro forma condensed consolidated balance sheet also reflects the impact of certain transactions that occurred subsequent to September 30, 2009.

*The unaudited pro forma condensed consolidated financial information is presented for illustrative purposes only and does not necessarily indicate the results of operations or the combined financial position that would have resulted had the merger and subsequent combination been completed at the beginning of the applicable period presented, nor the impact of expense efficiencies, asset dispositions, share repurchases and other factors. In addition, as explained in more detail in the accompanying notes to the unaudited pro forma condensed consolidated financial information, the allocation of the pro forma purchase price reflected in the unaudited pro forma condensed consolidated financial information involves estimates, is subject to adjustment and may vary significantly from the actual purchase price allocation that will be recorded upon completion of the merger.*

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**Ares Capital Corporation and Subsidiaries**  
**Pro Forma Condensed Consolidated Balance Sheet**  
**As of September 30, 2009**  
**Unaudited**  
**(in thousands, except share and per share data)**

	Actual Ares Capital	Adjusted Allied Capital(A)*	Pro Forma Adjustments*	Pro Forma Ares Capital Combined
<b>Assets and Liabilities Data:</b>				
Investments	\$ 1,967,724	\$ 2,006,564	\$ (258,326)(B)	\$ 3,715,962
Cash and cash equivalents	61,469	422,893	(46,606)(C)	45,204
			(392,552)(B)	
Other assets	35,888	151,402	(28,163)(B)	159,127
Total assets	\$ 2,065,081	\$ 2,580,859	\$ (725,647)	\$ 3,920,293
Debt	\$ 767,871	\$ 1,345,463	\$ (225,940)(B)	\$ 1,531,113
			(356,281)(B)	
Other liabilities	74,619	45,084	32,498 (B)	152,201
Total liabilities	842,490	1,390,547	(549,723)	1,683,314
Stockholders' equity	1,222,591	1,190,312	(258,326)(B)	2,236,979
			(46,606)(C)	
			(49,737)(B)	
			(19,032)(B)	
			(28,163)(B)	
			225,940 (B)	
Total liabilities and stockholders' equity	\$ 2,065,081	\$ 2,580,859	\$ (725,647)	\$ 3,920,293
Total shares outstanding	109,592,728	179,361,775	58,292,577	167,885,305
Net assets per share	\$ 11.16	\$ 6.64	\$ (4.43)	\$ 13.32

\*

Please see Note 3 of the accompanying notes to pro forma condensed consolidated financial statements on page 114.

See accompanying notes to pro forma condensed consolidated financial statements.

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**Ares Capital Corporation and Subsidiaries**  
**Pro Forma Condensed Consolidated Statement of Operations**  
**For the Nine Months Ended September 30, 2009**  
**Unaudited**  
**(in thousands, except share and per share data)**

	Actual Ares Capital	Actual Allied Capital	Pro Forma Adjustments*	Pro Forma Ares Capital Combined
<b>Performance Data:</b>				
Interest and dividend income	\$ 166,842	\$ 230,017	\$ (D)\$	396,859
Fees and other income	9,166	22,233		31,399
Total investment income	176,008	252,250		428,258
Interest and credit facility fees	18,603	129,023	(E)	147,626
Base management fees	22,502		33,756 (F)	56,258
Incentive management fees	23,764		(G)	23,764
Other expenses	15,522	63,690	(25,175)(H)	54,037
Total expenses	80,391	192,713	8,581	281,685
Net investment income before taxes	95,617	59,537	(8,581)	146,573
Income taxes	563	4,205		4,768
Net investment income	95,054	55,332	(8,581)	141,805
Net realized gains (losses)	(4,232)	(158,255)		(162,487)
Net unrealized gains (losses)	15,698	(380,528)		(364,830)
Net realized and unrealized gains (losses)	11,466	(538,783)		(527,317)
Gain on extinguishment of debt	26,543	83,532		110,075
Loss on extinguishment of debt		(117,497)		(117,497)
Net increase (decrease) in stockholders' equity	\$ 133,063	\$ (517,416)	\$ (8,581)	\$ (392,934)
Weighted average shares outstanding	99,066,652	178,814,954	58,292,577 (I)	157,359,229
Earnings (loss) per share	\$ 1.34	\$ (2.89)	\$ (0.15)	\$ (2.50)

\*

Please see Note 3 of the accompanying notes to pro forma condensed consolidated financial statements on page 114.

See accompanying notes to pro forma condensed consolidated financial statements.





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**Ares Capital Corporation and Subsidiaries**  
**Pro Forma Condensed Consolidated Statement of Operations**  
**For the Year Ended December 31, 2008**  
**Unaudited**  
**(in thousands, except share and per share data)**

	Actual Ares Capital	Actual Allied Capital	Pro Forma Adjustments*	Pro Forma Ares Capital Combined
<b>Performance Data:</b>				
Interest and dividend income	\$ 212,675	\$ 457,418	\$ (D)\$	670,093
Fees and other income	27,786	44,826		72,612
 Total investment income	 240,461	 502,244		 742,705
Interest and credit facility fees	36,515	148,930	(E)	185,445
Base management fees	30,463		68,777 (F)	99,240
Incentive management fees	31,748		16,358 (G)	48,106
Other expenses	14,495	137,634	(65,249)(H)	86,880
 Total expenses	 113,221	 286,564	 19,886	 419,671
 Net investment income before taxes	 127,240	 215,680	 (19,886)	 323,034
Income taxes	248	2,506		2,754
 Net investment income	 126,992	 213,174	 (19,886)	 320,280
Net realized gains (losses)	6,371	(129,418)		(123,047)
Net unrealized gains (losses)	(272,818)	(1,123,762)		(1,396,580)
Net realized and unrealized gains (losses)	(266,447)	(1,253,180)		(1,519,627)
Gain on extinguishment of debt				
Loss on extinguishment of debt				
 Net increase (decrease) in stockholders' equity	 \$ (139,455)	 \$ (1,040,006)	 \$ (19,886)	 \$ (1,199,347)
 Weighted average shares outstanding	 89,666,243	 172,996,114	 58,292,577 (I)	 147,958,820
 Earnings (loss) per share	 \$ (1.56)	 \$ (6.01)	 \$ (0.34)	 \$ (8.11)

\*

Please see Note 3 of the accompanying notes to pro forma condensed consolidated financial statements on page 114.

See accompanying notes to pro forma condensed consolidated financial statements.



Table of Contents**Ares Capital Corporation and Subsidiaries**

**Pro Forma Schedule of Investments**  
**Unaudited**  
**As of September 30, 2009**  
**(Dollar Amounts in Thousands)**

Company	Description	Investment	Ares Capital		Allied Capital		Pro Forma Ares Capital	
			Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
<b>Financial</b>								
AGILE Fund I, LLC(4)	Investment company	Member interest			\$ 665	\$ 417	\$ 665	\$ 417
AllBridge Financial, LLC(4)	Investment company	Senior secured loan (6.6%, due 12/09)			1,311	1,311	1,311	1,311
		Common equity			40,118	15,523	40,118	15,523
Allied Capital Senior Debt Fund, L.P.(4)(6)	Investment partnership	Limited partnership interest			31,800	33,044	31,800	33,044
BB&T Capital Partners/Windsor Mezzanine Fund, LLC(5)	Investment company	Member interest			11,789	10,009	11,789	10,009
Calder Capital Partners, LLC(4)	Investment company	Senior secured loan (12.5%, due 5/09)(3)			4,496	1,100	4,496	1,100
		Member interest			2,453		2,453	
Callidus Capital Corporation(4)	Investment company	Senior subordinated note (18.0%, due 8/13)(2)			20,939	15,165	20,939	15,165
		Common stock (100 shares)						
Callidus Debt Partners CDO Fund I, Ltd.	Investment company	Class C notes (12.9%, due 12/13)(3)			19,527	2,935	19,527	2,935
		Class D notes (17.0%, due 12/13)(3)			9,454		9,454	
Callidus Debt Partners CLO Fund III, Ltd.	Investment company	Preferred stock (23,600,000 shares)			20,138	2,199	20,138	2,199
Callidus Debt Partners CLO Fund IV, Ltd.	Investment company	Class D notes (5.1%, due 4/20)			2,160	1,653	2,160	1,653
		Income notes (0.0%)			14,868	4,366	14,868	4,366
Callidus Debt Partners CLO Fund V, Ltd.	Investment company	Income notes (2.6%)			13,521	4,625	13,521	4,625
Callidus Debt Partners CLO Fund VI, Ltd.	Investment company	Class D notes (6.5%, due 10/21)			7,602	3,833	7,602	3,833
		Income notes (0.0%)			29,144	4,155	29,144	4,155
Callidus Debt Partners CLO Fund VII, Ltd.	Investment company	Income notes (0.0%)			24,824	5,431	24,824	5,431
Callidus MAPS CLO Fund I LLC	Investment company	Class E notes (5.8%, due 12/17)			17,000	11,400	17,000	11,400
		Income notes (0.0%)			41,176	13,662	41,176	13,662
Callidus MAPS CLO Fund II, Ltd.	Investment company	Class D notes (4.8%, due 7/22)			3,785	3,068	3,785	3,068
		Income notes (0.9%)			18,109	4,819	18,109	4,819
Carador PLC(5)			\$ 9,033	\$ 2,311			9,033	2,311

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	Investment company	Ordinary shares (7,110,525 shares)				
Catterton Partners VI, L.P.	Investment partnership	Limited partnership interest	3,287	1,789	3,287	1,789

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Company	Description	Investment	Ares Capital		Allied Capital		Pro Forma Ares Capital	
			Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
CIC Flex, LP	Investment partnership	Limited partnership units (0.69 units)	41	41			41	41
Ciena Capital LLC(4)	Investment banking services	Senior secured loan (5.5%, due 3/09)(3)			319,031	102,232	319,031	102,232
		Class B equity interest			119,436		119,436	
		Class C equity interest			109,097		109,097	
Commercial Credit Group, Inc.	Commercial equipment finance and leasing company	Senior subordinated note (15.0%, due 6/15)			21,970	21,970	21,970	21,970
		Preferred stock (64,679 shares) Warrants			15,543	6,212	15,543	6,212
Cortec Group Fund IV, L.P.	Investment partnership	Limited partnership interest			6,572	3,812	6,572	3,812
Covestia Capital Partners, LP	Investment partnership	Limited partnership units	1,059	1,059			1,059	1,059
Direct Capital Corporation(4)	Commercial equipment finance and leasing company	Senior secured loan (8.0%, due 1/14)(3)			8,175	8,573	8,175	8,573
		Senior subordinated note (16.0%, due 3/13)(3)			55,496	7,139	55,496	7,139
		Common stock (2,317,020 shares)			25,732		25,732	
Dryden XVIII Leveraged Loan 2007 Limited	Investment company	Class B notes (5.0%, due 10/19)(3)			7,872	2,355	7,872	2,355
		Income notes (0.0%)			23,164	2,415	23,164	2,415
Dynamic India Fund IV	Investment company	Common equity			9,350	7,982	9,350	7,982
eCentury Capital Partners, L.P.	Investment partnership	Limited partnership interest			7,274		7,274	
Fidus Mezzanine Capital, L.P.	Investment partnership	Limited partnership interest			12,828	7,804	12,828	7,804
Financial Pacific Company(4)	Commercial equipment finance and leasing company	Senior subordinated loan (17.0%, due 2/12)(2)			58,861	41,417	58,861	41,417
		Junior subordinated loan (20.0% due 8/12)(2)			10,009		10,009	
		Preferred stock (9,458 shares)			8,865		8,865	
		Common stock (12,711 shares)			12,783		12,783	
Firstlight Financial Corporation(5)	Investment company	Senior subordinated note (1.0%, due 12/16)(2)	72,871	54,670			72,871	54,670
		Common stock (40,000 shares)	40,000				40,000	
Ivy Hill Asset Management, L.P.(4)	Investment partnership	Member interest	3,586	11,088			3,586	11,088
Ivy Hill Middle Market Credit Fund, Ltd.(4)	Investment company	Class B deferrable interest notes (6.7%, due 11/18)	40,000	36,800			40,000	36,800
		Subordinated notes (due 11/18)	15,681	14,113			15,681	14,113

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Imperial Capital Group, LLC and Imperial Capital Private Opportunities, LP(5)	Investment banking services	Limited partnership interest	3,094	3,094	3,094	3,094
		Common units (10,551 units)	15,000	20,003	15,000	20,003
Knightsbridge CLO 2007-1 Ltd.(4)	Investment company	Class E notes (9.5%, due 1/22)		18,700	11,160	18,700
		Income notes (13.3%)		38,746	22,640	38,746

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Company	Description	Investment	Ares Capital		Allied Capital		Pro Forma Ares Capital	
			Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
Knightsbridge CLO 2008-1 Ltd.(4)	Investment company	Class C notes (7.8%, due 6/18)			12,800	12,246	12,800	12,246
		Class D notes (8.8%, due 6/18)			8,000	7,080	8,000	7,080
		Class E notes (5.3%, due 6/18)			11,081	9,798	11,081	9,798
		Income notes (21.2%)			21,327	20,112	21,327	20,112
Kodiak Fund LP	Investment partnership	Limited partnership interest			9,332	900	9,332	900
Novak Biddle Venture Partners III, L.P.	Investment partnership	Limited partnership interest			2,018	1,037	2,018	1,037
Pangaea CLO 2007-1 Ltd.	Investment company	Class D notes (5.3%, due 1/21)			11,985	7,795	11,985	7,795
Partnership Capital Growth Fund I, LP	Investment partnership	Limited partnership interest	2,711	2,711			2,711	2,711
SPP Mezzanine Funding II, L.P.	Investment partnership	Limited partnership interest			7,605	6,987	7,605	6,987
Senior Secured Loan Fund LLC(4)(6)	Private debt fund	Subordinated certificates (8.4%)			165,248	165,000	165,248	165,000
		Member interest			1		1	
Trivergence Capital Partners, LP	Investment partnership	Limited partnership interest	1,672	1,672			1,672	1,672
VSC Investors LLC	Investment company	Member interest	635	635			635	635
Webster Capital II, L.P.	Investment partnership	Limited partnership interest			1,338	809	1,338	809
Total			205,383	148,197	1,478,405	617,979	1,683,788	766,176
<b>Business Services</b>								
BenefitMall Holdings, Inc.	Employee benefits broker services company	Senior subordinated note (18.0%, due 6/14)(2)			40,250	40,250	40,250	40,250
		Common stock (39,274,290 shares)			39,274	73,729	39,274	73,729
		Warrants						
Booz Allen Hamilton, Inc.	Strategy and technology consulting services	Senior secured loan (7.5%, due 7/15)	728	743			728	743
		Senior subordinated loan (13.0%, due 7/16)(2)	22,416	22,650			22,416	22,650
CitiPostal Inc.(4)	Document storage and management services	Senior secured revolving loan (3.7%, due 12/13)			683	683	683	683
		Senior secured loan (12.0%, due 12/13)(2)			51,001	51,001	51,001	51,001
		Senior subordinated note (16.0%, due 12/15)(2)			10,265	10,265	10,265	10,265
					12,726	1,124	12,726	1,124



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		Common stock (37,024 shares)				
Cook Inlet Alternative Risk, LLC	Risk management services	Senior secured loan (10.8%, due 4/13)	87,286	69,000	87,286	69,000
		Member interest	552		552	
Digital VideoStream, LLC	Media content supply chain services company	Senior secured loan (11.0%, due 2/12)(2)	13,155	12,825	13,155	12,825
		Convertible subordinated note (10.0%, due 2/16)(2)	4,883	4,883	4,883	4,883
Diversified Mercury Communications, LLC	Business media consulting services	Senior secured loan (4.5%, due 3/13)	2,803	2,525	2,803	2,525

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Company	Description	Investment	Ares Capital		Allied Capital		Pro Forma	
			Cost	Fair Value	Cost	Fair Value	Ares Capital Cost	Ares Capital Fair Value
Higginbotham Insurance Agency, Inc.(6)	Insurance agency	Junior secured loan (11.5%, due 8/13)			27,174	27,174	27,174	27,174
		Subordinated note (16.0%, due 8/14)			25,955	25,955	25,955	25,955
		Common stock (23,695 shares) Warrants			23,695	12,355	23,695	12,355
Impact Innovations Group, LLC(4)	Management consulting services	Member interest				322		322
Investor Group Services, LLC(5)	Financial consulting services	Member interest		500				500
Market Track Holdings, LLC	Business media consulting services company	Senior secured revolving loan (8.0%, due 6/14)			2,450	2,392	2,450	2,392
		Junior subordinated loan (15.9%, due 6/14)(2)			24,504	23,166	24,504	23,166
Multi-Ad Services, Inc.(5)	Marketing services and software provider	Senior secured loan (11.3%, due 11/11)			2,491	2,488	2,491	2,488
		Preferred equity			1,737	1,206	1,737	1,206
MVL Group, Inc.(4)	Marketing research provider	Senior secured loan (12.0%, due 7/12)			25,256	25,256	25,256	25,256
		Senior subordinated loan (14.5%, due 7/12)(2)			41,402	36,021	41,402	36,021
		Junior subordinated note (8.0%, due 7/12)(3)			139		139	
		Common stock (560,716 shares)			555		555	
PC Helps Support, LLC	Technology support provider	Senior secured loan (4.3%, due 12/13)			8,210	7,763	8,210	7,763
		Junior subordinated loan (12.8%, due 12/13)			27,013	25,572	27,013	25,572
Pendum Acquisition, Inc.(5)(6)	Outsourced provider of ATM services	Common stock (8,872 shares)						
Pillar Holdings LLC and PHL Holding Co.(5)	Mortgage services	Senior secured revolving loan (5.8%, due 11/13)	1,313	1,313			1,313	1,313
		Senior secured loan (14.5%, due 5/14)	7,375	7,375			7,375	7,375
		Senior secured loan (5.8%, due 11/13)	27,452	27,452			27,452	27,452
		Common stock (84.78 shares)	3,768	7,234			3,768	7,234
Primis Marketing Group, Inc. and Primis Holdings, LLC(5)	Database marketing services	Senior subordinated note (15.5%, due 2/13)(2)(3)	10,222	511			10,222	511
		Preferred units (4,000 units)	3,600				3,600	
		Common units (4,000,000 units)	400				400	
Prommis Solutions LLC, E-Default Services, LLC, Statewide Tax and Title Services, LLC and Statewide Publishing Services, LLC (formerly known as MR)	Bankruptcy and foreclosure processing services	Senior subordinated note (13.5%, due 2/14)(2)	52,892	51,834			52,892	51,834

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Processing Holding Corp.)		Preferred stock (30,000 shares)	3,000	6,221	3,000	6,221
Promo Works, LLC	Marketing services	Senior secured loan (12.3%, due 12/11)		22,994	20,312	22,994
R2 Acquisition Corp.	Marketing services	Common stock (250,000 shares)	250	250	250	250

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Company	Description	Investment	Ares Capital		Allied Capital		Pro Forma Ares Capital	
			Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
SGT India Private Limited(5)	Technology consulting services	Common stock (150,596 shares)			4,158		4,158	
Summit Business Media, LLC	Business media consulting services	Junior secured loan (15.0%, due 11/13)(2)(3)	10,276	1,600			10,276	1,600
Summit Energy Services, Inc.	Energy management consulting services	Common stock (415,982 shares)			1,861	2,150	1,861	2,150
Venturehouse-Cibernet Investors, LLC	Financial settlement services for intercarrier wireless roaming	Equity interest						
VSS-Tranzact Holdings, LLC(5)	Management consulting services	Member interest	10,000	6,000			10,000	6,000
<b>Total</b>			<b>153,692</b>	<b>133,683</b>	<b>502,472</b>	<b>478,417</b>	<b>656,164</b>	<b>612,100</b>
<b>Healthcare</b>								
Air Medical Group Holdings LLC(5)	Medical escort services	Senior secured revolving loan (4.3%, due 3/11)			4,642	4,456	4,642	4,456
		Preferred stock			2,993	20,000	2,993	20,000
American Renal Associates, Inc.	Dialysis provider	Senior secured loan (8.5%, due 12/10)	1,082	1,082			1,082	1,082
		Senior secured loan (8.5%, due 12/11)	10,401	10,401			10,401	10,401
Axium Healthcare Pharmacy, Inc.	Specialty pharmacy provider	Senior subordinated note (8.0%, due 3/15)(2)			2,975	2,380	2,975	2,380
Capella Healthcare, Inc.	Acute care hospital operator	Junior secured loan (13.0%, due 2/16)	85,000	82,450			85,000	82,450
CT Technologies Intermediate Holdings, Inc. and CT Technologies Holdings, LLC(5)	Healthcare analysis services	Preferred stock (7,427 shares)	7,427	7,055			7,427	7,055
		Common stock (11,225 shares)	4,000	8,134			4,000	8,134
DSI Renal, Inc.	Dialysis provider	Senior secured revolving loan (5.3%, due 3/13)	7,890	6,788			7,890	6,788
		Senior secured loan (5.3%, due 4/14)	12,161	14,472			12,161	14,472
		Senior subordinated note (16.0%, due 4/14)(2)	77,114	59,840			77,114	59,840
GC Merger Sub I, Inc.	Drug testing services	Senior secured loan (4.3%, due 12/14)	22,320	20,064			22,320	20,064
HCP Acquisition Holdings, LLC(4)	Healthcare compliance advisory services	Class A units (10,062,095 units)	10,062	7,194			10,062	7,194

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Heartland Dental Care, Inc.	Dental services	Senior subordinated note (14.3%, due 8/13)(2)	32,717	32,717		32,717	32,717
Insight Pharmaceuticals Corporation(4)	OTC drug products manufacturer	Senior subordinated note (15.0%, due 9/12)(2)		54,100	52,098	54,100	52,098
		Common stock (155,000 shares)		40,413	10,419	40,413	10,419
Magnacare Holdings, Inc., Magnacare Administrative Services, LLC, and Magnacare, LLC	Healthcare professional provider	Senior subordinated note (14.8%, due 12/12)(2)	3,241	4,646		3,241	4,646

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Company	Description	Investment	Ares Capital		Allied Capital		Pro Forma Ares Capital	
			Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
MPBP Holdings, Inc., Cohr Holdings, Inc., and MPBP Acquisition Co., Inc.	Healthcare equipment services	Senior secured loan (due 1/14)	512	489			512	489
		Junior secured loan (6.5%, due 1/14)	32,000	8,000			32,000	8,000
		Common stock (50,000 shares)	5,000				5,000	
MWD Acquisition Sub, Inc.	Dental services	Junior secured loan (6.5%, due 5/12)	5,000	4,350			5,000	4,350
OnCURE Medical Corp.	Radiation oncology care provider	Senior secured loan (3.8%, due 8/09)	3,076	2,707			3,076	2,707
		Senior subordinated note (12.5%, due 8/13)(2)	32,542	29,288			32,542	29,288
		Common stock (857,143 shares)	3,000	3,000			3,000	3,000
Passport Health Communications, Inc., Passport Holding Corp, and Prism Holding Corp.	Healthcare technology provider	Senior secured loan (10.5%, due 5/14)	24,471	23,981			24,471	23,981
		Series A preferred stock (1,594,457 shares)	9,900	9,900			9,900	9,900
		Common stock (16,106 shares)	100	100			100	100
PG Mergersub, Inc.	Provider of patient surveys, management reports and national databases for the integrated healthcare delivery system	Senior subordinated note (12.5%, due 3/16)	3,935	3,920			3,935	3,920
		Preferred stock (333 shares)	333	334			333	334
		Common stock (16,667 shares)	167	167			167	167
Reed Group, Ltd.	Medical disability management services provider	Senior secured loan (6.4%, due 12/13)			11,929	9,530	11,929	9,530
		Senior subordinated loan (15.8%, due 12/13)(2)			19,013	14,924	19,013	14,924
		Common equity			1,800		1,800	
Regency Healthcare Group, LLC(5)	Hospice provider	Preferred member interest			1,302	1,841	1,302	1,841
The Schumacher Group of Delaware, Inc.	Outsourced physician service provider	Senior subordinated note (12.1%, due 7/12)(2)	36,138	36,138			36,138	36,138
Soteria Imaging Services, LLC(5)	Outpatient medical imaging provider	Junior secured loan (11.3%, due 11/10)			4,204	4,154	4,204	4,154
		Preferred member interest			1,881	1,283	1,881	1,283
Triad Laboratory Alliance, LLC	Laboratory services	Senior secured loan (8.5%, due 12/11)	4,116	4,282			4,116	4,282
		Senior subordinated note (13.8%, due 12/12)(2)	15,534	15,068			15,534	15,068
VOTC Acquisition Corp.			17,329	17,329			17,329	17,329

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	Radiation oncology care provider	Senior secured loan (13.0%, due 7/12)(2)					
		Series E preferred shares (3,888,222 shares)	8,748	3,800		8,748	3,800
Total			475,316	417,696	145,252	121,085	620,568 538,781

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			Cost	Fair Value	Cost	Fair Value	Ares Capital Cost	Ares Capital Fair Value
<b>Services Other</b>								
3SI Security Systems, Inc.	Cash protection systems provider	Senior subordinated note (16.0%, due 8/13)(3)			20,443	14,865	20,443	14,865
		Subordinated loan (18.0%, due 8/13)(2)(3)			9,030		9,030	
American Residential Services, LLC	Plumbing, heating and air-conditioning services	Junior secured loan (12.0%, due 4/15)(2)	20,505	19,685			20,505	19,685
Avborne, Inc.(4)	Maintenance, repair and overhaul service provider	Preferred stock (12,500 shares)				904		904
		Common stock (27,500 shares)						
Avborne Heavy Maintenance, Inc.(4)	Maintenance, repair and overhaul service provider	Common stock (2,750 shares)						
Aviation Properties Corporation(4)	Aviation services	Common stock (100 shares)			93		93	
Overall North America, Inc.(4)	Commercial janitorial service provider	Senior secured loan (12.0%, due 7/11)			31,565	31,565	31,565	31,565
		Senior subordinated note (15.0%, due 7/11)(2)			5,553	5,553	5,553	5,553
		Common stock (763,333 shares)			14,362	21,261	14,362	21,261
Diversified Collection Services, Inc.	Collections services	Senior secured loan (9.50%, due 8/11)	12,983	14,714			12,983	14,714
		Senior secured loan (13.8%, due 2/11)	1,931	1,931			1,931	1,931
		Senior secured loan (13.8%, due 8/11)	7,492	7,492			7,492	7,492
		Preferred stock (14,927 shares)	169	264			169	264
		Common stock (592,820 shares)	295	286	734	920	1,029	1,206
Driven Brands, Inc.(5)(6)	Automotive aftermarket service provider	Subordinated notes (15.0%, due 7/15)			42,840	41,538	42,840	41,538
		Subordinated loan (18.0%, due 7/15)(2)			46,637	44,860	46,637	44,860
		Common stock (3,772,098 shares)			9,516	2,500	9,516	2,500
Freedom Financial Network, LLC	Debt relief consulting services	Senior subordinated note (13.5%, due 2/14)			5,953	6,000	5,953	6,000
GCA Services Group, Inc.	Custodial services	Senior secured loan (12.0%, due 12/11)	37,788	37,889			37,788	37,889
Growing Family, Inc. and GFH Holdings, LLC	Photography services	Senior secured revolving loan (10.5%, due 8/11)(2)(3)	1,513	454			1,513	454
		Senior secured loan (13.0%, due 8/11)(2)(3)	11,188	3,356			11,188	3,356
		Senior secured loan (11.3%, due 8/11)(3)	372	111			372	111



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		Senior secured loan (15.5%, due 8/11)(2)(3)	3,722	1,117	3,722	1,117
		Common stock (552,430 shares)	872		872	
NPA Acquisition, LLC	Powersport vehicle auction operator	Junior secured loan (7.0%, due 2/13)	12,000	12,000	12,000	12,000
		Common units (1,709 shares)	1,000	2,300	1,000	2,300

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			Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
Tradesmen International, Inc.	Construction labor support	Junior secured loan (12.0%, due 12/12)			39,793	18,347	39,793	18,347
Trover Solutions, Inc.	Healthcare collections services	Junior subordinated loan (12.0%, due 11/12)(2)			56,510	52,568	56,510	52,568
United Road Towing, Inc.	Towing company	Junior secured loan (11.8%, due 1/14)			18,988	18,792	18,988	18,792
Web Services Company, LLC	Laundry service and equipment provider	Senior secured loan (5.3%, due 8/14)	4,582	4,802			4,582	4,802
		Senior subordinated loan (14.0%, due 8/16)(2)	43,743	41,556			43,743	41,556
<b>Total</b>			<b>160,155</b>	<b>147,957</b>	<b>302,017</b>	<b>259,673</b>	<b>462,172</b>	<b>407,630</b>
<b>Consumer Products Non-Durable</b>								
Augusta Sportswear Group, Inc.(6)	Team apparel manufacturer	Common stock (2,500 shares)			2,500	1,523	2,500	1,523
Bushnell, Inc.	Sports optics manufacturer	Junior secured loan (6.8%, due 2/14)			40,161	30,204	40,161	30,204
CR Holding, Inc.(4)(6)	Cleaning products manufacturer	Senior subordinated note (16.6%, due 2/13)(2)(3)			40,510	10,271	40,510	10,271
		Common stock (32,090,696 shares)			28,744		28,744	
Gilchrist & Soames, Inc.	Personal care manufacturer	Senior subordinated loan (13.4%, due 10/13)			25,186	23,101	25,186	23,101
The Homax Group, Inc.(6)	Home improvement products manufacturer	Senior secured loan (6.2%, due 10/12)(2)			9,997	9,059	9,997	9,059
		Senior secured revolver (8.0% due 10/12)(2)			75	109	75	109
		Senior subordinated note (14.5%, due 4/14)(2)			13,619	4,945	13,619	4,945
		Preferred stock (76 shares)			76		76	
		Common stock (24 shares)			5		5	
		Warrants			954		954	
Innovative Brands, LLC	Consumer products and personal care manufacturer	Senior secured loan (15.5%, due 9/11)	17,421	17,421			17,421	17,421
Making Memories Wholesale, Inc.(4)	Scrapbooking branded products manufacturer	Senior secured loan (10.0%, due 8/14)	7,869	9,875			7,869	9,875
		Senior secured loan (15.0%, due 8/14)(2)	4,070	3,025			4,070	3,025
		Common stock (100 shares)						
Progressive International Corporation(5)(6)	Kitchenware manufacturer	Preferred stock (500 shares)			500	5,847	500	5,847
		Common stock (197 shares) Warrants			13	153	13	153

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Shoes for Crews, LLC	Safety footwear and slip-related mat manufacturer	Senior secured loan (5.5%, due 7/10)	304	302		304	302
The Step2 Company, LLC	Toy manufacturer	Senior secured loan (11.0%, due 4/12)(2)		94,396	89,550	94,396	89,550
		Equity interests		2,156	1,528	2,156	1,528

See accompanying notes to pro forma condensed consolidated financial statements.

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Company	Description	Investment	Ares Capital		Allied Capital		Pro Forma Ares Capital	
			Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
The Thymes, LLC(4)	Cosmetic products manufacturer	Preferred stock (8.0%, 6,283 shares)(2)	6,283	5,654			6,283	5,654
		Common stock (5,400 shares)						
Wear Me Apparel, LLC(5)(6)	Clothing manufacturer	Senior subordinated note (17.5%, due 4/13)(2)(3)	24,110	18,083	127,316	71,345	151,426	89,428
		Subordinated note (9.0%, due 4/14)(3)			11,243		11,243	
		Common stock (10,086 shares)	10,000		39,549		49,549	
Woodstream Corporation(6)	Pest control, wildlife caring and control products manufacturer	Senior subordinated note (12.0%, due 2/15)			89,678	74,221	89,678	74,221
		Common stock (6,960 shares)			6,961	2,000	6,961	2,000
Total			70,057	54,360	533,639	323,856	603,696	378,216
<b>Restaurants and Food Services</b>								
ADF Capital, Inc. and ADF Restaurant Group, LLC	Restaurant owner and operator	Senior secured revolving loan (6.5%, due 11/13)	3,418	3,418			3,418	3,418
		Senior secured loan (12.5%, due 11/12)(2)	34,691	34,684			34,691	34,684
		Promissory note (12.0%, due 11/16)(2)	13,093	13,795			13,093	13,795
		Warrants to purchase 0.61 shares		4,370				4,370
Encanto Restaurants, Inc.	Restaurant owner and operator	Junior secured loan (11.0%, due 8/13)(2)	25,438	24,166			25,438	24,166
Hot Light Brands, Inc.(4)	Restaurant owner and operator	Senior secured loan (9.0%, due 2/11)(3)			30,572	10,471	30,572	10,471
		Common stock (93,500 shares)			5,151		5,151	
Hot Stuff Foods, LLC(4)	Convenience food service retailer	Senior secured loan (3.7%, due 2/11)			610	610	610	610
		Senior secured loan (3.7%, due 2/12)			44,700	44,807	44,700	44,807
		Junior secured loan (7.2% due 8/12)(3)			31,237	34,900	31,237	34,900
		Senior subordinated note (15.0%, due 2/13)(2)(3)			31,401	14,901	31,401	14,901
		Subordinated note (16.0%, due 2/13)(2)(3)			20,749		20,749	
		Common stock (1,147,453 shares)			56,187		56,187	
Huddle House, Inc.(4)	Restaurant owner and operator	Senior subordinated note (15.0%, due 12/15)(2)			19,494	19,494	19,494	19,494
		Common stock (358,428 shares)			36,348	7,651	36,348	7,651
OTG Management, Inc.	Airport restaurant operator	Junior secured loan (20.5%, due 6/13)(2)	15,884	15,884			15,884	15,884
		Warrants to purchase 89,000 shares		750				750
S.B. Restaurant Company					38,184	33,606	38,184	33,606

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Restaurant owner and operator	Senior secured loan (9.8%, due 4/11)		
	Preferred stock (46,690 shares)	117	117
	Warrants	534	534

See accompanying notes to pro forma condensed consolidated financial statements.

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Company	Description	Investment	Ares Capital		Allied Capital		Pro Forma Ares Capital	
			Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
Vistar Corporation and Wellspring Distribution Corporation	Food service distributor	Senior subordinated note (13.5%, due 5/15)	73,625	69,944			73,625	69,944
		Class A non-voting common stock (1,366,120 shares)	7,500	3,253			7,500	3,253
Total			173,649	170,264	315,284	166,440	488,933	336,704
<b>Beverage, Food and Tobacco</b>								
3091779 Nova Scotia Inc.	Baked goods manufacturer	Junior secured loan (14.0%, due 11/12)(2)	15,047	11,278			15,047	11,278
		Senior secured revolving loan (8.0%, due 11/12)	6,757	7,127			6,757	7,127
		Warrants to purchase 57,545 shares						
Apple & Eve, LLC and US Juice Partners, LLC(5)	Juice manufacturer	Senior secured loan (14.5%, due 10/13)	36,086	35,726			36,086	35,726
		Senior units (50,000 units)	5,000	3,500			5,000	3,500
Best Brands Corporation	Baked goods manufacturer	Senior secured loan (7.5%, due 12/12)(2)	10,966	13,135			10,966	13,135
		Senior secured loan (7.5%, due 6/13)(2)	7,462	8,759			7,462	8,759
		Junior secured loan (16.0%, due 6/13)(2)	48,397	49,036			48,397	49,036
Border Foods, Inc.(4)	Green chile and jalapeno products manufacturer	Senior secured loan (12.9%, due 3/12)			29,495	34,876	29,495	34,876
		Preferred stock (100,000 shares)			12,721	16,585	12,721	16,585
		Common stock (260,467 shares)			3,847		3,847	
Bumble Bee Foods, LLC and BB Co-Invest LP	Canned seafood manufacturer	Senior subordinated loan (16.3%, due 11/18)(2)	30,756	30,756			30,756	30,756
		Common stock (4,000 shares)	4,000	5,700			4,000	5,700
Charter Baking Company, Inc.	Baked goods manufacturer	Senior subordinated note (13.0%, due 2/13)(2)	5,874	5,874			5,874	5,874
		Preferred stock (6,258 shares)	2,500	1,725			2,500	1,725
Distant Lands Trading Co.	Coffee manufacturer	Senior secured revolving loan (6.3%, due 11/11)			6,781	6,358	6,781	6,358
		Senior secured loan (11.0%, due 11/11)			43,499	41,967	43,499	41,967
		Common stock (3,451 shares)			3,451	1,147	3,451	1,147
Farley's & Sathers Candy Company, Inc.(6)	Confections manufacturer	Junior secured loan (8.3%, due 3/11)			2,496	2,492	2,496	2,492
Ideal Snacks Corporation	Snacks manufacturer	Senior secured loan (8.5%, due 6/11)			1,084	1,068	1,084	1,068
Total			172,845	172,616	103,374	104,493	276,219	277,109

**Education**

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Campus Management Corp. and Campus Management Acquisition Corp.(5)	Education software developer	Senior secured loan (16.0%, due 8/13)(2)	33,774	33,774	33,774	33,774
		Senior secured loan (13.0%, due 8/13)(2)	9,028	9,028	9,028	9,028
		Preferred stock (8.0%, 493,147 shares)(2)	8,952	12,800	8,952	12,800

See accompanying notes to pro forma condensed consolidated financial statements.

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Company	Description	Investment	Ares Capital		Allied Capital		Pro Forma Ares Capital	
			Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
Community Education Centers, Inc.	Offender re-entry and in-prison treatment services provider	Senior subordinated loan (19.5%, due 11/13)(2)			36,602	36,501	36,602	36,501
eInstruction Corporation	Developer, manufacturer and retailer of educational products	Junior secured loan (7.8%, due 7/14)			16,938	15,471	16,938	15,471
		Subordinated loan (16.0%, due 1/15)(2)			19,013	17,237	19,013	17,237
		Common stock (2,406 shares)			2,500	750	2,500	750
ELC Acquisition Corporation	Developer, manufacturer and retailer of educational products	Senior secured loan (3.5%, due 11/12)	162	154			162	154
		Junior secured loan (7.3%, due 11/13)	8,333	7,917			8,333	7,917
Instituto de Banca y Comercio, Inc. Leeds IV Advisors, Inc.	Private school operator	Senior secured revolving loan (6.5%, due 3/14)	1,232	1,232			1,232	1,232
		Senior secured loan (8.5%, due 3/14)	11,730	11,730			11,730	11,730
		Senior subordinated loan (16.0%, due 6/14)(2)	30,644	30,644			30,644	30,644
		Preferred stock (306,388 shares)	1,456	3,479			1,456	3,479
		Common stock (354,863 shares)	89	4,029			89	4,029
Lakeland Finance, LLC	Private school operator	Senior secured note (11.5%, due 12/12)	33,000	33,000			33,000	33,000
R3 Education, Inc.(5)	Medical school operator	Senior secured revolving loan (6.3%, due 12/12)	1,186	1,162			1,186	1,162
		Senior secured loan (6.3%, due 12/12)	21,388	20,960			21,388	20,960
		Member interest	15,800	17,185			15,800	17,185
		Preferred stock (8,800 shares)	2,200	2,200			2,200	2,200
<b>Total</b>			<b>178,974</b>	<b>189,294</b>	<b>75,053</b>	<b>69,959</b>	<b>254,027</b>	<b>259,253</b>
<b>Manufacturing</b>								
Arrow Group Industries, Inc.	Residential and outdoor shed manufacturer	Senior secured loan (5.3%, due 4/10)	5,653	5,223			5,653	5,223
Broadcast Electronics, Inc.(6)	Radio manufacturer	Senior secured loan (8.8%, due 11/11)(2)(3)			4,847	340	4,847	340
		Preferred stock (2,044 shares)						
Component Hardware Group, Inc.	Commercial equipment manufacturer	Senior subordinated note (13.5%, due 1/13)(2)			18,876	16,587	18,876	16,587
Emerald Performance Materials, LLC	Polymers and performance materials	Senior secured loan (8.3%, due 5/11)	9,554	9,172			9,554	9,172



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manufacturer

Senior secured loan (8.5%, due 5/11)	156	150	156	150
Senior secured loan (10.0%, due 5/11)	1,604	1,508	1,604	1,508
Senior secured loan (16.0%, due 5/11)(2)	4,900	4,704	4,900	4,704

See accompanying notes to pro forma condensed consolidated financial statements.

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Company	Description	Investment	Ares Capital		Allied Capital		Pro Forma Ares Capital	
			Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
Jakel, Inc.(4)	Electric motor manufacturer	Senior subordinated loan (15.5%, due 3/08)(2)(3)			748	374	748	374
NetShape Technologies, Inc.	Metal precision engineered components manufacturer	Senior secured loan (4.0%, due 2/13)			875	368	875	368
Penn Detroit Diesel Allison, LLC(4)	Diesel engine manufacturer	Member interest			20,081	13,870	20,081	13,870
Postle Aluminum Company, LLC(5)	Aluminum distribution provider	Senior secured loan (6.0%, due 10/12)(2)(3)			34,876	15,308	34,876	15,308
		Senior subordinated loan (3.0%, due 10/12)(2)(3)			23,868		23,868	
		Member interest			2,174		2,174	
Qualitor, Inc.	Automotive aftermarket components supplier	Senior secured loan (6.0%, due 12/11)	1,743	1,656			1,743	1,656
		Junior secured loan (9.0%, due 6/12)	5,000	4,750			5,000	4,750
Reflexite Corporation(4)	Developer and manufacturer of high-visibility reflective products	Senior subordinated loan (18.0%, due 2/15)(2)	16,557	16,557			16,557	16,557
		Common stock (1,821,860 shares)	27,435	24,898			27,435	24,898
Saw Mill PCG Partners LLC	Precision components manufacturer	Common units (1,000 units)	1,000				1,000	
Service Champ, Inc.(4)(6)	Automotive aftermarket components supplier	Senior subordinated loan (15.5%, due 4/12)(2)			27,515	27,515	27,515	27,515
		Common stock (55,112 shares)			11,785	28,321	11,785	28,321
Stag-Parkway, Inc.(4)	Automotive aftermarket components supplier	Junior subordinated loan (10.0%, due 7/12)			19,000	19,000	19,000	19,000
		Common stock (25,000 shares)			32,686	7,359	32,686	7,359
STS Operating, Inc.	Hydraulic systems equipment and supplies provider	Senior subordinated note (11.0%, due 1/13)			30,313	27,305	30,313	27,305
Tappan Wire & Cable Inc.	Specialty wire and cable manufacturer	Senior secured loan (15.0%, due 8/14)(3)			22,248	4,515	22,248	4,515
		Common stock (12,940 shares)			2,043		2,043	
		Warrant						
TransAmerican Auto Parts, LLC	Automotive aftermarket parts retailer and supplier	Senior subordinated note (18.3%, due 11/12)(2)(3)			24,409		24,409	

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		Preferred member interest		923		923	
		Common member interest		110		110	
Universal Trailer Corporation(5)	Livestock and specialty trailer manufacturer	Common stock (74,920 shares)	7,930			7,930	
Total			81,532	68,618	277,377	160,862	358,909 229,480

See accompanying notes to pro forma condensed consolidated financial statements.

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Company	Description	Investment	Ares Capital		Allied Capital		Pro Forma Ares Capital	
			Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
<b>Retail</b>								
Apogee Retail, LLC	For-profit thrift retailer	Senior secured loan (5.5%, due 3/12)	4,840	4,356			4,840	4,356
		Senior secured loan (16.0%, due 11/12)(2)	11,296	11,296			11,296	11,296
		Senior secured loan (5.5%, due 3/12)	38,438	34,595			38,438	34,595
Dufry AG	Retail newsstand operator	Common stock (39,056 shares)	3,000	2,200			3,000	2,200
Savers, Inc. and SAI Acquisition Corp.	For-profit thrift retailer	Senior subordinated note (12.0%, due 8/14)(2)	28,280	27,715			28,280	27,715
		Common stock (1,170,182 shares)	4,500	5,840			4,500	5,840
Things Remembered, Inc. and TRM Holdings Corporation	Personalized gift retailer	Senior secured loan (6.5%, due 9/12)(2)	40,211	28,148			40,211	28,148
		Preferred stock (800 shares)	200				200	
		Common stock (80 shares)	1,800				1,800	
		Warrants to purchase 858 common shares						
		Warrants to purchase 73 preferred shares						
Total			132,565	114,150			132,565	114,150
<b>Consumer Products Durable</b>								
Carlisle Wide Plank Floors, Inc.	Hardwood floor manufacturer	Senior secured loan (12.0%, due 6/11)			1,637	1,533	1,637	1,533
		Common stock (345,056 shares)			345		345	
Direct Buy Holdings, Inc. and Direct Buy Investors, LP(5)	Membership based buying club franchisor and operator	Senior secured loan (6.8%, due 11/12)	2,199	1,710			2,199	1,710
		Senior subordinated note (16.0%, due 5/13)(2)			76,139	60,287	76,139	60,287
		Limited partnership interest			8,000		8,000	
		Limited partnership interest	10,000	2,500			10,000	2,500
Havco Wood Products LLC	Laminated oak and fiber-reinforced composite flooring manufacturer for trailers	Member interest			910		910	
Total			12,199	4,210	87,031	61,820	99,230	66,030
<b>Computers and Electronics</b>								
Network Hardware Resale, Inc.	Networking equipment resale provider	Senior secured loan (12.8%, due 12/11)(2)			16,382	16,330	16,382	16,330
		Convertible subordinated loan (9.8%, due 12/15)(2)			16,000	16,000	16,000	16,000
RedPrairie Corporation	Software manufacturer	Junior secured loan (7.0%, due 1/13)	15,300	14,535			15,300	14,535

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TZ Merger Sub, Inc.	Computers and electronics	Senior secured loan (7.5%, due 7/15)	4,726	4,830		4,726	4,830
X-rite, Incorporated	Artwork software manufacturer	Junior secured loan (14.4%, due 7/13)	10,906	10,906		10,906	10,906
<b>Total</b>			<b>30,932</b>	<b>30,271</b>	<b>32,382</b>	<b>32,330</b>	<b>63,314</b>

See accompanying notes to pro forma condensed consolidated financial statements.

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Company	Description	Investment	Ares Capital		Allied Capital		Pro Forma Ares Capital	
			Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
<b>Printing, Publishing and Media</b>								
Canon Communications LLC	Print publications services	Junior secured loan (13.8%, due 11/11)(2)	24,032	20,435			24,032	20,435
Courtside Acquisition Corp.	Community newspaper publisher	Senior subordinated loan (17.0%, due 6/14)(2)(3)	34,295				34,295	
EarthColor, Inc.	Printing management services	Subordinated note (15.0%, due 11/13)(2)(3)			123,385		123,385	
		Common stock (63,438 shares) Warrants			63,438		63,438	
LVCG Holdings LLC(4)	Commercial printer	Member interest	6,600	1,980			6,600	1,980
National Print Group, Inc.	Printing management services	Senior secured revolving loan (9.0%, due 3/12)	1,826	1,114			1,826	1,114
		Senior secured revolving loan (8.3%, due 3/12)	272	166			272	166
		Senior secured loan (16.0%, due 3/12)(2)	8,016	4,928			8,016	4,928
		Preferred stock (9,344 shares)	2,000				2,000	
The Teaching Company, LLC and The Teaching Company Holdings, Inc.	Education publications	Senior secured loan (10.5%, due 9/12)	28,000	28,000			28,000	28,000
		Preferred stock (29,969 shares)	2,997	3,873			2,997	3,873
		Common stock (15,393 shares)	3	4			3	4
Total			108,041	60,500	186,823		294,864	60,500
<b>Aerospace &amp; Defense</b>								
AP Global Holdings, Inc.	Safety and security equipment manufacturer	Senior secured loan (4.8%, due 10/13)	7,671	7,110			7,671	7,110
ILC Industries, Inc.	Industrial products provider	Junior secured loan (11.5%, due 8/12)	12,000	12,000			12,000	12,000
Thermal Solutions LLC and TSI Group, Inc.	Thermal management and electronics packaging manufacturer	Senior secured loan (4.0%, due 3/11)	572	549			572	549
		Senior secured loan (4.5%, due 3/12)	2,740	2,494			2,740	2,494
		Senior subordinated notes (14.0%, due 3/13)(2)	2,730	2,593			2,730	2,593
		Senior subordinated notes (14.3%, due 9/12)(2)	5,544	5,267			5,544	5,267
		Preferred stock (71,552 shares) Common stock (1,460,246 shares)	716 15	716 15			716 15	716 15
Wyle Laboratories, Inc. and Wyle Holdings, Inc.	Provider of specialized engineering, scientific and	Junior secured loan (15.0%, due 7/14)	28,000	28,000			28,000	28,000

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technical services					
	Junior preferred stock (10.0%, 14,655 shares)(2)	1,816	1,455	1,816	1,455
	Senior preferred stock (8.0%, 775 shares)(2)	96	77	96	77
	Common stock (151,439)	188	148	188	148
Total		62,088	60,424	62,088	60,424

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Company	Description	Investment	Ares Capital		Allied Capital		Pro Forma	
			Cost	Fair Value	Cost	Fair Value	Ares Capital Cost	Ares Capital Fair Value
<b>Telecommunications</b>								
American Broadband Communications, LLC and American Broadband Holding Co.	Broadband communication services	Senior subordinated loan (18.0%, due 11/14)(2)	42,584	42,584			42,584	42,584
		Warrants to purchase 170 shares						
Startec Equity, LLC(4)	Communication services	Member interest			211		211	
Total Telecommunications			42,584	42,584	211		42,795	42,584
<b>Oil and Gas</b>								
Geotrace Technologies, Inc.	Reservoir processing, development services, and data management services	Warrants			2,027	2,300	2,027	2,300
IAT Equity, LLC and Affiliates d/b/a Industrial Air Tool(4)	Industrial products distributor	Senior subordinated note (9.0%, due 6/14)			6,000	6,000	6,000	6,000
		Member interest			7,500	9,948	7,500	9,948
UL Holding Co., LLC	Petroleum product manufacturer	Senior secured loan (9.3%, due 12/12)	10,945	10,726			10,945	10,726
		Senior secured loan (14.0%, due 12/12)	6,965	6,825			6,965	6,825
		Senior secured loan (9.4%, due 12/12)	2,985	2,925			2,985	2,925
		Common units (100,000 units)	500	500			500	500
Total			21,395	20,976	15,527	18,248	36,922	39,224
<b>Environmental Services</b>								
AWTP, LLC	Water treatment services	Junior secured loan (11.5%, due 12/12)(3)	13,682	6,841			13,682	6,841
Mactec, Inc.	Engineering and environmental services	Class B-4 stock (16 shares)						
		Class C stock (5,556 shares)		150				150
Oahu Waste Services, Inc.	Waste management services	Stock appreciation rights			206	406	206	406
Sigma International Group, Inc.	Water treatment parts manufacturer	Junior secured loan (15.0%, due 10/13)	17,500	12,250			17,500	12,250
Universal Environmental Services, LLC(5)	Hydrocarbon recycling and related waste management services and products	Preferred member interest			1,599		1,599	
Waste Pro USA, Inc.			12,263	13,263			12,263	13,263



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	Waste management services	Class A common stock (611,614.80 shares)					
Wastequip, Inc.(5)	Waste management equipment manufacturer	Senior subordinated loan (12.0%, due 2/15)(2)	13,030	3,936		13,030	3,936
		Common stock (13,889 shares)	1,389			1,389	
Total			57,864	36,440	1,805	406	59,669

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Company	Description	Investment	Ares Capital		Allied Capital		Pro Forma Ares Capital	
			Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
<b>Cargo Transport</b>								
The Kenan Advantage Group, Inc.	Fuel transportation provider	Senior subordinated note (13.0%, due 12/13)(2)	25,899	25,381			25,899	25,381
		Senior secured loan (3.0%, due 12/11)	2,407	2,238			2,407	2,238
		Preferred stock (10,984 shares)	1,098	1,459			1,098	1,459
		Common stock (30,575 shares)	31	41			31	41
Total			29,435	29,119			29,435	29,119
<b>Health Clubs</b>								
Athletic Club Holdings, Inc.	Premier health club operator	Senior secured loan (4.8%, due 10/13)	26,741	23,532			26,741	23,532
		Senior secured loan (7.8%, due 10/13)	4	4			4	4
		Senior secured loan (6.8%, due 10/13)	5	4			5	4
Total			26,750	23,540			26,750	23,540
<b>Buildings and Real Estate</b>								
10th Street, LLC(5)	Document storage and management services	Senior subordinated note (13.0%, due 11/14)(2)			22,004	22,100	22,004	22,100
		Member interest			422	485	422	485
		Option			25	25	25	25
Total					22,451	22,610	22,451	22,610
<b>Containers Packaging</b>								
Industrial Container Services, LLC(5)	Industrial container manufacturer reconditioner and servicer	Senior secured loan (4.3%, due 9/11)	14,104	13,400			14,104	13,400
		Common stock (1,800,000 shares)	1,800	8,550			1,800	8,550
Total			15,904	21,950			15,904	21,950
<b>Grocery</b>								
Planet Organic Health Corp.	Organic grocery store operator	Junior secured loan (13.0%, due 7/14)	11,099	10,554			11,099	10,554
		Senior subordinated loan (17.0%, due 7/12)(2)	12,288	9,873			12,288	9,873
Total			23,387	20,427			23,387	20,427
<b>Hotels, Motels, Inns &amp; Gaming</b>								
Crescent Equity Corporation(4)	Hospitality management services	Senior secured loan (10.0%, due 6/10)			433	433	433	433
					2,106		2,106	

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	Subordinated notes (11.0%, due 9/11)(3)				
	Subordinated notes (11.0%, due 1/12)(3)	7,189	997	7,189	997
	Subordinated notes (11.0%, due 9/12)(3)	10,769	1,464	10,769	1,464
	Subordinated notes (11.0%, due 6/17)(3)	12,048	1,742	12,048	1,742
	Common stock (174 shares)	82,730		82,730	
<b>Total</b>		<b>115,275</b>	<b>4,636</b>	<b>115,275</b>	<b>4,636</b>

See accompanying notes to pro forma condensed consolidated financial statements.

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Company	Description	Investment	Ares Capital		Allied Capital		Pro Forma Ares Capital	
			Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
<b>Housing Building Materials</b>								
HB&G Building Products	Synthetic and wood product manufacturer	Senior subordinated loan (19.0%, due 3/11)(2)(3)	8,984	448			8,984	448
		Common stock (2,743 shares)	753				753	
		Warrants to purchase 4,464 shares	653				653	
<b>Total</b>			<b>10,390</b>	<b>448</b>			<b>10,390</b>	<b>448</b>
<b>Commercial Real Estate Finance</b>								
Commercial Mortgage Loans	3 loans	Up to 6.99%			32,143	31,006	32,143	31,006
	2 loans	7.00% - 8.99%			1,876	1,864	1,876	1,864
	1 loan	9.00% - 10.99%			6,476	6,476	6,476	6,476
	1 loan	11.00% - 12.99%			10,479	6,319	10,479	6,319
	2 loans	15.00% and above			3,970	4,848	3,970	4,848
<b>Real Estate Owned</b>					5,937	6,179	5,937	6,179
<b>Real Estate Equity Interests</b>					13,185	11,831	13,185	11,831
<b>Total</b>					<b>74,066</b>	<b>68,523</b>	<b>74,066</b>	<b>68,523</b>
<b>Other</b>								
Other Companies		Other debt investments			(151)	(151)	(151)	(151)
		Other equity investments			41	8	41	8
<b>Total</b>					<b>(110)</b>	<b>(143)</b>	<b>(110)</b>	<b>(143)</b>
<b>Pro Forma Adjustments:</b>								
Actual Sales of Allied Capital Investments subsequent to September 30, 2009(6)					(703,373)	(504,630)	(703,373)	(504,630)
Estimated Purchase Price Allocation Adjustment(1)								(258,326)
<b>Total Investments</b>			<b>\$2,245,137</b>	<b>\$1,967,724</b>	<b>\$3,564,961</b>	<b>\$2,006,564</b>	<b>\$5,810,098</b>	<b>\$3,715,962</b>

(1) Upon consumation of the merger and in accordance with ASC 805-10 (previously SFAS No. 141(r)), *Business Combinations*, Ares Capital will be required to allocate the purchase price of Allied Capital's assets based on Ares Capital's estimate of fair value and record such fair value as the cost basis and initial fair value of each such investment in Ares Capital's financial statements. In this regard, Ares Capital's management determined that the aggregate adjustment to Allied Capital's investments approximates \$258.3 million. As a result, such adjustment has been reflected in a single line item entitled "Estimated Purchase Price Allocation Adjustment." However, a final determination of the fair value of Allied Capital's investments will be made after the merger is completed and, as a result, the actual amount of this adjustment may vary from the preliminary amount set forth herein. Thus, the information set forth in the columns reflect historical amounts and have not been individually adjusted to reflect the Estimated Purchase Price Allocation Adjustment.

(2) Has a payment-in-kind (PIK) interest feature.

(3)

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Loan is on non-accrual status at September 30, 2009.

- (4) As defined in the Investment Company Act, the combined company "Controls" this portfolio company because it owns 25% or more of its outstanding voting securities and/or the combined company has the power to exercise control over the management or policies of the portfolio company.
- (5) As defined in the Investment Company Act, the combined company is an "Affiliated Person" to this portfolio company because it owns 5% or more of its outstanding voting securities and/or the combined company has the power to exercise control over the management or policies of the portfolio company (including through a management agreement).
- (6) Allied Capital's investment was fully or partially sold subsequent to September 30, 2009. Total net realized losses on these sales were \$190 million and the related reversal of net unrealized depreciation was \$199 million. Allied Capital's \$165 million investment in the Senior Secured Loan Fund LLC (formerly known as the Unitranche Fund LLC), or the "SL Fund," was sold to Ares Capital subsequent to September 30, 2009. Additionally, a portion of Allied Capital's investment in Woodstream Corporation was sold to Ares Capital and portions of Allied Capital's investments in Service Champ, Inc. and Driven Brands Inc. were sold to Ares Capital and Ivy Hill Middle Market Credit Fund, Ltd., or "Ivy Hill I," subsequent to September 30, 2009. Allied Capital's \$33 million investment in the Allied Capital Senior Debt Fund, L.P., or the "SD Fund," was sold to IHAM, a portfolio company of Ares Capital, subsequent to September 30, 2009. The SD Fund is now referred to as "Ivy Hill SDF."

See accompanying notes to pro forma condensed consolidated financial statements.

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**Ares Capital Corporation and Subsidiaries**  
**Notes to Pro Forma Condensed Consolidated Financial Statements**  
**Unaudited**  
**(In thousands, except share and per share data unless otherwise stated)**

**1. BASIS OF PRO FORMA PRESENTATION**

The unaudited pro forma condensed consolidated financial information related to the merger is included as of and for the nine months ended September 30, 2009 and for the year ended December 31, 2008. On October 26, 2009, Ares Capital and Allied Capital entered into the merger agreement. For the purposes of the pro forma condensed consolidated financial statements, the purchase price is currently estimated at approximately \$724 million, which is based upon a price of \$12.42 per share (last closing price as of February 1, 2010) of Ares Capital common stock and an implied value per share of Allied Capital common stock of \$4.04. The pro forma adjustments included herein reflect the conversion of Allied Capital common stock into Ares Capital common stock using an exchange ratio of 0.325 of a share of Ares Capital common stock for each of the approximately 179.4 million shares of Allied Capital common stock outstanding as of September 30, 2009.

The merger will be accounted for as an acquisition of Allied Capital by Ares Capital 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 acquiree based on their fair values as of the date of acquisition. As described in more detail in ASC 805-10, goodwill, if any, will be recognized as of the acquisition date, for the excess of the consideration transferred over the fair value of identifiable net assets acquired. 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. In connection with the merger and subsequent combination, the estimated fair value of the net assets to be acquired is currently anticipated to exceed the purchase price, and based on Ares Capital's preliminary purchase price allocation, a gain of approximately \$307 million is currently expected to be recorded by Ares Capital in the period the merger and subsequent combination are completed.

Under the Investment Company Act rules, the regulations pursuant to Article 6 of Regulation S-X and the American Institute of Certified Public Accountants' Audit and Accounting Guide for Investment Companies, Ares Capital is precluded from consolidating any entity other than another investment company or an operating company that provides substantially all of its services and benefits to Ares Capital. Ares Capital's financial statements include its accounts and the accounts of all its consolidated subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

In determining the value of the assets to be acquired, Ares Capital uses 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 generally accepted accounting principles 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 Ares Capital to assume that the portfolio investment is sold in a 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, Ares Capital has considered its principal market as the market in which Ares Capital 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

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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 Ares Capital 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, Ares Capital continues to employ the relevant provisions of its valuation policy, which policy is consistent with ASC 820-10. Consistent with Ares Capital's valuation policy, the source of inputs, including any markets in which Ares Capital's investments are trading (or any markets in which securities with similar attributes are trading), are evaluated in determining fair value. Ares Capital's valuation policy considers the fact that because there is not a readily available market value for most of the investments in Ares Capital's portfolio, the fair value of its 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 Ares Capital's investments may fluctuate from period to period. Additionally, the fair value of Ares Capital's 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 Ares Capital 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 Ares Capital were required to liquidate a portfolio investment in a forced or liquidation sale, Ares Capital may realize significantly less than the value at which Ares Capital has recorded it.

The following table presents fair value measurements of investments for the pro forma combined company as of September 30, 2009:

	<b>Fair Value Measurements Using</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Investments	\$ 3,715,962	\$	\$ 27,904	\$ 3,688,058

The following tables present changes in investments that use Level 3 inputs between the actual September 30, 2009 amounts and those presented for the pro forma combined company as of September 30, 2009:

	<b>Ares Capital</b>	<b>Allied Capital</b>	<b>Pro Forma Adjustments</b>	<b>Pro Forma Ares Capital Combined</b>
Actual balance as of September 30, 2009	\$ 1,939,820	\$ 2,511,194	\$	\$ 4,451,014
Estimated purchase price allocation adjustment			(258,326)	(258,326)
Actual sales of Allied Capital investments subsequent to September 30, 2009		(504,630)		(504,630)
Net transfers in and/or out of Level 3				
Pro Forma Balance as of September 30, 2009	\$ 1,939,820	\$ 2,006,564	\$ (258,326)	\$ 3,688,058

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As of September 30, 2009, the net unrealized loss on the investments that use Level 3 inputs for the pro forma combined company was \$1.6 billion.

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 would be realized based on the valuations currently assigned.

Certain other transactions that affect the purchase price that occurred subsequent to September 30, 2009 have been adjusted for in the unaudited pro forma condensed consolidated balance sheet. These primarily include sales of investments and receivables of \$523 million for Allied Capital as well as the related paydown of \$260.7 million of debt of Allied Capital.

The unaudited pro forma condensed consolidated financial information includes preliminary estimated purchase price allocation adjustments to record the assets and liabilities of Allied Capital at their respective estimated fair values and represents Ares Capital's management's estimates based on available information. The pro forma adjustments included herein may be revised as additional information becomes available and as additional analyses are performed. The final allocation of the purchase price will be determined after the merger and subsequent combination are completed and after completion of a final analysis to determine the estimated fair values of Allied Capital's assets and liabilities. Accordingly, the final purchase accounting adjustments and integration charges may be materially different from the pro forma adjustments presented in this document. Increases or decreases in the estimated fair values of the net assets, commitments, and other items of Allied Capital as compared to the information shown in this document may change the amount of the purchase price allocated to goodwill or recognized as income in accordance with ASC 805-10.

Ares Capital 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, Ares Capital is required to timely distribute to its stockholders generally at least 90% of its investment company taxable income, as defined by the Code, for each year. The unaudited pro forma condensed consolidated financial information reflects that Ares Capital has made and intends to continue to make the requisite distributions to its stockholders, which will generally relieve Ares Capital from U.S. federal income taxes.

The unaudited pro forma condensed consolidated financial information presented in this document is for illustrative purposes only and does not necessarily indicate the results of operations or the combined financial position that would have resulted had the merger and subsequent combination been completed at the beginning of the applicable period presented, nor the impact of expense efficiencies, asset dispositions, share repurchases and other factors. The unaudited pro forma condensed consolidated financial information is not indicative of the results of operations in future periods or the future financial position of the combined company.

## **2. PRELIMINARY PURCHASE ACCOUNTING ALLOCATIONS**

The unaudited pro forma condensed consolidated financial information for the merger and subsequent combination includes the unaudited pro forma condensed consolidated balance sheet as of September 30, 2009 assuming the merger and subsequent combination were completed on September 30, 2009. The unaudited pro forma condensed consolidated income statements for the nine months ended September 30, 2009 and for the year ended December 31, 2008 were prepared assuming the merger and subsequent combination were completed on January 1, 2008.

The unaudited pro forma condensed consolidated financial information reflects the issuance of approximately 58.3 million shares of Ares Capital common stock in connection with the merger but does not reflect (1) the issuance of 21 million shares of common stock on February 1, 2010 (or the issuance of an additional approximately 2 million shares of common stock on February 10, 2010 to cover the underwriters' exercise of the over-allotment option) pursuant to Ares Capital's public add-on



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equity offering, or the "February Add-on Offering," or (2) Ares Capital's dividend paid and the distribution of shares in connection with its dividend reinvestment plan on December 31, 2009. The February Add-on Offering was completed 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 million. The Pro Forma Ares Capital Combined net assets per share as of September 30, 2009 would have been \$13.18 if the February Add-on Offering were reflected.

The merger and subsequent combination will be accounted for using the purchase method of accounting; accordingly, Ares Capital's cost to acquire Allied Capital will be allocated to the assets and liabilities of Allied Capital at their respective fair values estimated by Ares Capital as of the acquisition date. The amount of the total acquisition date fair value of the identifiable net assets acquired that exceeds the total purchase price, if any, will be recognized as a gain. Accordingly, the pro forma purchase price has been allocated to the assets acquired and the liabilities assumed based on Ares Capital's currently estimated fair values as summarized in the following table:

Common stock issued	\$	723,994
Payment of "in-the-money" Allied Capital stock options		30,340(1)
<b>Total purchase price</b>	<b>\$</b>	<b>754,334</b>
Assets acquired:		
Investments	\$	1,748,238
Cash and cash equivalents		30,341
Other assets		123,239
<b>Total assets acquired</b>		<b>1,901,818</b>
<b>Debt and other liabilities assumed</b>		<b>(840,824)</b>
<b>Net assets acquired</b>		<b>1,060,994</b>
<b>Gain on acquisition of Allied Capital</b>		<b>(306,660)</b>
	<b>\$</b>	<b>754,334</b>

- 
- (1) Holders of any "in-the-money" Allied Capital stock options have the right to either receive cash or stock. For the purposes of the pro forma condensed consolidated financial statements, it is assumed that the options will be paid in cash. The amount does not include the effect of options for 588,336 shares of Allied Capital common stock that have been exercised since September 30, 2009.

Table of Contents**3. PRELIMINARY PRO FORMA ADJUSTMENTS**

The preliminary pro forma purchase accounting allocation included in the unaudited pro forma condensed consolidated financial information is as follows:

A.

To reflect Allied Capital's September 30, 2009 balance sheet, updated for estimated changes subsequent to September 30, 2009:

	<b>Allied Capital Actual September 30, 2009</b>	<b>Pro Forma Adjustments(1)</b>	<b>Adjusted Allied Capital September 30, 2009</b>
Investments	\$ 2,511,194	\$ (504,630)	\$ 2,006,564
Cash and cash equivalents	153,416	269,477	422,893
Other assets	175,606	(24,204)	151,402
 Total assets	 \$ 2,840,216	 \$ (259,357)	 \$ 2,580,859
Debt	\$ 1,593,867	\$ (248,404)	1,345,463
Other liabilities	45,084		45,084
 Total liabilities	 1,638,951	 (248,404)	 1,390,547
 Net assets	 1,201,265	 (10,953)	 1,190,312
 Total liabilities and net assets	 \$ 2,840,216	 \$ (259,357)	 \$ 2,580,859

(1)

Primarily the result of sales of certain investments and receivables for Allied Capital subsequent to September 30, 2009 and the use of a portion of the proceeds by Allied Capital to repay outstanding borrowings. Included within the \$504.6 million of sales of investments is the sale of the investment in the SL Fund, on October 30, 2009, from Allied Capital to Ares Capital for approximately \$165 million. Additionally, a portion of Allied Capital's investment in Woodstream Corporation was sold to Ares Capital and portions of Allied Capital's investments in Service Champ, Inc. and Driven Brands Inc. were sold to Ares Capital and Ivy Hill I subsequent to September 30, 2009. Also included is the sale of Allied Capital's investment in the SD Fund to IHAM, a portfolio company of Ares Capital, on December 29, 2009 for approximately \$33 million.

B.

To reflect the acquisition of Allied Capital by the issuance of approximately 58.3 million shares of Ares Capital common stock. Below reflects the allocation of the purchase price on the basis of

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Ares Capital's current estimate of the fair value of assets to be acquired and liabilities to be assumed:

Components of purchase price:

	Adjusted Allied Capital September 30, 2009	Pro Forma Adjustments	Pro Forma
Common stock issued	\$ 723,994	\$	\$ 723,994
Payment of "in-the-money" Allied Capital stock options(4)	30,340		30,340
<b>Total purchase price</b>	<b>\$ 754,334</b>		<b>\$ 754,334</b>
<b>Assets acquired:</b>			
Investments	\$ 2,006,564	\$ (258,326)(1)	\$ 1,748,238
Cash and cash equivalents	422,893	(392,552)(2)(3)	30,341
Other assets	151,402	(28,163)(1)	123,239
<b>Total assets acquired</b>	<b>2,580,859</b>	<b>(679,041)</b>	<b>1,901,818</b>
<b>Debt and other liabilities assumed</b>	<b>(1,390,547)</b>	<b>549,723(1)(2)(3)</b>	<b>(840,824)</b>
<b>Net assets acquired</b>	<b>1,190,312</b>	<b>(129,318)(1)(2)</b>	<b>1,060,994</b>
<b>Gain on acquisition of Allied Capital</b>	<b>(435,978)</b>	<b>129,318</b>	<b>(306,660)</b>
<b>Total</b>	<b>\$ 754,334</b>	<b>\$</b>	<b>\$ 754,334</b>

- (1) Primarily to reflect the allocation of purchase price to Allied Capital's assets and liabilities based on Ares Capital's current estimates of fair value. There is no single approach for determining fair value in good faith. As a result, determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment while employing a consistently applied valuation process. See "Management's Discussion and Analysis of Financial Condition and Results of Allied Capital Results of Operations." There were also adjustments made of \$225.9 million and \$28.0 million to Allied Capital's debt and other assets, respectively, to mark them to fair value. Allied Capital's debt is currently carried at amortized cost. The adjustment to other assets was primarily an adjustment to Allied Capital's capitalized debt costs, which are included in other assets and are also currently carried at amortized cost.
- (2) In addition to the net effect of the fair value adjustments to Allied Capital's assets and liabilities, the net assets of Allied Capital were decreased for various transaction costs expected to be incurred by Allied Capital related to the merger of approximately \$49.7 million, including \$32.5 million of other liabilities expected to be paid within the 12 months following the merger.
- (3) Excess available cash of \$375.3 million from the Allied Capital transaction is assumed to be used to paydown certain outstanding Allied Capital debt, which net of original issue discount recorded on the debt will reduce debt by \$356.3 million.
- (4)

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Holders of any "in-the-money" Allied Capital stock options have the right to either receive cash or stock. For the purposes of the pro forma condensed consolidated financial statements it is assumed that the options will be paid in cash. The amount does not include the effect of options for 588,336 shares of Allied Capital common stock that have been exercised since September 30, 2009.

C.

The net assets of the pro forma combined company were decreased for various transaction costs expected to be incurred by Ares Capital related to the merger of approximately \$16.3 million as

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well as the assumed cash payment of \$30 million of the "in-the-money" Allied Capital stock options.

D.

The purchase price of certain investments in debt securities being acquired from Allied Capital is estimated by Ares Capital to be less than the expected recovery value of such investments. In accordance with GAAP, subsequent to the effective time, Ares Capital will record the accretion to the expected recovery value in interest income over the remaining term of the investment. Interest income has not been adjusted to reflect the accretion to the expected recovery value for the periods presented. The accretion for the first 12 months after the effective time is estimated to be approximately \$30 million. However, there can be no assurance that such accretion will be more or less than such estimate.

E.

The fair value of the outstanding debt assumed from Allied Capital is estimated by Ares Capital to be below the face amount of such debt. In accordance with GAAP, subsequent to the effective time, Ares Capital will record accretion to the face amount in interest expense over the remaining term of the debt. Interest expense has not been adjusted to reflect the accretion to the face value for the periods presented. The accretion for the first 12 months after the effective time is estimated to be approximately \$57 million. However, there can be no assurance that such accretion will be more or less than such estimate.

F.

Base management fees were computed based on 1.5% of average total assets other than cash and cash equivalents but including assets purchased with borrowed funds per Ares Capital's investment advisory and management agreement with Ares Capital Management.

G.

Incentive management fees were recomputed based on the formula in Ares Capital's investment advisory and management agreement with Ares Capital Management.

H.

Adjustments to other expenses were made to reflect compensation costs for Allied Capital's employees that would have been covered by the base management fees paid to Ares Capital Management and therefore not incurred by Ares Capital. Additionally, all stock option costs were excluded as such costs would not exist at Ares Capital as there is no stock option plan maintained by Ares Capital. Payments of stock option costs to employees would have been similarly incurred by Ares Capital in the form of incentive management fees paid to Ares Capital Management. Lastly, any actual costs incurred related to the merger and subsequent combination, primarily various transaction costs, were also excluded.

I.

Total shares outstanding as of September 30, 2009 have been adjusted to reflect the following:

Ares Capital shares outstanding as of September 30, 2009	109,592,728
Estimated shares issued in connection with the merger reflected as outstanding for the periods presented	58,292,577
<b>Ares Capital adjusted shares outstanding as of September 30, 2009</b>	<b>167,885,305*</b>

\*

Does not reflect 22,957,993 shares issued in the February Add-on Offering.

Weighted average shares for the nine months ended September 30, 2009 and the year ended December 31, 2008 have been adjusted to reflect the following:

	<b>For the Nine Months Ended September 30, 2009</b>	<b>For the Year Ended December 31, 2008</b>
Ares Capital weighted average shares outstanding	99,066,652	89,666,243
Estimated shares issued in connection with the merger reflected as outstanding for the periods presented	58,292,577	58,292,577
<b>Ares Capital adjusted weighted average shares outstanding</b>	<b>157,359,229</b>	<b>147,958,820</b>



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The following table sets forth (1) Ares Capital's and Allied Capital's actual capitalization at September 30, 2009 and (2) Ares Capital's capitalization as adjusted to reflect the effects of the merger. You should read this table together with Ares Capital's and Allied Capital's balance sheets and the pro forma financial information included elsewhere in this document.

	Actual Ares Capital	Actual Allied Capital	As of September 30, 2009 (unaudited, dollar amounts in thousands except per share data) As Adjusted for the Merger
Cash and cash equivalents	\$ 61,469(1)	\$ 62,737	\$ 45,204
<b>Debt</b>			
Total Debt	\$ 767,871	\$ 1,593,867	\$ 1,531,113
<b>Stockholders' Equity</b>			
Ares Capital Common stock, par value \$.001 per share, 200,000,000 common shares authorized, 109,592,728 common shares issued and outstanding, actual; 300,000,000 common shares authorized, 167,885,305 common shares issued and outstanding, as adjusted(1); Allied Capital common stock, \$0.0001 par value, 400,000,000 shares authorized; 179,361,775 shares issued and outstanding(2)	\$ 110	\$ 18	\$ 168
Capital in excess of par value	1,505,031	3,037,718	2,519,361
Accumulated undistributed net investment loss	(2,436)		(2,436)
Accumulated net realized gain (loss) on investments, foreign currency transactions and extinguishment of debt	(2,397)	47,826	(2,397)
Notes receivable from sale of common stock		(680)	
Net unrealized loss on investments and foreign currency transactions	(277,717)	(1,883,617)	(277,717)
Total stockholders' equity	1,222,591	1,201,265	2,236,979
Total capitalization	\$ 1,990,462	\$ 2,795,132	\$ 3,768,092

(1) Does not include the effects of the February Add-on Offering or Ares Capital's dividend paid and the distribution of shares in connection with its dividend reinvestment plan on December 31, 2009. The February Add-on Offering was completed 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 million.

(2) This amount does not include the effect of options for 588,336 shares of Allied Capital common stock that have been exercised since September 30, 2009.

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**THE MERGER**

*The discussion in this document, which includes the material terms of the merger and the principal terms of the merger agreement, is subject to, and is qualified in its entirety by reference to, the merger agreement, a copy of which is attached as Annex A to this document and is incorporated herein by reference in its entirety.*

**General Description of the Merger**

Pursuant to the merger agreement, at the effective time, Merger Sub will merge with and into Allied Capital, with Allied Capital as the surviving entity in such merger, and Merger Sub will cease to exist as a separate corporation following such merger. Immediately thereafter, in the combination, Allied Capital will merge with and into Ares Capital, with Ares Capital as the surviving entity in such merger, and Allied Capital will cease to exist as a separate corporation following such merger.

In the merger, each outstanding share of Allied Capital common stock outstanding immediately prior to the effective time will be converted into the right to receive 0.325 shares of common stock of Ares Capital, subject to the payment of cash instead of fractional shares of Ares Capital common stock.

Except in certain limited circumstances described below under "Description of the Merger Agreement," the exchange ratio will not be adjusted, including for any dividends declared by Ares Capital.

If the subsequent combination is consummated, all the assets and liabilities of Allied Capital and Merger Sub immediately before the merger will become, directly or indirectly, the assets and liabilities of Ares Capital, as the surviving entity, immediately after the subsequent combination, and Allied Capital's subsidiaries will become subsidiaries of Ares Capital after the subsequent combination.

Following completion of the merger, based on the number of shares of Ares Capital common stock issued and outstanding on the date hereof and assuming that holders of all "in-the-money" Allied Capital stock options elect to be cashed out, Ares Capital stockholders will own approximately 70% of the combined company's outstanding common stock and Allied Capital stockholders will own approximately 30% of the combined company's outstanding common stock.

**Background of the Merger**

Allied Capital's management and Allied Capital's board of directors regularly review and consider potential strategic options for Allied Capital in light of its performance, its business needs and the challenges and opportunities presented by the economic and industry environment. As part of this process, members of Allied Capital's management have met informally from time to time with management of other financial institutions and business development companies, or BDCs, regarding industry trends and strategic considerations.

During 2008, the United States and global economies experienced a severe economic recession. A series of unexpected and unprecedented events occurred in rapid succession in the financial services industry that caused uncertainty and stress in the financial markets. These events included the acquisition of Bear Stearns by JPMorgan Chase & Co., the conservatorship of Fannie Mae and Freddie Mac, the bankruptcy of Lehman Brothers Holdings, the acquisition of Merrill Lynch by Bank of America and growing concerns about the viability of American International Group, or "AIG," which later culminated in a transaction in which the Federal Reserve acquired most of AIG's equity. Major financial indices declined precipitously, worldwide credit availability became scarce and financial institutions generally became capital and liquidity constrained and struggled to restructure their businesses.

During this period, Allied Capital experienced a lack of access to the equity capital markets. Beginning in June 2008, Allied Capital's common stock began trading at a price below the net asset



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value per share of its common stock. Because the Investment Company Act prohibits a BDC from selling shares of its common stock at a price below its net asset value per share without the approval of its stockholders, Allied Capital was unable to conduct an offering of its common stock off its effective shelf registration statement. Although Allied Capital sought stockholder approval to issue shares of its common stock below net asset value per share at its 2008 annual meeting of stockholders, Allied Capital was unable to obtain stockholder approval, despite multiple adjournments to try to obtain the required vote. As a result, Allied Capital has not been able to access the equity capital markets since June 2008.

In the summer of 2008, Allied Capital began to explore a variety of strategic alternatives, including continuing its existing business on a stand-alone basis with its existing structure, converting to an operating company, agreeing to a large investment by a strategic investor or entering into a business combination with a financial services firm. These strategic alternatives were presented to Allied Capital's board of directors and Allied Capital's board of directors determined not to pursue any of them due to certain structural and financing issues.

During the second half of 2008, many BDCs began experiencing significant fluctuations in the fair value of their portfolio company investments and a related decline in their net asset values, causing several BDCs to encounter challenges maintaining their asset coverage thresholds under the covenants set forth in their borrowing arrangements as well as the asset coverage threshold required by the Investment Company Act. As a result, many in the BDC industry were forced to reduce or eliminate dividend payments, which led to a significant decline in the market price of a majority of BDCs.

Beginning in the second half of 2008, Allied Capital experienced a significant reduction in its net worth primarily resulting from net unrealized depreciation on its portfolio, which reflected then existing market conditions and performance of certain portfolio companies. At the time, like many other financial firms, Allied Capital's business focus changed from growing its portfolio to harvesting capital from its portfolio to repay its indebtedness and de-lever its balance sheet. As a result, its investing activities were sharply reduced. In addition to the effect on investment origination activity during this period, Allied Capital also consolidated its investment execution activities to its Washington, DC headquarters and its office in New York City in an effort to improve operating efficiencies, reducing its headcount by approximately 50 employees.

At a board meeting held on October 23, 2008, Allied Capital's management informed Allied Capital's board of directors that management had been approached by another financial services firm, or "Company X," regarding a potential business combination. Allied Capital's board of directors discussed the merits of such a business combination and authorized management to continue to pursue the opportunity. Allied Capital's board of directors hired Sullivan & Cromwell LLP to advise the board of directors on its duties and responsibilities in connection with the potential business combination. Allied Capital's board of directors received financial advice from BofA Merrill Lynch and assistance with due diligence from its various advisors in connection with the potential business combination. Allied Capital and Company X each conducted diligence on each other and began negotiating the terms of a merger agreement. On October 24, 2008 and November 4, 2008, Allied Capital's board of directors met to discuss the potential business combination. On November 8, 2008, Allied Capital and Company X determined not to proceed with the transaction.

Following the discontinuation of merger discussions with Company X, Allied Capital experienced increases in its net unrealized depreciation related to the fair value of its portfolio investments, which led to a sharp decline in its net asset value. This in turn caused Allied Capital to be at risk of not complying with certain financial covenants included in its private notes and its bank facility. As a result of an anticipated reduction in its net worth, on December 30, 2008, Allied Capital entered into amendments relating to its private notes and its bank facility.

Subsequent to these amendments, Allied Capital determined that its asset coverage ratio as of December 31, 2008 would be less than the 200% required under its bank facility and its private notes.

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This, in turn, triggered events of default under these instruments and, in early 2009, Allied Capital re-opened discussions with its bank facility lenders and private noteholders to seek relief under certain terms of both its bank facility and its private notes. Allied Capital also engaged a financial advisor in connection with the restructuring of Allied Capital's debt.

The existence of events of default under its bank facility and its private notes restricted Allied Capital from borrowing or obtaining letters of credit under its bank facility and from making dividends or other distributions to its stockholders. In addition, pursuant to the Investment Company Act, Allied Capital was not permitted to issue indebtedness unless immediately after such issuance it had asset coverage of all outstanding indebtedness of at least 200%. Allied Capital's asset coverage ratio has been below 200% since December 31, 2008.

As a result of the events of default under both its bank facility and its private notes, Allied Capital disclosed in its annual report on Form 10-K for the year ended December 31, 2008 (which was filed with the SEC on March 2, 2009) that there was substantial doubt with respect to its ability to continue as a going concern. Specifically, as noted by Allied Capital's independent registered public accounting firm, these events of default provided the respective lenders and noteholders the right to declare immediately due and payable unpaid amounts approximating \$1.1 billion at December 31, 2008. Because Allied Capital did not have available cash resources to satisfy all of the obligations under its bank facility and its private notes if the lenders and the noteholders accelerated these obligations, Allied Capital's independent registered public accounting firm believed these factors raised substantial doubt about Allied Capital's ability to continue as a going concern.

Allied Capital continued to pursue a comprehensive restructuring of its private notes and bank facility and focused on reducing costs and streamlining its organization; building liquidity through selected asset sales; retaining capital by limiting new investment activity and suspending dividend payments; and working with portfolio companies to help them position for growth when the economy recovered.

During this period, Allied Capital again began to explore strategic alternatives, including continuing its existing business on a stand-alone basis with its existing structure, converting to an operating company, agreeing to a large investment by a strategic investor or entering into a business combination with a financial services firm.

In early 2009, Ares Capital was evaluating several candidates for a potential business combination. In March 2009, Ares Capital made an unsolicited oral inquiry to Allied Capital seeking to assess whether Allied Capital would be interested in engaging in a variety of potential transactions (including a business combination) with Ares Capital.

On April 1, 2009, Ares Capital followed up on its initial inquiry by requesting an in-person meeting with representatives of management of Allied Capital.

At a meeting of Ares Capital's board of directors on April 3, 2009, representatives of Ares Capital's management updated Ares Capital's board of directors about two candidates for a potential business combination, one of which was Allied Capital.

On April 13, 2009, representatives of Ares Capital's management and a member of its board of directors had an introductory meeting in person with representatives of Allied Capital's management some of whom are also members of its board of directors.

On May 4, 2009, Ares Capital's board of directors held its annual meeting where, among other things, representatives of management provided it with an update of certain potential strategic transactions, including a potential transaction with Allied Capital.

In June 2009, Ares Capital engaged J.P. Morgan as a financial advisor in connection with the potential transaction.

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On July 1, 2009, Ares Capital and Allied Capital entered into a confidentiality agreement and representatives of Ares Capital's management and a member of its board of directors met in person and telephonically with representatives of Allied Capital's management, some of whom are also members of its board of directors. In early July, Allied Capital and Ares Capital began conducting formal due diligence on each other.

On July 24, 2009, at a meeting of Allied Capital's board of directors, BofA Merrill Lynch made a presentation to Allied Capital's board of directors regarding an analysis of the strategic alternatives available to Allied Capital, including a business combination with Ares Capital. Allied Capital's board of directors discussed the risks and the potential benefits of such a business combination, including comparing those risks and potential benefits against Allied Capital's prospects as a stand-alone business.

During the meeting, representatives of management discussed the impact of the current market conditions on Allied Capital and its inability to access the capital markets and obtain additional liquidity. Allied Capital's board of directors discussed in detail other ways in which the current market conditions had an impact on Allied Capital's business, including management's projections, origination activity, cost of borrowings, level of expenses, ability to pay dividends and potential for future growth. After discussing at length with representatives of management Allied Capital's business and the potential business combination with Ares Capital, Allied Capital's board of directors determined that it was in the best interests of Allied Capital and its stockholders to explore the possibility of a potential business combination with Ares Capital. In making such determination, Allied Capital's board of directors also authorized management to continue to explore other strategic alternatives discussed with Allied Capital's board of directors.

After receiving the authorization of Allied Capital's board of directors to explore the possibility of a potential business combination with Ares Capital, Allied Capital created and populated an electronic data room to facilitate due diligence activities and obtained access to Ares Capital's electronic data room, which was populated by Ares Capital after receiving a similar authorization from Ares Capital's board of directors.

On July 25, 2009, Allied Capital and Ares Capital began conducting additional due diligence with respect to each other after electronic data rooms had been created and populated. Ares Capital's investment adviser's investment committee continued its review of Allied Capital's material investments. At this time, BofA Merrill Lynch began providing financial analyses to representatives of Allied Capital's management and board of directors in connection with the potential business combination with Ares Capital.

Throughout July and August 2009, representatives of Allied Capital's management also continued to provide regular updates to its board regarding the finalization and documentation of a comprehensive debt restructuring following the agreement in principle reached with its lenders and private noteholders in July 2009.

On July 27, 2009, Allied Capital's board of directors met to discuss the potential business combination with Ares Capital and the exclusivity period requested by Ares Capital. During this meeting, Allied Capital's board of directors formally engaged Sullivan & Cromwell to act as its legal counsel in connection with the potential business combination. Sullivan & Cromwell discussed the duration of the exclusivity period proposed by Ares Capital and Allied Capital's management's desire for a shorter exclusivity period. Allied Capital's board of directors discussed the duration of the exclusivity period and Sullivan & Cromwell explained to Allied Capital's board of directors its duties and obligations under Maryland law. Allied Capital also engaged Sutherland Asbill & Brennan LLP in connection with a possible transaction. Sutherland has represented Ares Capital on unrelated matters from time to time.

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At this meeting, Allied Capital's board of directors approved an exclusivity period expiring on August 10, 2009, instead of the August 17, 2009 date proposed by Ares Capital. At this meeting, Allied Capital's board of directors also discussed obtaining a fairness opinion from an independent financial advisor other than BofA Merrill Lynch due to BofA Merrill Lynch's role as a lender to both Allied Capital and Ares Capital. Representatives of Allied Capital's management also provided Allied Capital's board of directors with an update on its ongoing due diligence of Ares Capital and its discussions with Ares Capital and its legal advisors regarding the structure of the transaction.

On July 28, 2009, Ares Capital's board of directors met with representatives of management, Ares Capital Management, Proskauer Rose LLP, Venable LLP, Willkie Farr & Gallagher LLP and J.P. Morgan to discuss the potential business combination with Allied Capital. Ares Capital's board reviewed presentations prepared by management and by J.P. Morgan, and was advised by Venable of directors' duties under Maryland law in their consideration of the proposed transactions and other matters of Maryland law. During this meeting, Ares Capital's board formally determined that it was advisable to further explore a transaction with Allied Capital and formally engaged Proskauer as corporate counsel, Venable as Maryland counsel and Willkie as special regulatory counsel to Ares Capital in connection with the proposed transaction. Ares Capital's board also approved and ratified the engagement of J.P. Morgan as financial advisor to Ares Capital for the transaction and approved the execution of an exclusivity agreement whereby Allied Capital would agree to an exclusivity period through August 10, 2009.

On July 31, 2009, Allied Capital's board of directors met again to discuss the status of the potential business combination with Ares Capital. Representatives of Allied Capital's management provided Allied Capital's board of directors with an update on its ongoing due diligence of Ares Capital and its discussions with Ares Capital and its legal advisors regarding the structure of the transaction. Representatives of Allied Capital's management also informed Allied Capital's board of directors that Allied Capital entered into an exclusivity agreement with Ares Capital on July 30, 2009 with an exclusivity period continuing until August 10, 2009. At this time Allied Capital's board of directors delegated authority for Allied Capital to formally engage financial advisors and negotiate the fees to be paid to the financial advisors to a special committee of Allied Capital's board of directors, or the "Allied Capital Investment Bank Committee."

Thereafter, the Allied Capital Investment Bank Committee approved the selection of both BofA Merrill Lynch and Sandler O'Neill to act as its financial advisors in connection with the potential business combination with Ares Capital.

On July 31, 2009 and August 1, 2009, representatives of Allied Capital's management met in person with the management team of Ares Capital and representatives of Ares Capital Management to conduct additional due diligence and to discuss operational and administrative considerations associated with a combined entity.

On August 2, 2009 Ares Capital and Proskauer presented the first draft of a merger agreement to Allied Capital and its legal counsel and Allied Capital and its legal counsel responded with comments on the terms that day.

On August 3, 2009, Ares Capital's board of directors held its regular quarterly meeting where, among other things, representatives of management provided it with an update of the potential transaction with Allied Capital.

On August 4, 2009, Allied Capital and its legal counsel sent a revised draft of the merger agreement to Ares Capital and its legal counsel. Allied Capital and Ares Capital and their respective legal counsel began negotiating the terms of the merger agreement on August 5, 2009.

On August 5, 2009, representatives of Ares Capital's management and a member of its board of directors met with representatives of Allied Capital's management who are also members of its board of directors to discuss open issues on the merger agreement.

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On August 5, 2009, Allied Capital's board of directors met again to discuss the status of the potential business combination with Ares Capital and certain related legal, financial, business and regulatory matters. At this meeting, representatives of Allied Capital's management and Allied Capital's board of directors' legal and financial advisors updated Allied Capital's board of directors on the status of discussions with Ares Capital regarding the structure of the transaction, the terms of the merger agreement and certain ongoing diligence matters. Sullivan & Cromwell again discussed the legal framework for Allied Capital's board of directors' consideration of the potential business combination with Ares Capital under Maryland law, including the duties and responsibilities of the directors.

Sutherland discussed the legal considerations relevant to the potential business combination as a result of Allied Capital's status as a BDC regulated under the Investment Company Act. BofA Merrill Lynch discussed its preliminary analyses of the combined company and provided an overview of the business due diligence conducted to date on Ares Capital. Sutherland then provided Allied Capital's board of directors with an overview of the legal due diligence conducted to date on Ares Capital. Following the presentations, Allied Capital's board of directors unanimously directed management and Allied Capital's board of directors' legal and financial advisors to continue moving forward in an effort to arrive at a negotiated transaction.

On August 6, 2009, representatives of Ares Capital's management, a member of its board of directors and its legal and financial advisors met in person with representatives of Allied Capital's management who are also members of its board of directors and Allied Capital's board of directors' legal and financial advisors.

On August 7, 2009, representatives of Ares Capital's management and a member of its board of directors met with representatives of Allied Capital's management, some of whom are also members of Allied Capital's board of directors.

On August 7, 2009, Ares Capital's board of directors met with representatives of management, Ares Capital Management and Ares Capital's legal and financial advisors in a special meeting where management advised the board that after conducting significant due diligence and making progress on the merger agreement, the parties had determined not to proceed with a transaction largely due to the lack of clarity at that time surrounding the specific terms of Allied Capital's pending restructuring of its private notes and Ares Capital's view of Allied Capital's stock price.

On August 7, 2009, Allied Capital's board of directors met again to discuss the status of the potential business combination with Ares Capital. Representatives of Allied Capital's management informed the board of directors that, after conducting significant due diligence and making progress with respect to the negotiation of the merger agreement, Allied Capital and Ares Capital determined not to proceed with the transaction. However, Allied Capital's board of directors discussed the merits of having an independent member of Allied Capital's board of directors meet with representatives of Allied Capital's private noteholders along with a representative from Ares Capital to assess the impact of any potential business combination on the terms of the restructuring.

On August 11, 2009, an independent member of Allied Capital's board of directors and two representatives from Ares Capital met with the legal and financial advisors to Allied Capital's private noteholders. Ivy Hill Middle Market Credit Fund II, Ltd., or "Ivy Hill II," an unconsolidated debt fund managed by a wholly owned portfolio company of Ares Capital, held at the time approximately \$38.5 million in aggregate principal amount of such private notes and approximately \$10 million in aggregate principal amount of Allied Capital's public notes. Negotiations on a proposed transaction with Ares Capital did not recommence after this meeting and Allied Capital continued to focus on completing the restructuring of its private notes and bank facility independent of any potential business combination with Ares Capital.

On August 28, 2009, Allied Capital completed a comprehensive restructuring of its private notes and its bank facility. In connection with such restructuring, Allied Capital granted the holders of its

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private notes and the lenders of its bank facility a pari-passu blanket lien on a substantial portion of its assets, including a substantial portion of the assets of Allied Capital's consolidated subsidiaries. The financial covenants applicable to its private notes and the bank facility were modified as part of such restructuring. The private notes and bank facility impose certain limitations on Allied Capital's ability to incur additional indebtedness, including precluding Allied Capital from incurring additional indebtedness unless its asset coverage of all outstanding indebtedness is at least 200%. Allied Capital incurred various closing fees and other transaction expenses of approximately \$146 million to restructure its private notes and its bank facility. In addition, Allied Capital incurred advisory and other fees of approximately \$26 million in connection with the restructuring. The restructuring significantly increased Allied Capital's cost of capital. As a result, Allied Capital expected that its profitability would be substantially reduced and it would not be able to pay a cash dividend for an extended period of time. The increased costs would cause Allied Capital to continue to sell assets to generate liquidity to de-lever and to further reduce operating costs.

Representatives of Allied Capital's management and board of directors continued reviewing various scenarios to further de-lever the balance sheet, to reduce the cost of capital and to prepare for future potential growth. Beginning in September, representatives of Allied Capital's management received several calls from representatives of Ares Capital's management to revisit its interest in a potential business combination with Allied Capital. Also during this time, Allied Capital considered the sale of its asset management business and initiated efforts to further reduce administrative expenses by further reducing headcount.

Allied Capital determined that, in connection with its efforts to de-lever its balance sheet, it would request bids for its asset management platform, whether in a series of separate transactions or in one single transaction, including Allied Capital's interest in the SL Fund, including its outstanding rights and obligations to provide management services with respect to the SL Fund, the SD Fund, Knightsbridge CLO 2007-1 Limited and Knightsbridge CLO 2008-1 Limited, or the "Knightsbridge Funds," and Emporia Preferred Funding I, Ltd., Emporia Preferred Funding II, Ltd. and Emporia Preferred Funding III, Ltd., or the "Emporia Funds." Allied Capital requested bids from a variety of market participants, including Ares Capital. Ares Capital submitted a bid and, on September 11, 2009, Allied Capital and Ares Capital entered into a non-binding letter of intent for Ares Capital to purchase Allied Capital's interests in the SL Fund, the SD Fund, the Knightsbridge Funds and the Emporia Funds.

On September 18, 2009, Ares Capital's board of directors met with representatives of management, Ares Capital Management, Proskauer and J.P. Morgan in a special meeting where, among other things, representatives of management advised the board of the possibility of again pursuing a transaction with Allied Capital.

Following this meeting, J.P. Morgan contacted BofA Merrill Lynch about initiating discussions concerning the price of a potential business combination between Allied Capital and Ares Capital. At Ares Capital's request, on September 30, 2009, representatives of Allied Capital's management who are also members of Allied Capital's board of directors and representatives of Ares Capital's management and board of directors attended a dinner meeting to discuss Ares Capital's interest in pursuing a potential business combination with Allied Capital following the successful restructuring of Allied Capital's debt agreements. At the conclusion of the dinner, the representatives of Allied Capital requested that Ares Capital provide the general terms on which Ares Capital would pursue a business combination with Allied Capital to present to and discuss with Allied Capital's board of directors.

On October 1, 2009, Ares Capital delivered a non-binding letter to Allied Capital in which Ares Capital outlined certain terms of a potential business combination between the two companies. The

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letter outlined certain aspects regarding a potential business combination between Allied Capital and Ares Capital, including the following:

1. *Consideration* Ares Capital proposed that Allied Capital's stockholders would receive 0.30 shares of Ares Capital common stock for each share of Allied Capital common stock owned by Allied Capital's stockholders. The letter indicated that this consideration would allow Allied Capital's stockholders to own approximately 33% of the combined company.
2. *Capital structure* Ares Capital noted that it had significant balance sheet strength and flexibility, as well as demonstrated access to both the private and public capital markets. Ares Capital indicated that it anticipated it would have sufficient liquidity to de-lever the combined company's balance sheet at closing. In addition, Ares Capital informed Allied Capital that it had received indications from its lenders that they would provide additional credit to Ares Capital in support of a potential business combination with Allied Capital.
3. *Fee waiver* Ares Capital indicated that Ares Capital Management had expressed a willingness, if deemed necessary, to waive (subject to regulatory requirements) a portion of its management and/or incentive fee for a period of time following the closing of the business combination in order to help ensure consistent cash flow for the combined company and to support the maintenance of Ares Capital's current dividend level.
4. *Management and governance* Ares Capital's existing external management structure would continue in place in connection with any possible business combination. Ares Capital also indicated it was prepared to discuss with its board of directors expanding the size of Ares Capital's board of directors by one seat and submitting the name of a current member of Allied Capital's board of directors as a proposed nominee to fill the vacancy. The letter also stated that any change in control payments which certain of Allied Capital's officers were entitled to receive pursuant to employment agreements or retention agreements between Allied Capital and these officers would be discussed.
5. *Timing and process* Ares Capital indicated that it was prepared to move quickly to finalize a business combination. Given the extensive business and legal due diligence undertaken earlier in the year, Ares Capital expected to be in a position to complete its due diligence and negotiate a mutually acceptable merger agreement within one week.

Following receipt of this letter, representatives of Allied Capital's management began analyzing such terms from a financial point of view.

On October 6, 2009, Allied Capital's board of directors met to discuss the new terms of a potential business combination with Ares Capital as set forth in Ares Capital's letter. Among other things, Allied Capital's board of directors noted that Ares Capital Management, if deemed necessary, had expressed a willingness to waive a portion of its management and/or incentive fee for a period of time following the closing of the business combination in order to help ensure consistent cash flow for the combined company and to support the maintenance of Ares Capital's current dividend level. Allied Capital's board of directors requested that management continue to analyze the terms of the proposed business combination and re-engage BofA Merrill Lynch, Sullivan & Cromwell and Sutherland.

On October 6, 2009, Ares Capital's board of directors met with representatives of management, Ares Capital Management, and Ares Capital's legal and financial advisors to discuss a potential business combination with Allied Capital.

On October 8, 2009, Allied Capital's board of directors met again to continue to discuss the new terms of the potential business combination with Ares Capital and the structure of the transaction. Sullivan & Cromwell discussed the legal framework for the board's consideration of the potential business combination with Ares Capital under Maryland law, including the duties and responsibilities of the directors. Allied Capital's board of directors discussed engaging an additional financial advisor to

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assist with the financial analyses and due diligence that was required to consider the new terms of the potential business combination with Ares Capital. The board delegated the authority to the Allied Capital Investment Bank Committee to finalize the engagement of both financial advisors and to negotiate fees to be paid to them.

Following this meeting, Allied Capital and Ares Capital provided updated diligence materials to each other.

On October 13, 2009, Ares Capital's board of directors met with representatives of management, Ares Capital Management and Ares Capital's legal and financial advisors to discuss a potential business combination with Allied Capital.

On October 15, 2009, Allied Capital's board of directors met to continue to discuss the new proposal. Representatives of Allied Capital's management team and Allied Capital's board of directors' legal and financial advisors updated Allied Capital's board of directors on ongoing diligence matters. During the meeting, BofA Merrill Lynch made a presentation to Allied Capital's board of directors during which it analyzed several stand-alone scenarios prepared by representatives of Allied Capital's management and two pro forma combination scenarios prepared by Ares Capital's management.

During the meeting, BofA Merrill Lynch explained each scenario to Allied Capital's board of directors and reviewed the assumptions and risks associated with each scenario along with key financial projections. Allied Capital's board of directors discussed the potential for a combination of Allied Capital and Ares Capital to create a leading provider of capital to middle-market companies across the United States. Allied Capital's board of directors discussed the potential benefits of a business combination with Ares Capital for its stockholders, including: (1) a more liquid stock, with a broader institutional stockholder base, at an implied premium of 4.5% to Allied Capital's recent closing of \$3.13 (based on the closing stock prices of Allied Capital and Ares Capital on October 14, 2009); (2) resumption of dividend payments following the closing of the merger; (3) the ability of the pro-forma combined company to immediately de-lever its balance sheet; (4) the ability of the pro-forma combined company to provide liquidity to the existing portfolio; (5) a reduction in pressure to sell assets to retire Allied Capital's costly debt with stringent amortization requirements; (6) the ability of the pro-forma combined company to generate new asset management fund raising opportunities; and (7) the fact that Allied Capital's stockholders would be stockholders of Ares Capital following a business combination and would stand to participate in the future growth of Ares Capital.

Allied Capital's board of directors also discussed the ability of Ares Capital to raise accretive equity capital near or above its net asset value per share, noting Ares Capital's equity offering in August 2009 that was below Ares Capital's then net asset value per share and Ares Capital's then trading price, which was nearing Ares Capital's net asset value per share, and Ares Capital's access to attractively priced debt capital, noting Ares Capital's investment grade status. In addition, in considering the Ares Capital transaction, Allied Capital's board of directors discussed whether it was the appropriate time to engage in such a transaction and whether Allied Capital should pursue other alternatives simultaneously. At the conclusion of the meeting, Allied Capital's board of directors authorized Allied Capital's management to continue to pursue a potential business combination with Ares Capital. In doing so, Allied Capital's board of directors emphasized the importance of increasing the exchange ratio and negotiating a merger agreement with terms customary for public companies to provide Allied Capital with certainty of price and closing and customary deal protection provisions, and authorized Allied Capital's management and Allied Capital's board of directors' legal and financial advisors to continue with their diligence efforts.

Following the October 15, 2009 meeting, representatives of Allied Capital's management and BofA Merrill Lynch continued to negotiate with representatives of Ares Capital's management and J.P. Morgan to increase the exchange ratio. On October 17, 2009, Ares Capital and Proskauer provided a revised draft of the merger agreement to Allied Capital and its legal counsel. Ares Capital continued



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its due diligence on Allied Capital, including by having Ares Capital Management's investment committee refresh its review of Allied Capital's material investments.

On October 19, 2009, Allied Capital's board of directors met again to discuss the status of the potential business combination with Ares Capital and the then current draft of the merger agreement. Representatives of Allied Capital's management informed Allied Capital's board of directors that both parties were continuing due diligence and financial analyses of the potential business combination. Although progress was made with respect to certain terms in the draft of the merger agreement, representatives of Allied Capital's management stated that there were still significant unresolved issues and Allied Capital could not agree to a potential business combination with Ares Capital at that time. Sullivan & Cromwell discussed with Allied Capital's board of directors various provisions of the draft merger agreement provided by Ares Capital and Proskauer. After discussions with Sullivan & Cromwell, Allied Capital's board concluded that the current draft of the merger agreement did not contain certain provisions that Allied Capital's board of directors deemed important. Allied Capital's board of directors requested that its legal and financial advisors and Allied Capital's management continue to negotiate the terms of the merger agreement.

On October 21, 2009, Allied Capital's board of directors held another meeting attended by the entire board as well as representatives of Sullivan & Cromwell. At this meeting, Allied Capital's board of directors reviewed and discussed, with the assistance of its legal counsel, the merger agreement. Sullivan & Cromwell informed Allied Capital's board of directors that progress had been made in negotiating various provisions in the merger agreement. Allied Capital's board of directors noted that the latest draft of the merger agreement satisfied most of the factors it deemed to be important and requested that Allied Capital's management, assisted by Allied Capital's board of directors' legal and financial advisors, continue to negotiate the terms of the merger agreement.

On October 22, 2009, Ares Capital's board of directors met with representatives of management, Ares Capital Management and Ares Capital's legal and financial advisors to discuss the status of the potential business combination with Allied Capital.

On October 23, 2009, Allied Capital's board of directors attended a regularly scheduled quarterly board meeting during which representatives of Allied Capital's management provided Allied Capital's board of directors with an update regarding the status of the merger agreement negotiations with Ares Capital. During this meeting, Allied Capital's board of directors discussed the exchange ratio as well as certain change-in-control payments contemplated by the employment agreements and retention agreements of certain executive officers of Allied Capital that would be fully or partially triggered if the merger was consummated.

On October 24 and October 25, 2009, representatives of Ares Capital's management, a member of its board of directors and its legal and financial advisors met in person with representatives of Allied Capital's management some of whom are also members of its board of directors and Allied Capital's board of directors' legal and financial advisors to negotiate the remaining open terms in the merger agreement. During this time, the parties agreed to increase the exchange ratio to 0.325 shares of Ares Capital common stock for each share of Allied Capital common stock, which represents a 27.3% premium to the closing price of Allied Capital common stock on October 23, 2009.

On October 25, 2009, Allied Capital's board of directors held a meeting attended by the entire board, as well as representatives of Allied Capital's management and representatives of Allied Capital's board of directors' legal and financial advisors, to consider the merger agreement and the structure of the merger and receive an update on ongoing diligence efforts. Representatives of legal advisors discussed the terms of the merger agreement. Following a discussion of the merger agreement, Allied Capital's board of directors requested that its financial advisors discuss their financial analyses of Ares Capital and the exchange ratio for the merger. BofA Merrill Lynch presented an overview of the business due diligence conducted on Ares Capital and the terms of the merger agreement. Representatives of legal advisors also made a presentation to Allied Capital's board of directors on the

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legal due diligence that they had conducted on Ares Capital, updating Allied Capital's board of directors on additional legal due diligence conducted since a previous presentation to Allied Capital's board of directors in July 2009.

Following further discussion during which representatives of BofA Merrill Lynch reviewed its financial analyses of the exchange ratio and responded to questions from members of Allied Capital's board of directors regarding its financial analyses, BofA Merrill Lynch, at the request of Allied Capital's board of directors, rendered its oral opinion, which was confirmed by delivery of a written opinion dated October 25, 2009, to the effect that, as of that date and based on and subject to various assumptions and limitations described in its opinion, the exchange ratio provided for in the merger agreement was fair, from a financial point of view, to the holders of Allied Capital common stock.

Thereafter, Sandler O'Neill reviewed its financial analyses of the exchange ratio and responded to questions from members of Allied Capital's board of directors regarding its financial analyses and whether such analyses differed in any material respect from the analyses provided by BofA Merrill Lynch. At the request of Allied Capital's board of directors, Sandler O'Neill rendered its oral opinion, subsequently confirmed by delivery of a written opinion, dated October 25, 2009, to the effect that, as of the date and based on and subject to various assumptions and limitations described in its written opinion, the exchange ratio provided for in the merger agreement was fair, from a financial point of view, to the holders of Allied Capital common stock.

On the evening of October 25, 2009, Allied Capital's board of directors, after taking into consideration all of the information presented during board meetings with respect to the transaction and the current meeting, unanimously declared the merger agreement and the merger advisable and in the best interests of Allied Capital and its stockholders, approved and adopted the merger agreement and authorized Allied Capital's Chief Executive Officer to sign the merger agreement.

On the evening of October 25, 2009, Ares Capital's board of directors held a meeting attended by the entire board, as well as representatives of management, Ares Capital Management, and Ares Capital's legal, financial and other advisors, to consider the merger agreement and the merger. Ares Capital's board considered several written and oral presentations prepared by representatives of management, its investment adviser and the other advisors with respect to, among other things, due diligence, director duties, the merger and the merger agreement. Representatives of J.P. Morgan reviewed its financial analyses of the exchange ratio and the merger. After discussion, J.P. Morgan, at the request of Ares Capital's board of directors, rendered its oral opinion, which was confirmed by delivery of a written opinion dated October 26, 2009, to the effect that, as of that date, and based upon and subject to the factors, assumptions, qualifications and limitations set forth therein, the exchange ratio in the merger was fair, from a financial point of view, to Ares Capital.

On the evening of October 25, 2009, Ares Capital's board of directors, after taking into consideration all of the information presented during board meetings held with respect to the transaction, declared the merger agreement and the transactions contemplated thereby advisable and in the best interests of Ares Capital and its stockholders, unanimously approved and adopted the merger agreement and the transactions contemplated thereby and authorized the officers of Ares Capital to sign the merger agreement and seek stockholder approval necessary to issue shares of Ares Capital common stock in connection with the merger.

Ares Capital's board of directors also separately approved its purchase of Allied Capital's interests in the SL Fund at the meeting on October 25, 2009.

On October 26, 2009, representatives of Ares Capital's management, a member of its board of directors and its investment adviser and legal and financial advisors met in person with representatives of Allied Capital's management some of whom are also members of its board of directors and Allied Capital's board of directors' legal and financial advisors to finalize and execute the merger agreement.

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On October 26, 2009, Allied Capital, Ares Capital and Merger Sub executed the merger agreement and Ares Capital and Allied Capital issued a press release publicly announcing the transaction.

In a separate transaction, on October 30, 2009, Allied Capital sold its interests in the SL Fund to Ares Capital for \$165 million in cash.

On November 5, 2009, Ares Capital and Allied Capital held a joint conference call discussing the merger.

On December 29, 2009, Allied Capital sold its investment, including the provision of management services, in the SD Fund to IHAM, a portfolio company of Ares Capital.

On January 22, 2010, Allied Capital sold a portion of its investment in Woodstream Corporation to Ares Capital.

On January 28, 2010, Allied Capital sold portions of its investments in Service Champ, Inc. and Driven Brands Inc. to Ares Capital and Ivy Hill I.

For a discussion of the unsolicited offer from Prospect Capital, see " The Unsolicited Offer from Prospect Capital" below.

### **Reasons for the Merger**

#### *Allied Capital*

Allied Capital's board of directors believes that the merger represents the best alternative that is reasonably available to Allied Capital. Allied Capital's board of directors consulted with Allied Capital's management as well as its financial advisors and legal advisors and considered numerous factors, including the ones described below, and, as a result, determined that the merger is in Allied Capital's best interests and the best interests of Allied Capital's stockholders.

The following discussion of the information and factors considered by Allied Capital's board of directors, including its independent directors, is not intended to be exhaustive, but includes the material factors considered by Allied Capital's board of directors in evaluating the merger.

*Resumption of Dividend Payments.* The receipt of shares of Ares Capital common stock in exchange for shares of Allied Capital common stock will likely permit Allied Capital's stockholders to receive dividend payments again by taking advantage of Ares Capital's dividend, which has been consistently paid on a quarterly basis since April 2006 in an amount of at least \$0.35 per share. Furthermore, Allied Capital's board of directors considered the fact that Ares Capital's investment adviser had committed to defer up to \$15 million in base management and incentive fees for each of the first two years following the merger if certain earnings targets are not met to help ensure consistent cash flows for the combined company and support the maintenance of Ares Capital's current dividend payments.

*Improved Access to Debt Capital Markets on More Favorable Terms.* It was anticipated that the combined company would be able to access debt capital with lower interest rates and longer maturities than was available to Allied Capital on a stand alone basis. Ares Capital currently has an investment grade rating of "BBB" from both Standard & Poor's and Fitch Ratings.

*Improved Ability to Access the Equity Capital Markets.* Ares Capital was recently able to access the equity capital markets even at a price below its net asset value per share in August 2009 for net proceeds of \$109.1 million. Ares Capital's trading price at the time of the merger agreement was approaching Ares Capital's net asset value per share. In general, Allied Capital's board of directors believes that Allied Capital's stockholders will benefit from ownership in the combined company which will possess a stronger balance sheet and improved access to capital.

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*Lack of Liquidity/Flexibility.* Since Allied Capital's operational flexibility is constrained under its private debt agreements, Allied Capital has limited liquidity, which has required and would require it to continue to sell assets in order to de-lever its balance sheet. Such sales of income producing assets could further reduce Allied Capital's earnings and future dividend potential. The merger would reduce the pressure to sell assets to retire costly debt with stringent amortization requirements in an effort to de-lever the Allied Capital balance sheet.

*Increased Portfolio Diversity.* The merger will increase portfolio diversity and concentration of lower risk debt investments.

*Thorough Review of Strategic Alternatives.* Allied Capital engaged in a thorough review of the strategic alternatives reasonably believed to be available to Allied Capital, including, among other alternatives, to continue as a stand-alone entity, recapitalize the company and partner with a strategic investor and assessed the difficulties associated with pursuing each strategic alternative. In reaching the determination to proceed with Ares Capital, Allied Capital's board considered, with the assistance and advice of BofA Merrill Lynch and Sandler O'Neill and outside counsel, whether it would be appropriate to run a process soliciting other potential buyers or merger partners. Based on the prior exploration of alternatives, Allied Capital's board and its advisors were cognizant of the limited universe of capable, interested buyers for Allied Capital. Allied Capital's board concluded that the risks and uncertainties associated with such a process outweighed the potential benefits and would have likely resulted in Ares Capital being unwilling to proceed with its proposal. In rendering its advice, Allied Capital's advisors at BofA Merrill Lynch noted that at the request of Allied Capital they had contacted several parties deemed most likely to be interested in and capable of acquiring Allied Capital, but none of the parties demonstrated serious interest in pursuing an acquisition. Allied Capital's board also considered that under the merger agreement Allied Capital had the ability to accept a "Superior Proposal" from a third party.

*Strategic and Business Considerations.* Because Allied Capital's stockholders will be stockholders of Ares Capital following the merger and subsequent combination, Allied Capital stockholders stand to participate in the future growth of Ares Capital. Ares Capital is an established company with a strong capital position and performance history. In addition, the larger equity market capitalization of the combined company should assist it with earnings stability and raising capital in the public equity and debt markets.

*Terms of the Merger Agreement.* The exchange ratio of 0.325 shares of Ares Capital common stock to be received in exchange for each share of Allied Capital common stock represents a 27.3% premium to the closing price of Allied Capital common stock on October 23, 2009, based on the closing price of Allied Capital common stock and Ares Capital common stock on that date (which was the last full trading day before public announcement of the merger).

*Opinion of Its Financial Advisors.* The financial analyses reviewed and discussed with Allied Capital's board of directors by representatives of BofA Merrill Lynch and Sandler O'Neill, as well as the oral opinions of BofA Merrill Lynch and Sandler O'Neill rendered to Allied Capital's board of directors on October 25, 2009 (which were subsequently confirmed in writing by delivery of written opinions dated the same date) with respect to the fairness, from a financial point of view and as of the date of the opinions, of the exchange ratio to the holders of Allied Capital common stock. See "Opinion of Allied Capital's Financial Advisors" below.

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*Tax Free Treatment of Merger.* The merger and subsequent combination are expected to be treated as a "reorganization" under Section 368(a) of the Code. Holders of Allied Capital common stock are not expected to recognize any gain or loss for U.S. federal income tax purposes on the exchange of shares of Allied Capital common stock for shares of Ares Capital common stock in the merger, except with respect to cash received instead of fractional shares of Ares Capital common stock. See "Certain Material U.S. Federal Income Tax Consequences of the Merger."

Allied Capital's board of directors also considered:

its understanding of Allied Capital's and Ares Capital's respective businesses, portfolio companies, operations, financial condition, earnings, risk and prospects, taking into account the results of Allied Capital's business and legal due diligence review of Ares Capital's operations, its portfolio companies and other corporate and financial matters conducted over an extended period of time by Allied Capital's management and Allied Capital's board of directors' legal and financial advisors;

the current and historical market prices and trading information with respect to the common stock of Allied Capital and Ares Capital;

the values and prospects of the portfolio company investments held by Allied Capital and Ares Capital;

the financial terms of the merger, including the exchange ratio;

the fact that Allied Capital's stockholders are not being cashed out and will continue as stockholders in the combined operations of Allied Capital and Ares Capital;

its understanding of the current and prospective environments in which Allied Capital and Ares Capital operate, including industry, economic and market conditions, the competitive environment and the likely impact of these factors on Allied Capital and Ares Capital in light of, and in the absence of, the merger; and

the financial strength of Ares Capital.

Allied Capital's board of directors considered the following potential risks relating to the merger:

*Market Price.* There is uncertainty regarding how the merger will affect the market price of Ares Capital common stock before the completion of the merger, which, in turn, may affect the value of the merger consideration to be paid to Allied Capital's stockholders. The market value of the per share merger consideration could decrease prior to the effective time if the market price of Ares Capital common stock decreases.

*Net Asset Value.* The net asset value per share of Allied Capital common stock, as of September 30, 2009, was \$6.70, an amount higher than the implied market value of the merger consideration.

*Ability of Ares Capital to Obtain Consents or Additional Credit from Lenders.* Ares Capital will need to negotiate with its lenders as well as certain of Allied Capital's lenders to obtain their consent to the merger and Ares Capital will need to obtain rating agency confirmation with respect to its CLO Notes. There can be no assurance that Ares Capital will be successful in its negotiations with these lenders and/or that it will be able to obtain such rating agency confirmation.

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*Maintenance of Ares Capital's Current Dividend Payments.* Since its inception, Ares Capital has paid dividends or distributions on a quarterly basis to its stockholders out of assets legally available therefor. The ability of Ares Capital to maintain its dividend payments at current levels

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depends on Ares Capital's achievement of investment results that will allow Ares Capital to make a specified level of cash dividends or year-to-year increases in cash dividends. There is no assurance that Ares Capital will be able to maintain its dividend or distribution payments at the current level.

*Restrictions on Ability to Solicit Alternative Offers.* The non-solicitation provisions contained in the merger agreement prohibit Allied Capital from soliciting alternative offers from third parties and permit Allied Capital to consider alternative proposals from third parties only in certain limited circumstances. While these limitations ensure that only someone who is committed to making a superior proposal will attempt to re-open the evaluation process, these limitations may discourage third parties from making superior offers to acquire Allied Capital because of the increased price that such third party would have to pay and because Allied Capital would be required to pay Ares Capital a termination fee of \$30 million upon terminating the merger agreement in connection with a superior proposal.

*Combined Company May Not Succeed.* Certain of Allied Capital's stockholders may view the combined company as a different and less desirable investment vehicle for their capital and sales of shares by such stockholders could depress the share price of Ares Capital common stock following closing of the merger. In addition, there can be no assurance that the combined company will succeed.

*Special Termination Event Related to Ciena Capital LLC.* The merger agreement provides that if, prior to the closing of the merger, Ares Capital's board of directors determines in its reasonable good faith judgment that there is a reasonable likelihood that the liabilities for any monetary net losses related to Ciena exceed 66<sup>2</sup>/<sub>3</sub>% of the fair value of Ciena as of September 30, 2009 (as such fair value is determined by Allied Capital's board of directors), then, subject to certain procedural requirements, Ares Capital or Allied Capital will be permitted to terminate the merger agreement without an obligation to pay a termination fee.

This discussion of the information and factors that Allied Capital's board of directors considered in making its decision is not intended to be exhaustive but includes the material factors considered by Allied Capital's board of directors. In view of the wide variety of factors considered in connection with its evaluation of the merger and the complexity of those matters, Allied Capital's board of directors did not find it useful to, and did not attempt to, quantify, rank or otherwise assign relative weights to these factors. In addition, the individual members of Allied Capital's board of directors may have given different weights to different factors.

Allied Capital's board of directors relied on the experience of BofA Merrill Lynch and Sandler O'Neill, as its financial advisors, for analyses of the financial terms of the merger and for their respective opinions as to the fairness, from a financial point of view, of the exchange ratio to the holders of Allied Capital common stock. In addition, Allied Capital's board of directors relied on its legal advisors for legal analysis in connection with the merger transaction.

Following the merger and subsequent combination, Allied Capital will cease to exist as a separate entity and will deregister all reserved shares under its stock option plan as well as unsold common stock under its shelf registration statement. Its shares of common stock will no longer trade on the NYSE or NASDAQ and it will withdraw its election to be treated as a BDC under Section 54(c) of the Investment Company Act.

Allied Capital's board of directors believes that the merger is advisable and in the best interests of Allied Capital and its stockholders and, therefore, unanimously approved the merger and the merger agreement.

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*Ares Capital*

Ares Capital's board of directors consulted with representatives of management, its investment adviser, Ares Capital Management, as well as Ares Capital's financial, legal and other advisors and considered numerous factors, including the ones described below, and, as a result, determined that the merger is in Ares Capital's best interests and the best interests of Ares Capital's stockholders.

The following discussion of the information and factors considered by Ares Capital's board of directors, including its independent directors, is not intended to be exhaustive, but includes the material factors considered by Ares Capital's board of directors in evaluating the merger.

*Increased Scale and Presence in Middle Market.* Ares Capital's board of directors considered the unique opportunity to acquire a franchise of Allied Capital's size and scope and the fact that the combined company will have a broad and diverse platform from which to provide capital to middle-market companies, including the ability to originate larger transactions with larger final hold positions.

*Continued Access to Capital.* The combined company is expected to have access to capital even in a credit challenged environment to reinvest in its portfolio and to pursue new attractive investment opportunities in what Ares Capital's management believes is a compelling investment environment following the credit dislocation.

*More Diversified Asset Base.* The limited overlap of assets and investments of Allied Capital and Ares Capital will further limit single issuer and industry credit exposure of the combined company following the merger.

*Strengthened Asset Management Platform.* The merger will create a large scale middle-market asset management platform that is expected to bring meaningful information and deal flow benefits.

*Accretive to NAV and Core EPS.* The merger is expected to be accretive to Ares Capital's net asset value and core earnings per share in the first year following its closing.

*Cost Savings/Synergies.* The merger is expected to result in cost savings and synergies for the combined company.

*Change of Control Payments.* As an inducement for Ares Capital and Merger Sub to enter into the merger agreement, certain Allied Capital key executives agreed to waive, contingent on the closing of the merger, a portion of the change-of-control payments that otherwise might be due to them under their respective employment or retention agreements. For more information regarding the payments and benefits to be paid to them in connection with the merger, see "Interests of Certain Persons Related to Allied Capital in the Merger" below.

*Ability to Unlock Potential Value in Allied Capital's Portfolio.* Since Allied Capital's operational flexibility is constrained under its recently restructured debt agreements for its private notes and bank facility, Allied Capital has limited liquidity, which has required it to sell assets in order to de-lever its balance sheet and satisfy stringent debt amortization requirements. Ares Capital's management believes that it will have the time, capital and expertise to re-position Allied Capital's existing portfolio into higher yielding, cash generating securities with less volatility because the combined company will face less pressure to sell assets in the portfolio at an inopportune time. To the extent asset sales are deemed necessary or advisable by the combined company, the combined company would have the flexibility to sell Ares Capital's assets as well.

*Opinion of Its Financial Advisor.* The financial analyses reviewed and discussed with Ares Capital's board of directors by representatives of J.P. Morgan, as well as the oral opinion of J.P. Morgan rendered to Ares Capital's board of directors on October 25, 2009, which opinion





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was confirmed by delivery of a written opinion dated October 26, 2009, to the effect that, as of that date, and based upon and subject to the factors, assumptions, qualifications and limitations set forth therein, the exchange ratio in the merger was fair, from a financial point of view, to Ares Capital. See "Opinion of Ares Capital's Financial Advisor" below.

Ares Capital's board of directors also considered the following additional material factors relating to the merger:

its understanding of Ares Capital's and Allied Capital's respective businesses, portfolio companies, operations, financial condition, earnings, risks and prospects, taking into account the results of Ares Capital's business and legal due diligence review of Allied Capital's operations, its portfolio companies and other corporate and financial matters conducted by Ares Capital's management and its legal advisors and financial advisor;

the values and prospects of the portfolio company investments held by Allied Capital and Ares Capital;

the fact that valuations of private investments and private companies are inherently uncertain, may fluctuate over short periods of time and may be based on estimates and, as a result, Ares Capital's estimates of the fair value of Allied Capital's portfolio companies may differ materially from the values that Ares Capital may ultimately realize and the fair value of Allied Capital's investment portfolio may be significantly less than the fair value assigned to it by Ares Capital;

its understanding of the current and prospective environments in which Ares Capital and Allied Capital operate, including industry, economic and market conditions, the competitive environment and the likely impact of these factors on Ares Capital and Allied Capital in light of, and in the absence of, the merger;

the review by Ares Capital's board of directors with its advisors of the structure of the merger and the financial and other terms of the merger and the expectation that the merger and the subsequent combination will be treated as a "reorganization" under Section 368(a) of the Code and will generally be tax free;

the need for Ares Capital to negotiate with its lenders as well as certain of Allied Capital's lenders to obtain their consent and the need to obtain rating agency confirmation with respect to the CLO Notes;

the fact that the implied market value of the per share merger consideration could increase prior to the effective time if the market price of Ares Capital common stock increases;

the historical and current market prices of Ares Capital common stock and Allied Capital common stock;

the potential opportunities for cost savings and synergies as a result of the merger and subsequent combination, together with the risks associated with achieving such cost savings and synergies;

the likelihood of a successful integration of Allied Capital's business and operations with those of Ares Capital and of successful operation of the combined company despite the challenges of such integration;

the large size of the transaction relative to Ares Capital's market capitalization and the fact that the exchange ratio represented a premium of approximately 27.3% based on the closing prices of Ares Capital common stock and Allied Capital common stock on October 23, 2009 (which was the last full trading day before public announcement of the merger) and that Allied Capital stockholders would own approximately 35% of the combined company following completion of the merger; and



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the need to obtain Ares Capital stockholder and Allied Capital stockholder approvals in order to complete the merger.

Ares Capital's board of directors was also aware that pursuant to its existing investment advisory and management agreement with Ares Capital Management, Ares Capital Management has financial interests in the merger that are different from, and/or in addition to, the interests of Ares Capital's stockholders. For example, Ares Capital Management's management fee is based on a percentage of Ares Capital's total assets. Because total assets under management will increase as a result of the merger, the dollar amount of Ares Capital Management's management fee will increase as a result of the merger. In addition, the incentive fee payable by Ares Capital to Ares Capital Management may be positively impacted as a result of the merger. For more information regarding Ares Capital Management's interests in the merger pursuant to the investment advisory and management agreement, see "Management of Ares Capital Investment Advisory and Management Agreement."

This discussion of the information and factors that Ares Capital's board of directors considered in making its decision is not intended to be exhaustive, but includes the material factors considered by Ares Capital's board of directors. In view of the wide variety of factors considered in connection with its evaluation of the merger and the complexity of those matters, Ares Capital's board of directors did not find it useful to, and did not attempt to, quantify, rank or otherwise assign relative weights to these factors. In addition, the individual members of Ares Capital's board of directors may have given different weights to different factors.

Ares Capital's board of directors relied on the experience of J.P. Morgan, as its financial advisor, for analyses of the financial terms of the merger and for its opinion as to the fairness, from a financial point of view, of the exchange ratio to Ares Capital. In addition, Ares Capital's board of directors relied on its legal advisors for legal analysis in connection with the merger transaction.

Ares Capital's board of directors considered all of these factors and others as a whole and, on balance, concluded that they supported a favorable determination to enter into the merger agreement.

**Recommendation of the Board of Directors of Allied Capital**

Allied Capital's board of directors, including its independent directors, believes that the merger is advisable and in the best interest of Allied Capital and Allied Capital's stockholders and unanimously recommends that Allied Capital's stockholders vote "FOR" approval of the merger and the merger agreement and "FOR" approval of the proposal to adjourn the Allied Capital special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the Allied Capital special meeting to approve the foregoing proposal.

**Recommendation of the Board of Directors of Ares Capital**

Ares Capital's board of directors, including its independent directors, unanimously approved the merger and the merger agreement, including the issuance of Ares Capital common stock in connection therewith, and unanimously recommends that Ares Capital stockholders vote "FOR" approval of the issuance of the Ares Capital common stock to be issued pursuant to the merger agreement and "FOR" approval of the proposal to adjourn the Ares Capital special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the Ares Capital special meeting to approve the foregoing proposal.

**Opinion of Allied Capital's Financial Advisors**

*BofA Merrill Lynch*

Allied Capital has retained BofA Merrill Lynch to act as Allied Capital's financial advisor in connection with the merger. BofA Merrill Lynch is an internationally recognized investment banking

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firm which is regularly engaged in the valuation of businesses and securities in connection with mergers and acquisitions, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes. Allied Capital selected BofA Merrill Lynch to act as Allied Capital's financial advisor in connection with the merger on the basis of BofA Merrill Lynch's experience in transactions similar to the merger, its reputation in the investment community and its familiarity with Allied Capital and its business.

On October 25, 2009, at a meeting of Allied Capital's board of directors held to evaluate the merger, BofA Merrill Lynch delivered to Allied Capital's board of directors an oral opinion, which was confirmed by delivery of a written opinion dated October 25, 2009, to the effect that, as of the date of the opinion and based on and subject to various assumptions and limitations described in its opinion, the exchange ratio provided for in the merger agreement was fair, from a financial point of view, to the holders of Allied Capital common stock.

**A description of BofA Merrill Lynch's process in rendering its written opinion to Allied Capital's board of directors is attached as *Annex B-1* to this document and is incorporated by reference herein in its entirety. The full text of BofA Merrill Lynch's written opinion to Allied Capital's board of directors, which describes, among other things, the assumptions made, procedures followed, factors considered and limitations on the review undertaken, is attached as *Annex B-2* to this document and is incorporated by reference herein in its entirety. The summary of BofA Merrill Lynch's opinion in *Annex B-1* is qualified in its entirety by reference to the full text of the opinion. BofA Merrill Lynch delivered its opinion to Allied Capital's board of directors for the benefit and use of Allied Capital's board of directors in connection with and for purposes of its evaluation of the exchange ratio from a financial point of view. BofA Merrill Lynch's opinion does not address any other aspect of the merger and does not constitute a recommendation to any stockholder as to how to vote or act in connection with the proposed merger.**

*Sandler O'Neill*

By letter dated August 3, 2009, Allied Capital retained Sandler O'Neill to render a fairness opinion in connection with a possible business combination with Ares Capital. Sandler O'Neill is a nationally recognized investment banking firm whose principal business specialty is financial institutions. Sandler O'Neill as part of its investment banking business, is regularly engaged in the valuation of financial institutions and their securities in connection with mergers and acquisitions and other corporate transactions.

At the October 25, 2009 meeting at which Allied Capital's board considered and approved the merger agreement, Sandler O'Neill delivered to the board its oral opinion, subsequently confirmed in writing that, as of such date, the exchange ratio was fair to Allied Capital's stockholders from a financial point of view. A description of Sandler O'Neill's process in rendering its written opinion to Allied Capital's board of directors is attached as *Annex C-1* to this document and is incorporated by reference herein in its entirety. The full text of Sandler O'Neill's opinion is attached as *Annex C-2* to this document. The opinion outlines the procedures followed, assumptions made, matters considered and qualifications and limitations on the review undertaken by Sandler O'Neill in rendering its opinion. The description of the opinion set forth in *Annex C-1* is qualified in its entirety by reference to the full text of the opinion in *Annex C-2*. Allied Capital stockholders are urged to read the entire opinion carefully in connection with their consideration of the proposed merger.

**Opinion of Ares Capital's Financial Advisor**

Pursuant to an engagement letter, dated June 3, 2009, which was subsequently amended and restated as of October 23, 2009, Ares Capital retained J.P. Morgan as its financial advisor in connection with the merger.

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At the meeting of the board of directors of Ares Capital on October 25, 2009, J.P. Morgan rendered its oral opinion to the board of directors of Ares Capital that, as of such date and based upon and subject to the factors and assumptions set forth in its opinion, the exchange ratio in the merger was fair, from a financial point of view, to Ares Capital. J.P. Morgan has confirmed its October 25, 2009 oral opinion by delivering its written opinion to the board of directors of Ares Capital, dated October 26, 2009, that, as of such date, the exchange ratio in the merger was fair, from a financial point of view, to Ares Capital. No limitations were imposed by Ares Capital's board of directors upon J.P. Morgan with respect to the investigations made or procedures followed by it in rendering its opinions.

A description of J.P. Morgan's process in rendering its written opinion to Ares Capital's board of directors is attached as *Annex D-1* to this document and is incorporated by reference herein in its entirety. The full text of the written opinion of J.P. Morgan, dated October 26, 2009, which sets forth the assumptions made, matters considered and limits on the review undertaken, is attached as *Annex D-2* to this document and is incorporated herein by reference in its entirety. Ares Capital's stockholders are urged to read the opinion in its entirety. J.P. Morgan's written opinion is addressed to the board of directors of Ares Capital, is directed only to the exchange ratio in the merger and does not constitute a recommendation to any stockholder of Ares Capital as to how such stockholder should vote at the Ares Capital special meeting. The summary of the opinion of J.P. Morgan set forth in *Annex D-1* to this document is qualified in its entirety by reference to the full text of such opinion.

**The Unsolicited Offer from Prospect Capital**

On January 14, 2010, Allied Capital received an unsolicited non-binding offer from Prospect Capital to acquire all of the issued and outstanding shares of Allied Capital in a stock-for-stock merger. On January 19, 2010, Allied Capital's board of directors unanimously rejected the offer after determining that such offer did not constitute a Superior Proposal.

The unsolicited non-binding offer contained a proposed share exchange ratio of 0.385 Prospect Capital shares for each Allied Capital share which, based on the closing prices of Prospect Capital and Ares Capital as of January 19, 2010, without consideration of other relevant factors, implied a small premium to the value of the exchange ratio provided for in the merger. However, Allied Capital's board of directors determined that the transaction contemplated by the unsolicited non-binding offer presented significant risks relating to, among other things, the ability for the combined company to maintain dividend payments post-closing and to access the capital markets on favorable terms to provide for future growth of the business and certainty of closing. In addition, the unsolicited non-binding offer was subject to significant contingencies, including, among other things, performance of due diligence by Prospect Capital and Allied Capital and negotiation of binding documentation. Allied Capital's board of directors' unanimous decision to reject the unsolicited non-binding offer was made after careful consideration thereof in consultation with Allied Capital's management and external financial and legal advisors.

On the same date, Allied Capital's board of directors also unanimously reaffirmed its recommendation that Allied Capital's stockholders vote in favor of the merger and the merger agreement for the reasons that it initially approved the merger, including, among other things, the resumption of dividend payments for Allied Capital's stockholders, the combined company's improved access to the debt capital markets on more favorable terms, the combined company's improved access to the equity capital markets, the combined company's increased liquidity and flexibility to provide for future growth of the business, the combined company's increased portfolio diversity, the size and scope of Ares Capital's investment manager and closing certainty for Allied Capital's stockholders.

On January 26, 2010, Prospect Capital renewed its unsolicited non-binding proposal and increased its proposed share exchange ratio from 0.385 Prospect Capital shares for each Allied Capital share to 0.40

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Prospect Capital shares for each Allied Capital share. On February 3, the board of directors of Allied Capital delivered the following letter to Prospect Capital:

February 3, 2010

Prospect Capital Corporation  
10 East 40th Street  
New York, NY 10016  
Attention: Mr. M. Grier Eliasek, President and Chief Operating Officer

Dear Mr. Eliasek:

The Board of Directors of Allied Capital Corporation ("Allied" or "ALD"), together with its external legal and financial advisors, has carefully reviewed and analyzed the revised proposal submitted by Prospect Capital Corporation ("Prospect" or "PSEC") set forth in your letter of January 26, 2010. **As a result of this review, Allied's Board of Directors has unanimously concluded that this revised offer does not constitute, and is not reasonably likely to result in, a "Superior Proposal" as defined under our merger agreement with Ares Capital Corporation ("Ares" or "ARCC"). Allied's Board of Directors has unanimously reaffirmed its recommendation that Allied shareholders vote for the transaction with Ares announced on October 26, 2009.**

Before we review the reasons for this conclusion, we believe it is constructive to provide some additional important background to address references in Prospect's Preliminary Proxy Statement dated January 29, 2010 relating to Prospect's expressions of interest in pursuing a merger transaction with Allied.

Prospect's assertion that we have engaged in "stonewalling over the last nine months" over your "numerous expressions of serious interest in acquiring Allied" is false. Although we held some informal discussions and met with representatives from Prospect in April 2009, we were unable to advance those discussions because Prospect was unwilling to provide basic information that we requested. During our discussions, Prospect made claims to have access to a significant amount of third party capital. While we were intrigued by these references, Prospect was unwilling to disclose any details, including the identity of the mysterious capital source, nor was Prospect willing to provide any information regarding the financial outline of a potential transaction. Further, it was not clear to Allied whether Prospect was acting at the time as a principal in a potential transaction, or as an agent for the unidentified source of capital. Given this vagueness as to with whom we were dealing, or what such a transaction might involve, we were unable to even negotiate a confidentiality agreement. In any event, Allied ultimately determined that the clear priority at that time was to generate shareholder value through a successful restructuring of Allied's debt, and that it was not in the interests of Allied shareholders for our Board or management teams to spend more time on Prospect's undeveloped proposition. At no time during these discussions did Prospect make an offer to acquire Allied.

We would also like to clarify that Prospect approached a Managing Director on the Capital Markets desk of Allied, not our Chairman or Chief Executive Officer, in September 2009 regarding the acquisition of certain assets, not an acquisition of Allied.

The Board of Allied was surprised to receive Prospect's initial unsolicited letter of January 14, 2010 offering to acquire Allied. For reasons we will elaborate on throughout this letter, while we believe Prospect may view the acquisition of Allied as a partial solution to the significant gap in Prospect's earnings relative to its current dividend levels, we believe that the markets' growing perception of this gap, and the risk that an acquisition of Allied does not close that gap, could result in a subsequent dividend reduction. Any such reduction would be expected to place significant and immediate downward pressure on Prospect's stock price, eliminating the premium which your revised offer claims to provide and materially increasing the risk to Allied shareholders of a failed transaction.

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Despite the numerous concerns, outlined below, that Allied's Board has regarding an acquisition of Allied with Prospect stock, the Board asked its financial advisors to meet with Prospect's financial advisors and management team to discuss, among other items, the financial assumptions of your revised offer, with a specific focus on the stability and safety of Prospect's dividend. We learned that Prospect has yet to engage any financial advisors, a fact we find troubling given the transformative nature of this transaction for Prospect involving, among others, the issuance of more Prospect shares than are currently outstanding, and the need for Prospect shareholder approval. Following the discussions our advisers held with Prospect's management and such advisors' analysis of the information received, we believe that Prospect does not have the ability to generate sufficient cash earnings to support current dividend levels, and the non-cash earnings it relies upon require numerous assumptions that (i) may not happen, and (ii) if they were to happen, would also provide incremental value to Allied shareholders in the Ares transaction. This consideration, along with the others described in this letter, we would reject an acquisition of Allied for Prospect stock even if we did not have a pending agreement with Ares.

Allied's Board reached its conclusion on Prospect's revised offer for the following reasons, among others:

1. **We believe Prospect's unsolicited offer does NOT provide Allied shareholders "Superior Value" as compared to the Ares transaction.** While Prospect's revised offer purports to provide a premium to the Ares transaction based on the closing market prices of both Prospect and Ares stock as of January 25, 2010, upon its careful review the Allied Board believes there is substantial risk that this premium would vanish if the market believed that Prospect would be successful in completing a transaction with Allied. It is indicative that upon announcement of the revised offer, Prospect stock fell 5.1% during the course of the day's trading. We believe there will be continued erosion in the purported premium as the market comprehends the risks involved in such a transaction due primarily to Prospect's limited balance sheet strength and inferior platform. This erosion could ultimately result in a discount to the Ares offer.
2. **We believe a merger with Allied would put Prospect's dividend at risk, resulting in a near term dividend cut, which would reduce Prospect's stock price and imply a lower value for Allied's shareholders.** Prospect claims that Allied's shareholders would receive higher dividends in a transaction with Prospect than under the Ares transaction. We believe this claim is false, in particular given Prospect's inability to earn sufficient net investment income during the three months ended September 30, 2009 to cover its own dividend and its significant issuance of shares through the course of 2009. In addition, as the proceeds of Prospect's numerous equity raises have been applied towards the repayment of outstanding indebtedness (both Prospect's and the debt assumed through the acquisition of Patriot Capital Funding, Inc. ("Patriot")) rather than towards new investments, we believe this puts in serious doubt Prospect's ability to maintain its current dividend level. We believe Prospect's actions in continuing to increase quarterly dividend payments to shareholders without supporting earnings generation, particularly in a period during which significant equity capital was raised and the credit quality of Prospect's portfolio declined, have contributed further to Prospect's challenges in generating sufficient earnings to support the current dividend rate.

During the three months ended September 30, 2009, Prospect earned net investment income of \$12.3 million, and paid dividends to shareholders of \$19.5 million. During the same quarterly period, Patriot earned \$1.1 million in net investment income, providing pro forma net investment income of \$13.4 million. Using pro forma shares outstanding for Prospect/Patriot of 63.3 million shares, the combined organization appears to earn approximately \$0.21 per share in net investment income, against a quarterly dividend of \$0.40875, representing approximately 51% coverage through net investment income.



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In Prospect's revised proposal, Prospect would be issuing approximately 71.8 million shares to Allied shareholders. On a pro forma basis, a combined Prospect/Allied would have an estimated 135.1 million outstanding shares (63.3 million current Prospect shares plus 71.8 million shares to be issued to Allied shareholders), and require a quarterly dividend payment at current levels of \$0.40875 per share aggregating approximately \$55.2 million. During the three months ended September 30, 2009, Allied generated \$9.6 million in net investment income. Together, the combined Prospect/Patriot/Allied organization earned approximately \$23.0 million in net investment income, representing approximately 42% coverage through net investment income.

We do not see, based on the combined earnings of the proposed Allied/Prospect (including Patriot) organization, how a sustained dividend at current levels is possible. We further believe, based on the information Prospect provided to us, that Prospect's ability to close the gap between earnings and dividends relies upon the non-cash accretion of purchase price discount as a significant contributor to net investment income, combined with an assumption of early repayment of existing loans to generate liquidity. The acquisition of Allied is important to Prospect because of Prospect's existing dividend shortfall, yet fails to provide dividend stability to Allied shareholders. Indeed, rather than the higher dividends Prospect suggests, we believe a significant reduction in the dividend will be required. According to Greg Mason and Troy Ward from Stifel Nicholas, writing in a research report dated January 27, 2010, *"We still have a difficult time seeing how PSEC is able to cover its current dividend rate of \$1.64."* Given that dividend yield is one of the key valuation metrics for business development companies such as Prospect, Allied and Ares, a significant reduction in Prospect's dividend would reduce Prospect's stock price, resulting in lower value for Allied shareholders.

By contrast, in addition to a lower base management fee (1.5% for Ares compared to 2.0% for Prospect), Ares has committed to take significant steps to preserve the combined cash dividend. For example, Ares has agreed to defer up to \$15 million in base management and incentive fees for each of the first two years following the merger if certain earnings targets are not met to help support consistent cash flows and the combined Allied/Ares' dividend payments. Based on Prospect's recent results, it is unclear that Prospect has the ability to maintain its current dividend on a stand-alone basis, much less to pay a higher dividend than a combined Allied/Ares. We believe the future value of the dividend to Allied shareholders is far more secure under the Ares transaction.

3.

**We believe Prospect lacks the managerial expertise to run the combined company.** Prospect's claim that it has the management depth, capital resources and experience to undertake an acquisition of Allied is not substantiated by the facts. Prospect's acquisition of Patriot, with an investment portfolio totaling \$257 million as of September 30, 2009, only closed in December 2009 and is unlikely to be fully integrated by now. Further, this acquisition says little about Prospect's capacity to integrate Allied's \$2.2 billion in assets (as of September 30, 2009, adjusted for subsequent changes). According to Prospect's website, Prospect's senior management and professional team consist of 26 people, including those individuals retained from Patriot. In acquiring Allied, Prospect would be facing an investment portfolio almost three times larger than Prospect's existing portfolio and one that is substantially more complex. Prospect would need many of the over 100 existing Allied employees. This would create complex and risky integration issues, including whether Prospect would be able to retain key employees. Given Prospect's actions to date, it would appear that there is a significant cultural divide between the two organizations, making a successful integration more difficult and uncertain. We believe that as investors analyze a potential combination of Allied and Prospect and factor in the weakness in Prospect's managerial skills, there would be immediate downwards pressure on Prospect's stock.

4.

**There is no assurance that any agreement with Prospect could be reached or closed.** Prospect waited almost three months to make a proposal subsequent to the announcement of a transaction

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with Ares. Although Prospect's offer purports to represent a premium, Prospect's offer is preliminary and conditioned upon due diligence, and would be subject to the approval of Prospect's and Allied's shareholders. Even if Allied were to enter into negotiations with Prospect, the likelihood that a transaction with Prospect would be negotiated on the terms proposed and obtain the necessary consents and shareholder votes remains highly uncertain. Allied and Ares are moving expeditiously towards the shareholder meeting and receiving required third party consents. Allied believes the Ares transaction is on target for a closing in the first quarter of 2010. Pursuing an inferior offer with a low likelihood of ever reaching agreement or closing is clearly not in the best interests of Allied shareholders.

5.

**We believe Prospect has limited liquidity to operate the combined business.** Based on Prospect's SEC filings, Prospect's current available borrowings consist of a \$250 million revolving credit facility lead arranged by Rabobank Nederland. Although the total facility size is \$250 million, Prospect has received commitments totaling only \$210 million, despite this facility being announced in June 2009. The facility is scheduled to enter into a period of amortization in June 2010, which would preclude Prospect from borrowing any further funds on the facility, and must be fully repaid by June 2011. Given the current state of the credit markets, we believe it may be difficult for Prospect to have access to adequate debt funding after expiration of this facility. This would (i) jeopardize the ability of Prospect to continue meeting current dividend levels, (ii) further reduce prospects for growth, and (iii) present a material risk to Allied shareholders who would become shareholders of Prospect/Allied.

By contrast, Ares has commitments from and long-standing relationships with many major banks, including JPMorgan Chase Bank N.A., Bank of America, N.A., SunTrust Bank, Bank of Montreal, UBS Loan Finance LLC, Deutsche Bank AG, Morgan Stanley Bank, N.A., City National Bank, NA and Branch Banking and Trust Company. These financial institutions participated in a new three-year revolving credit facility with Ares announced on January 25, 2010, which expanded the size of total commitments from \$525 million to \$690 million. The new facility has a stated interest rate of Libor plus 300 basis points and continues to be free of a Libor floor. Prospect's current facility has a stated interest rate on drawn balances of Libor plus 400 basis points, with a Libor floor of 200 basis points, which indicates that lenders perceive Prospect to be a higher credit risk than Ares. With three-month Libor currently at approximately 25 basis points, the variation in the costs of Ares and Prospect's respective facilities creates a cost of capital differential of approximately 275 basis points in Ares' favor. In addition, Ares utilizes and has access to other forms of debt capital at lower costs than the revolving credit facility described above.

6.

**We believe the Prospect management platform is inferior to the Ares management platform, providing weaker long term growth opportunities for Allied's shareholders. Allied's Board has no confidence in Prospect's ability to manage the assets in Allied's portfolio.** Ares has more than 250 professionals in offices in Los Angeles, New York, Chicago, Atlanta, London, Paris, Frankfurt and Stockholm. Ares Management LLC is a global alternative asset manager with over \$33 billion in committed capital under management across a range of business segments, including private equity, private debt and capital markets, has deep relationships with significant investors around the world, and has numerous lending partners both at Ares and at the advisor's parent. Ares has demonstrated investment expertise that enables Allied to have confidence in Ares as managers of the combined Allied/Ares portfolio. On the other hand, we believe Prospect's advisor manages total assets of only \$760 million, with a senior management and professional team of only 26. To quote Greg Mason and Troy Ward again, from their January 27, 2010 research report, *"We still believe that over the next several years ARCC has better scale and breadth and is more likely to optimize the assets and liabilities of ALD's balance sheet better than PSEC."*

7.

**We believe the acquisition of Patriot Capital further weakens Prospect's platform, making Prospect a less attractive merger partner.** We believe Prospect's acquisition of Patriot lessens

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Prospect's attractiveness as a merger partner for Allied. Patriot's investment portfolio consisted of smaller companies relative to Prospect's portfolio, and at the time the acquisition was announced, loans and equity investments from six of Patriot's 33 portfolio companies were on non-accrual status, yet Prospect agreed to pay a 105.1% premium for Patriot's equity. Further, Prospect agreed to use existing cash resources, raised throughout 2009 in dilutive equity raises, to repay \$110.5 million of debt to Patriot's lenders.

8.

**Prospect has a track record of highly dilutive equity capital raises which we do not believe provides responsible growth to shareholders.** Prospect raised equity six times in 2009 at significant discounts to Prospect's net asset value per share ("NAV"). The average size of Prospect's equity transactions in 2009 was \$34.3 million at a weighted average price to NAV multiple of 0.67x. By contrast, on January 27, 2010, Ares announced that it had raised approximately \$267.8 million in equity at a price to NAV multiple of 1.14x. Since its initial public offering, Ares has raised equity 10 times, for average gross proceeds of \$164.3 million and a weighted average price to NAV multiple of 1.03x. Allied believes that Ares' track record in equity-capital raising is far more disciplined and shareholder friendly, and that Ares represents a responsible growth partner for existing Allied shareholders who wish to participate in the potential of a combined Allied/Ares.

9.

**We believe, by combining with Prospect, Allied shareholders would be inheriting a much riskier portfolio.** As part of Allied's discussions with Ares prior to the signing of a merger agreement, Allied spent a significant amount of time analyzing Ares' portfolio. As of September 30, 2009, approximately 5.3% of Ares' investment portfolio based on cost, and 1.7% based on fair value, was on non-accrual status. Allied has not had the opportunity to diligence Prospect's portfolio, however, based on public information as of September 30, 2009, approximately 18.6% of Prospect's investment portfolio based on cost, and 6.8% based on fair value, was on non-accrual status. Furthermore, Prospect's investment portfolio exhibits significantly less diversity from an industry perspective given its concentration in the oil and gas sectors.

Allied has explored a variety of strategic alternatives, including continuing its existing business on a stand-alone basis with its existing structure, converting to an operating company, agreeing to a large investment by a strategic investor or entering into a business combination with another financial services firm. Allied entered into the merger agreement with Ares because it provided a number of important benefits to Allied shareholders that would not otherwise be achievable in the near term. Those benefits include, among other things:

The resumption of dividend payments for Allied's shareholders;

The combined company's improved access to the debt capital markets on more favorable terms;

The combined company's improved access to the equity capital markets;

The combined company's increased liquidity and flexibility to provide for future growth of the business;

The combined company's increased portfolio diversity;

The size and scope of Ares' investment manager; and

Closing certainty for Allied's stockholders.

We do not believe Prospect's offer measures up on any of these bases.

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For all of the foregoing reasons, Allied's Board of Directors has unanimously determined that the revised offer from Prospect does not constitute, and is not reasonably likely to result in, a Superior Proposal and we remain strongly committed to the Ares transaction.

Very truly yours,

THE BOARD OF DIRECTORS  
ALLIED CAPITAL CORPORATION

On February 9, 2010, Prospect Capital issued a third unsolicited non-binding proposal and increased its proposed share exchange ratio from 0.40 Prospect Capital shares for each Allied Capital share to 0.4416 Prospect Capital shares for each Allied Capital share. On February 11, 2010, the board of directors of Allied Capital delivered the following letter to Prospect Capital:

February 11, 2010

Prospect Capital Corporation  
10 East 40th Street  
New York, NY 10016  
Attention: Mr. John F. Barry III, Chairman and Chief Executive Officer

Dear Mr. Barry:

The Board of Directors of Allied Capital Corporation ("Allied"), together with its external legal and financial advisors, has carefully reviewed and analyzed the revised proposal submitted by Prospect Capital Corporation ("Prospect") set forth in your letter of February 9, 2010. **As a result of this review, Allied's Board of Directors has unanimously concluded that this revised offer does not constitute, and is not reasonably likely to result in, a "Superior Proposal" as defined under our merger agreement with Ares Capital Corporation ("Ares"). Allied's Board of Directors has unanimously reaffirmed its recommendation that Allied shareholders vote for the transaction with Ares (the "Ares Merger") that was announced on October 26, 2009.**

*We entered into the Ares Merger after careful consideration of the best interests of Allied's shareholders.*

Contrary to the assertions Prospect has made, we would like to assure you that we take very seriously our fiduciary obligations and that we have carefully considered and analyzed each of the three offers you have made to us over the past several weeks. The Allied Board of Directors consists of a majority of independent directors and is advised by two nationally recognized law firms and two investment banking firms, including Sandler O'Neill + Partners L.P., a firm which has no relationship with Ares.

In considering the Ares transaction, the Allied Board carefully considered whether it was the appropriate time to engage in such a transaction and whether Allied should pursue other alternatives simultaneously. As our proxy statement makes clear, both in 2008 and in early 2009, Allied explored a variety of strategic alternatives and held various discussions regarding potential transactions. Following Allied's debt restructuring in late August 2009 (during which time Allied had terminated discussions with Ares), Ares was the only party that pursued an acquisition of Allied. We did not, and do not, view a call by a Prospect Managing Director to someone on Allied's Capital Markets desk regarding the acquisition of certain assets as expressing an interest in acquiring Allied.

In reaching the determination to proceed with Ares, the Allied Board considered, with the assistance and advice of its two investment banking firms and outside counsel, whether it would be appropriate to run a process soliciting other potential buyers or merger partners. Based on the prior exploration of alternatives, the Allied Board and its advisors were cognizant of the limited universe of capable, interested buyers for Allied. The Board concluded that the risks and uncertainties associated with such

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a process outweighed the potential benefits and would have likely resulted in Ares being unwilling to proceed with its proposal. In rendering its advice, our advisors at BofA Merrill Lynch noted that at the request of Allied they had contacted several parties deemed most likely to be interested in and capable of acquiring Allied, but none of the parties demonstrated serious interest in pursuing an acquisition.

The merger agreement we entered into with Ares permits us to negotiate with a party who puts forth a Superior Proposal, and the fact that you have made three offers indicates that the terms of the merger agreement have not deterred you from making a proposal. However, we have been unable to find your offer to be, or be reasonably likely to result in, a Superior Proposal. Casting aspersions on the good faith of the Allied Board and its financial advisors in this process does not add value to your offer, which is what we are called upon to consider and which we have done. Both of our investment banking firms delivered fairness opinions to us with respect to the Ares Merger and both continue to provide analysis and advice with respect to the initial offer and revised offers you have submitted.

In Prospect's most recent letter you ask why we are rushing to close the Ares Merger. The answer is a simple one: we believe that the Ares Merger is in the best interests of our shareholders for the many reasons we have given.

***The consideration to our shareholders remains superior in the Ares Merger.***

In Prospect's revised offer, Allied shareholders would be receiving two components of value: the shares of your stock and the ongoing dividend stream. While Prospect's revised offer does provide a nominally higher initial premium (assuming Prospect stock price does not deteriorate further), for a variety of reasons we remain very concerned and sensitive to the likelihood that this premium will be significantly reduced or even disappear. These reasons include:

- (i) The higher than what we believe to be an appropriate level of execution risk, in particular given Prospect would be acquiring a much larger, more complex organization and the lack of requisite management depth to appropriately manage the combined assets;
- (ii) Prospect's lack of proven access to additional debt of any form, combined with a poor track record of raising equity through highly dilutive equity capital transactions;
- (iii) The high likelihood of a near term reduction in Prospect's dividend, and the anticipated negative impact to Prospect' stock price as a result; and
- (iv) The weak credit quality of the Prospect portfolio, especially following the acquisition of Patriot Capital Funding Ltd ("Patriot"). In this regard, we note that based on public information as of December 31, 2009, approximately 12.8% of Prospect's investment portfolio based on cost, and 5.6% based on fair value, representing a total of 17 portfolio investments, were on non-accrual status. Your portfolio is clearly performing more poorly than the Ares portfolio.

The second component of the consideration for our shareholders is their share of dividends from the combined company. We note that again with your most recent offer, you fail to provide any financial analysis to support your claims that the combined Allied/Prospect can pay higher dividends to our shareholders than the combined Allied/Ares. Prospect's revised offer letter discusses past dividend history, but does not acknowledge the difficulty of maintaining dividends at the same level following a period of dilutive equity issuances, particularly when you appear to rely so heavily on non-cash items such as the accretion of purchase discount in order to generate net investment income, and that a significant portion of your 2009 dividends represented a return of capital. Unlike the commitment Allied was able to receive from Ares, Prospect has not offered a reduction in management fees as a way to ensure stability of future dividends to our shareholders.

Based upon a review of Prospect's Form 10-Q as of December 31, 2009, our analysis of your fourth quarter 2009 financial information revealed the following.

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During the three-month period ended December 31, 2009, Prospect earned approximately \$0.29 per share in net investment income, compared to a quarterly dividend declared of \$0.40875, representing a coverage ratio of approximately 72%. By way of contrast, the coverage ratio from the corresponding period one year earlier, prior to Prospect entering into a series of highly dilutive equity raises, was approximately 100%. We note further our earnings calculation uses weighted average shares outstanding for the quarter, while the dividend rate is applied against the actual shares outstanding. A period in which additional shares are issued creates an additional burden in terms of cash dividends required to be paid to shareholders. Using quarter end share count for Prospect and applying that against net investment income results in a per share calculation of less than \$0.27 for the quarter ended December 31, 2009, or a coverage ratio relative to the dividend of approximately 65%.

The quality of the earnings reported by Prospect has declined materially over the past year, which we are very concerned is a sign of what is to come. In the quarter ended December 31, 2008, accretion of original issue discount on investments represented \$0.4 million or 3% of net investment income. For the quarter ended December 31, 2009 accretion of original issue discount a non-cash item represented \$6.2 million or 36% of net investment income. While this non-cash item appears to close the gap between net investment income and dividends, except in the instance where an asset is sold, the income does not generate cash with which to pay shareholders the dividend each quarter. Moreover, accretion of discounts does not represent a sustainable earnings stream, and ceases once the particular asset is sold.

Under Prospect's latest revised proposal, Prospect would be issuing approximately 79.2 million shares to Allied shareholders (surrendering 56% of the combined company). On a pro forma basis, a combined Prospect/Allied would have an estimated 142.6 million outstanding shares and require a quarterly dividend payment at current levels of \$0.40875 per share aggregating approximately \$58.3 million. With adjusted net investment income (excluding the non-cash accretion of original issue discount on investments of \$6.2 million and the one time gain related to the acquisition of Patriot of \$5.7 million) for the most recent quarter at Prospect merely \$5.1 million, a significant earnings gap arises and appears unlikely to be addressed, even with Allied's cash earnings added, without a dividend reduction. How the current dividend stream can be supported given the lack of earnings power that Prospect brings to the table is a serious flaw in your proposal that we can not overlook. You have not provided any financial analysis or reassurance to the contrary and therefore we must conclude that our analysis is accurate. We note that on each occasion that Prospect has increased its offer to acquire Allied, it has materially increased the risk that Prospect will not be able to maintain its dividend. This is our primary consideration in determining that your revised offer does not provide superior value to our shareholders.

***The Ares Merger presents lower execution risk.***

In addition to our viewing future dividends much safer under the Ares Merger, we also again want to point out the far higher likelihood of closing the Ares Merger. Prospect's offer remains preliminary and subject to due diligence, negotiation of a mutually satisfactory merger agreement, receipt of lender consents and receipt of approval from both Allied and Prospect shareholders. We have significant reservations about the likelihood of a transaction with you closing on the terms you have proposed in your revised offer and you have taken no steps to provide any reassurance to the contrary in your most recent letter. We also note that you still have yet to retain a financial advisor to assist you with this significant and potentially transformational transaction, which continues to cause us concern regarding your ability to execute this transaction as proposed.

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In your recent letter, you state that this is your "best and final" offer. We have once again analyzed in detail this best and final offer and have unanimously concluded that the revised offer from Prospect

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does not constitute, and is not reasonably likely to result in, a Superior Proposal. We understand Prospect's belief that your offer is superior is based in no small part on your optimism you are optimistic that you will receive early prepayments of indebtedness, you are optimistic that you will be able to redeploy those funds in more favorable investments, you are optimistic that your borrowing capacity will increase and be on better terms, which will enable you to buy portfolios on favorable terms, which will allow you to maintain your dividend, and so on. As fiduciaries to the Allied shareholders, we cannot jettison an existing transaction that we believe is in our shareholders' best interests for an outcome that depends on so many variable factors playing out favorably. We remain strongly committed to the Ares transaction. Thus, we respectfully request that you terminate your proxy solicitation.

Very truly yours,

THE BOARD OF DIRECTORS  
ALLIED CAPITAL CORPORATION

The Allied Capital board did not find it useful, and did not attempt, to quantify, rank or otherwise assign relative weights to the factors set forth in the letter. In addition, except as noted above, the Allied Capital board did not undertake to make any specific determination as to whether any particular factor or any aspect of any particular factor was favorable or unfavorable to the Allied Capital board's ultimate determination. Rather, the Allied Capital board conducted an overall analysis of the factors described above, including thorough discussions with, and questioning of, Allied Capital's management and its financial and legal advisors. In considering the factors described above, individual members of Allied Capital's board may have given different weight to different factors.

**The Allied Capital board has unanimously concluded that Prospect Capital's proposal does not constitute, and is not reasonably likely to result in, a Superior Proposal. Accordingly, Allied Capital recommends that you do not give your proxy to Prospect Capital. Allied Capital's board also unanimously reaffirmed its recommendation that Allied Capital's stockholders vote in favor of the merger and the merger agreement.**

**Interests of Certain Persons Related to Allied Capital in the Merger**

In considering the recommendation of Allied Capital's board of directors to approve the merger and the merger agreement, Allied Capital's stockholders should be aware that certain persons related to Allied Capital have interests in the merger that are different from, and/or in addition to, the interests of Allied Capital's stockholders generally.

Allied Capital's compensation and benefits programs, including the employment and retention agreements it has entered into with certain employees, are designed to align the compensation paid to its executive officers with the achievement of certain corporate and executive performance objectives and to enable Allied Capital to retain key officers who contribute to Allied Capital's operations, especially during a period of transition such as during the pendency of a merger.

Allied Capital's board of directors was aware of these potential conflicts of interest and considered them, among other matters, in evaluating and negotiating the merger and the merger agreement and in reaching its decisions to approve the merger and the merger agreement and to recommend that Allied Capital stockholders vote in favor of approving the merger and the merger agreement.

***Treatment of Stock Options***

Allied Capital's directors and officers (including Allied Capital's named executive officers as of December 31, 2009, the "NEOs") have received from time to time grants of stock options to purchase Allied Capital common stock under the Allied Capital Amended Stock Option Plan, or the "Stock

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Option Plan." Stock options granted to directors vest immediately. Under the terms of the Stock Option Plan, all outstanding unvested stock options to purchase Allied Capital common stock will become fully vested and exercisable upon completion of the merger.

As of January 15, 2010, there were 21,908,523 Allied Capital stock options outstanding under the Stock Option Plan, 12,643,557 of which were vested and 9,264,966 of which were unvested. The NEOs and directors as a group held 7,495,004 Allied Capital stock options of which 3,555,000 Allied Capital stock options were "in-the-money" with a weighted average exercise price of \$1.0266 per Allied Capital common share.

Prior to the closing date and contingent upon the merger occurring, Allied Capital's board of directors will cause all outstanding unvested and unexercisable options to purchase shares of Allied Capital common stock issued pursuant to the Stock Option Plan to become fully vested and exercisable. At least three business days prior to the effective time, such option holders will have the opportunity to exercise some or all of their outstanding stock options to purchase shares of Allied Capital common stock, contingent on the closing of the merger. The shares of Allied Capital common stock acquired upon such exercise will be converted at the effective time into the right to receive the merger consideration.

At the effective time, each Allied Capital stock option, whether vested or unvested, that has not been exercised will be cancelled and if the exercise price of such option is less than the product of (1) the average closing price per share of Ares Capital common stock for the five consecutive trading days immediately preceding the closing, or the "Ares Capital average closing price," *multiplied by* (2) the exchange ratio of 0.325 (such amount, the "option closing amount"), then the holder of such option will have the right to receive, at their election:

a lump sum cash amount equal to the product of (1) the excess of the option closing amount over the exercise price per share for such option *multiplied by* (2) the total number of shares of Allied Capital common stock subject to such option, less applicable withholdings; or

a number of shares of Ares Capital common stock equal to (1) the product of (a) the total number of shares of Allied Capital common stock subject to such option *multiplied by* (b) the excess of the option closing amount over the exercise price per share for such option, less applicable withholdings, *divided by* (2) the Ares Capital average closing price.

Holders electing to receive shares of Ares Capital common stock will receive cash (without interest) instead of fractional shares in an amount equal to the product of (1) such fractional share *multiplied by* (2) the Ares Capital average closing price.

Any holder who fails to make such election will be deemed to have made an election to receive shares of Ares Capital common stock. Any previously unpaid dividends or other distributions payable on Ares Capital common stock acquired upon exercise of an Allied Capital stock option or in settlement of an Allied Capital stock option, with a record date after the effective time, will be paid to such option holders.

Pursuant to the merger agreement, Allied Capital will terminate the Stock Option Plan as of the effective time.

For information regarding the stock option awards outstanding for each of Allied Capital's NEOs for the fiscal year ended December 31, 2009, see "Management of Allied Capital Executive Compensation Outstanding Equity Awards at Fiscal Year-End."



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*Employment Agreements and Retention Agreements*

Each NEO is party to either an employment agreement or a retention agreement with Allied Capital that provides for certain severance payments and benefits if the NEO's employment terminates under certain circumstances, including termination of the NEO by Allied Capital without cause (as defined in each employment agreement or retention agreement) and termination by the NEO for good reason (as defined in each employment agreement or retention agreement), including in the event of a change in control.

The completion of the merger will constitute a change in control. As a result of the merger, each of the NEOs will be terminated from Allied Capital without "cause." As a result, payments will be made to each NEO in connection with the merger.

Each NEO would be required to enter into an agreement with Allied Capital that provides for a general release of all legal claims that are or may be held by each such NEO against Allied Capital to receive any severance payments and benefits pursuant to each employment or retention agreement.

*Employment Agreements*

Allied Capital has employment agreements with the following NEOs: Mr. Scheurer, Mr. William Walton and Ms. Penni Roll. See "Management of Allied Capital Executive Compensation Employment Agreements."

**Mr. Scheurer**

Allied Capital entered into an employment agreement effective May 5, 2009 with Mr. Scheurer. The agreement provides that if Mr. Scheurer's service as Chief Executive Officer is terminated by Allied Capital without cause, by Mr. Scheurer for good reason (which would include the merger) or due to Mr. Scheurer's death or disability, he will be entitled to severance pay equal to (1) three times (one times in the event of Mr. Scheurer's death or disability) the average of his base and bonus compensation for the preceding three fiscal years, plus (2) a lump-sum severance amount, plus (3) a cash payment to assist in paying for certain post-termination health and welfare benefits. Severance payments will generally be paid in a lump-sum on the first business day after the six-month period following the termination date and are conditioned on Mr. Scheurer signing a general release of claims.

**Mr. Walton and Ms. Roll**

Allied Capital initially entered into employment agreements in 2004 with Mr. Walton and Ms. Roll, each of which has since been amended. Mr. Walton's and Ms. Roll's agreements provide that if their employment is terminated by Allied Capital without cause, by Mr. Walton or Ms. Roll for good reason (which includes any termination within 24 months after the occurrence of a change in control, such as the merger), due to Mr. Walton's or Ms. Roll's death or disability or as a result of the failure to renew the agreement, Mr. Walton and Ms. Roll, as the case may be, will be entitled to severance pay equal to (1) three times (one times in the event of death or disability) the average of base and bonus compensation for the preceding three fiscal years, plus (2) a lump-sum severance amount, plus (3) a cash payment to assist in paying for certain post-termination health and welfare benefits. Severance payments will generally be paid in a lump-sum on the first business day after the six-month period following the termination date and are conditioned on Mr. Walton or Ms. Roll, as the case may be, signing a general release of claims.

*Retention Agreements*

Allied Capital has retention agreements with the following NEOs: Ms. Joan Sweeney and Mr. Daniel Russell.

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**Ms. Sweeney**

Allied Capital entered into a retention agreement effective May 13, 2009 with Ms. Sweeney. The agreement has a three-year term and provides that if Ms. Sweeney's service as Managing Director and Senior Advisor to the Chief Executive Officer is terminated by Allied Capital without cause, by Ms. Sweeney for good reason (which includes the occurrence of a change in control, such as the merger) or due to Ms. Sweeney's death or disability, she (or, in the case of her death, her estate) will be entitled to severance pay equal to the sum of her total base compensation and any special retention bonus that she would have received if her employment had continued from the termination date through May 13, 2012, plus an additional cash amount for the first full month after the termination date and for every following month through the last month of the term of the agreement.

The retention agreement also provides that Ms. Sweeney is entitled to additional payments under other circumstances: (1) if there is a change in control of Allied Capital (as defined in the retention agreement) before May 13, 2011, the second anniversary of the effective date of the retention agreement, and Ms. Sweeney terminates her employment for good reason as a result of the change in control or if Ms. Sweeney's employment has previously been terminated by Allied Capital without cause or by Ms. Sweeney for good reason, she will receive a lump-sum payment of \$2 million; and (2) if, before May 13, 2011, the second anniversary of the effective date of the retention agreement, Ms. Sweeney's employment is terminated by Allied Capital without cause or by Ms. Sweeney for a good reason other than good reason due to a change in control and Ms. Sweeney also ceases to be a member of the board of directors other than due to her resignation, death or disability, she will receive a lump-sum payment of \$1 million. The total amount payable pursuant to (1) and (2) above will not exceed \$2 million.

Between May 13, 2011 and May 13, 2012, if there has not been a change in control that would entitle Ms. Sweeney to a payment pursuant to item (1) in the preceding paragraph, the retention agreement provides for the following payments: (A) if there is a change in control on or after the second anniversary but before the third anniversary of the effective date of the retention agreement and Ms. Sweeney terminates her employment for good reason as a result of the change in control or her employment has previously been terminated by Allied Capital without cause or by Ms. Sweeney for good reason, she will receive a lump-sum payment of \$1 million; and (B) if on or after the second anniversary of the effective date of the retention agreement but before the end of the term of her employment, Ms. Sweeney's employment is terminated by Allied Capital without cause or by Ms. Sweeney for a good reason other than good reason due to a change in control and Ms. Sweeney also ceases to be a member of the board of directors other than due to her resignation, death or disability, she will receive a lump-sum payment of \$500,000. The total amount payable pursuant to items (A) and (B) will not exceed \$1 million.

The severance payments will generally be paid in a lump-sum within seven business days following the end of the six-month period after the termination date and any additional payments will generally be paid on the later of seven days following the end of the six-month period after the termination date or 30 days following the change in control. All payments are conditioned on Ms. Sweeney's execution of a general release of claims.

**Mr. Russell**

Allied Capital entered into retention agreements on March 3, 2009 with 17 officers, including Mr. Russell, which expire on December 31, 2011. These agreements provide that, in the event of a termination of the officer's employment by Allied Capital or its successor, other than for cause, or a termination of employment by the officer for good reason, in each case, within 90 days before or 18 months following a change of control of Allied Capital (including the merger), the officer will receive a retention award to be paid in a lump sum on the first business day after the six-month period following their separation from service. Allied Capital would also be required to pay for health care

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continuation coverage until the earlier of 12 months after the separation from service or the officer becoming employed by a new employer.

***Potential Payments Under Employment and Retention Agreements***

The following tables quantify the potential payments and benefits upon termination of employment with Allied Capital for each NEO, assuming the NEO's employment terminated on March 31, 2010. Due to the number of factors that affect these calculations, including the price of Allied Capital common stock, any actual amounts paid or distributed may be different.

In addition to the potential payments set forth in the tables below, Allied Capital may be required to pay up to \$12,875,000 plus health care continuation coverage for up to 12 months to certain of its officers, other than its NEOs, pursuant to the terms of the retention agreements entered into on March 3, 2009 and discussed above.

In connection with the negotiations with respect to the merger, it was determined that amounts to be paid by Allied Capital to certain employees, including its NEOs, under the terms of the employment and retention agreements, would not exceed \$30.3 million in the aggregate. As a result, certain executive officers, including certain NEOs, agreed to reduce the amount of the payments that otherwise might have been payable under the terms of the employment and retention agreements by an aggregate of \$4,591,139, of which \$3,172,000 has been waived by Mr. Walton. The amounts shown in the tables below reflect these reductions in respect of the NEOs. In addition, it is expected that certain officers with retention agreements will be employed by Ares Capital or one of its affiliates following the completion of the merger. As a result, payments may not be made immediately or at all under certain retention agreements. If payments were made under all outstanding retention agreements, the aggregate amount to be paid to employees with employment or retention agreements, including NEOs, would be cash payments of \$35,353,111 and health care continuation coverage for up to 12 months for the employees with retention agreements.

**William L. Walton**

Cash Payments	\$ 6,500,000
Accelerated Vesting of Option Awards	\$ 1,728,000
Continued Benefits	\$
<b>Total</b>	<b>\$ 8,228,000</b>

**John M. Scheurer**

Cash Payments	\$ 4,999,999
Accelerated Vesting of Option Awards	\$ 1,728,000
Continued Benefits	\$
<b>Total</b>	<b>\$ 6,727,999</b>

**Penni F. Roll**

Cash Payments	\$ 4,091,950
Accelerated Vesting of Option Awards	\$ 767,998
Continued Benefits	\$
<b>Total</b>	<b>\$ 4,859,948</b>

**Joan M. Sweeney**

Cash Payments	\$ 5,486,162
Accelerated Vesting of Option Awards	\$ 326,666
Continued Benefits	\$
<b>Total</b>	<b>\$ 5,812,828</b>

Table of Contents**Daniel L. Russell**

Cash Payments	\$ 1,400,000
Accelerated Vesting of Option Awards	\$ 1,535,999
Continued Benefits	\$ 21,183
<b>Total</b>	<b>\$ 2,957,182</b>

The foregoing estimates are based on a number of assumptions. Accelerated vesting of option awards is calculated based on the closing price of \$3.61 of Allied Capital common stock on December 31, 2009. Facts and circumstances at the time of any change in control transaction or any termination thereafter, as well as changes in the applicable officer's compensation history preceding such a transaction and/or a qualifying termination thereafter, could materially impact the amounts to be paid.

***Additional Severance Payments to Allied Capital Employees***

The merger agreement provides for certain additional severance payments to be made to Allied Capital's non-executive officer employees who do not have severance payments under the employment agreements or the retention agreements discussed above and who are employed by Allied Capital on the closing date of the merger and: (1) who are not offered employment with Ares Capital or one of its affiliates; or (2) who are offered employment with Ares Capital or one of its affiliates but whose employment is terminated without cause within the 12-month period following the closing date. The severance payable, which will vary based upon the employee's years of service and seniority, will range from a minimum of six weeks for employees below the level of vice president to a maximum of 32 weeks for managing directors, for a total cost that is currently estimated not to exceed \$ 2.2 million. Any severance and benefit payments will be made in a single lump sum and are conditioned upon the signing of a waiver and release of claims.

***Indemnification and Insurance***

Following the effective time, Ares Capital will, to the fullest extent permitted under applicable law, indemnify, defend and hold harmless and advance expenses to the present and former directors and officers of Allied Capital or any of its consolidated subsidiaries, and any such person presently or formerly serving at the request of Allied Capital or any of its consolidated subsidiaries as a director, officer, employee, trustee or fiduciary of any other person or entity or under or with respect to any employee benefit plan, against all costs or expenses (including reasonable attorneys' fees), judgments, fines, losses, claims, damages, penalties, amounts paid in settlement or other liabilities incurred in connection with any proceeding or claim arising out of actions or omissions occurring at or prior to the effective time, including the merger.

In addition, at the effective time, Ares Capital will automatically, fully, unconditionally and irrevocably assume and agree to perform and discharge all of the obligations of Allied Capital under each indemnification agreement between Allied Capital and certain of its current and former directors and officers and any other similar agreements.

The merger agreement requires Ares Capital to maintain for a period of six years following the effective time a directors' and officers' liability insurance policy covering the present and former officers and directors of Allied Capital or any of its consolidated subsidiaries, containing identical or better coverage and amounts and terms and conditions no less advantageous as that coverage currently provided by Allied Capital's current policies, except that Ares Capital is not required to expend more than 200% of the current amount expended by Allied Capital for its policies for a twelve-month period. If Ares Capital is unable to maintain or obtain such a policy, Ares Capital must use its reasonable best efforts to obtain as much comparable insurance as is available for 200% of Allied Capital's current premium for a twelve-month period. Ares Capital may fulfill its obligation to maintain a directors' and officers' liability insurance policy covering the present and former officers and directors of Allied

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Capital by purchasing a directors' and officers' insurance policy or a "tail" policy under Allied Capital's current directors' and officers' liability insurance policy provided that such policy: (1) has an effective term of six years from the effective time; (2) covers those individuals who are covered by Allied Capital's current policy and for actions and omissions occurring on or prior to the effective time; and (3) contains terms with respect to coverage and amounts that are identical or better than those contained in Allied Capital's current policy. If Allied Capital elects to purchase such a tail policy, then Ares Capital's obligations will be deemed to have been satisfied.

***Ares Capital Board Position***

Upon completion of the merger, the members of Ares Capital's board of directors will continue as directors of Ares Capital. However, at the effective time, Ares Capital's board of directors will be increased by at least one member and Ares Capital will submit the name of one member of Allied Capital's board of directors for consideration to Ares Capital's nominating and governance committee to fill the vacancy.

***Future Employment and Benefits***

On or prior to the closing date, Ares Capital or its affiliates may, but are not under any obligation to, make an offer of employment, effective as of the effective time or thereafter, or hire any of the employees, officers, directors or consultants of Allied Capital who are actively employed with Allied Capital immediately prior to the effective time. Ares Capital or its affiliates shall determine, in its or their discretion, the terms and conditions of employment to be offered to any such individuals and are under no obligation to employ any such individuals for any particular period of time. Except as otherwise directed by Ares Capital, Allied Capital will cause the employment or services of all employees, officers, directors or consultants of Allied Capital and its consolidated subsidiaries to be terminated immediately prior to the effective time. As of January 22, 2010, Ares Capital's investment adviser has hired three former Allied Capital employees, including Robert D. Long, a named executive officer of Allied Capital in 2009.

Any employee benefit plans in which any employees, officers, directors or consultants of Allied Capital who continue employment with Ares Capital or one of its controlled affiliates are eligible to participate will take into account, for purposes of eligibility, vesting and benefit accrual thereunder, service by such individuals with Allied Capital and its affiliates as if such service were with Ares Capital or its controlled affiliates, to the same extent such service was credited under a comparable Allied Capital employee benefit plan (other than for purposes of benefit accruals under defined benefit pension plans). In addition, for any Allied Capital employee, officer, director or consultant who continues employment with Ares Capital or one of its controlled affiliates, Ares Capital has agreed to, or to cause its controlled affiliate to: (1) waive any preexisting condition limitations otherwise applicable to such individual and their eligible dependents under any benefit plan of Ares Capital or its controlled affiliates that provides health or medical benefits in which such individual may be eligible to participate following the closing, (2) honor any deductible, co-payment and out-of-pocket maximums incurred by any such individual and their eligible dependents under the health plans in which they participated immediately prior to the closing and (3) waive any waiting period limitation or evidence of insurability requirement that would otherwise be applicable to any individual and their eligible dependents on or after the closing. See "Description of the Merger Agreement Additional Covenants Pending Completion of the Merger."

Not later than 10 business days prior to and contingent on the effective time, Allied Capital will terminate all of the employee benefit plans maintained by it or any of its consolidated subsidiaries subject to the requirements of Sections 401(a) and 409A of the Code, unless Ares Capital provides notice to Allied Capital at least 10 business days before the effective time that such plan or agreement should not be terminated or to the extent there is an obligation to make a payment under any

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employment or retention agreement or pursuant to the merger agreement. Payments in respect of any such terminated benefit plans will be made at the effective time to the extent permitted by Sections 401(a) and 409A of the Code. To the extent payment at the effective time is not permitted by Sections 401(a) and 409A of the Code, Allied Capital will vest payments and benefits under its employee benefit plans and payments and benefits under employment or retention agreements for employees who will not continue to be employed by Ares Capital or its controlled affiliates. Notwithstanding the foregoing, Allied Capital will not be required to terminate: (1) any obligation it has to make payments under any employment or retention agreements or payments otherwise provided for in the merger agreement; or (2) any employee benefit plan identified by Ares Capital at least 10 business days prior to the closing.

To the extent permitted by Section 409A of the Code, Allied Capital intends to establish and fund a rabbi trust or similar funding arrangement for any payments in respect of terminated employee benefit plans or employment or retention agreements not made at the closing, which payments will be distributed at the earliest time permitted in accordance with the terms of such underlying Allied Capital employee benefit plans and the requirements of Section 409A of the Code. The rabbi trust will provide that, upon satisfaction of all amounts, the remainder will revert to Ares Capital.

With respect to health benefits, the merger agreement also provides that Ares Capital or its controlled affiliates, to the extent possible, will continue, or cause to be continued for the duration of the applicable COBRA continuation period, the level of health and medical benefits of the employees, officers, directors and consultants of Allied Capital and its consolidated subsidiaries; provided, that if it is not possible for Ares Capital or its controlled affiliates to continue the Allied Capital health plans as a result of their termination, Ares Capital or its controlled affiliate shall either (1) use commercially reasonable efforts to obtain replacement arrangements that replicate the Allied Capital health plans or (2) cause such benefits to be provided pursuant to the health and medical benefit arrangements of a controlled affiliate that most closely approximate the benefits provided pursuant to the Allied Capital health plans.

At or prior to the effective time, Allied Capital will take all necessary action to cause the account balances or accrued benefits of its employees, officers, directors and consultants under the Allied Capital 401(k) Plan to be fully vested and non-forfeitable as of, and contingent on, the closing date.

**Interests of Ares Capital's Investment Adviser in the Merger**

Ares Capital's investment adviser, Ares Capital Management, has financial interests in the merger that are different from, and/or in addition to, the interests of Ares Capital's stockholders. For example, Ares Capital Management's management fee is based on a percentage of Ares Capital's total assets. Because total assets under management will increase as a result of the merger, the dollar amount of Ares Capital Management's management fee will increase as a result of the merger. In addition, the incentive fee payable by Ares Capital to Ares Capital Management may be positively impacted as a result of the merger. See "Unaudited Pro Forma Condensed Consolidated Financial Statements."

Ares Capital Management has committed to defer up to \$15 million in base management and incentive fees for each of the first two years following the merger if certain earnings targets are not met to help support consistent cash flows and the combined company's dividend payments.

**Litigation Relating to the Merger**

Allied Capital and Ares Capital are aware that a number of lawsuits have been filed by stockholders of Allied Capital challenging the merger. The suits are filed either as putative stockholder class actions, stockholder derivative actions or both. All of the actions assert similar claims against the members of Allied Capital's board of directors alleging that the merger agreement is the product of a flawed sales process and that Allied Capital's directors breached their fiduciary duties by agreeing to a

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structure that was not designed to maximize the value of Allied Capital's stockholders and by failing to adequately value and obtain fair consideration for Allied Capital's shares. They also claim 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. All of the actions demand, among other things, a preliminary and permanent injunction enjoining the merger and rescinding the transaction or any part thereof that may be implemented.

**Regulatory Approvals Required for the Merger**

Completion of the merger is subject to prior receipt of all approvals and consents required to be obtained from applicable governmental and regulatory authorities to complete the merger. Ares Capital and Allied Capital have agreed to cooperate and use all reasonable best efforts to obtain all permits, consents, approvals and authorizations from any governmental or regulatory authority necessary to consummate the transactions contemplated by the merger agreement as promptly as practicable.

There can be no assurance that such regulatory approvals will be obtained, that such approvals will be received on a timely basis or that such approvals will not impose conditions or requirements that, individually or in the aggregate, would or could reasonably be expected to have a material adverse effect on the financial condition, results of operations, assets or business of Ares Capital following completion of the merger.

Each of Ares Capital and Allied Capital filed notifications of the merger under the provisions of the HSR Act with the Antitrust Division of the United States Department of Justice and the United States Federal Trade Commission on November 16, 2009. Early termination of the HSR waiting period was granted to each of Ares Capital and Allied Capital on December 1, 2009.

Ares Capital and Allied Capital are not aware of any governmental approvals or compliance with applicable laws and regulations that are required for the merger to become effective other than filings with NASDAQ regarding the listing of additional shares and filings with the SEC regarding this document. Ares Capital and Allied Capital intend to seek any other approvals required to complete the merger. There can be no assurance, however, that any such approvals will be obtained.

**Third Party Consents Required for the Merger**

Under the merger agreement, Ares Capital's obligation to complete the merger is subject to the prior receipt of certain approvals, confirmations and consents required to be obtained from certain agents, lenders, noteholders and other parties. As of the date of this document, Ares Capital and Allied Capital believe that, subject to the satisfaction of certain conditions, they have obtained all necessary third party consents other than stockholder approvals and, if necessary, rating agency confirmation with respect to the Debt Securitization.

There can be no assurance that any confirmations, approvals or consents will be obtained or that any refinancings will be completed on a timely basis or at all or that any confirmations, approvals, consents or refinanced debt facilities will not impose conditions or requirements that, individually or in the aggregate, would or could reasonably be expected to have a material adverse effect on the financial condition, results of operations, assets or business of the combined company following the merger.

On January 22, 2010, Ares Capital amended and restated the Credit Facility. The amendment and restatement, among other things, increases the size of the Credit Facility from \$525 million to \$690 million (comprised of \$615 million in commitments on a stand-alone basis and an additional \$75 million in commitments contingent upon the closing of the merger), extends the maturity date to January 22, 2013, modifies pricing and permits certain mergers, including a merger of the type currently contemplated by the merger agreement. The Credit Facility also includes an "accordion" feature that allows Ares Capital, under certain circumstances, to increase the Credit Facility's size to a maximum of

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\$897.5 million prior to the closing of the merger and up to a maximum of \$1.05 billion upon the closing of the merger.

On that same date, Ares Capital also combined its existing \$225 million amortizing CP Funding Facility with its existing \$200 million revolving CP Funding II Facility into a single \$400 million revolving securitized facility. The combined CP Funding Facility, among other things, converted the existing facility from an amortizing facility to a revolving facility, extended the maturity date to January 22, 2013 (with two one-year extension options, subject to mutual consent), modified the pricing structure of the CP Funding Facility and pre-approved the merger. In connection with the combination, Ares Capital terminated the CP Funding II Facility.

On January 29, 2010, Allied Capital entered into the Credit Agreement pursuant to which Allied Capital obtained the Term Loan. The proceeds of the Term Loan were used to refinance Allied Capital's private notes and bank facility. In connection with entering into the Term Loan, Allied Capital used the proceeds from the Term Loan and cash on hand from asset sales and repayments to repay its private notes and bank facility in full. On January 29, 2010, after giving effect to the refinancing and the full repayment of the private notes and bank facility, Allied Capital 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 and is subject to certain mandatory prepayments prior to maturity, including repayments related to asset dispositions. The Term Loan generally becomes due and payable upon a change of control or merger; except that, in certain circumstances, the Term Loan may be assumed by Ares Capital in connection with the consummation of the merger. Borrowings under the Term Loan will bear interest based on LIBOR or a base rate and the Term Loan will initially bear interest at a rate per annum of 4.74%. In addition to the interest paid on the Term Loan, Allied Capital 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 private notes and bank facility, Allied Capital has granted the Term Loan lenders a blanket lien on a substantial portion of its assets.

Ares Capital and Allied Capital are not aware of any approvals, confirmations or consents with respect to the existing debt of Ares Capital or Allied Capital that are required for the merger to become effective other than those described above. Ares Capital and Allied Capital intend to seek any other approval, confirmation or consent required to complete the merger. There can be no assurance, however, that any such approvals, confirmations or consents will be obtained.

Although not a condition to either Allied Capital's or Ares Capital's obligation to complete the merger, certain agreements of Allied Capital and Ares Capital or their affiliates, including with respect to certain managed funds of Allied Capital and its affiliates, will or may require the consent or waiver of one or more counter-parties in connection with the merger or subsequent combination. The failure to obtain any such consent or waiver may permit such counter-parties to terminate, or otherwise increase their rights or the combined company's obligations under, such agreements because the merger, subsequent combination or other transactions contemplated by the merger agreement may violate an anti-assignment, change of control or other provision relating to any of such transactions. If this happens, Ares Capital may have to seek to replace that agreement with a new agreement or seek an amendment to such agreement. Allied Capital and Ares Capital cannot assure you that Ares Capital will be able to replace or amend such agreement on comparable terms or at all.

**Public Trading Markets**

Ares Capital common stock trades on NASDAQ under the symbol "ARCC." Allied Capital common stock trades on the NYSE and NASDAQ under the symbol "ALD." Allied Capital has public unsecured notes that trade on the NYSE under the symbol "AFC." Upon completion of the merger and subsequent combination, Allied Capital common stock will be delisted from the NYSE and



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NASDAQ and thereafter will be deregistered under the Exchange Act. The Ares Capital common stock issuable in the merger will be listed on NASDAQ.

**Board of Directors and Management of the Combined Company Following Completion of the Merger**

Upon completion of the merger and subsequent combination, the current directors and officers of Ares Capital are expected to continue in their current positions and Ares Capital's investment adviser, Ares Capital Management, will continue to externally manage it. At the effective time, Ares Capital's board of directors will be increased by at least one member and Ares Capital will submit the name of one member of Allied Capital's board of directors for consideration to Ares Capital's nominating and governance committee to fill the vacancy.

Information about the current Ares Capital directors and executive officers can be found in "Management of Ares Capital."

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**DESCRIPTION OF THE MERGER AGREEMENT**

The following summary, which includes the material terms of the merger agreement, is qualified by reference to the complete text of the merger agreement, which is attached as *Annex A* to this document and is incorporated by reference in this document.

**Structure of the Merger**

Subject to the terms and conditions of the merger agreement, the transactions contemplated by the merger agreement will be accomplished in two steps. In the first step, Merger Sub will merge with and into Allied Capital and the separate corporate existence of Merger Sub will cease. Immediately thereafter, in the subsequent combination, Allied Capital will merge with and into Ares Capital and the separate corporate existence of Allied Capital will cease. Ares Capital will be the surviving entity of the subsequent combination and Ares Capital will succeed to and assume all the rights and obligations of Allied Capital and will continue its existence as a corporation under Maryland state law.

**Closing; Completion of the Proposed Merger**

The completion of the merger will occur three business days after the satisfaction or waiver of the conditions set forth in the merger agreement or at another time as may be agreed to in writing by Ares Capital and Allied Capital. If the merger and the merger agreement is approved at the Allied Capital special meeting and the issuance of the shares of Ares Capital common stock to be issued pursuant to the merger agreement is approved at the Ares Capital special meeting, and other conditions to the merger are satisfied or waived, Ares Capital and Allied Capital expect to complete the merger by the end of the first quarter of 2010.

**Merger Consideration**

If the merger is consummated, each share of Allied Capital common stock outstanding immediately prior to the effective time will be converted into the right to receive 0.325 of a share of Ares Capital common stock, subject to the payment of cash instead of fractional shares. If the number of shares of Ares Capital common stock have themselves been increased, decreased, changed into or exchanged for a different number or kind of shares or securities as a result of any reclassification, recapitalization, stock split, reverse stock split, split-up, combination or exchange of shares, or if a stock dividend (other than as a result of shares delivered pursuant to Ares Capital's dividend reinvestment plan) or dividend payable in any other securities is declared with a record date prior to the effective time, or if any other similar event occurs, the exchange ratio will be appropriately adjusted to provide to the holders of the Allied Capital common stock and Allied Capital common stock options the same economic effect as contemplated by the merger agreement prior to such event. Holders of shares of Allied Capital common stock will not receive any fractional shares of Ares Capital common stock in the merger. Instead, each Allied Capital stockholder will be paid an amount in cash, without interest, equal to the product of (1) such fractional share *multiplied* by (2) \$3.47.

**Dividends and Distributions**

No dividends or other distributions with respect to shares of Ares Capital common stock will be paid to any former Allied Capital stockholders who held their shares in certificated form and who have not surrendered their certificates to the exchange agent for shares of Ares Capital common stock until such certificates are surrendered in accordance with the letter of transmittal. Following the surrender of any such certificates in accordance with the letter of transmittal, the record holders of such certificates shall be entitled to receive, without interest, the amount of dividends or other distributions with a record date after the effective time payable with respect to shares of Ares Capital common stock exchangeable for such certificates and not previously paid.

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**Treatment of Allied Capital Stock Options**

Prior to the closing date and contingent upon the merger occurring, Allied Capital's board of directors will cause all outstanding unvested and unexercisable options to purchase shares of Allied Capital common stock issued pursuant to the Stock Option Plan to become fully vested and exercisable. At least three business days prior to the effective time, such option holders will have the opportunity to exercise some or all of their outstanding stock options to purchase shares of Allied Capital common stock, contingent on the closing of the merger. The shares of Allied Capital common stock acquired upon such exercise will be converted at the effective time into the right to receive the merger consideration.

At the effective time, each Allied Capital stock option, whether vested or unvested, that has not been exercised will be cancelled and if the exercise price of such option is less than the product of (1) the average closing price per share of Ares Capital common stock for the five consecutive trading days immediately preceding the closing, or the "Ares Capital average closing price," *multiplied* by (2) the exchange ratio of 0.325 (such amount, the "option closing amount"), then the holder of such option will have the right to receive, at their election:

a lump sum cash amount equal to the product of (1) the excess of the option closing amount over the exercise price per share for such option *multiplied* by (2) the total number of shares of Allied Capital common stock subject to such option, less applicable withholdings; or

a number of shares of Ares Capital common stock equal to (1) the product of (a) the total number of shares of Allied Capital common stock subject to such option *multiplied* by (b) the excess of the option closing amount over the exercise price per share for such option, less applicable withholdings, *divided* by (2) the Ares Capital average closing price.

Holders electing to receive shares of Ares Capital common stock will receive cash (without interest) instead of fractional shares in an amount equal to the product of (1) such fractional share *multiplied* by (2) the Ares Capital average closing price.

Any holder that fails to make such election will be deemed to have made an election to receive shares of Ares Capital common stock. Any previously unpaid dividends or other distributions payable on Ares Capital common stock acquired upon such exercise, with a record date after the effective time, will be paid to such option holders.

Pursuant to the merger agreement, Allied Capital will terminate the Stock Option Plan as of the effective time.

**Conversion of Shares; Exchange of Shares**

At the effective time, the shares of Allied Capital common stock existing prior to the merger will no longer be outstanding and will automatically be cancelled and cease to exist and each certificate previously representing any such shares will thereafter represent only the right to receive the merger consideration and, without interest, cash instead of fractional shares and any previously unpaid dividends or other distributions payable with respect to the shares of Ares Capital common stock exchangeable for such certificate and with a record date after the effective time.

After the effective time, no further registration of transfers on the stock transfer books of Allied Capital, other than to settle transfers that occurred prior to the effective time, will occur. If, after the effective time, certificates representing shares of Allied Capital common stock are presented for transfer to the exchange agent, they will be cancelled and exchanged for the merger consideration and, without interest, any cash instead of fractional shares of Ares Capital common stock and any previously unpaid dividends or distributions on Ares Capital common stock with a record date after the effective time, all in accordance with the merger agreement.

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**Letter of Transmittal**

As soon as reasonably practicable after the effective time, but in any event within five business days, the exchange agent will mail to each record holder of Allied Capital common stock immediately prior to the effective time who held their shares in certificated form a letter of transmittal and instructions for use in surrendering their certificate(s) in exchange for the merger consideration and, without interest, cash instead of fractional shares and any previously unpaid dividends or other distributions payable with respect to the shares of Ares Capital common stock exchangeable for such certificate(s) and with a record date after the effective time. Delivery will only be effected, and risk of loss and title to certificate(s) will only pass, upon delivery of certificate(s) (or affidavits of loss in lieu of such certificate(s)) to the exchange agent in the manner set forth in such letter of transmittal and instructions.

Holders of Allied Capital common stock should not submit their Allied Capital stock certificates for exchange until they receive the letter of transmittal and instructions from the exchange agent.

If a certificate for Allied Capital common stock has been lost, stolen or destroyed, upon the making of an affidavit by such holder and, if reasonably required by Ares Capital or the exchange agent, the posting of a bond in such amount as Ares Capital may determine is reasonably necessary as indemnity, the exchange agent will issue the merger consideration and, without interest, cash instead of fractional shares and any previously unpaid dividends or other distributions payable with respect to the shares of Ares Capital common stock exchangeable for such certificate and with a record date after the effective time.

Former Allied Capital stockholders who held their shares in uncertificated form will receive a confirmation as to the Ares Capital common stock issued in exchange for such Allied Capital common stock and cash instead of fractional shares without any action on the part of such holders.

Shares of Ares Capital common stock will be issued in book entry (i.e., uncertificated) form only. No physical certificates will be issued in connection with the merger. In lieu of physical certificates, the exchange agent will send to each person who has surrendered Allied Capital stock certificates, together with a properly completed transmittal letter, a confirmation containing the information required under Maryland law regarding the Ares Capital common stock issued to such person, including the name of the issuer (Ares Capital) and the number of shares of Ares Capital common stock issued.

**Withholding**

Ares Capital or the exchange agent will be entitled to deduct and withhold from any amounts payable to any Allied Capital stockholder such amounts as it determines in good faith are required to be deducted and withheld with respect to the making of such payment under applicable tax laws. If the exchange agent withholds any amounts, these amounts will be treated as having been paid to the stockholders from whom they were withheld.

**Representations and Warranties**

The merger agreement contains customary representations and warranties of Allied Capital and Ares Capital relating to their respective businesses. With the exception of certain representations that must be true and correct in all or virtually all respects, or in all material respects, no representation or warranty will be deemed untrue, and neither party will be deemed to have breached a representation or warranty, as a consequence of the existence of any fact, event or circumstance unless such fact, circumstance or event, individually or when taken together with all other facts, events or circumstances inconsistent with any representation made by such party (without considering "materiality" or "material adverse effect" qualifications), has had or is reasonably likely to have a material adverse effect on (1) the business, operations, condition (financial or otherwise) or results of operations of such party

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and its consolidated subsidiaries, taken as a whole, or (2) the ability of such party to timely consummate the merger and the other transactions contemplated by the merger agreement.

In determining whether a material adverse effect has occurred or is reasonably likely to occur, the parties will disregard (A) any effects resulting, directly or indirectly, from (1) changes in general economic, social or political conditions or the securities, credit or financial markets in general, (2) general changes or developments in the industries in which such party and its consolidated subsidiaries operate, including general changes in law across such industries or geographic areas, except, in the case of (1) and (2), to the extent such changes or developments would reasonably be expected to have a materially disproportionate adverse impact on such party and its consolidated subsidiaries, taken as a whole, relative to other participants in the industries and in the geographic markets in which such party conducts its businesses, after taking into account the size of such party relative to such other participants, (3) the announcement of the merger agreement or the transactions contemplated thereby or the identities of the parties to the merger agreement, (4) any actions or omissions of a party taken with the prior written consent of the other party or any actions taken by the parties mutually or (B) any failure to meet internal projections for any period or any decline in the price of shares of the parties' common stock.

The representations and warranties in the merger agreement do not survive the completion of the merger.

The merger agreement contains customary representations and warranties by each of Ares Capital and Allied Capital, subject to specified exceptions and qualifications, relating to, among other things:

corporate organization, including incorporation and qualification;

its consolidated subsidiaries;

capitalization;

power and authority to execute, deliver and perform its obligations under the merger agreement;

the absence of violations of (1) organizational documents, (2) material laws or orders or (3) material permits, contracts or other obligations;

stockholder vote requirement;

required government filings and consents;

financial reports and regulatory documents;

financial statements, internal controls and disclosure controls and procedures;

broker's fees payable in connection with the merger;

absence of certain changes and actions since September 30, 2009;

compliance with applicable law;

regulatory investigations and orders;

the receipt of financial advisors' opinions;

the accuracy and completeness of information supplied for inclusion in this document and other governmental filings in connection with the transactions contemplated by the merger agreement;

tax matters;

absence of certain litigation, orders or investigations;

employment and labor matters, including with respect to any employee benefit plans;

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material contracts and certain other types of contracts;

insurance coverage;

title to investment assets;

intellectual property matters;

environmental matters; and

owned and leased properties.

Allied Capital has also made certain representations and warranties to Ares Capital regarding the inapplicability of state takeover laws and absence of appraisal rights and certain of its controlled portfolio companies.

Ares Capital has also made certain representations and warranties to Allied Capital regarding its investment adviser and its administrator.

The representations and warranties described above and included in the merger agreement were made by each of Allied Capital and Ares Capital to the other. These representations and warranties were made as of specific dates, may be subject to important qualifications and limitations agreed to by Allied Capital and Ares Capital in connection with negotiating the terms of the merger agreement and may have been included in the merger agreement for the purpose of allocating risk between Allied Capital and Ares Capital rather than to establish matters as facts. The merger agreement is described in, and included as *Annex A* to, this document only to provide you with information regarding its terms and conditions and not to provide any other factual information regarding Allied Capital, Ares Capital or their respective businesses. Accordingly, the representations and warranties and other provisions of the merger agreement should not be read alone, but instead should be read only in conjunction with the information provided elsewhere in this document.

**Conduct of Business Pending Completion of the Merger**

Each of Allied Capital and Ares Capital has undertaken customary covenants that place restrictions on it and its consolidated subsidiaries until completion of the merger. In general, each of Allied Capital and Ares Capital has agreed that before the completion of the merger, except as contemplated by the merger agreement and subject to certain agreed upon exceptions, it will, and will cause its consolidated subsidiaries to:

conduct its business in the ordinary course of business consistent with past practice;

use reasonable best efforts to preserve intact its business organization, listing exchange status and advantageous business relationships; and

use reasonable best efforts to maintain in effect all required material permits.

In addition, before the completion of the merger, Allied Capital has agreed that, subject to applicable law and certain agreed upon exceptions and except as expressly contemplated by the merger agreement, without the prior written consent of Ares Capital, it will not, and will not permit its consolidated subsidiaries to, among other things, directly or indirectly:

issue, sell, grant or otherwise permit to become outstanding, or dispose of or encumber or authorize the creation of, or amend the terms of: (1) any shares of its capital stock; (2) any voting debt or other voting securities; (3) any securities convertible

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into or exercisable or exchangeable for, or any other rights to acquire, any such shares or other securities; or (4) any "phantom" stock, "phantom" stock rights, stock appreciation rights or stock-based performance units;



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(1) make, declare or pay any dividend or distribution on or in respect of any shares of its capital stock or the capital stock of any of its consolidated subsidiaries (in whatever form); (2) adjust, split, combine, reclassify or take similar action with respect to any of its capital stock or issue any other securities in respect of shares of its capital stock; or (3) purchase, redeem or otherwise acquire, any shares of its capital stock or the capital stock of any of its consolidated subsidiaries or any other securities;

sell, lease, mortgage, encumber or otherwise dispose of any of its assets or properties, except as set forth in the disclosure schedule to the merger agreement and except in the ordinary course of business and in an aggregate amount not to exceed \$500,000 or encumbrances required to secure certain outstanding debt pursuant to the terms of such debt as in effect on the date of the merger agreement;

acquire (other than by way of foreclosures or acquisitions of control in a fiduciary or similar capacity or in satisfaction of debts previously contracted in good faith, in each case, in the ordinary course of business) all or any portion of the assets, business, deposits or properties of any other person or entity or make any other investments, except in a transaction conducted in the ordinary course of business and in an amount that individually or together with other such transactions does not exceed \$500,000;

amend its organizational documents;

implement any change in its tax or financial accounting principles, practices or methods, except as required by law, GAAP or regulatory requirements;

except as required under applicable law or the terms of any employee benefit plan, (1) increase the compensation or benefits of any current or former employee, officer, director or consultant; (2) pay any current or former employee, officer, director or consultant any amount or increase any rights not required by any current plan, program or agreement unless in connection with ordinary course payroll and expense reimbursement policies and procedures as in effect on the date of the merger agreement; (3) adopt, amend or terminate any stock option plan or other employee benefit plan or agreement or employment agreement with or for the benefit of any employee, officer, director or consultant; (4) accelerate the vesting of any stock-based compensation or other long-term incentive compensation under any employee benefit plan; (5) cause the funding of any rabbi trust or similar arrangement or take any action to fund or secure the payment of compensation or benefits under any employee benefit plan; or (6) enter into any employment, consulting, indemnification, severance or termination contract with any employee, officer, director or consultant (other than immaterial at will employment arrangements);

take (or knowingly fail to take) any action that would, or would reasonably be expected to, prevent the merger from qualifying as a "reorganization" under Section 368(a) of the Code;

incur any indebtedness for borrowed money, or guarantee any such indebtedness of another person or entity, issue or sell any debt securities or warrants or other rights to acquire any of its debt securities or the debt securities of any consolidated subsidiary, enter into any "keep well" or other agreement to maintain any financial statement condition of another person or entity or enter into any arrangement having the economic effect of any of the foregoing, except for draw downs with respect to existing credit facilities in the ordinary course of business;

make any loans, advances or investments in any other person or entity;

make or agree to make any expenditure in the aggregate in excess of \$100,000;

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file or amend any tax return other than in the ordinary course of business; make, change or revoke any tax election or settle or compromise any material tax liability or refund;

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take (or knowingly fail to take) any action that is reasonably likely to cause Allied Capital REIT, Inc. to fail to qualify as a "real estate investment trust" under the Code;

enter into any new line of business;

terminate, enter into, modify or renew certain material contracts other than in the ordinary course of business consistent with past practice in a manner materially adverse to Allied Capital or its consolidated subsidiaries, as applicable;

settle certain material claims and proceedings;

pay, discharge or satisfy any indebtedness for borrowed money other than as required pursuant to the terms of certain outstanding debt as in effect on the date of the merger agreement; cancel any material indebtedness or waive or amend any claims or rights of substantial value (other than in accordance with ordinary course restructurings of portfolio companies in an aggregate amount not to exceed \$1 million) or waive any material benefits of, or agree to modify in any material manner, any confidentiality (other than in the ordinary course of business) or standstill or similar agreements;

merge or consolidate Allied Capital or any of its subsidiaries with any entity or adopt a plan of liquidation, dissolution, restructuring, recapitalization or other reorganization; or

agree to take, make any commitment to take or adopt any resolutions of its board of directors in support of any of the foregoing actions.

In addition, before the completion of the merger, Ares Capital has agreed, subject to applicable law and certain agreed upon exceptions and except as expressly contemplated by the merger agreement, it will not, and will not permit its consolidated subsidiaries to, among other things, directly or indirectly:

issue, sell, grant, dispose of or encumber any shares of its capital stock, other than (1) shares in an aggregate amount not to exceed \$150 million aggregate value on or before March 31, 2010 and at a price no less than 80% of net asset value, (2) after March 31, 2010, shares in an aggregate amount not to exceed \$400 million aggregate value (including any value represented by shares issued under (1) above prior to March 31, 2010) and at a price no less than 90% of net asset value, (3) shares at a price per share greater than the net asset value per share of Ares Capital common stock or (4) shares of its capital stock other than common stock;

make, declare, pay or set aside any dividend or distribution on or in respect of, any shares of its capital stock or the capital stock of any of its consolidated subsidiaries (in whatever form), other than in the ordinary course of business;

amend its organizational documents (other than to increase the number of shares of authorized Ares Capital common stock) in any manner that would reasonably be expected to be adverse to holders of Allied Capital common stock;

take (or knowingly fail to take) any action that would, or would reasonably be expected to, prevent the merger or subsequent combination from qualifying as a "reorganization" under Section 368(a) of the Code; or

agree to take, make any commitment to take or adopt any resolutions of its board of directors in support of any of the foregoing actions.

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The merger agreement also contains covenants relating to the preparation of this document and the holding of the special meetings of Allied Capital and Ares Capital stockholders, access to information of the other company and obtaining certain managed fund consents, rating agency confirmations, approvals, notices and filings. Allied Capital and Ares Capital have also agreed to use their reasonable best efforts to promptly prepare all necessary documentation to effect all notices and

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filings and to obtain as promptly as practicable all third party and governmental permits, consents, approvals and authorizations necessary or advisable to consummate the transactions contemplated by the merger agreement. Allied Capital has also agreed to use its reasonable best efforts to modify an order issued by the SEC granting an exemption from Section 12(d)(3) of the Investment Company Act (Application No. 812-13561) so that it would apply to Ares Capital as its successor.

In addition, Allied Capital and Ares Capital have each agreed that they will, and will cause their respective representatives to, reasonably cooperate (to the extent commercially reasonable) in connection with obtaining certain financing consents, any restructuring of any outstanding debt of Allied Capital, Ares Capital or their respective consolidated subsidiaries or, in the circumstance where the financing consents cannot be obtained, obtaining any replacement, amended, modified or alternative financing. Neither Allied Capital nor Ares Capital is required to make payments or provide other consideration for the repayment, restructuring or amendment of terms of indebtedness in connection with the merger in order to obtain the financing consents, other than customary consent fees required in connection with the change of control.

Ares Capital has also agreed to use reasonable best efforts to cause the Ares Capital common stock to be issued in the merger to be approved for listing on NASDAQ.

**Additional Covenants**

***Reasonable Best Efforts of Allied Capital and Ares Capital to Obtain Required Stockholder Votes***

Allied Capital has agreed to take all actions necessary to hold a meeting of its common stockholders as promptly as practicable (but in no event give notice later than 10 business days) following the date on which the SEC declares the registration statement, of which this document forms a part, effective for the purpose of obtaining common stockholder approval of the merger and the merger agreement. Subject to the following sentence, Allied Capital will use its reasonable best efforts to obtain such stockholder approval. Allied Capital's board of directors may withdraw, qualify or modify its recommendation that its common stockholders approve the merger and the merger agreement only if it determines, in good faith, after consultation with reputable outside legal counsel and financial advisors experienced in such matters, that such recommendation would be a breach of the duties of the directors under applicable law. As discussed below, additional requirements apply to any change in recommendation with respect to certain acquisition proposals. The board of directors of Allied Capital has unanimously approved the merger and the merger agreement and adopted resolutions directing that the merger and the merger agreement be submitted to Allied Capital stockholders for their consideration.

Ares Capital has agreed to take all actions necessary to hold a meeting of its common stockholders as promptly as practicable (but in no event give notice later than 10 business days) following the date on which the SEC declares the registration statement, of which this document forms a part, effective for the purpose of obtaining common stockholder approval of the issuance of Ares Capital common stock in connection with the merger. Subject to the following sentence, Ares Capital will use its reasonable best efforts to obtain such stockholder approval. Ares Capital's board of directors may withdraw, qualify or modify its recommendation that its common stockholders approve the issuance of Ares Capital common stock in connection with the merger only if it determines, in good faith, after consultation with reputable outside legal counsel and financial advisors experienced in such matters, that such recommendation would be a breach of the duties of the directors under applicable law. The board of directors of Ares Capital has unanimously approved the issuance of Ares Capital common stock in connection with the merger and adopted resolutions directing that such matters be submitted to Ares Capital stockholders for their consideration.

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*Employee Matters*

On or prior to the closing date, Ares Capital or its affiliates may, but are not under any obligation to, make an offer of employment, effective as of the effective time or thereafter, or hire any of the employees, officers, directors or consultants of Allied Capital who are actively employed with Allied Capital immediately prior to the effective time. Ares Capital or its controlled affiliates shall determine, in its or their discretion, the terms and conditions of employment to be offered to any such individuals and are under no obligation to employ any such individuals and for any particular period of time. Except as otherwise directed by Ares Capital, Allied Capital will cause the employment or services of all employees, officers, directors or consultants of Allied Capital and its consolidated subsidiaries to be terminated immediately prior to the effective time.

Any Ares Capital employee benefit plans in which any employees, officers, directors or consultants of Allied Capital who continue employment with Ares Capital or one of its controlled affiliates are eligible to participate will take into account for purposes of eligibility, vesting and benefit accrual thereunder, service by such individuals with Allied Capital and its affiliates as if such service were with Ares Capital or its controlled affiliates, to the same extent such service was credited under a comparable Allied Capital employee benefit plan. In addition, for any Allied Capital employee, officer, director or consultant who continues employment with Ares Capital or one of its controlled affiliates after the effective time, Ares Capital has agreed to, or to cause its controlled affiliate to: (1) waive any preexisting condition, waiting period or evidence of insurability limitations for any employee benefit plans of Ares Capital or its controlled affiliate in which such persons are eligible to participate and (2) honor any deductible, co-payment and out-of-pocket maximums incurred by such persons (or their eligible dependents) under the health plans in which they participated immediately prior to the effective time.

Not later than 10 business days prior to and contingent on the effective time, Allied Capital will terminate all of the employee benefit plans maintained by it or any of its consolidated subsidiaries subject to the requirements of Sections 401(a) and 409A of the Code. Payments in respect of any such terminated benefit plans will be made at the effective time to the extent permitted by Sections 401(a) and 409A of the Code. To the extent payment at the effective time is not permitted by Sections 401(a) and 409A of the Code, Allied Capital will vest payments and benefits under its employee benefit plans and payments and benefits under employment or retention agreements for employees who will not continue to be employed by Ares Capital or its controlled affiliates. These payments are described in more detail in the section of this document entitled "The Merger Interests of Certain Persons Related to Allied Capital in the Merger." Notwithstanding the foregoing, Allied Capital will not be required to terminate (1) any obligation it has to make payments under any employment or retention agreements or payments otherwise provided for in the merger agreement or (2) any employee benefit plan identified by Ares Capital at least 10 business days prior to the closing.

To the extent permitted by Section 409A of the Code, Allied Capital intends to establish and fund a rabbi trust or similar funding arrangement for any payments in respect of terminated employee benefit plans or employment or retention agreements not made at closing, which payments will be distributed at the earliest time permitted in accordance with the terms of such underlying employee benefit plans and the requirements of Section 409A of the Code. The rabbi trust will provide that, upon satisfaction of all amounts, the remainder will revert to Ares Capital.

At or prior to the effective time, Allied Capital will take all necessary action to cause the account balances or accrued benefits of its employees, officers, directors and consultants under the Allied Capital 401(k) Plan to be fully vested and non-forfeitable as of, and contingent on, the closing date.

With respect to health benefits, Ares Capital or its controlled affiliates, to the extent possible, will continue, or cause to be continued for the duration of the applicable COBRA continuation period, the level of health and medical benefits of the employees, officers, directors and consultants of Allied Capital and Allied Capital's consolidated subsidiaries; provided, that if it is not possible for Ares

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Capital or its controlled affiliates to continue the Allied Capital health plans as a result of their termination, Ares Capital or its controlled affiliate shall either (1) use commercially reasonable efforts to obtain replacement arrangements that replicate the Allied Capital health plans or (2) cause such benefits to be provided pursuant to the health and medical benefit arrangements of a controlled affiliate that most closely approximate the benefits provided pursuant to the Allied Capital health plans.

Ares Capital or Allied Capital may be required to make severance payments to employees of Allied Capital upon a change of control in accordance with certain existing employment and retention agreements. The merger agreement provides that these payments will not exceed \$30.3 million in the aggregate. These payments are described in more detail in the section of this document entitled "The Merger Interests of Certain Persons Related to Allied Capital in the Merger."

In addition, Allied Capital is permitted to pay certain retention bonuses or annual bonuses and other miscellaneous transaction-related compensation. These payments are described in more detail in the section of this document entitled "The Merger Interests of Certain Persons Related to Allied Capital in the Merger."

***Indemnification; Directors' and Officers' Insurance***

Following the effective time, Ares Capital will, to the fullest extent permitted under applicable law, indemnify, defend and hold harmless and advance expenses to the present and former directors and officers of Allied Capital or any of its consolidated subsidiaries, and any such person presently or formerly serving at the request of Allied Capital or any of its consolidated subsidiaries as a director, officer, employee, trustee or fiduciary of any other person or entity or under or with respect to any employee benefit plan, against all costs or expenses (including reasonable attorneys' fees), judgments, fines, losses, claims, damages, penalties, amounts paid in settlement or other liabilities incurred in connection with any proceeding or claim arising out of actions or omissions occurring at or prior to the effective time, including the merger.

The merger agreement requires Ares Capital to maintain for a period of six years following the effective time a directors' and officers' liability insurance policy covering the present and former officers and directors of Allied Capital or any of its consolidated subsidiaries, containing identical or better coverage and amounts and terms and conditions no less advantageous as that coverage currently provided by Allied Capital's current policies, except that Ares Capital is not required to expend more than 200% of the current amount expended by Allied Capital for its policies for a twelve-month period. If Ares Capital is unable to maintain or obtain such a policy, Ares Capital must use its reasonable best efforts to obtain as much comparable insurance as is available for 200% of Allied Capital's current premium for a twelve-month period. Ares Capital may fulfill its obligation to maintain a directors' and officers' liability insurance policy covering the present and former officers and directors of Allied Capital by purchasing a directors' and officers' insurance policy or a "tail" policy under Allied Capital's current directors' and officers' liability insurance policy provided that such policy: (1) has an effective term of six years from the effective time; (2) covers those individuals who are covered by Allied Capital's current policy and for actions and omissions occurring on or prior to the effective time; and (3) contains terms with respect to coverage and amounts that are identical or better than those contained in Allied Capital's current policy. If Allied Capital elects to purchase such a tail policy, then Ares Capital's obligations will be deemed to have been satisfied.

***No Solicitation by Allied Capital***

Allied Capital has agreed that it, its affiliates, consolidated subsidiaries and its and each of their respective officers, directors, trustees, managers, employees, consultants, financial advisors, attorneys, accountants and other advisors, representatives and agents, collectively, "Representatives," will immediately cease and cause to be terminated immediately any discussions or negotiations with any parties that may be ongoing with respect to, or that are intended to or could reasonably be expected to

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lead to, a "Takeover Proposal" (as defined below). In addition, Allied Capital has agreed that, except as provided below, it and its affiliates, consolidated subsidiaries and its and their respective Representatives will not, (1) directly or indirectly solicit, initiate, induce, knowingly encourage or take any other action with the intent to solicit, initiate, induce or encourage (including by way of furnishing or disclosing information) any inquiries or the making or submission or implementation of any Takeover Proposal, (2) enter into any agreement, arrangement, discussions or understanding with respect to any Takeover Proposal or requiring it to abandon, terminate or fail to consummate, or that is intended to or would reasonably be expected to result in the failure to consummate the merger, (3) initiate or participate in any negotiations or discussions regarding, or furnish or disclose to any person or entity any information with respect to, any Takeover Proposal or take any other action to facilitate or in furtherance of any inquiries or the making of any Takeover Proposal or (4) grant any approval pursuant to any takeover statute to any person, entity or transaction or waiver or release under any standstill or any similar agreement with respect to equity securities of Allied Capital.

Allied Capital has agreed to advise Ares Capital in writing of any request for information or any Takeover Proposal and the terms and conditions of such request or Takeover Proposal and keep Ares Capital informed on the status of any such request or Takeover Proposal and any and all discussions or negotiations with respect thereto.

For purposes of the merger agreement, the term "Takeover Proposal" means any inquiry, proposal, discussions, negotiations or offer from any person or entity relating to any direct or indirect acquisition, including any merger, consolidation, tender offer, exchange offer, stock acquisition, asset acquisition, binding share exchange, business combination, recapitalization, liquidation, dissolution, joint venture or similar transaction, of (1) assets or businesses that constitute or represent 20% or more of the total assets, net revenue or net income of Allied Capital and its consolidated subsidiaries, taken as a whole, or (2) 20% or more of the outstanding shares of capital stock of, or other equity or voting interests in, Allied Capital or in any of its consolidated subsidiaries directly or indirectly holding, individually or taken together, the assets or businesses referred to in (1) above, in each case other than the merger.

If on or after the date of the merger agreement and at any time prior to the Allied Capital special meeting, (1) Allied Capital receives a bona fide unsolicited Takeover Proposal; (2) the board of directors of Allied Capital has determined in good faith, after consultation with reputable outside legal counsel and financial advisors experienced in such matters, that failure to consider such Takeover Proposal would be a breach of their duties under applicable law and such Takeover Proposal constitutes or is reasonably likely to result in a "Superior Proposal" (as defined below); and (3) Allied Capital gives Ares Capital at least two business days prior written notice of the identity of the person or entity making such Takeover Proposal, the terms and conditions of such Takeover Proposal and Allied Capital's intention to furnish information to, or participate in discussions or negotiations with, the person or entity making such Takeover Proposal, then Allied Capital may:

engage in negotiations or discussions with, and provide requested information to, such person or entity if Allied Capital (1) receives from such person or entity an executed confidentiality agreement with terms (including standstill) no less favorable to Allied Capital than those in its confidentiality agreement with Ares Capital and (2) provides Ares Capital a copy of all such information that has not previously been delivered to Ares Capital simultaneously with delivery to such person or entity; and

subject to fulfilling the requirements listed in the next paragraph, adopt, approve or recommend, or publicly propose to adopt, approve or recommend, including entering into an agreement, a Takeover Proposal.

Upon any determination that a Takeover Proposal constitutes a Superior Proposal, Allied Capital must provide Ares Capital a written notice advising it that the board of directors of Allied Capital has received a Superior Proposal, specifying in reasonable detail the material terms and conditions of such Superior Proposal and identifying the person or entity making such Superior Proposal. Allied Capital



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must cooperate and negotiate in good faith with Ares Capital for five days to make such adjustments to the terms and conditions of the merger agreement as would enable Allied Capital to proceed with its recommendation of the merger. If Ares Capital does not make an offer that the board of directors of Allied Capital determines in its reasonable good faith judgment (after consultation with reputable outside legal counsel and financial advisors experienced in such matters) to be as favorable to the Allied Capital common stockholders, Allied Capital may terminate the merger agreement if it pays Ares Capital a \$30 million termination fee.

For purposes of the merger agreement, the term "Superior Proposal" means a bona fide written Takeover Proposal that was not knowingly solicited in violation of the merger agreement, made by a third party to purchase 80% of the outstanding equity securities of Allied Capital or at least 80% of the assets of Allied Capital on a consolidated basis (1) on terms that the Allied Capital board of directors determines in good faith (based on the written opinion, with only customary qualifications, of Allied Capital's independent financial advisor) to be superior for the stockholders of Allied Capital, taken as a group, from a financial point of view as compared to the merger (after giving effect to the payment of the \$30 million reverse termination fee and any alternative proposed by Ares Capital), (2) that is reasonably likely to be consummated in a timely manner and (3) in respect of which any required financing has been determined in good faith by the Allied Capital board of directors (including a majority that are not "interested persons" as defined in the Investment Company Act) to be reasonably likely to be obtained, as evidenced by a written commitment of a reputable financing source.

***Ares Capital's Recommendations***

If on or after the date of the merger agreement and at any time prior to the Ares Capital special meeting, the board of directors of Ares Capital has determined in good faith, after consultation with reputable outside legal counsel and financial advisors experienced in such matters, that the recommendation to Ares Capital stockholders of the approval of the issuance of Ares Capital common stock in connection with the merger would be a breach of their fiduciary duties under applicable law, Ares Capital may withdraw, qualify or modify their recommendation.

**Conditions to the Merger**

***Conditions to Each Party's Obligations to Effect the Merger***

The obligations of Allied Capital and Ares Capital to complete the merger are subject to the satisfaction or, where permissible, waiver of the following conditions:

the approvals of Allied Capital and Ares Capital stockholders are obtained at their respective special meetings;

the shares of Ares Capital stock to be issued in the merger have been authorized for listing on NASDAQ;

the registration statement, of which this document forms a part, has become effective and no stop order suspending its effectiveness has been issued and no proceedings for that purpose have been initiated by the SEC;

no order or law preventing or making illegal the consummation of the merger or any of the other transactions contemplated by the merger agreement is in effect; and

all regulatory approvals required to consummate the merger and the other transactions contemplated by the merger agreement and all statutory waiting periods required by applicable law have expired.

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***Conditions to the Obligations of Ares Capital to Effect the Merger***

The obligation of Ares Capital to complete the merger is subject to the satisfaction or, where permissible, waiver of the following conditions:

the representations and warranties of Allied Capital are true and correct as of the date of the merger agreement and the closing date, without regard to any "material adverse effect" or other "materiality" qualifications (except to the extent any such representation and warranty expressly speaks as of an earlier date, in which case such representation and warranty shall be true and correct as of such earlier date), provided that this condition will be deemed satisfied even if any representations and warranties of Allied Capital (other than capitalization, which must be true and correct except to a *de minimis* extent or except in any way that reasonably is not adverse to Ares Capital and power and authority and absence of conflicts with organizational documents, which must be true and correct in all material respects) are not so true and correct unless the failure of such representations and warranties to be so true and correct, individually or in the aggregate, has had or is reasonably expected to have a material adverse effect with respect to Allied Capital and its consolidated subsidiaries, taken as a whole;

Allied Capital has performed in all material respects all obligations required to be performed by it under the merger agreement at or prior to the effective time;

Ares Capital has received a certificate signed on behalf of Allied Capital by its Chief Executive Officer or Chief Financial Officer that the above conditions have been satisfied;

since the date of the merger agreement, there has not occurred any condition, change or event that, individually or in the aggregate, has had or would reasonably be expected to have, a material adverse effect in respect of Allied Capital, other than certain previously disclosed matters;

Ares Capital has received the written opinion of Proskauer Rose LLP (or, alternatively, of Allied Capital's counsel) substantially to the effect that, on the basis of facts, representations and assumptions set forth in such opinion that are consistent with the state of facts existing at the closing date, the merger and subsequent combination will be treated as a "reorganization" within the meaning of Section 368(a) of the Code;

Allied Capital has delivered a certificate stating that it is not and has not been within the preceding five years a "United States real property holding corporation" for U.S. federal income tax purposes;

rating agency confirmations and consents in respect of certain outstanding debt of Allied Capital and Ares Capital have been obtained and remain in full force and effect; and

the absence of certain bankruptcy and insolvency related events with respect to Allied Capital and its consolidated subsidiaries (other than Ciena).

***Conditions to the Obligations of Allied Capital to Effect the Merger***

The obligation of Allied Capital to complete the merger is subject to the satisfaction or, where permissible, waiver of the following conditions:

the representations and warranties of Ares Capital and Merger Sub are true and correct as of the date of the merger agreement and the closing date, without regard to any "material adverse effect" or other "materiality" qualifications (except to the extent any such representation and warranty expressly speaks as of an earlier date, in which case such representation and warranty shall be true and correct as of such earlier date), provided that this condition will be deemed satisfied even if

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any representations and warranties of Ares Capital or Merger Sub (other than capitalization, which must be true and correct except to a *de minimis* extent or except in any way that reasonably is not adverse to Allied Capital and power and authority and absence of conflicts

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with organizational documents, which must be true and correct in all material respects) are not so true and correct unless the failure of such representations and warranties to be so true and correct, individually or in the aggregate, has had or is reasonably expected to have a material adverse effect with respect to Ares Capital and its consolidated subsidiaries, taken as a whole;

Ares Capital and Merger Sub have performed in all material respects all obligations required to be performed by them under the merger agreement at or prior to the effective time;

Allied Capital has received a certificate signed on behalf of Ares Capital and Merger Sub by Ares Capital's Chief Executive Officer or Chief Financial Officer that the above conditions have been satisfied;

since the date of the merger agreement, there has not occurred any condition, change or event that, individually or in the aggregate, has had or would reasonably be expected to have, a material adverse effect in respect of Ares Capital, other than certain previously disclosed matters;

Allied Capital has received the written opinion of Sullivan & Cromwell LLP (or, alternatively, of Ares Capital's counsel) substantially to the effect that, on the basis of facts, representations and assumptions set forth in such opinion that are consistent with the state of facts existing at the closing date, the merger and subsequent combination will be treated as a "reorganization" within the meaning of Section 368(a) of the Code; and

the absence of certain bankruptcy and insolvency related events with respect to Ares Capital and its consolidated subsidiaries.

**Termination of the Merger Agreement**

*Right to Terminate*

The merger agreement may be terminated at any time prior to the effective time, whether before or after the approvals of the Ares Capital and Allied Capital stockholders sought by this document, as follows:

by mutual consent of Ares Capital and Allied Capital as authorized by their respective boards of directors; or

by either Ares Capital or Allied Capital if:

- (1) any governmental entity that must grant regulatory approval of the merger has denied such approval and such denial has become final and non-appealable or a governmental entity of competent jurisdiction issues a final and nonappealable order or promulgates any law permanently enjoining or otherwise prohibiting or making illegal the consummation of the transactions contemplated by the merger agreement;
- (2) the merger is not completed on or before June 30, 2010;
- (3) the stockholders of Allied Capital have failed to approve any of the matters for which their approval is being sought at a duly held meeting or at any adjournment or postponement thereof at which such matters have been voted upon;
- (4)

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the stockholders of Ares Capital have failed to approve any of the matters for which their approval is being sought at a duly held meeting or at any adjournment or postponement thereof at which such matters have been voted upon; or

(5)

upon receiving new and material information relating to certain claims and proceedings concerning Ciena, Ares Capital's board of directors determines in its reasonable good faith judgment that there is a reasonable likelihood that the liabilities for any monetary net losses related to Ciena exceeds  $66\frac{2}{3}\%$  of the fair value of Ciena as of September 30, 2009 as such fair value is determined by Allied Capital's board of directors and Ares

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Capital promptly notifies Allied Capital in writing of such determination within 15 business days of receiving such new and material information relating to Ciena. During a period of five business days following the delivery of this notice to Allied Capital, either party may terminate by providing written notice to the other party without incurring a termination fee.

If the merger agreement is terminated by:

Ares Capital or Allied Capital pursuant to paragraph (3) above, then Allied Capital will be required to pay to Ares Capital a \$15 million termination fee;

Ares Capital or Allied Capital pursuant to paragraph (4) above, then Ares Capital will be required to pay to Allied Capital a \$30 million reverse termination fee; or

Ares Capital pursuant to paragraph (2) above (as a result of the failure of the financing consents condition to be satisfied) or by Ares Capital or Allied Capital pursuant to paragraph (2) above (if each of the conditions to closing other than the financing consents condition have been satisfied or waived as of such date), then Ares Capital will be required to pay to Allied Capital a \$30 million reverse termination fee.

Neither Allied Capital nor Ares Capital has the right to terminate the merger agreement if it has breached in any material respect its obligations in any manner that has proximately contributed to the occurrence of the failure of a condition to the consummation of the merger.

In addition, Allied Capital may terminate the merger agreement at any time prior to the effective time, if:

- (1) Ares Capital or Merger Sub have breached any of their covenants or representations or warranties and such breach, either individually or in the aggregate, would result in the failure of Allied Capital's conditions to consummate the merger to be satisfied and is not cured within 15 business days following written notice to Ares Capital or cannot be cured within such time period (provided that Allied Capital is not then in material breach of the merger agreement so as to cause any of Ares Capital's conditions not to be satisfied);
- (2) prior to obtaining approval of Ares Capital stockholders at the Ares Capital special meeting, (a) the board of directors of Ares Capital withdraws, modifies, qualifies or takes any other action inconsistent with its recommendation, (b) Ares Capital fails to include in the registration statement the recommendation of its board of directors or (c) Ares Capital fails to take a vote of its stockholders prior to June 30, 2010;
- (3) prior to obtaining approval of Allied Capital stockholders at the Allied Capital special meeting, (a) Allied Capital is not in material breach of any of the terms of the merger agreement, (b) in accordance with the procedures described above, the Allied Capital board of directors authorizes Allied Capital to enter into, or Allied Capital enters into, any agreement or contract with respect to a Superior Proposal and (c) prior to such termination Allied Capital pays to Ares Capital in immediately available funds a \$30 million termination fee;
- (4) Ares Capital breaches, in any material respect, any of its obligations relating to holding the Ares Capital special meeting and obtaining the approval of its stockholders with respect to the matters to be voted on at such meeting.

Ares Capital will be required to pay Allied Capital a \$30 million reverse termination fee if Allied Capital terminates the merger agreement pursuant to paragraphs (1) (solely to the extent that Ares Capital has committed a willful breach), (2) or (4) above.

Ares Capital may also terminate the merger agreement at any time prior to the effective time, if:

- (1) Allied Capital has breached any of its covenants or representations or warranties and such breach, either individually or in the aggregate, would result in the failure of Ares Capital's



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conditions to consummate the merger to be satisfied and is not cured within 15 business days following written notice to Allied Capital or cannot be cured within such time period (provided that Ares Capital is not then in material breach of the merger agreement so as to cause any of Allied Capital's conditions not to be satisfied);

(2)

prior to obtaining approval of Allied Capital stockholders at the Allied Capital special meeting, (a) the board of directors of Allied Capital withdraws, modifies, qualifies or takes any other action inconsistent with its recommendation or Allied Capital adopts, approves or recommends a Takeover Proposal, (b) Allied Capital fails to include in the registration statement the recommendation of its board of directors, (c) a tender or exchange offer relating to any shares of Allied Capital common stock has been commenced and Allied Capital has not sent to its stockholders, within 10 business days after its commencement, a statement by its board of directors recommending rejection of such tender or exchange offer, (d) a Takeover Proposal is publicly announced and Allied Capital fails to issue, within 10 business days after such Takeover Proposal is announced, a press release that reaffirms the recommendation of its board of directors or (e) Allied Capital fails to take a vote of its stockholders prior to June 30, 2010; or

(3)

Allied Capital breaches, in any material respect, any of its obligations relating to holding the Allied Capital special meeting and obtaining the approval of its stockholders with respect to the matters to be voted on at such meeting or the "non-solicitation" provisions described above.

Allied Capital will be required to pay Ares Capital a \$30 million termination fee if Ares Capital terminates the merger agreement pursuant to paragraphs (1) (solely to the extent that Allied Capital has committed a willful breach), (2) or (3) above.

***Effect of Termination***

If the merger agreement is terminated, it will become void and have no effect and there will be no liability on the part of Ares Capital, Allied Capital or their respective affiliates or consolidated subsidiaries or any of their respective directors or officers, except that (1) Ares Capital and Allied Capital will remain liable to each other for any damages incurred arising out of a breach of the merger agreement and (2) designated provisions of the merger agreement will survive the termination, including, but not limited to, the termination fee provisions and confidentiality agreement between Ares Capital and Allied Capital.

**Expenses and Fees**

In general, each of Ares Capital and Allied Capital will be responsible for all expenses incurred by it in connection with the negotiation and completion of the transactions contemplated by the merger agreement whether or not the merger is consummated. However, the costs and expenses of printing and mailing the registration statement (of which this document forms a part) and all filing and other fees paid to the SEC in connection with the merger and all filing and other fees in connection with any filing under the HSR Act will be borne equally by Ares Capital and Allied Capital.

**Amendment, Waiver and Extension of the Merger Agreement**

Subject to applicable law, the parties may amend the merger agreement by written agreement by action taken or authorized by their respective boards of directors. At any time prior to the completion of the merger, each of Ares Capital and Allied Capital, to the extent legally allowed, may waive in whole or in part any conditions to that party's obligation to complete the merger.



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**ACCOUNTING TREATMENT**

The merger will be accounted for as an acquisition of Allied Capital by Ares Capital 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 acquiree based on their fair values as of the date of acquisition. As described in more detail in ASC 805-10, goodwill, if any, will be recognized as of the acquisition date, for the excess of the fair value of the consideration transferred over the fair value of identifiable net assets acquired. 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. In connection with the merger and subsequent combination, the current estimated fair value of the net assets to be acquired is currently anticipated to exceed the purchase price, and based on Ares Capital's preliminary purchase price allocation, a gain of approximately \$307 million is currently expected to be recorded by Ares Capital in the period the merger and subsequent combination are completed.

The final allocation of the purchase price will be determined after the merger and subsequent combination are completed and after completion of a final analysis to determine the estimated fair values of Allied Capital's assets and liabilities. Accordingly, the final purchase accounting adjustments and integration charges may be materially different from the pro forma adjustments presented in this document. Increases or decreases in the estimated fair values of the net assets, commitments, and other items of Allied Capital as compared to the information shown in this document may change the amount of the purchase price allocated to goodwill or recognized as income in accordance with ASC 805-10.

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**CERTAIN MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER**

*The following discussion summarizes certain material U.S. federal income tax consequences of the merger, including an investment in Ares Capital common stock, that are applicable to you as an Allied Capital stockholder. It is based on the Code, applicable U.S. Treasury regulations, judicial authority and administrative rulings and practice, all as of the date of this document and all of which are subject to change, including changes with retroactive effect. The discussion below does not address any state, local or foreign tax consequences of the merger. Your tax treatment may vary depending upon your particular situation. You also may be subject to special rules not discussed below if you are a certain kind of Allied Capital stockholder, including, but not limited to: an insurance company; a tax-exempt organization; a financial institution or broker-dealer; a person who is neither a citizen nor resident of the United States or entity that is not organized under the laws of the United States or a political subdivision thereof; a holder of Allied Capital common stock as part of a hedge, straddle or conversion transaction; a person or entity that does not hold Allied Capital common stock as a capital asset at the time of the merger; an entity taxable as a partnership for U.S. federal income tax purposes (or a holder of interests in such a partnership); a trader in securities that elects to use a mark-to-market method of accounting for securities holdings; a person liable for alternative minimum tax; or a stockholder whose functional currency is not the U.S. dollar.*

*Ares Capital has not requested and will not request an advance ruling from the Internal Revenue Service, or the "IRS," as to the U.S. federal income tax consequences of the merger or any related transactions. The IRS could adopt positions contrary to those discussed below and such positions could be sustained. You are urged to consult with your own tax advisors and financial planners as to the particular tax consequences of the merger to you, including the applicability and effect of any state, local or foreign laws and the effect of possible changes in applicable tax laws.*

**Tax Consequences if the Merger Qualifies as a Reorganization**

The obligation of Ares Capital to consummate the merger is contingent upon its receipt of an opinion from Proskauer Rose LLP, counsel to Ares Capital, or alternatively from counsel to Allied Capital, and the obligation of Allied Capital to consummate the merger is contingent upon its receipt of an opinion from Sullivan & Cromwell LLP, special counsel to Allied Capital, or alternatively from counsel to Ares Capital, generally to the effect that the merger and subsequent combination will qualify as a "reorganization," within the meaning of Section 368(a) of the Code, with respect to Ares Capital and Allied Capital. If the merger qualifies as a reorganization, then generally for U.S. federal income tax purposes:

no gain or loss will be recognized by Ares Capital upon receipt of Allied Capital's assets in exchange for Ares Capital common stock and the assumption by Ares Capital of the liabilities of Allied Capital;

Ares Capital's tax basis in the assets of Allied Capital transferred to Ares Capital in the merger will be the same as Allied Capital's tax basis in the assets immediately prior to the transfer;

Ares Capital's holding periods for the assets of Allied Capital will include the periods during which such assets were held by Allied Capital;

no gain or loss will be recognized by Allied Capital upon the transfer of Allied Capital's assets to Ares Capital in exchange for Ares Capital common stock and the assumption by Ares Capital of the liabilities of Allied Capital or upon the deemed distribution of Ares Capital common stock by Allied Capital to its stockholders;

no gain or loss will be recognized by Allied Capital's stockholders upon the exchange of their Allied Capital common stock for Ares Capital common stock, except with respect to cash received instead of a fractional share interest as discussed below;

the tax basis of Ares Capital common stock an Allied Capital stockholder receives in connection with the merger will be the same as the tax basis of his, her or its Allied Capital common stock



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exchanged therefor, reduced by any tax basis that is properly allocable to any fractional share interest of Ares Capital common stock that is redeemed for cash, as discussed below;

an Allied Capital stockholder's holding period for his, her or its Ares Capital common stock will include the period for which he, she or it held the Allied Capital common stock exchanged therefor; and

Ares Capital will succeed to, and take into account the items of Allied Capital described in Section 381(c) of the Code, subject to the conditions and limitations specified in the Code and the U.S. Treasury regulations thereunder.

The tax opinions described above will be based on then-existing law, will be subject to certain assumptions, qualifications and exclusions and will be based in part on the truth and accuracy of certain representations by Ares Capital and Allied Capital.

**Cash Instead of a Fractional Share**

If an Allied Capital stockholder receives cash instead of a fractional share of Ares Capital common stock, he, she or it will be treated as having received the fractional share of Ares Capital common stock pursuant to the merger and then as having sold that fractional share of Ares Capital common stock for cash. As a result, each such Allied Capital stockholder generally will recognize gain or loss equal to the difference between the amount of cash received and the tax basis in his, her or its fractional share of Ares Capital common stock. This gain or loss generally will be a capital gain or loss and will be long-term capital gain or loss if, as of the effective time, the holding period for the shares (including the holding period of Allied Capital common stock surrendered therefor) is greater than one year. The deductibility of capital losses is subject to limitations. U.S. federal backup withholding tax may be imposed on any cash received instead of a fractional share interest.

**Utilization of Loss Carryforwards and Unrealized Losses**

U.S. federal income tax law permits RICs, such as Ares Capital and Allied Capital, to carry forward net capital losses for a period of up to eight taxable years. Ares Capital and Allied Capital are presently entitled to significant capital loss carryforwards for U.S. federal income tax purposes, as further detailed below. The merger will cause the tax year of Allied Capital to close, resulting in an earlier expiration of capital loss carryforwards than would otherwise occur.

In addition, the merger is expected to result in a limitation on the ability of Ares Capital to use capital loss carryforwards of Allied Capital and, potentially, to use unrealized capital losses inherent in the tax basis of the assets acquired, once realized. These limitations, imposed by Section 382 of the Code, generally are imposed on an annual basis. Losses in excess of the limitation may be carried forward, subject to the overall eight-year limitation. The Section 382 limitation as to Allied Capital generally will equal the product of the fair market value of Allied Capital's equity immediately prior to the merger and the "long-term tax-exempt rate," published by the IRS, in effect at such time. As of February 2010, the long-term tax-exempt rate is 4.14%. However, no assurance can be given as to what long-term tax-exempt rate will be in effect at the time of the merger.

As of September 30, 2009, for U.S. federal income tax purposes, Allied Capital had no capital loss carryforwards and net unrealized losses of approximately \$1.6 billion. These figures are likely to change by the date of the merger, and do not reflect the impact of the merger, including, in particular, the application of the loss limitation rules discussed herein. Under Section 384 of the Code, Ares Capital will also be prohibited from using Allied Capital's capital loss carryforwards and unrealized losses (once realized) against the unrealized gains in Ares Capital's portfolio at the time of the merger, if any, to the extent such gains are realized within five years following the merger, if either Ares Capital or Allied Capital has a net unrealized built in gain at the time of the merger. While the ability of Ares Capital to absorb Allied Capital's losses in the future depends upon a variety of factors that cannot be known in advance, because capital loss carryforwards generally expire eight taxable years following

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realization, including the short taxable year resulting from the merger, substantially all of Allied Capital's losses may become permanently unavailable to Ares Capital. Even if Ares Capital is able to utilize capital loss carryforwards or unrealized losses of Allied Capital, the tax benefit resulting from those losses will be shared by both Allied Capital and Ares Capital stockholders following the merger. Therefore, an Allied Capital stockholder may pay more taxes, or pay taxes sooner, than such stockholder otherwise would have paid if the merger did not occur.

In general, the limitation under Section 382 of the Code will apply to capital loss carryforwards and unrealized losses of Allied Capital if its stockholders will hold less than 50% of the outstanding shares of Ares Capital immediately following the merger. Accordingly, it is expected that the limitation will apply to such losses of Allied Capital.

Allied Capital stockholders may benefit from any capital loss carryforwards and unrealized capital losses of Ares Capital. It is expected that Ares Capital's ability to use its own capital loss carryforwards and unrealized losses, once realized, will be subject to the annual limitation under Section 382 of the Code as a result of the merger as well, such that losses in excess of the limitation cannot be used in the taxable year and must be carried forward. The limitation generally will equal the product of the fair market value of Ares Capital's equity immediately prior to the merger and the long-term tax-exempt rate in effect at such time. As of September 30, 2009, for U.S. federal income tax purposes, Ares Capital had capital loss carryforwards of approximately \$4.2 million and net unrealized losses of approximately \$277.7 million. These figures are likely to change by the date of the merger, and do not reflect the impact of the merger, including, in particular, the application of the loss limitation rules described herein. Under Section 384 of the Code, Ares Capital will also be prohibited from using its capital loss carryforwards and unrealized losses (once realized) against the unrealized gains in Allied Capital's portfolio at the time of the merger, if any, to the extent such gains are realized within five years following the merger, if either Ares Capital or Allied Capital has a net unrealized built in gain at the time of the merger. While the ability of Ares Capital to absorb its losses in the future depends upon a variety of factors that cannot be known in advance, because capital loss carryforwards generally expire eight taxable years following realization, substantially all of its losses may become permanently unavailable to Ares Capital. Even if Ares Capital is able to utilize its capital loss carryforwards or unrealized losses, the tax benefit resulting from those losses will be shared by both Allied Capital and Ares Capital stockholders following the merger. Therefore, an Ares Capital stockholder may pay more taxes, or pay taxes sooner, than such stockholder otherwise would have paid if the merger did not occur.

Further, in addition to the other limitations on the use of losses, under Section 381 of the Code, for the taxable year of the merger, only that percentage of Ares Capital's capital gain net income for such taxable year (excluding capital loss carryforwards), if any, equal to the percentage of its year that remains following the merger can be reduced by Allied Capital's capital loss carryforwards (as otherwise limited under Sections 382 and 384 of the Code, as described above).

A RIC cannot carryforward or carryback any net operating losses for U.S. federal income tax purposes. Accordingly, Ares Capital cannot use any net operating losses inherited from Allied Capital in the merger.

**Status as a Regulated Investment Company**

Both Allied Capital and Ares Capital believe they have qualified, and expect to continue to qualify, as RICs. Accordingly, both believe that they have been, and expect to continue to be, relieved of U.S. federal income tax liability to the extent that they have made or make distributions of their taxable income and gains to their stockholders.

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**Distribution of Income and Gains**

Allied Capital's taxable year will end as a result of the merger. Allied Capital is generally required to declare to its stockholders of record one or more distributions of all of its previously undistributed net investment income and net realized capital gain, including capital gain realized on any securities disposed of in connection with the merger, in order to maintain Allied Capital's treatment as a RIC until the merger and to eliminate any U.S. federal income tax on its taxable income. However, it is not expected that Allied Capital will have any such undistributed income or gain and therefore it is not expected that Allied Capital would be required to declare any such dividends.

Moreover, if Ares Capital has net investment income or net realized capital gain, but has not distributed such income or gain prior to the merger and you acquire shares of Ares Capital in the merger, a portion of your subsequent distributions from Ares Capital would, in effect, be a taxable return of part of your investment. Similarly, if you acquire Ares Capital common stock in the merger when it holds appreciated securities, you will receive a taxable return of part of your investment if and when Ares Capital sells the appreciated securities and distributes the realized gain. Ares Capital has built up, or has the potential to build up, high levels of unrealized appreciation.

**U.S. Federal Income Taxation of an Investment in Ares Capital Common Stock**

The following discussion summarizes the U.S. federal income taxation of an investment in Ares Capital common stock. This discussion is not intended as a substitute for careful tax planning. You should consult your tax advisor about your specific tax situation.

**Qualification as a Regulated Investment Company.** As a BDC, Ares Capital has elected to be treated as a RIC. As a RIC, Ares Capital generally will not pay corporate-level U.S. federal income taxes on any ordinary income or capital gains that Ares Capital distributes to its stockholders as dividends. To qualify as a RIC, Ares Capital must, among other things, meet certain income source and asset diversification requirements (as described below). In addition, Ares Capital must distribute to its stockholders, for each taxable year, generally, an amount equal to at least 90% of Ares Capital's "investment company taxable income," as defined by the Code, or the "Annual Distribution Requirement." See "Risk Factors Risks Relating to Ares Capital Ares Capital may be subject to certain corporate-level taxes regardless of whether Ares Capital continues to qualify as a RIC."

**Taxation as a RIC.** If Ares Capital:

qualifies as a RIC; and

satisfies the Annual Distribution Requirement;

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

Ares Capital will be subject to a 4% nondeductible U.S. federal excise tax on certain undistributed income unless it distributes in a timely manner an amount at least equal to the sum of (1) 98% of its ordinary income for each calendar year, (2) 98% of its capital gain net income for the one-year period ending October 31 in that calendar year and (3) any income recognized, but not distributed, in preceding years, collectively the "Excise Tax Avoidance Requirement." Ares Capital has paid in the past, and can be expected to pay in the future, such excise tax on a portion of its income.

To qualify as a RIC for U.S. federal income tax purposes, Ares Capital generally must, among other things:

qualify to be treated as a BDC at all times during each taxable year;

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derive in each taxable year at least 90% of its gross income from (a) dividends, interest, payments with respect to certain securities loans, gains from the sale of stock or other securities or other income derived with respect to its business of investing in such stock or securities or (b) net income derived from an interest in a "qualified publicly traded partnership," or a "QPTP," and, collectively, the "90% Income Test"; and

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

at least 50% of the value of its assets consists of cash, cash equivalents, U.S. Government securities, securities of other RICs and other securities that, with respect to any issuer, do not represent more than 5% of the value of its assets or more than 10% of the outstanding voting securities of the issuer; and

no more than 25% of the value of its assets is invested in the securities, other than U.S. Government securities or securities of other RICs, of (1) one issuer, (2) two or more issuers that are controlled, as determined under applicable tax rules, by Ares Capital and that are engaged in the same or similar or related trades or businesses or (3) securities of one or more QPTPs, collectively, the "Diversification Tests."

Ares Capital may be required to recognize taxable income in circumstances in which it does not receive cash, such as income from hedging or foreign currency transactions. For example, if Ares Capital holds debt obligations that are treated under applicable tax rules as having original issue discount (such as debt instruments with payment-in-kind interest or, in certain cases, increasing interest rates or issued with warrants), it must include in income each year a portion of the original issue discount that accrues over the life of the obligation, regardless of whether cash representing such income is received by it in the same taxable year. Because any original issue discount or other amounts accrued will be included in Ares Capital's investment company taxable income for the year of accrual, it may be required to make a distribution to its stockholders in order to satisfy the Annual Distribution Requirement and the Excise Tax Avoidance Requirement, even though it will not have received any corresponding cash amount.

Furthermore, a portfolio company in which Ares Capital invests may face financial difficulty that requires Ares Capital to work-out, modify or otherwise restructure its investment in the portfolio company. Any such restructuring may result in unusable capital losses and future non-cash income. Any such restructuring may also result in Ares Capital's recognition of a substantial amount of non-qualifying income for purposes of the 90% Income Test, such as cancellation of indebtedness income in connection with the work-out of a leveraged investment (which, while not free from doubt, may be treated as non-qualifying income) or the receipt of other non-qualifying income.

In addition, certain of Ares Capital's investment practices may be subject to special and complex U.S. federal income tax provisions that may, among other things, (1) disallow, suspend or otherwise limit the allowance of certain losses or deductions, (2) convert lower taxed long-term capital gain into higher taxed short-term capital gain or ordinary income, (3) convert an ordinary loss or a deduction into a capital loss (the deductibility of which is more limited), (4) adversely affect the time as to when a purchase or sale of stock or securities is deemed to occur and (5) adversely alter the characterization of certain complex financial transactions. Ares Capital will monitor its transactions and may make certain tax elections in order to mitigate the effect of these provisions.

Gain or loss recognized by Ares Capital from warrants it acquires as well as any loss attributable to the lapse of such warrants generally will be treated as capital gain or loss. Such gain or loss generally will be long-term or short-term, depending on how long Ares Capital has held a particular warrant.

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

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

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

If Ares Capital borrows money, it may be prevented by loan covenants from declaring and paying dividends in certain circumstances. Limits on Ares Capital's payment of dividends may prevent it from meeting the Annual Distribution Requirement, and may, therefore, jeopardize its qualification for taxation as a RIC or subject Ares Capital to the 4% excise tax.

Even if Ares Capital is authorized to borrow funds and to sell assets in order to satisfy distribution requirements, under the Investment Company Act, it is not permitted to make distributions to its stockholders while its debt obligations and senior securities are outstanding unless certain "asset coverage" tests are met. This may also jeopardize its qualification for taxation as a RIC or subject Ares Capital to the 4% excise tax.

Moreover, Ares Capital's ability to dispose of assets to meet Ares Capital's distribution requirements may be limited by (1) the illiquid nature of its portfolio and (2) other requirements relating to its status as a RIC, including the Diversification Tests. If Ares Capital disposes of assets to meet the Annual Distribution Requirement, the Diversification Tests or the Excise Tax Avoidance Requirement, it may make such dispositions at times that, from an investment standpoint, are not advantageous.

Some of the income and fees that Ares Capital recognizes, such as management fees or income recognized in a work-out or restructuring of a portfolio investment, may not satisfy the 90% Income Test. In order to ensure that such income and fees do not disqualify Ares Capital as a RIC for a failure to satisfy the 90% Income Test, Ares Capital may be required to recognize such income and fees through one or more entities treated as U.S. corporations for U.S. federal income tax purposes. While Ares Capital would expect that recognizing such income through such corporations will assist it in satisfying the 90% Income Test, no assurance can be given that this structure will be respected for U.S. federal income tax purposes, which could result in Ares Capital's disqualification as a RIC. Even if the structure is respected, such corporations will be required to pay U.S. corporate income tax on their earnings, which ultimately will reduce the yield on such income and fees.

If Ares Capital fails to satisfy the Annual Distribution Requirement or fails to qualify as a RIC in any taxable year, it will be subject to tax in that year on all of its taxable income, regardless of whether



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it makes any distributions to its stockholders. In that case, all of Ares Capital's income will be subject to corporate-level U.S. federal income tax, reducing the amount available to be distributed to its stockholders.

In contrast, assuming Ares Capital qualifies as a RIC, its corporate-level U.S. federal income tax should be substantially reduced or eliminated. See "Risk Factors Risks Relating to Ares Capital Ares Capital may be subject to certain corporate-level taxes regardless of whether Ares Capital continues to qualify as a RIC."

The remainder of this discussion assumes that Ares Capital qualifies as a RIC and has satisfied the Annual Distribution Requirement.

***Taxation of U.S. Stockholders***

Whether an investment in shares of Ares Capital common stock is appropriate for a U.S. stockholder will depend upon that person's particular circumstances. An investment in shares of Ares Capital common stock by a U.S. stockholder may have adverse tax consequences. The following summary generally describes certain U.S. federal income tax consequences of an investment in shares of Ares Capital common stock by taxable U.S. stockholders and not by U.S. stockholders that are generally exempt from U.S. federal income taxation. U.S. stockholders of Allied Capital should consult their own tax advisors before approving the merger and the merger agreement.

Distributions by Ares Capital generally are taxable to U.S. stockholders as ordinary income or long-term capital gain. Distributions of Ares Capital's "investment company taxable income" (which is, generally, its ordinary income excluding net capital gain) will be taxable as ordinary income to U.S. stockholders to the extent of its current and accumulated earnings and profits, whether paid in cash or reinvested in additional shares of Ares Capital common stock. Distributions of Ares Capital's net capital gain (which is generally its net long-term capital gain in excess of net short-term capital loss) properly designated by it as "capital gain dividends" will be taxable to a U.S. stockholder as long-term capital gain, at a maximum rate of 15% (for taxable years beginning before January 1, 2011) in the case of individuals, trusts or estates. This is true regardless of the U.S. stockholder's holding period for his, her or its stock and regardless of whether the dividend is paid in cash or reinvested in additional shares of Ares Capital common stock. Distributions in excess of Ares Capital's earnings and profits first will reduce a U.S. stockholder's adjusted tax basis in such stockholder's stock and, after the adjusted basis is reduced to zero, will constitute capital gain to such U.S. stockholder. Ares Capital has made distributions in excess of its earnings and profits and expects to continue to do so in the future.

Ares Capital's ordinary income dividends, but not capital gain dividends, paid to corporate U.S. stockholders may, if certain conditions are met, qualify for the 70% dividends-received deduction to the extent that Ares Capital has received certain dividends from certain corporations during the taxable year. Ares Capital expects only a small portion of its dividends to qualify for this deduction.

For taxable years beginning before January 1, 2011, to the extent distributions paid by Ares Capital to U.S. stockholders that are individuals, trusts or estates are attributable to dividends from certain U.S. corporations and qualified foreign corporations and, appropriately designated, such distributions generally will be treated as "qualified dividend income." Accordingly, such distributions would be eligible for a maximum tax rate of 15% on net capital gain, provided that certain holding period requirements are met. In this regard, it is anticipated that only a small portion of distributions paid by Ares Capital will be eligible for qualification as qualified dividend income.

Although Ares Capital currently intends to distribute its net capital gain, if any, at least annually, it may in the future decide to retain some or all of its net capital gain, but designate the retained amount as a "deemed distribution." In that case, among other consequences, Ares Capital will pay tax on the retained amount, each U.S. stockholder will be required to include his, her or its share of the deemed distribution in income as if it had been actually distributed to the U.S. stockholder and the U.S. stockholder will be entitled to claim a credit equal to his, her or its allocable share of the tax paid

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thereon by Ares Capital. The amount of the deemed distribution net of such tax will be added to the U.S. stockholder's tax basis for his, her or its stock.

Since Ares Capital expects to pay tax on any retained net capital gain at its regular corporate tax rate, and since that rate is in excess of the maximum rate currently payable by individuals on net capital gain, the amount of tax that individual stockholders will be treated as having paid and for which they will receive a credit would exceed the tax they owe on the retained net capital gain. Such excess generally may be claimed as a credit against the U.S. stockholder's other U.S. federal income tax obligations or may be refunded to the extent it exceeds a stockholder's liability for U.S. federal income tax. A U.S. stockholder that is not subject to U.S. federal income tax or otherwise is not required to file a U.S. federal income tax return would be required to file a U.S. federal income tax return on the appropriate form in order to claim a refund for the taxes Ares Capital paid. In order to utilize the deemed distribution approach, Ares Capital must provide written notice to its stockholders prior to the expiration of 60 days after the close of the relevant taxable year. Ares Capital cannot treat any of its investment company taxable income as a "deemed distribution" under the procedures described above.

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

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

Ares Capital has the ability to declare a large portion of a dividend in shares of its stock. As long as a portion of such dividend is paid in cash (which portion can be as low as 10% for Ares Capital's taxable years ending on or before December 31, 2011) and certain requirements are met, the entire distribution will be treated as a dividend for U.S. federal income tax purposes. As a result, stockholders will be taxed on 100% of the dividend in the same manner as a cash dividend, even though most of the dividend was paid in shares of Ares Capital stock. In general, any dividend on shares of Ares Capital preferred stock will be taxable as a dividend, regardless of whether any portion is paid in stock.

If an investor purchases shares of Ares Capital common stock shortly before the record date of a distribution, the price of the shares will include the value of the distribution and the investor will be subject to tax on the distribution even though it represents a return of his, her or its investment. Ares Capital has built-up or has the potential to build up large amounts of unrealized gain which, when realized and distributed, could have the effect of a taxable return of capital to stockholders.

A U.S. stockholder generally will recognize taxable gain or loss if the U.S. stockholder sells or otherwise disposes of his, her or its shares of Ares Capital common stock. The amount of gain or loss will be measured by the difference between such stockholder's adjusted tax basis in the stock sold and the amount of the proceeds received in exchange. Any gain arising from such sale or disposition generally will be treated as long-term capital gain or loss if the stockholder has held his, her or its shares for more than one year. Otherwise, it would be classified as short-term capital gain or loss. However, any capital loss arising from the sale or disposition of shares of Ares Capital common stock

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held for six months or less will be treated as long-term capital loss to the extent of the amount of capital gain dividends received, or undistributed capital gain deemed received, with respect to such shares. In addition, all or a portion of any loss recognized upon a disposition of shares of Ares Capital common stock may be disallowed if substantially identical stock or securities are purchased (whether through reinvestment of distributions or otherwise) within 30 days before or after the disposition.

For taxable years beginning before January 1, 2011, in general, U.S. stockholders that are individuals, trusts or estates are subject to a maximum U.S. federal income tax rate of 15% on their net capital gain (generally, the excess of net long-term capital gain over net short-term capital loss for a taxable year, including a long-term capital gain derived from an investment in Ares Capital common stock). Such rate is lower than the maximum rate on ordinary income currently payable by individuals. Corporate U.S. stockholders currently are subject to U.S. federal income tax on net capital gain at the maximum 35% rate that also applies to ordinary income. Non-corporate U.S. stockholders with net capital losses for a year (i.e., capital loss in excess of capital gain) generally may deduct up to \$3,000 of such losses against their ordinary income each year; any net capital losses of a non-corporate U.S. stockholder in excess of \$3,000 generally may be carried forward and used in subsequent years as provided in the Code. Corporate stockholders generally may not deduct any net capital losses for a year, but may carry back such losses for three years or carry forward such losses for five years.

Ares Capital will send to each of its U.S. stockholders, as promptly as possible after the end of each calendar year, a notice detailing, on a per share and per distribution basis, the amounts includible in such U.S. stockholder's taxable income for such year as ordinary income and as long-term capital gain. In addition, the U.S. federal tax status of each year's distributions generally will be reported to the IRS (including the amount of dividends, if any, eligible for the 15% maximum rate). Distributions may also be subject to additional state, local and foreign taxes depending on a U.S. stockholder's particular situation.

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

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

***Taxation of Non-U.S. Stockholders***

Whether an investment in shares of Ares Capital common stock is appropriate for a non-U.S. stockholder will depend upon that person's particular circumstances. For this purpose, a "non-U.S. stockholder" is a beneficial owner of Ares Capital common stock who is for U.S. federal income tax purposes a person other than: (1) a citizen or individual resident of the United States; (2) a

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corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or any state thereof or the District of Columbia; (3) a trust, if a court within the United States has primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions, or the trust has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person; or (4) an estate the income of which is subject to U.S. federal income taxation regardless of its source. An investment in shares of Ares Capital common stock by a non-U.S. stockholder may have adverse tax consequences and, accordingly, may not be appropriate for a non-U.S. stockholder. Non-U.S. stockholders of Allied Capital should consult their own tax advisors before approving the merger and the merger agreement.

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

Actual or deemed distributions of Ares Capital's net capital gain (which is generally its net long-term capital gain in excess of net short-term capital loss) to a non-U.S. stockholder, and gains recognized by a non-U.S. stockholder upon the sale of Ares Capital common stock, will not be subject to withholding of U.S. federal income tax and generally will not be subject to U.S. federal income tax (1) unless the distributions or gains, as the case may be, are effectively connected with a U.S. trade or business of the non-U.S. stockholder and, if an income tax treaty applies, are attributable to a permanent establishment maintained by the non-U.S. stockholder in the United States or (2) the non-U.S. stockholder is an individual, has been present in the United States for 183 days or more during the taxable year and certain other conditions are satisfied.

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

Ares Capital has the ability to declare a large portion of a dividend in shares of its stock. As long as a portion of such dividend is paid in cash (which portion can be as low as 10% for Ares Capital's taxable years ending on or before December 31, 2011) and certain requirements are met, the entire distribution will be treated as a dividend for U.S. federal income tax purposes. As a result, non-U.S. stockholders will be taxed on 100% of the dividend in the same manner as a cash dividend, even though most of the dividend was paid in shares of Ares Capital common stock.

A non-U.S. stockholder who is a non-resident alien individual, and who is otherwise subject to withholding of U.S. federal income tax, may be subject to information reporting and backup withholding of U.S. federal income tax on dividends unless the non-U.S. stockholder provides Ares

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Capital or the dividend paying agent with an IRS Form W-8BEN (or an acceptable substitute form) or otherwise meets documentary evidence requirements for establishing that it is a non-U.S. stockholder or otherwise establishes an exemption from backup withholding.

***Failure to Qualify as a RIC***

If Ares Capital were unable to qualify for treatment as a RIC, it would be subject to tax on all of its taxable income at regular corporate rates. Ares Capital would not be able to deduct distributions to stockholders nor would it be required to make them for tax purposes. Distributions would generally be taxable to Ares Capital stockholders as ordinary dividend income eligible for the 15% maximum rate (for taxable years beginning before January 1, 2011) to the extent of Ares Capital's current and accumulated earnings and profits. Subject to certain limitations under the Code, corporate U.S. stockholders would be eligible for the dividends-received deduction. Distributions in excess of Ares Capital's current and accumulated earnings and profits would be treated first as a return of capital to the extent of the stockholder's tax basis and any remaining distributions would be treated as a capital gain. If Ares Capital were to fail to meet the RIC requirements for more than two consecutive years and then to seek to requalify as a RIC, it would be required to recognize gain to the extent of any unrealized appreciation in its assets unless it made a special election to pay corporate-level tax on any such unrealized appreciation recognized during the succeeding 10-year period.

***Possible Legislative or Other Actions Affecting Tax Considerations***

Prospective investors should recognize that the present U.S. federal income tax treatment of an investment in Ares Capital may be modified by legislative, judicial or administrative action at any time, and that any such action may affect investments and commitments previously made. The rules dealing with U.S. federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Treasury Department, resulting in revisions of regulations and revised interpretations of established concepts as well as statutory changes. Revisions in U.S. federal tax laws and interpretations thereof could adversely affect the tax consequences of an investment in Ares Capital.

Table of Contents**MARKET PRICE, DIVIDEND AND DISTRIBUTION INFORMATION**

Ares Capital common stock trades on NASDAQ under the symbol "ARCC" and Allied Capital common stock trades on the NYSE and NASDAQ under the symbol "ALD." Allied Capital and Ares Capital common stock have historically traded at prices both above and below their respective net asset values. It is not possible to predict whether the common stock of the combined company will trade at, above, or below net asset value following the merger. See "Risk Factors Risks Relating to Ares Capital Ares Capital's shares of common stock have recently traded at a discount from net asset value and may do so again in the future, which could limit Ares Capital's ability to raise additional equity capital" and "Risk Factors Risks Relating to Allied Capital Regulations governing Allied Capital's operation as a BDC affect its ability to raise, and the way in which Allied Capital raises, additional debt and equity capital."

The following table sets forth, for each fiscal quarter during the last two fiscal years and the current fiscal year, the net asset value per share of Allied Capital and Ares Capital common stock, the range of high and low closing sales prices of Allied Capital and Ares Capital common stock, the closing sales price as a percentage of net asset value and the dividends declared by Allied Capital and Ares Capital. On February 10, 2010, the last reported closing sales price of Allied Capital common stock on the NYSE was \$3.92 per share, which represented a discount of approximately 41.49% to the net asset value per share reported by Allied Capital as of September 30, 2009. On February 10, 2010, the last reported closing sales price of Ares Capital common stock on NASDAQ was \$11.85 per share, which represented a premium of approximately 6.18% to the net asset value per share reported by Ares Capital as of September 30, 2009.

**Allied Capital**

	Net Asset Value(1)	Closing Sales Price		High Sales Price to Net Asset Value(2)	Low Sales Price to Net Asset Value(2)	Cash Dividend/ Distribution Per Share(3)
		High	Low			
<b>Year ended December 31, 2008</b>						
First quarter	\$ 16.99	\$ 23.26	\$ 18.38	137%	108%	\$ 0.65
Second quarter	\$ 15.93	\$ 21.52	\$ 13.89	135%	87%	\$ 0.65
Third quarter	\$ 13.51	\$ 15.97	\$ 10.80	118%	80%	\$ 0.65
Fourth quarter	\$ 9.62	\$ 10.00	\$ 1.59	104%	17%	\$ 0.65
<b>Year ending December 31, 2009</b>						
First quarter	\$ 7.67	\$ 4.80	\$ 0.59	63%	8%	
Second quarter	\$ 7.49	\$ 4.02	\$ 1.48	54%	20%	
Third quarter	\$ 6.70	\$ 4.05	\$ 2.81	60%	42%	
Fourth quarter	*	\$ 3.82	\$ 2.73	*	*	
<b>Year ending December 31, 2010</b>						
First quarter (through February 10, 2010)	*	\$ 4.50	\$ 3.76	*	*	(4)

- (1) Net asset value per share is determined as of the last day in the relevant quarter and therefore may not reflect the net asset value per share on the date of the high and low closing sales prices. The net asset values shown are based on outstanding shares at the end of the relevant quarter.
- (2) Calculated as the respective high or low closing sales price divided by net asset value.
- (3) Represents the dividend or distribution declared in the relevant quarter.
- (4) As of the date hereof, Allied Capital is restricted in its ability to declare dividends. See "Management's Discussion and Analysis of Financial Condition and Results of Operations of Allied Capital Dividends and Distributions."
- \* Net asset value has not yet been calculated for this period.



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Allied Capital has not paid any quarterly dividends or distributions to holders of its common stock since the fourth quarter of fiscal year 2008. The decision to pay a dividend or distribution and, if so, how much is determined by its board of directors on a quarterly basis throughout the year. See "Management's Discussion and Analysis of Financial Condition and Results of Operations of Allied Capital Other Matters Dividends and Distributions." Allied Capital does not expect to declare dividends in 2009 or for an extended period of time.

Allied Capital maintains an "opt in" dividend reinvestment plan for Allied Capital's common stockholders. As a result, if Allied Capital's board of directors declares a dividend, then Allied Capital's stockholders will receive cash dividends unless they specifically "opt in" to the dividend reinvestment plan to reinvest their dividends and receive additional shares of common stock. See "Allied Capital Dividend Reinvestment Plan."

### **Ares Capital**

	Net Asset Value(1)	Closing Sales Price		High Sales Price to Net Asset Value(2)	Low Sales Price to Net Asset Value(2)	Cash Dividend/ Distribution Per Share(3)
		High	Low			
<b>Year ended December 31, 2008</b>						
First quarter	\$ 15.17	\$ 14.39	\$ 12.14	94.9%	80.0%	\$ 0.42
Second quarter	\$ 13.67	\$ 12.98	\$ 10.08	95.0%	73.7%	\$ 0.42
Third quarter	\$ 12.83	\$ 12.60	\$ 9.30	98.2%	72.5%	\$ 0.42
Fourth quarter	\$ 11.27	\$ 10.15	\$ 3.77	90.1%	33.5%	\$ 0.42
<b>Year ending December 31, 2009</b>						
First quarter	\$ 11.20	\$ 7.39	\$ 3.21	66.0%	28.7%	\$ 0.42
Second quarter	\$ 11.21	\$ 8.31	\$ 4.53	74.1%	40.4%	\$ 0.35
Third quarter	\$ 11.16	\$ 11.02	\$ 7.04	98.7%	63.1%	\$ 0.35
Fourth quarter	*	\$ 12.71	\$ 10.21	*	*	\$ 0.35
<b>Year ending December 31, 2010</b>						
First quarter (through February 10, 2010)		* \$ 14.19	\$ 11.75	*	*	(4)

- (1) Net asset value per share is determined as of the last day in the relevant quarter and therefore may not reflect the net asset value per share on the date of the high and low closing sales prices. The net asset values shown are based on outstanding shares at the end of the relevant quarter.
- (2) Calculated as the respective high or low closing sales price divided by net asset value.
- (3) Represents the dividend or distribution declared in the relevant quarter.
- (4) As of the date hereof, no dividend has been declared for this quarter.
- \* Net asset value has not yet been calculated for this period.

Ares Capital currently intends to distribute quarterly dividends or distributions to its stockholders. Ares Capital's quarterly dividends or distributions, if any, will be determined by its board of directors.

To maintain its RIC status, Ares Capital must timely distribute generally an amount equal to at least 90% of its investment company taxable income out of the assets legally available for distribution for each year. To avoid certain excise taxes imposed on RICs, Ares Capital is generally required to distribute during each calendar year an amount at least equal to the sum of (1) 98% of its ordinary income for the calendar year, plus (2) 98% of its capital gains in excess of capital losses for the one-year period ending on October 31 of the calendar year plus (3) any ordinary income and net capital gains for preceding years that were not distributed during such years. If this requirement is not





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met, Ares Capital will be required to pay a nondeductible excise tax equal to 4% of the amount by which 98% of the current year's taxable income exceeds the distribution for the year. The taxable income on which an excise tax is paid is generally carried forward and distributed to stockholders in the next tax year. Depending on the level of taxable income earned in a tax year, Ares Capital may choose to carry forward taxable income in excess of current year distributions into the next tax year and pay a 4% excise tax on such income, as required. Ares Capital's excise tax benefit for the nine months ended September 30, 2009 was approximately \$30,000 and \$100,000 for the year ended December 31, 2008. Ares Capital cannot assure you that it will achieve results that will permit the payment of any cash distributions.

Ares Capital maintains an "opt out" dividend reinvestment plan for its common stockholders. As a result, if Ares Capital declares a cash dividend, then stockholders' cash dividends will be automatically reinvested in additional shares of its common stock unless they specifically "opt out" of the dividend reinvestment plan so as to receive cash dividends. See "Ares Capital Dividend Reinvestment Plan."

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**BUSINESS OF ARES CAPITAL**

**General**

Ares Capital, a Maryland corporation, is a specialty finance company that is a closed-end, non-diversified management investment company. Ares Capital has elected to be regulated as a BDC under the Investment Company Act. Ares Capital was founded on April 16, 2004, was initially funded on June 23, 2004 and completed its initial public offering on October 8, 2004. Ares Capital's investment objective is to generate both current income and capital appreciation through debt and equity investments. Ares Capital invests primarily in U.S. middle-market companies, where Ares Capital believes the supply of primary capital is limited and the investment opportunities are most attractive. In this document, Ares Capital generally uses the term "middle-market" to refer to companies with annual EBITDA of between \$10 million and \$250 million. However, Ares Capital may from time to time invest in larger companies.

Ares Capital invests primarily in first and second lien senior loans and mezzanine debt, which in some cases includes an equity component like warrants. First and second lien senior loans generally are senior debt instruments that rank ahead of subordinated debt of a given portfolio company. These loans also have the benefit of security interests on the assets of the portfolio company, which may rank ahead of or be junior to other security interests. Mezzanine debt is subordinated to senior loans and is generally unsecured. Ares Capital's debt investments have ranged between \$10 million and \$100 million each, although the investment sizes may be more or less than the targeted range. Ares Capital's investment sizes are expected to grow with Ares Capital's capital availability. To a lesser extent, Ares Capital also makes equity investments. Each of Ares Capital's equity investments has generally been less than \$20 million, but may grow with Ares Capital's capital availability and are usually made in conjunction with loans Ares Capital makes to these portfolio companies.

The proportion of these investments will change over time given Ares Capital's views on, among other things, the economic and credit environment Ares Capital is operating in. In connection with Ares Capital's investing activities, Ares Capital may make commitments with respect to indebtedness or securities of a potential portfolio company substantially in excess of its final investment. In such situations, while Ares Capital may initially agree to fund up to a certain dollar amount of an investment, Ares Capital may syndicate a portion of such amount to third parties prior to closing such investment, such that Ares Capital makes a smaller investment than what was reflected in its original commitment.

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

Ares Capital believes that its investment adviser, Ares Capital Management, is able to leverage Ares' current investment platform, resources and existing relationships with financial sponsors, financial institutions, hedge funds and other investment firms to provide Ares Capital with attractive investments. In addition to deal flow, the Ares investment platform assists Ares Capital's investment adviser in analyzing, structuring and monitoring investments. Ares has been in existence for more than 12 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. Ares Capital has access to the Ares staff of approximately 110 investment professionals and to over 150 administrative professionals employed by Ares who provide assistance in accounting, legal, compliance, technology and investor relations.

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

In addition, Ares Capital's portfolio company, IHAM, manages three unconsolidated senior debt funds: Ivy Hill I, Ivy Hill II and Ivy Hill Senior Debt Fund, L.P. (formerly known as the SD Fund) and related vehicles, or "Ivy Hill SDF" and, together with Ivy Hill I and Ivy Hill II, the "Ivy Hill Funds." It also serves as the sub-advisor/sub-manager for four others: CoLTS 2005-1 Ltd., CoLTS 2005-2 Ltd. and CoLTS 2007-1 Ltd., or collectively, the "CoLTS Funds," and FirstLight Funding I, Ltd., or "FirstLight." As of December 31, 2009, IHAM had total committed capital under management of over \$2.3 billion. Ares Capital and GE Commercial Finance Investment Advisory Services LLC also co-manage an unconsolidated senior debt fund, the SL Fund. Ares Capital acquired its interests in the SL Fund from Allied Capital on October 30, 2009.

**Recent Developments**

*Unitranche Fund Acquisition*

On October 30, 2009, Ares Capital completed its acquisition of Allied Capital's interests in the SL Fund for \$165 million in cash. The SL Fund was formed in December 2007 to invest in "unitranche" loans of middle-market companies and has approximately \$3.6 billion of committed capital, approximately \$900 million in aggregate principal amount of which is currently funded. Of the \$2.7 billion of unfunded committed capital, approximately \$350 million would be funded by Ares Capital. Since Ares Capital's acquisition of Allied Capital's interest in the SL Fund, Ares Capital has made one investment in the SL Fund of \$11.6 million. Ares Capital's investment entitles it to a coupon of LIBOR plus 8.0% and certain other sourcing and management fees. In addition, Ares Capital's investment also entitles it to a substantial portion of the excess cash flows from the underlying loan portfolio.

*Ivy Hill SDF Acquisition*

On December 29, 2009, Ares Capital made an incremental investment in IHAM to facilitate its acquisition of Allied Capital's management rights in respect of, and interests in, the SD Fund, (now referred to as Ivy Hill SDF), for approximately \$33 million in cash. Ivy Hill SDF currently has approximately \$294 million of committed capital invested primarily in first lien loans and to a lesser extent, second lien loans of middle-market companies. IHAM manages Ivy Hill SDF and receives fee income and potential equity distributions in respect of interests that it acquired in Ivy Hill SDF.

*Public Add-on Equity Offering*

Pursuant to the February Add-on Offering, on February 1, 2010, Ares Capital issued 21 million shares of common stock and issued an additional 1,957,993 shares of common stock on February 10, 2009 pursuant to the underwriters' over-allotment option. The February Add-on Offering was completed at a price of \$12.75 per share, less an underwriting discount totaling approximately \$0.6375

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per share. Total proceeds received from the February Add-on Offering, net of underwriters' discount and offering costs, were approximately \$277 million.

***Other Investment Activity***

As of January 15, 2010, Ares Capital had made \$381.8 million of investments (including \$10 million of agreements to fund revolving credit facilities or delayed draw loans) since September 30, 2009. Of these investments, approximately 27% were made in first lien senior secured debt, 62% in senior subordinated debt and 11% in equity/other securities. Of these investments, 27% bear interest at floating rates with a weighted average stated rate of LIBOR plus 11% and 64% bear interest at fixed rates with a weighted average stated rate of 17%. As of January 15, 2010, Ares Capital had exited \$423.9 million of investments and commitments (including \$105 million of unfunded revolving credit facility commitments or delayed draw loans) since September 30, 2009. Of these investments, approximately 48% were first lien senior secured debt, 13% were second lien senior secured debt, 36% were senior subordinated debt and 2% were equity securities. Of these investments, 19% bear interest at floating rates with a weighted average stated rate of LIBOR plus 7% and 79% bear interest at fixed rates with a weighted average stated rate of 12%.

In addition, as of January 21, 2010, Ares Capital had an investment backlog and pipeline of \$137.7 million and \$214.9 million, respectively. Ares Capital expects to syndicate a portion of these investments and commitments to third parties. The consummation of any of the investments in this backlog and pipeline depends upon, among other things: satisfactory completion of Ares Capital's due diligence investigation of the prospective portfolio company, Ares Capital's acceptance of the terms and structure of such investment and the execution and delivery of satisfactory transaction documentation. Ares Capital cannot assure you that it will make any of these investments or that Ares Capital will syndicate any portion of its investments and commitments.

***About Ares***

Founded in 1997, Ares is a global alternative asset manager and SEC registered investment adviser with approximately \$33 billion of total committed capital and over 250 employees as of December 31, 2009.

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 the assets of Ares Capital and Ares' private debt middle-market financing business in Europe, or "Ares Capital Europe." The Private Debt Group focuses primarily on non-syndicated first and second lien senior loans and mezzanine debt, which in some cases may include an equity component. The Private Debt Group also makes equity investments in private middle-market companies, usually in conjunction with loans.

**Capital Markets Group.** The Ares Capital Markets Group manages a variety of funds and investment vehicles that managed approximately \$18 billion of committed capital as of December 31, 2009, focusing primarily on syndicated senior secured loans, high yield bonds, distressed debt, other liquid fixed income investments and other publicly traded debt securities.

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**Private Equity Group.** The Ares Private Equity Group manages Ares Corporate Opportunities Fund L.P., Ares Corporate Opportunities Fund II, L.P. and Ares Corporate Opportunities Fund III, L.P., collectively, "ACOF," which has managed approximately \$6 billion of committed capital as of December 31, 2009. ACOF generally makes private equity investments in companies substantially larger than the private equity investments anticipated to be made by Ares Capital. In particular, the Private Equity Group generally focuses on control-oriented equity investments in under-capitalized companies or companies with capital structure issues.

Ares' senior principals have been working together as a group for many years and have an average of over 20 years of experience in leveraged finance, private equity, distressed debt, investment banking and capital markets. They are backed by a large team of highly-disciplined professionals. Ares' rigorous investment approach is based upon an intensive, independent financial analysis, with a focus on preservation of capital, diversification and active portfolio management. These fundamentals underlie Ares' investment strategy and have resulted in large pension funds, banks, insurance companies, endowments and high net worth individuals investing in Ares' funds.

***Ares Capital Management***

Ares Capital Management, Ares Capital's investment adviser, is served by a dedicated origination and transaction development team of approximately 34 investment professionals led by the partners of Ares Capital Management, Michael Arougheti, Eric Beckman, Kipp deVeer, Mitchell Goldstein and Michael Smith. Ares Capital Management leverages off of Ares' entire investment platform and benefits from the significant capital markets, trading and research expertise of all of Ares' investment professionals. Ares funds currently hold over 700 investments in over 30 different industries. Ares Capital Management's investment committee has nine members, including the partners of Ares Capital Management and Senior Partners of Ares' Capital Markets Group and Private Equity Group. See "Management of Ares Capital Portfolio Managers."

**Market Opportunity**

Ares Capital believes there are opportunities for Ares Capital to invest in middle-market companies for the following reasons:

Ares Capital believes that as of the date of this document, the recent dislocation in the credit markets has resulted in reduced competition, a widening of interest spreads, increasing fees and generally more conservative capital structures and deal terms. Although secondary loan prices have rebounded from historic lows, attractive opportunities to repurchase debt in the secondary market continue to exist in certain situations.

Ares Capital believes that many senior lenders have, in recent years, de-emphasized their service and product offerings to middle-market businesses in favor of lending to large corporate clients and managing capital markets transactions. In addition, commercial and investment banks are severely limited in their ability to underwrite new financings as they seek to replenish their capital bases and reduce leverage, resulting in opportunities for alternative funding sources.

Ares Capital believes there is increased demand among private middle-market companies for primary capital. Many middle-market firms have faced increased difficulty raising debt in the capital markets, as commercial and investment banks are capital-constrained and are largely unable to underwrite and syndicate bank loans and high yield securities, particularly for middle-market issuers.

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

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Ares Capital believes that as of the date of this document, the recent economic downturn has resulted (and will continue to result) in defaults and covenant breaches by middle-market companies, which will require new junior capital to shore up liquidity or provide new capital through restructuring.

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

**Competitive Advantages**

Ares Capital believes that it has the following competitive advantages over other capital providers in middle-market companies:

***Existing Investment Platform***

As of December 31, 2009, Ares managed approximately \$33 billion of committed capital in the related asset classes of syndicated loans, high yield bonds, mezzanine debt and private equity. Ares Capital believes its current investment platform provides a competitive advantage in terms of access to origination and marketing activities and diligence for Ares Capital. Specifically, the Ares platform provides Ares Capital an advantage through its deal flow generation and investment evaluation process. Ares Capital's asset management platform also provides additional market information, company knowledge and industry insight that benefits the investment and due diligence process. Ares' professionals maintain extensive financial sponsor and intermediary relationships, which provide valuable insight and access to transactions and information.

***Seasoned Management Team***

John Kissick, Antony Ressler, Bennett Rosenthal and David Sachs serve on Ares Capital Management's investment committee and have an average of over 20 years experience in leveraged finance, including substantial experience in investing in leveraged loans, high yield bonds, mezzanine debt, distressed debt and private equity securities. Ares Capital Management's investment professionals and members of its investment committee also have significant experience investing across market cycles. As a result of Ares' extensive investment experience and the history of its seasoned management team, Ares has developed a strong reputation across U.S. and European capital markets. Ares Capital believes that Ares' long history in the leveraged loan market and the extensive experience of the principals investing across market cycles provides Ares Capital Management with a competitive advantage in identifying, investing in, and managing a portfolio of investments in middle-market companies.

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

Ares has historically focused on investments in middle-market companies and Ares Capital benefits from this experience. In sourcing and analyzing deals, Ares Capital's investment adviser uses Ares' extensive network of relationships with intermediaries focused on middle-market companies, including management teams, members of the investment banking community, private equity groups and other investment firms with whom Ares has had long-term relationships. Ares Capital believes this network enables Ares Capital to attract well-positioned prospective portfolio company investments. Ares Capital's investment adviser works closely with the Ares investment professionals who oversee a portfolio of investments in over 700 companies and provide access to an extensive network of relationships and special insights into industry trends and the state of the capital markets.

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***Disciplined Investment Philosophy***

In making its investment decisions, Ares Capital's investment adviser has adopted Ares' long-standing, consistent credit-based investment approach that was developed over 18 years ago by its founders. Specifically, Ares Capital Management's investment philosophy, portfolio construction and portfolio management involve an assessment of the overall macroeconomic environment, financial markets and company-specific research and analysis. Ares Capital's investment approach emphasizes capital preservation, low volatility and minimization of downside risk. In addition to engaging in extensive due diligence from the perspective of a long-term investor, Ares Capital Management's approach seeks to reduce risk in investments by focusing on:

businesses with strong franchises and sustainable competitive advantages;

industries with positive long-term dynamics;

cash flows that are dependable and predictable;

management teams with demonstrated track records and economic incentives;

rates of return commensurate with the perceived risks; and

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

***Extensive Industry Focus***

Ares Capital concentrates its investing activities in industries with a history of predictable and dependable cash flows and in which the Ares investment professionals have had extensive investment experience. Ares investment professionals have developed long-term relationships with management teams and management consultants in these industries, and have accumulated substantial information concerning these industries and identified potential trends within these industries. The experience of Ares' investment professionals investing across these industries throughout various stages of the economic cycle provides Ares Capital's investment adviser with access to market insights and investment opportunities.

***Flexible Transaction Structuring***

Ares Capital is flexible in structuring investments, including the types of securities in which it invests and the terms associated with such investments. The principals of Ares have extensive experience in a wide variety of securities for leveraged companies with a diverse set of terms and conditions. Ares Capital believes this approach and experience enables Ares Capital's investment adviser to identify attractive investment opportunities throughout the economic cycle and across a company's capital structure so Ares Capital can make investments consistent with its stated investment objective and preserve principal while seeking appropriate risk adjusted returns. In addition, Ares Capital has the ability to provide "one stop" financing with the ability to invest capital across the balance sheet and hold larger investments than many of Ares Capital's competitors. The ability to underwrite, syndicate and hold larger investments (1) increases flexibility, (2) may increase net fee income and earnings through syndication, (3) broadens market relationships and deal flow and (4) allows Ares Capital to optimize its portfolio composition. Ares Capital believes that the ability to provide capital at every level provides a strong value proposition to middle-market borrowers and Ares Capital's senior debt capabilities provide superior deal origination and relative value analysis capabilities compared to traditional "mezzanine only" lenders.

***Broad Origination Strategy***

Ares Capital's investment adviser focuses on self-originating most of Ares Capital's investments, by identifying a broad array of investment opportunities across multiple channels. It also leverages off of



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the extensive relationships of the broader Ares platform, including the relationships with portfolio companies held by funds managed by IHAM, to identify investment opportunities. Ares Capital believes that this allows for asset selectivity and that there is a significant relationship between proprietary deal origination and credit performance. Ares Capital's focus on generating proprietary deal flow and lead investing also gives Ares Capital greater control over capital structure, deal terms, pricing and documentation and results in active portfolio management of investments. Moreover, by leading the investment process, Ares Capital's investment adviser is able to secure controlling positions in credit tranches providing additional control in investment outcomes. Ares Capital's investment adviser also has originated substantial proprietary deal flow from middle-market intermediaries, which often allows Ares Capital to act as the sole or principal source of institutional junior capital to the borrower.

**Operating and Regulatory Structure**

Ares Capital's investment activities are managed by Ares Capital Management and supervised by Ares Capital's board of directors, a majority of whom are independent of Ares and its affiliates. Ares Capital Management is an investment adviser that is registered under the Investment Advisers Act of 1940, or the "Advisers Act." Under Ares Capital's investment advisory and management agreement, Ares Capital has agreed to pay Ares Capital Management an annual base management fee based on Ares Capital's total assets, as defined under the Investment Company Act (other than cash and cash equivalents, but including assets purchased with borrowed funds), and an incentive fee based on Ares Capital's performance. See "Management of Ares Capital Investment Advisory and Management Agreement."

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

Also, while Ares Capital may borrow funds to make investments, Ares Capital's ability to use debt is limited in certain significant respects. As a BDC and a RIC, Ares Capital is dependent on its ability to raise capital through the issuance of its common stock. RICs generally must distribute substantially all of their earnings to stockholders as dividends in order to preserve their status as RICs and avoid corporate-level U.S. income tax, which prevents Ares Capital from using those earnings to support operations, which may include new investments (including investments into existing portfolio companies). Further, BDCs must meet a debt to equity ratio of less than 1:1 in order to incur debt or issue senior securities, which requires Ares Capital to finance its investments with at least as much equity as debt and senior securities in the aggregate. Ares Capital's credit facilities also require that Ares Capital maintains a debt to equity ratio of less than 1:1.

**Investments**

*Ares Capital Portfolio*

Ares Capital has built an investment portfolio of primarily first and second lien loans, mezzanine debt and to a lesser extent equity investments in private middle-market companies. Ares Capital's portfolio is well diversified by industry sector and its concentration to any single issuer is limited. Ares

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Capital's debt investments generally range between \$10 million to \$100 million on average, although the investment size may be more or less than this range and depending on capital availability. Each of Ares Capital's equity investments have generally been less than \$20 million, but may grow with Ares Capital's capital availability and are usually made in conjunction with loans Ares Capital makes to these companies. In addition, the proportion of these investments will change over time given Ares Capital's views on, among other things, the economic and credit environment it is operating in. In connection with Ares Capital's investing activities, Ares Capital may make commitments with respect to indebtedness or securities of a potential portfolio company substantially in excess of its final investment. In such situations, while Ares Capital may initially agree to fund up to a certain dollar amount of an investment, Ares Capital may syndicate a portion of such amount to third parties prior to closing such investment, such that Ares Capital makes a smaller investment than what was reflected in Ares Capital's original commitment. In addition to originating investments, Ares Capital may also acquire investments in the secondary market.

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

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

Ares Capital's principal focus is investing in first and second lien senior loans and mezzanine debt and, to a lesser extent, equity capital, of middle-market companies in a variety of industries. Ares Capital generally targets companies that generate positive cash flows. Ares has a staff of approximately 110 investment professionals who specialize in specific industries. Ares Capital generally seeks to invest in companies from the industries in which its investment professionals have direct expertise. The following is a representative list of the industries in which Ares has invested:

Aerospace and Defense

Airlines

Broadcasting/Cable

Cargo Transport

Chemicals

Consumer Products

Containers/Packaging

Education

Energy

Environmental Services

Farming and Agriculture

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Financial

Food and Beverage

Gaming

Health Care

Homebuilding

Lodging and Leisure

Manufacturing

Metals/Mining

Paper and Forest Products

Printing/Publishing/Media

Retail

Restaurants

Supermarket and Drug

Technology

Utilities

Wireless and Wireline Telecom

However, Ares Capital may invest in other industries if it is presented with attractive opportunities.

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The industrial and geographic compositions of Ares Capital's portfolio at fair value as of September 30, 2009 and December 31, 2008 were as follows:

Industry	As of September 30, 2009	As of December 31, 2008
Health Care	19.5%	20.2%
Education	9.6	11.1
Beverage/Food/Tobacco	8.7	7.8
Restaurants and Food Services	8.6	8.1
Other Services	7.5	7.4
Financial	7.5	7.0
Business Services	6.8	6.7
Retail	5.8	5.7
Manufacturing	4.6	3.8
Computers/Electronics	3.3	1.2
Printing/Publishing/Media	3.1	3.8
Aerospace and Defense	3.1	3.0
Consumer Products	3.0	3.0
Telecommunications	2.2	2.0
Environmental Services	1.9	4.1
Cargo Transport	1.5	1.4
Health Clubs	1.2	1.2
Containers/Packaging	1.1	1.4
Grocery	1.0	1.0
Homebuilding	0.0	0.1
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

Geographic Region	September 30, 2009	December 31, 2008
Mid-Atlantic	22.5%	21.0%
Midwest	21.9	20.6
Southeast	20.6	22.2
West	18.2	18.3
International	13.1	14.1
Northeast	3.7	3.8
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

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

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***Managed Funds Portfolio***

Ares Capital and GE Commercial Finance Investment Advisory Services LLC co-manage an unconsolidated senior debt fund, the SL Fund. The SL Fund primarily invests in "unitranche" loans of middle-market companies. The SL Fund was initially formed in December 2007 with approximately \$3.6 billion of committed capital. Ares Capital acquired its interests in the SL Fund from Allied Capital on October 30, 2009.

Ares Capital's portfolio company, IHAM, manages an unconsolidated middle-market credit fund, Ivy Hill I, in exchange for a combined 0.50% management fee on the average total assets of Ivy Hill I. Ivy Hill I primarily invests in first and second lien bank debt of middle-market companies. Ivy Hill I was initially funded in November 2007 with \$404.0 million of capital including a \$56.0 million investment by Ares Capital consisting of \$40.0 million of Class B notes and \$16.0 million of subordinated notes.

Ivy Hill I purchased \$18.0 million and \$68.0 million of investments from Ares Capital for the nine months ended September 30, 2009 and year ended December 31, 2008, respectively.

On November 5, 2008, Ares Capital established a second unconsolidated middle-market credit fund, Ivy Hill II, which is also managed by IHAM in exchange for a combined 0.50% management fee on the average total assets of Ivy Hill II. Ivy Hill II primarily invests in second lien and subordinated bank debt of middle-market companies. Ivy Hill II was initially funded with \$250.0 million of subordinated notes, and may grow over time with leverage. Ivy Hill II purchased \$27.5 million and \$7.5 million of investments from Ares Capital for the nine months ended September 30, 2009 and the year ended December 31, 2008, respectively. The Ivy Hill Funds may, from time to time, buy additional loans from Ares Capital or its subsidiaries or affiliates.

On December 29, 2009, Ares Capital made an incremental investment in IHAM to facilitate its acquisition of Allied Capital's management rights in respect of, and interests in, the SD Fund (now referred to as Ivy Hill SDF), for approximately \$33 million in cash. Ivy Hill SDF currently has approximately \$294 million of committed capital invested primarily in first lien loans and to a lesser extent, second lien loans of middle-market companies. IHAM manages Ivy Hill SDF and receives fee income and potential equity distributions in respect of interests that it acquired in Ivy Hill SDF.

IHAM also serves as the sub-adviser/sub-manager for four other funds: the CoLTS Funds and FirstLight. As of December 31, 2009, IHAM had total committed capital under management of over \$2.3 billion.

IHAM is party to a services agreement with Ares Capital Management. Pursuant to such services agreement, Ares Capital Management provides 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. IHAM reimburses Ares Capital Management for all of the 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 such services agreement. The services agreement may be terminated by either party without penalty upon 60 days' written notice to the other party.

**Investment Selection**

Ares' investment philosophy was developed over the past 18 years and has remained consistent and relevant throughout a number of economic cycles. In managing Ares Capital, Ares Capital Management employs the same investment philosophy and portfolio management methodologies used by the investment professionals of Ares in Ares' private investment funds.

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

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

company-specific research and analysis; and

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

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

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

an evaluation of management and their economic incentives;

an analysis of business strategy and industry trends; and

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

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

***Intensive Due Diligence***

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

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

checking management's backgrounds and references;

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

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

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

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

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

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

investigating legal risks and financial and accounting systems.



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***Selective Investment Process***

Ares Capital Management employs Ares' long-standing, consistent investment approach, which is focused on selectively narrowing investment opportunities through a process designed to identify the most attractive opportunities.

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

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

***Issuance of Formal Commitment***

Once Ares Capital has determined that a prospective portfolio company is suitable for investment, Ares Capital works with the management of that company and its other capital providers, including senior, junior, and equity capital providers, to finalize the structure of the investment. Ares Capital negotiates among these parties to agree on how Ares Capital's investment is expected to perform relative to the other capital in the portfolio company's capital structure. Approximately 5% of the investments initially reviewed eventually result in the issuance of formal commitments.

***Debt Investments***

Ares Capital invests in portfolio companies primarily in the form of first and second lien senior loans and mezzanine debt. The first and second lien senior loans generally have terms of three to 10 years. Ares Capital generally obtains security interests in the assets of its portfolio companies that will serve as collateral in support of the repayment of the first and second lien senior loans. This collateral may take the form of first or second priority liens on the assets of a portfolio company.

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

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

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

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

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

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

Ares Capital generally requires financial covenants and terms that require an issuer to reduce leverage, thereby enhancing credit quality. These methods include: (1) maintenance leverage covenants requiring a decreasing ratio of indebtedness to cash flow; (2) maintenance cash flow covenants requiring an increasing ratio of cash flow to the sum of interest expense and capital expenditures; and (3) indebtedness incurrence prohibitions, limiting a company's ability to take on additional indebtedness. In addition, by including limitations on asset sales and capital expenditures Ares Capital may be able to prevent a company from changing the nature of its business or capitalization without Ares Capital's consent.

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

***Equity Investments***

Ares Capital's equity investments may consist of preferred equity that is expected to pay dividends on a current basis or preferred equity that does not pay current dividends. Preferred equity generally has a preference over common equity as to dividends and distributions upon liquidation. In some cases, Ares Capital may acquire common equity. In general, Ares Capital's equity investments are not control-oriented investments and in many cases Ares Capital acquires equity securities as part of a group of private equity investors in which Ares Capital is not the lead investor. Each of Ares Capital's equity investments has generally been less than \$20 million, but may grow with Ares Capital's capital availability and are usually made in conjunction with loans Ares Capital makes to these companies. In many cases, Ares Capital will also obtain registration rights in connection with these equity interests, which may include demand and "piggyback" registration rights.

**On-Going Relationships With and Monitoring of Portfolio Companies**

Ares Capital Management closely monitors each investment Ares Capital makes, maintains a regular dialogue with both the management team and other stakeholders and seeks specifically tailored financial reporting. In addition, senior investment professionals of Ares may take board seats or obtain

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board observation rights for Ares Capital's portfolio companies. As of September 30, 2009, of Ares Capital's 94 funded portfolio companies, Ares Capital was entitled to board seats or board observation rights on 41% of the operating companies in Ares Capital's portfolio or 58% of Ares Capital's total portfolio at fair value.

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

In addition to various risk management and monitoring tools, Ares Capital's investment adviser grades the credit status of all investments on a scale of 1 to 4 no less frequently than quarterly. This system is intended to reflect the performance of the portfolio company's business, the collateral coverage of the investment and other relevant factors. Under this system, investments with a grade of 4 involve the least amount of risk in Ares Capital's portfolio. This portfolio company is performing above expectations and the trends and risk factors are generally favorable, including a potential exit. Investments graded 3 involve a level of risk that is similar to the risk at the time of origination. This portfolio company is performing as expected and the risk factors are neutral to favorable. All new investments are initially assessed a grade of 3. Investments graded 2 involve a portfolio company performing below expectations and indicates that the investment risk has increased materially since origination. This portfolio company may be out of compliance with debt covenants, however, payments are generally not more than 120 days past due. For investments graded 2, Ares Capital's investment adviser increases procedures to monitor the portfolio company and will write down the fair value of the investment if it is deemed to be impaired. An investment grade of 1 indicates that the portfolio company is performing materially below expectations and that the investment risk has substantially increased since origination. Most or all of the debt covenants are out of compliance and payments are substantially delinquent. Investments graded 1 are not anticipated to be repaid in full. Ares Capital's investment adviser employs half-point increments to reflect underlying trends in portfolio company operating or financial performance, as well as the general outlook. As of September 30, 2009, the weighted average investment grade of the investments in Ares Capital's portfolio was 3.0 with 5.3% of total investments at amortized cost (or 1.7% at fair value) and seven loans were past due or on non-accrual status.

**Managerial Assistance**

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

**Competition**

Ares Capital's primary competition to provide financing to middle-market companies include public and private funds, commercial and investment banks, commercial financing companies and private equity funds. Many of Ares Capital's competitors are substantially larger and have considerably greater financial and marketing resources than Ares Capital does. For example, some competitors may have access to funding sources that are not available to Ares Capital. In addition, some of Ares Capital's competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than Ares Capital. Furthermore, many of Ares Capital's competitors are not subject to the regulatory restrictions that the Investment Company Act imposes on Ares Capital as a BDC.

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Ares Capital uses the industry information of Ares' investment professionals to which it has access to assess investment risks and determine appropriate pricing for its investments in portfolio companies. In addition, Ares Capital believes that the relationships of the members of Ares Capital Management's investment committees and of the senior principals of Ares, enable Ares Capital to learn about, and compete effectively for, financing opportunities with attractive middle-market companies in the industries in which Ares Capital seeks to invest. The Ares' professionals' deep and long-standing direct sponsor relationships and the resulting proprietary transaction opportunities that these relationships often present, provide valuable insight and access to transactions and information. For additional information concerning the competitive risks Ares Capital faces, see "Risk Factors Risks Relating to Ares Capital Ares Capital operates in a highly competitive market for investment opportunities."

**Market Conditions**

Due to volatility in global markets, the availability of capital and access to capital markets has been limited over the last two years. Ares Capital has responded to constraints on raising new capital by pursuing other avenues of liquidity and growth, such as adjusting the pace of Ares Capital's investments, becoming more selective in evaluating investment opportunities, pursuing asset sales, developing its third-party asset management capabilities and/or recycling lower yielding investments. Ares Capital also intends to pursue additional opportunities to manage third party funds. As the global liquidity situation and market conditions evolve, Ares Capital will continue to monitor and adjust its approach to funding accordingly. However, given the unprecedented nature of the volatility in the global markets, there can be no assurances that these activities will be successful. While levels of market disruption and volatility appear to be improving, there can be no assurance that they will not worsen. If they do, Ares Capital could face materially higher financing costs. Consequently, Ares Capital's operating strategy could be materially and adversely affected.

Consistent with the depressed market conditions of the general economy, the stocks of BDCs as an industry have traded at near historic lows for over twelve months as a result of concerns over liquidity, credit quality, leverage restrictions and distribution requirements. As a result of the deterioration of the market, several of Ares Capital's peers are no longer active in the market and are winding down their investments, have defaulted on their indebtedness, have decreased their distributions to stockholders or have announced share repurchase programs. While market conditions have improved, Ares Capital cannot assure you that the market pressures Ares Capital faces will not have a material adverse effect on its business, financial condition and results of operations.

See "Risk Factors Risks Relating to Ares Capital Capital markets have recently been in a period of disruption and instability. These market conditions have materially and adversely affected debt and equity markets in the United States, which has had, and may in the future have, a negative impact on Ares Capital's business and operations."

**Staffing**

Ares Capital does not currently have any employees and does not expect to have any employees. Services necessary for Ares Capital's business are provided by individuals who are employees of Ares Capital Management and Ares Operations, pursuant to the terms of the investment advisory and management agreement and the administration agreement. Each of Ares Capital's executive officers described under "Management of Ares Capital" is an employee of Ares Operations or Ares Capital Management. Ares Capital's day-to-day investment operations are managed by Ares Capital's investment adviser. Most of the services necessary for the origination and administration of Ares Capital's investment portfolio are provided by investment professionals employed by Ares Capital Management. Ares Capital Management has approximately 34 investment professionals who focus on origination and transaction development and the ongoing monitoring of Ares Capital's investments. See "Management of Ares Capital Investment Advisory and Management Agreement." In addition, Ares

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Capital reimburses Ares Operations for Ares Capital's allocable portion of expenses incurred by it in performing its obligations under the administration agreement, including Ares Capital's allocable portion of the cost of Ares Capital's officers (including its chief compliance officer, chief financial officer, secretary and treasurer) and their respective staffs. See "Management of Ares Capital Administration Agreement."

**Properties**

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

**Legal Proceedings**

Ares Capital is aware that a number of lawsuits have been filed by stockholders of Allied Capital challenging the merger. The suits are filed either as putative stockholder class actions, shareholder derivative actions or both. All of the actions assert similar claims against the members of Allied Capital's board of directors alleging that the merger agreement is 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 and by failing to adequately value and obtain fair consideration for Allied Capital's shares. They also claim 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. All of the actions demand, among other things, a preliminary and permanent injunction enjoining the merger and rescinding the transaction or any part thereof that may be implemented.

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

*The information contained in this section should be read in conjunction with "Selected Financial Data of Ares Capital," "Unaudited Selected Pro Forma Consolidated Financial Data," "Unaudited Pro Forma Per Share Data," "Unaudited Pro Forma Condensed Consolidated Financing Statements" and Ares Capital's financial statements and notes thereto appearing elsewhere in this document.*

*Ares Capital cannot assure you that the Merger will be consummated as scheduled, or at all. See "Risk Factors Risks Related to the Merger" for a description of the risks associated with a failure to consummate the merger and a description of the risks that the combined company may face if the merger is consummated.*

**Overview**

Ares Capital is a specialty finance company that is a closed-end, non-diversified management investment company incorporated in Maryland. Ares Capital has elected to be regulated as a BDC under the Investment Company Act. Ares Capital was founded on April 16, 2004 and was initially funded on June 23, 2004 and on October 8, 2004 completed its initial public offering.

Ares Capital's investment objective is to generate both current income and capital appreciation through debt and equity investments. Ares Capital invests primarily in first and second lien senior loans and mezzanine debt, which in some cases includes an equity component like warrants. To a lesser extent Ares Capital makes equity investments.

Ares Capital is externally managed by Ares Capital Management, an affiliate of Ares Management, a global alternative asset manager and SEC registered investment adviser, pursuant to the investment advisory and management agreement. Ares Operations, an affiliate of Ares Management, provides the administrative services necessary for Ares Capital to operate.

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

Ares Capital 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, Ares Capital must, among other things, meet certain source-of-income and asset diversification requirements and timely distribute to its stockholders generally at least 90% of Ares Capital's "investment company taxable income," as defined by the Code, for each year. Pursuant to this election, Ares Capital generally will not have to pay corporate level taxes on any income that Ares Capital distributes to its stockholders provided that it satisfies those requirements.

**Critical Accounting Policies**

***Basis of Presentation***

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States, and include the accounts of Ares Capital and its wholly owned subsidiaries. The consolidated financial statements reflect all adjustments and reclassifications which, in the opinion of management, are necessary for the fair presentation of the results of the operations and financial condition 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 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***

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

***Investments***

Investment transactions are recorded on the trade date. Realized gains or losses are computed using the specific identification method. Investments for which market quotations are readily available are typically valued at such market quotations. In order to validate market quotations, Ares Capital looks 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 Ares Capital's investments) are valued at fair value as determined in good faith by Ares Capital's board of directors, based on the input of Ares Capital's management and audit committee and independent valuation firms that have been engaged at the direction of the board 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 consistently applied valuation process. The valuation process is conducted at the end of each fiscal quarter, with approximately 50% (based on value) of Ares Capital's valuations of portfolio companies without readily available market quotations subject to review by an independent valuation firm each quarter.

As part of the valuation process, Ares Capital may take into account the following types of factors, if relevant, in determining the fair value of its 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 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, Ares Capital uses the pricing indicated by the external event to corroborate Ares Capital's valuation.

Because there is not a readily available market value for most of the investments in Ares Capital's portfolio, it values substantially all of its portfolio investments at fair value as determined in good faith by Ares Capital's board of directors, based on the input of Ares Capital's management and audit committee and independent valuation firms under a valuation policy and a consistently applied valuation process. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of Ares Capital's investments may fluctuate from period to period. Additionally, the fair value of Ares Capital's 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 Ares Capital 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 Ares Capital was required to liquidate a portfolio investment in a forced or liquidation sale, Ares Capital may realize significantly less than the value at which Ares Capital has 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

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than would be realized based on the valuations currently assigned. See "Risk Factors Risks Relating to Ares Capital Price declines and illiquidity in the corporate debt markets have adversely affected, and may in the future adversely affect, the fair value of Ares Capital's portfolio investments, reducing Ares Capital's net asset value through increased net unrealized depreciation."

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

Ares Capital's 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 Ares Capital's portfolio management team.

Preliminary valuation conclusions are then documented and discussed by Ares Capital's management.

The audit committee of Ares Capital's board of directors reviews these preliminary valuations, as well as the input of independent valuation firms with respect to the valuations of approximately 50% (based on value) of Ares Capital's portfolio companies without readily available market quotations.

The board of directors discusses valuations and determines the fair value of each investment in Ares Capital's portfolio without a readily available market quotation in good faith based on the input of Ares Capital's management and audit committee and independent valuation firms.

Effective January 1, 2008, Ares Capital adopted ASC 820-10 (previously SFAS No. 157, Fair Value Measurements), or "SFAS 157," which expands the application of fair value accounting for investments (see Note 8 to the consolidated financial statements for the period ended September 30, 2009).

***Interest Income Recognition***

Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis. Discounts and premiums on securities purchased are accreted/amortized over the life of the respective security using the effective yield method. The amortized cost of investments represents the original cost adjusted for the accretion of discounts and amortization of premiums.

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

***Payment-in-Kind Interest***

Ares Capital has loans in its portfolio that contain payment-in-kind, or "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 its status as a RIC, this non-cash source of income must be paid out to stockholders in the form of dividends even though Ares Capital has not yet collected the cash.

***Capital Structuring Service Fees and Other Income***

Ares Capital's investment adviser seeks to provide assistance to Ares Capital's portfolio companies in connection with Ares Capital's investments and in return Ares Capital may receive fees for capital





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structuring services. These fees are generally only available to Ares Capital as a result of Ares Capital'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 Ares Capital's investment adviser provides vary by investment, but generally consist of reviewing existing credit facilities, arranging bank financing, arranging equity financing, structuring financing from multiple lenders, structuring financing from multiple equity investors, restructuring existing loans, raising equity and debt capital, and providing general financial advice, which concludes upon closing of the investment. Any services of the above nature subsequent to the closing would generally generate a separate fee payable to Ares Capital. In certain instances where Ares Capital 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 Ares Capital in such situations will be deferred and amortized over the estimated life of the loan. Ares Capital'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, consulting, loan guarantees, commitments, and other services rendered by Ares Capital to portfolio companies. Such fees are recognized as income when earned or the services are rendered.

***Foreign Currency Translation***

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

- (1) Market value of investment securities, other assets and liabilities at the exchange rates prevailing at the end of the period.
- (2) Purchases and sales of investment securities, income and expenses at the rates of exchange prevailing on the respective dates of such transactions, income or expenses.

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

***Accounting for Derivative Instruments***

Ares Capital does not utilize hedge accounting and marks its derivatives to market through operations.

***Offering Expenses***

Ares Capital's offering costs 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 credit facility using the straight line method, which closely approximates the effective yield method.

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

Ares Capital 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, Ares Capital is required to timely distribute to its stockholders generally at least 90% of "investment company taxable income," as defined by the Code, for each year. Ares Capital has made and intends to continue to make the requisite distributions to its stockholders, which will generally relieve Ares Capital from U.S. federal income tax liability.

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

Certain of Ares Capital's wholly owned subsidiaries are subject to U.S. federal and state income taxes and Ares Capital and its subsidiaries may be subject to foreign taxes.

***Dividends***

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

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

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

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

***New Accounting Pronouncements***

In June 2009, the Financial Accounting Standards Board, or "FASB," issued ASC 860 (previously SFAS No. 166, *Accounting for Transfer of Financial Assets*, which amends the guidance in SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*). ASC 860 eliminates the qualifying special-purpose entities, or "QSPEs," concept, creates more stringent

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conditions for reporting a transfer of a portion of a financial asset as a sale, clarifies the derecognition criteria, revises how retained interests are initially measured, and removes the guaranteed mortgage securitization recharacterization provisions. ASC 860 requires additional year-end and interim disclosures for public and nonpublic companies that are similar to the disclosures required by FSP FAS 140-4 and FIN 46(R)-8. ASC 860 is effective as of the beginning of a company's first fiscal year that begins after November 15, 2009 (January 1, 2010 for calendar year-end companies), and for subsequent interim and annual reporting periods. ASC 860's disclosure requirements must be applied to transfers that occurred before and after its effective date. Early adoption is prohibited. Ares Capital is currently evaluating the effect that the provisions of ASC 860 may have on Ares Capital's financial condition and results of operations.

In June 2009, FASB issued ASC 810 (previously SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*, which amends the guidance in FASB Interpretation No., or "FIN," 46(R), *Consolidation of Variable Interest Entities*). ASC 810 requires reporting entities to evaluate former QSPEs for consolidation, changes the approach to determining the primary beneficiary of a variable interest entity, or a "VIE," from a quantitative assessment to a qualitative assessment designed to identify a controlling financial interest, and increases the frequency of required reassessments to determine whether a company is the primary beneficiary of a VIE. ASC 810 also clarifies, but does not significantly change, the characteristics that identify a VIE. ASC 810 requires additional year-end and interim disclosures for public and non-public companies that are similar to the disclosures required by FSP FAS 140-4 and FIN 46(R)-8, *Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities*. ASC 810 is effective as of the beginning of a company's first fiscal year that begins after November 15, 2009 (January 1, 2010 for calendar year-end companies), and for subsequent interim and annual reporting periods. All QSPEs and entities currently subject to FIN 46(R) will need to be reevaluated under the amended consolidation requirements as of the beginning of the first annual reporting period that begins after November 15, 2009. Early adoption is prohibited. Ares Capital is currently evaluating the effect that the provisions of ASC 810 may have on Ares Capital's financial condition and results of operations.

In June 2009, FASB issued ASC 205, (previously SFAS NO. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles ("GAAP") a replacement of FASB Statement No. 162, or the "Codification"*). This Codification will become the source of authoritative U.S. GAAP recognized by FASB to be applied by nongovernmental entities. Once the Codification is in effect, all of its content will carry the same level of authority, effectively superseding SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. In other words, the GAAP hierarchy will be modified to include only two levels of GAAP: authoritative and nonauthoritative. The Codification is not intended to change GAAP, but it will change the way GAAP is organized and presented. The Codification is effective for financial statements issued for interim and annual periods ending after September 15, 2009. In order to ease the transition to the Codification, Ares Capital has provided the Codification cross-reference alongside the references to the standards issued and adopted prior to the adoption of the Codification.

Table of Contents**Portfolio and Investment Activity**

(in millions, except number of new investment commitments, terms and percentages)

	Nine Months Ended September 30,		Year Ended December 31,		
	2009	2008	2008	2007	2006
<b>New investment commitments(1):</b>					
New portfolio companies	\$ 11.7	\$ 556.0	\$ 600.5	\$ 1,091.6	\$ 812.5
Existing portfolio companies	123.7	273.6	305.0	256.0	297.5
<b>Total new investment commitments</b>	<b>135.4</b>	<b>829.6</b>	<b>905.5</b>	<b>1,347.6</b>	<b>1,110.0</b>
<b>Less:</b>					
Investment commitments exited	270.7	354.9	430.3	654.1	404.9
<b>Net investment commitments</b>	<b>\$ (135.3)</b>	<b>\$ 474.7</b>	<b>\$ 475.2</b>	<b>\$ 693.5</b>	<b>\$ 705.1</b>
<b>Principal amount of investments purchased:</b>					
Senior term debt	\$ 164.8	\$ 463.8	\$ 529.2	\$ 886.7	\$ 726.4
Senior subordinated debt	31.6	295.8	336.3	187.1	249.4
Equity and other	23.7	55.1	60.4	177.6	111.7
<b>Total</b>	<b>\$ 220.1</b>	<b>\$ 814.7</b>	<b>\$ 925.9</b>	<b>\$ 1,251.4</b>	<b>\$ 1,087.5</b>
<b>Principal amount of investments sold or repaid:</b>					
Senior term debt	\$ 170.6	\$ 359.7	\$ 448.8	\$ 608.3	\$ 255.5
Senior subordinated debt	82.0	19.5	29.0	89.8	99.2
Equity and other	19.1	7.4	7.4	20.6	75.3
<b>Total</b>	<b>\$ 271.7</b>	<b>\$ 386.6</b>	<b>\$ 485.2</b>	<b>\$ 718.7</b>	<b>\$ 430.0</b>
<b>Number of new investment commitments(2)</b>					
	22	34	39	47	54
<b>Average new investment commitments amount</b>					
	\$ 6.2	\$ 24.4	\$ 23.2	\$ 28.7	\$ 19.0
<b>Weighted average term for new investment commitments (in months)</b>					
	52	72	66	69	69
<b>Weighted average yield of debt and income producing securities at fair value funded during the period(3)</b>					
	9.93%	12.59%	12.57%	11.51%	11.76%
<b>Weighted average yield of debt and income producing securities at amortized cost funded during the period(3)</b>					
	10.46%	12.59%	12.58%	11.53%	11.76%
<b>Weighted average yield of debt and income producing securities at fair value sold or repaid during the period(3)</b>					
	12.20%	9.29%	9.49%	11.67%	11.39%
<b>Weighted average yield of debt and income producing securities at amortized cost sold or repaid during the period(3)</b>					
	11.62%	9.29%	9.79%	11.72%	11.95%

(1) New investment commitments includes new agreements to fund revolving credit facilities or delayed draw loans.

(2) Number of new investments represents each commitment to a particular portfolio company.

(3) When Ares Capital refers to the "weighted average yield at fair value" in this table, Ares Capital computes it with respect to particular securities by taking the (a) annual stated interest rate or yield earned plus the net annual amortization of original issue discount and

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market discount earned on accruing debt included in such securities, and dividing it by (b) total debt and income producing securities at fair value included in such securities. When Ares Capital refers to the "weighted average yield at amortized cost" in this table, Ares Capital computes it with respect to particular securities by taking the (a) annual stated interest rate or yield earned plus the net

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annual amortization of original issue discount and market discount earned on accruing debt included in such securities, and dividing it by (b) total debt and income producing securities at amortized cost included in such securities.

The investment adviser employs an investment rating system to categorize Ares Capital's investments. In addition to various risk management and monitoring tools, the investment adviser grades the credit status of all investments on a scale of 1 to 4 no less frequently than quarterly. This system is intended to reflect the performance of the portfolio company's business, the collateral coverage of the investment and other relevant factors. Under this system, investments with a grade of 4 involve the least amount of risk in Ares Capital's portfolio. This portfolio company is performing above expectations and the trends and risk factors are generally favorable, including a potential exit. Investments graded 3 involve a level of risk that is similar to the risk at the time of origination. This portfolio company is performing as expected and the risk factors are neutral to favorable. All new investments are initially assessed a grade of 3. Investments graded 2 involve a portfolio company performing below expectations and indicates that the investment's risk has increased materially since origination. This portfolio company may be out of compliance with debt covenants, however, payments are generally not more than 120 days past due. For investments graded 2, Ares Capital's investment adviser increases procedures to monitor the portfolio company and will write down the fair value of the investment if it is deemed to be impaired. An investment grade of 1 indicates that the portfolio company is performing materially below expectations and that the investment risk has substantially increased since origination. Most or all of the debt covenants are out of compliance and payments are substantially delinquent. Investments graded 1 are not anticipated to be repaid in full. Ares Capital's investment adviser employs half-point increments to reflect underlying trends in portfolio company operating or financial performance, as well as the general outlook. As of September 30, 2009, the weighted average investment grade of the investments in Ares Capital's portfolio was 3.0 with 5.3% of total investments at amortized cost (or 1.7% at fair value) on non-accrual status. The weighted average investment grade of the investments in Ares Capital's portfolio as of December 31, 2008 was 2.9. The distribution of the grades of Ares Capital's portfolio companies as of September 30, 2009 and December 31, 2008 is as follows (dollar amounts in thousands):

	September 30, 2009		December 31, 2008	
	Fair Value	Number of Companies	Fair Value	Number of Companies
Grade 1	\$ 20,022	9	\$ 48,192	8
Grade 2	152,485	10	180,527	9
Grade 3	1,683,634	67	1,632,136	68
Grade 4	111,583	8	112,122	6
	<b>\$ 1,967,724</b>	<b>94</b>	<b>\$ 1,972,977</b>	<b>91</b>

The weighted average yields of the following portions of Ares Capital's portfolio as of September 30, 2009 and December 31, 2008 were as follows:

	September 30, 2009		December 31, 2008	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Debt and income producing securities	12.53%	11.70%	12.79%	11.73%
Total portfolio	10.95%	9.60%	11.24%	9.78%
Senior term debt	11.42%	10.74%	12.01%	10.85%
Senior subordinated debt	14.94%	13.64%	14.78%	13.69%
Income producing equity securities	10.19%	10.89%	8.42%	9.30%
First lien senior term debt	9.94%	9.63%	10.80%	9.99%
Second lien senior term debt	13.75%	12.41%	13.75%	12.04%

Table of Contents**Results of Operations***For the Three and Nine Months Ended September 30, 2009 and 2008*

Operating results for the three and nine ended September 30, 2009 and 2008 are as follows (in thousands):

	For the three months ended		For the nine months ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Total investment income	\$ 60,881	\$ 62,067	\$ 176,008	\$ 177,738
Total expenses	27,521	29,365	80,391	83,186
Net investment income before income taxes	33,360	32,702	95,617	94,552
Income tax expense (benefit), including excise tax	454	(118)	563	(302)
Net investment income	32,906	32,820	95,054	94,854
Net realized gains (losses)	(1,656)	4,580	22,311	4,796
Net unrealized gains (losses)	32,026	(78,793)	15,698	(128,605)
Net increase in stockholders' equity resulting from operations	\$ 63,276	\$ (41,393)	\$ 133,063	\$ (28,955)

Net income can vary substantially from period to period for various factors, including the recognition of realized gains and losses and unrealized appreciation and depreciation. As a result, quarterly comparisons of net income may not be meaningful.

**Investment Income**

For the three months ended September 30, 2009, Ares Capital's total investment income decreased \$1.2 million, or 2%, over the three months ended September 30, 2008. For the three months ended September 30, 2009, total investment income consisted of \$56.9 million in interest income from investments, \$2.2 million in dividend income and \$1.6 million in other income. There were no capital structuring service fees for the three months ended September 30, 2009 compared to \$3.3 million for the same period in 2008. The decrease in capital structuring service fees was primarily due to the significant decrease in new investment commitments for the three months ended September 30, 2009 as compared to the three months ended September 30, 2008. Dividend income increased \$1.4 million or 186% to \$2.2 million for the three months ended September 30, 2009 from \$0.8 million for the comparable period in 2008 primarily due to the dividend from IHAM as a result of treating IHAM as a portfolio company (see Note 10 to Ares Capital's consolidated financial statements for the nine months ended September 30, 2009). Additionally, other income increased \$0.9 million or 120% to \$1.6 million for the three months ended September 30, 2009 from \$0.7 million for the comparable period in 2008 primarily due to miscellaneous amendment fees received during the period.

For the nine months ended September 30, 2009, Ares Capital's total investment income decreased \$1.7 million, or 1%, over the nine months ended September 30, 2008. For the nine months ended September 30, 2009, total investment income consisted of \$163.2 million in interest income from investments, \$1.8 million in capital structuring service fees, \$3.4 million in dividend income, \$4.4 million in other income and \$2.7 million in management fees. Capital structuring service fees decreased \$16.7 million, or 90%, to \$1.8 million for the nine months ended September 30, 2009 from \$18.6 million for the comparable period in 2008. The decrease in capital structuring service fees was primarily due to the decrease in new investment commitments for the nine months ended September 30, 2009 as compared to the nine months ended September 30, 2008. Interest income from investments increased \$11.3 million, or 7%, to \$163.2 million for the nine months ended September 30, 2009 from \$151.9 million for the comparable period in 2008. The increase in interest income from



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investments was primarily due to the increase in the size of the portfolio. The average investments, at amortized cost, for the period increased from \$2.2 billion for the nine months ended September 30, 2008 to \$2.3 billion for the comparable period in 2009. Other income increased \$2.0 million or 82% to \$4.4 million for the nine months ended September 30, 2009 from \$2.4 million for the comparable period in 2008, primarily due to miscellaneous amendment fees received during the period. Dividend income increased \$1.5 million or 77% to \$3.4 million for the nine months ended September 30, 2009 from \$1.9 million for the comparable period in 2008, primarily due to the dividend from IHAM.

**Operating Expenses**

For the three months ended September 30, 2009, Ares Capital's total expenses decreased \$1.8 million, or 6%, over the three months ended September 30, 2008. Interest expense and credit facility fees decreased \$3.8 million, or 40%, to \$5.7 million for the three months ended September 30, 2009 from \$9.5 million for the comparable period in 2008, primarily due to the lower average cost of debt. The average cost of debt for the three months ended September 30, 2009 was 2.16% compared to the average cost of debt of 3.74% for the comparable period in 2008 due to the significant decrease in LIBOR over the period. There were \$831 million in average outstanding borrowings during the three months ended September 30, 2009 compared to average outstanding borrowings of \$883 million in the comparable period in 2008. For the three months ended September 30, 2009, Ares Capital incurred \$2.0 million in professional fees related to the merger that were not incurred in the comparable period in 2008.

For the nine months ended September 30, 2009, Ares Capital's total expenses decreased \$2.8 million, or 3%, over the nine months ended September 30, 2008. Interest expense and credit facility fees decreased \$8.0 million, or 30%, to \$18.6 million for the nine months ended September 30, 2009 from \$26.6 million for the comparable period in 2008, primarily due to the lower average cost of debt. The average cost of debt for the nine months ended September 30, 2009 was 2.21% compared to the average cost of debt of 3.71% for the comparable period in 2008 due to the significant decrease in LIBOR over the period offset by a higher spread for the CP Funding Facility. There were \$865 million in average outstanding borrowings during the nine months ended September 30, 2009 compared to average outstanding borrowings of \$794 million in the comparable period in 2008. The decrease in total expenses was partially offset by the increase in administrative expense, which increased \$1.2 million, or 71%, to \$2.9 million for the nine months ended September 30, 2009 from \$1.7 million for the comparable period in 2008. This increase was primarily due to the expenses incurred by IHAM pursuant to a separate services agreement with Ares Capital Management. There was no such agreement in place in the comparable period in 2008. Additionally, professional fees increased \$1.4 million, or 32%, to \$5.7 million for the nine months ended September 30, 2009 from \$4.4 million for the comparable period in 2008. This increase was primarily due to a rise in legal and valuation costs. For the three months ended September 30, 2009, Ares Capital incurred \$2.0 million in professional fees related to the merger that were not incurred in the comparable period in 2008.

**Income Tax Expense, Including Excise Tax**

Ares Capital 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 U.S. federal income tax treatment applicable to RICs. Among other things, Ares Capital has, in order to maintain its RIC status, made and intends to continue to make the requisite distributions to its stockholders which will generally relieve Ares Capital from U.S. federal income tax liability.

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

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income is earned. For the three months ended September 30, 2009, Ares Capital recorded no amounts for U.S. federal excise tax. For the nine months ended September 30, 2009, Ares Capital recognized \$0.1 million of benefits for U.S. federal excise tax. For the three months ended September 30, 2008, Ares Capital recorded a \$0.1 million provision for U.S. federal excise tax. For the nine months ended September 30, 2008, Ares Capital recorded a benefit of \$0.4 million for U.S. federal excise tax.

Certain of Ares Capital's wholly owned subsidiaries are subject to U.S. federal and state income taxes and Ares Capital and its subsidiaries may be subject to foreign taxes. For the three and nine months ended September 30, 2009, Ares Capital recorded tax provisions of approximately \$0.5 million and \$0.6 million for these subsidiaries, respectively. For the three and nine months ended September 30, 2008, Ares Capital recorded tax provisions of approximately \$0.1 million for these subsidiaries.

**Net Unrealized Gains/Losses**

For the three months ended September 30, 2009, Ares Capital had net unrealized gains of \$32.0 million, which was primarily comprised of \$17.6 million in unrealized depreciation, \$45.7 million in unrealized appreciation and \$3.9 million related to the reversal of prior period net unrealized depreciation. The most significant changes in net unrealized appreciation and depreciation during the three months ended September 30, 2009 were as follows (in millions):

	<b>For the three months ended September 30, 2009</b>	
	<b>Unrealized Appreciation (Depreciation)</b>	
<b>Portfolio Company</b>		
ADF Restaurant Group, LLC	\$	5.1
Imperial Capital Group, LLC		5.0
Wear Me Apparel, LLC		4.8
CT Technologies Holdings, LLC		2.8
Apple & Eve, LLC		2.3
OTG Management, Inc.		1.8
Best Brands Corporation		1.8
Capella Healthcare, Inc.		1.7
Bumble Bee Foods, LLC		1.7
Prommis Solutions, LLC		1.6
National Print Group, Inc.		1.6
Instituto de Banca y Comercio, Inc.		1.5
The Teaching Company, LLC		1.4
Pillar Holdings LLC		1.0
3091779 Nova Scotia Inc.		(1.1)
Wastequip, Inc.		(1.3)
AWTP, LLC		(1.4)
MPBP Holdings, Inc.		(1.9)
LVCG Holdings LLC		(2.0)
Canon Communications LLC		(2.2)
R3 Education, Inc.		(3.5)
Other		7.4
<b>Total</b>	<b>\$</b>	<b>28.1</b>

For the three months ended September 30, 2008, Ares Capital had net unrealized losses of \$78.8 million, which primarily consisted of \$88.3 million of unrealized depreciation from investments less \$10.3 million of unrealized appreciation from investments. The most significant changes in net

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unrealized appreciation and depreciation during the three months ended September 30, 2008 were as follows (in millions):

<b>Portfolio Company</b>	<b>For the three months ended</b>	
	<b>September 30, 2008</b>	
	<b>Unrealized</b>	
	<b>Appreciation</b>	
	<b>(Depreciation)</b>	
Waste Pro USA, Inc.	\$	2.8
Hudson Group, Inc.		2.8
Industrial Container Services, LLC		1.6
MPBP Holdings, Inc.		(3.2)
HB&G Building Products		(3.2)
Apple & Eve, LLC		(3.6)
Reflexite Corporation		(4.0)
Things Remembered		(4.0)
Capella Healthcare, Inc.		(4.8)
Wear Me Apparel, LLC		(6.8)
Best Brands Corporation		(7.4)
Courtside Acquisition Corp.		(8.6)
FirstLight Financial Corporation		(10.0)
DSI Renal, Inc.		(10.0)
Other		(20.4)
<b>Total</b>	<b>\$</b>	<b>(78.8)</b>

For the nine months ended September 30, 2009, Ares Capital had net unrealized gains of \$15.7 million, which was primarily comprised of \$81.4 million in unrealized depreciation and \$91.8 million in unrealized appreciation and \$5.3 million relating to the reversal of prior period net

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unrealized depreciation. The most significant changes in net unrealized appreciation and depreciation during the nine months ended September 30, 2009 were as follows (in millions):

	<b>For the nine months ended September 30, 2009</b>	
<b>Portfolio Company</b>	<b>Unrealized Appreciation (Depreciation)</b>	
Apple & Eve, LLC	\$	10.5
Best Brands Corp.		8.2
Ivy Hill Asset Management, L.P.(1)		8.0
Capella Healthcare, Inc.		6.0
Wear Me Apparel, LLC		6.0
Imperial Capital Group, LLC		5.0
ADF Restaurant Group		4.9
Waste Pro USA, Inc.		4.2
Prommis Solutions, LLC		3.8
Booz Allen Hamilton, Inc.		3.5
DSI Renal, Inc.		2.8
Instituto de Banca y Comercio, Inc.		2.7
CT Technologies Holdings, LLC		2.4
Lakeland Finance, LLC		2.0
Pillar Holdings LLC		2.0
Bumble Bee Foods, LLC		1.7
Wyle Laboratories, Inc.		1.4
Savers, Inc.		1.4
Magnacare Holdings, Inc.		1.4
The Teaching Company, LLC		1.3
Encanto Restaurants, Inc.		1.2
American Residential Services, LLC		1.2
Hudson Group, Inc.		1.2
Diversified Collections Services, Inc.		1.0
Industrial Container Services, LLC		(1.3)
Planet Organic Health Corp.		(1.3)
Things Remembered, Inc.		(1.8)
HB&G Building Products		(1.8)
Sigma International Group, Inc.		(2.6)
Canon Communications LLC		(2.6)
VOTC Acquisition Corp.		(2.8)
National Print Group, Inc.		(2.8)
MPBP Holdings, Inc.		(3.2)
Growing Family, Inc.		(3.4)
R3 Education, Inc.		(3.4)
Courtside Acquisition Corp.		(3.4)
Wastequip, Inc.		(4.0)
AWTP, LLC		(4.1)
Direct Buy Holdings, Inc.		(4.2)
Summit Business Media, LLC		(4.7)
LVCG Holdings LLC		(6.5)
Reflexite Corporation		(10.6)
FirstLight Financial Corporation		(11.0)
Other		2.1
<b>Total</b>	<b>\$</b>	<b>10.4</b>

(1)

See Note 10 to Ares Capital's consolidated financial statements for the nine months ended September 30, 2009.

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For the nine months ended September 30, 2008, Ares Capital had net unrealized losses of \$128.6 million, which primarily consisted of \$167.3 million of unrealized depreciation from investments less \$39.6 million of unrealized appreciation from investments. The most significant changes in net unrealized appreciation and depreciation during the three months ended September 30, 2008 were as follows (in millions):

Portfolio Company	For the nine months ended September 30, 2008	
		Unrealized Appreciation (Depreciation)
Reflexite Corporation	\$	7.3
R3 Education, Inc.		5.0
Industrial Container Services, LLC		2.9
WastePro USA, Inc.		2.8
Hudson Group, Inc.		2.8
Instituto de Banca y Comercio, Inc.		2.7
Capella Healthcare, Inc.		(4.8)
HB&G Building Products		(5.2)
Apple & Eve, LLC		(5.9)
Primis Holdings, LLC		(6.0)
Best Brands Corporation		(7.4)
Making Memories Wholesale, Inc.		(8.2)
DSI Renal, Inc.		(10.2)
MPBP Holdings, Inc.		(10.5)
Wear Me Apparel, LLC		(11.2)
Reflexite Corporation		(14.0)
FirstLight Financial Corporation		(15.0)
Courtside Acquisition Corp.		(25.7)
Other		(28.0)
Total	\$	(128.6)

**Net Realized Gains/Losses**

During the three months ended September 30, 2009, Ares Capital had \$104.4 million of sales and repayments resulting in \$1.7 million of net realized losses. These sales and repayments included \$5.0 million of loans sold to the Ivy Hill Funds, the two middle-market credit funds managed by Ares Capital's portfolio company, IHAM (see Note 10 to Ares Capital's consolidated financial statements for the nine months ended September 30, 2009 for more detail on IHAM and the Ivy Hill Funds). Net realized losses on investments were comprised of \$12.8 million of gross realized gains and \$14.5 million of gross realized losses. The most significant realized gains and losses on investments for the three months ended September 30, 2009 were as follows (in millions):

Portfolio Company	Realized Gain (Loss)	
WastePro USA, Inc.	\$	12.3
Making Memories Wholesale, Inc.		(14.2)
Other		0.2
Total	\$	(1.7)

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During the three months ended September 30, 2008, Ares Capital had \$168.0 million of sales and repayments resulting in \$4.6 million of net realized gains. The most significant realized gains on investments for the three months ended September 30, 2008 were as follows (in millions):

Portfolio Company	Realized Gain (Loss)
Daily Candy, Inc.	\$ 2.5
Waste Pro USA, Inc.	2.0
Other	0.1
 Total	 \$ 4.6

During the nine months ended September 30, 2009, Ares Capital repurchased \$34.8 million of CLO Notes resulting in a \$26.5 million realized gain on the extinguishment of debt. Ares Capital also had \$267.4 million of sales and repayments resulting in \$4.2 million of net realized losses. These sales and repayments included \$45.5 million of loans sold to the Ivy Hill Funds. Net realized losses on investments were comprised of \$13.0 million of gross realized gains and \$17.2 million of gross realized losses. The most significant realized gains and losses on investments for the nine months ended September 30, 2009 were as follows (in millions):

Portfolio Company	Realized Gain (Loss)
WastePro USA, Inc.	\$ 12.3
Capella Healthcare, Inc.	(1.0)
Instituto de Banca y Comercio, Inc.	(1.2)
Making Memories Wholesale, Inc.	(14.2)
Other	(0.1)
 Total	 \$ (4.2)

During the nine months ended September 30, 2008, Ares Capital had \$393.6 million of sales and repayments resulting in \$4.8 million of net realized gains.

Portfolio Company	Realized Gain (Loss)
Daily Candy, Inc.	\$ 2.5
Waste Pro USA, Inc.	2.0
Other	0.3
 Total	 \$ 4.8

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Operating results for the years ended December 31, 2008, 2007 and 2006 are as follows (in thousands):

	<b>For the year ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Total Investment Income	\$ 240,461	\$ 188,873	\$ 120,021
Total Expenses	113,221	94,750	58,458
Net Investment Income Before Income Taxes	127,240	94,123	61,563
Income Tax Expense (Benefit), Including Excise Tax	248	(826)	4,931
Net Investment Income	126,992	94,949	56,632
Net Realized Gains	6,371	6,544	27,616
Net Unrealized Losses	(272,818)	(10,661)	(14,553)
Net (Decrease) Increase in Stockholders' Equity Resulting From Operations	\$ (139,455)	\$ 90,832	\$ 69,695

**Investment Income**

For the year ended December 31, 2008, Ares Capital's total investment income increased \$51.6 million, or 27%, over the year ended December 31, 2007. Interest income from investments increased \$46.0 million, or 28%, to \$208.5 million for the year ended December 31, 2008 from \$162.4 million for the comparable period in 2007. The increase in interest income from investments was primarily due to the increase in the size of the portfolio as well as increases in the weighted average yield on the portfolio. The average investments, at fair value, for the year increased to \$2.0 billion for the year ended December 31, 2008 from \$1.5 billion for the comparable period in 2007. Capital structuring service fees increased \$3.2 million, or 18%, to \$21.2 million for the year ended December 31, 2008 from \$18.0 million for the comparable period in 2007. The increase in capital structuring service fees was primarily due to the increase in fee percentages as a result of more favorable terms available in the current market.

For the year ended December 31, 2007, Ares Capital's total investment income increased \$68.9 million, or 57%, from the year ended December 31, 2006. Interest income from investments increased \$64.1 million, or 65%, to \$162.4 million for the year ended December 31, 2007 from \$98.3 million for the comparable period in 2006. The increase in interest income from investments was primarily due to the increase in the overall size of the portfolio. The average investments, at fair value, for the year increased to \$1.5 billion for the year ended December 31, 2007 from \$871.0 million for the comparable period in 2006. Capital structuring service fees increased \$2.0 million, or 12%, to \$18.0 million for the year ended December 31, 2007 from \$16.0 million for the comparable period in 2006. The increase in capital structuring service fees was primarily due to the increased amount of new investments made. The amount of new investments made increased to \$1.3 billion during the year ended December 31, 2007 from \$1.1 billion for the comparable period in 2006.

**Operating Expenses**

For the year ended December 31, 2008, Ares Capital's total expenses increased \$18.5 million, or 19%, from the year ended December 31, 2007. Base management fees increased \$6.9 million, or 29%, to \$30.5 million for the year ended December 31, 2008 from \$23.5 million for the comparable period in 2007, primarily due to the increase in the size of the portfolio. Incentive fees related to pre-incentive fee net investment income increased \$8.2 million, or 35%, to \$31.7 million for the year ended December 31, 2008 from \$23.5 million for the comparable period in 2007, primarily due to the increase



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in the size of the portfolio and the related increase in net investment income. The increase in total expenses was partially offset by the decline in interest expense and credit facility fees. Interest expense and credit facility fees decreased \$0.4 million, or 1%, to \$36.5 million for the year ended December 31, 2008 from \$36.9 million for the comparable period in 2007, despite significant increases in the outstanding borrowings for the period. The average outstanding borrowings during the year ended December 31, 2008 was \$819.0 million compared to average outstanding borrowings of \$567.9 million for the comparable period in 2007. The increase in outstanding borrowings was more than offset by the decline in the average cost of borrowing which went from 6.08% for the year ended December 31, 2007 to 4.06% for the year ended December 31, 2008.

For the year ended December 31, 2007, Ares Capital's total expenses increased \$36.3 million, or 62%, from the year ended December 31, 2006. Base management fees increased \$9.9 million, or 72%, to \$23.5 million for the year ended December 31, 2007 from \$13.6 million for the comparable period in 2006, primarily due to the increase in the size of the portfolio. Incentive fees related to pre-incentive fee net investment income increased \$7.5 million, or 46%, to \$23.5 million for the year ended December 31, 2007 from \$16.1 million for the comparable period in 2006, primarily due to the increase in the size of the portfolio and the related increase in net investment income. Interest expense and credit facility fees increased \$18.3 million, or 99%, to \$36.9 million for the year ended December 31, 2007 from \$18.6 million for the comparable period in 2006, primarily due to the significant increase in the outstanding borrowings. The average outstanding borrowings during the year ended December 31, 2007 was \$567.9 million compared to average outstanding borrowings of \$262.4 million for the comparable period in 2006. The increase in total expenses was partially offset by the decline in incentive fees related to realized gains. There were no incentive fees related to realized gains during the year ended December 31, 2007 compared to \$3.4 million for the year ended December 31, 2006, due to gross unrealized depreciation offsetting net realized gains for the period. Net realized gains were \$6.6 million during the year ended December 31, 2007 whereas gross unrealized depreciation recognized was \$61.2 million.

**Income Tax Expense, Including Excise Tax**

For the years ended December 31, 2008, 2007 and 2006, Ares Capital recorded provisions of approximately \$0.1 million, \$0.1 million and \$0.6 million, respectively, for federal excise tax.

For the year ended December 31, 2008, Ares Capital recorded a tax provision of approximately \$0.1 million for Ares Capital's wholly owned subsidiaries that are subject to U.S. federal and state income taxes. For the year ended December 31, 2007, Ares Capital recorded a tax benefit of approximately \$0.9 million for these subsidiaries. For the year ended December 31, 2006, Ares Capital recorded a tax provision of \$4.4 million for these subsidiaries.

**Net Realized Gains/Losses**

During the year ended December 31, 2008, Ares Capital had \$495.6 million of sales and repayments resulting in \$6.6 million of net realized gains. These sales and repayments included the \$75.5 million of loans sold to the Ivy Hill Funds. Net realized gains were comprised of \$6.8 million of

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

<b>Portfolio Company</b>	<b>Realized Gain (Loss)</b>
Hudson Group, Inc.	\$ 2.8
Waste Pro USA, Inc.	2.0
Daily Candy, Inc.	1.3
Other	0.5
<b>Total</b>	<b>\$ 6.6</b>

During the year ended December 31, 2007, Ares Capital had \$725.2 million of sales and repayments resulting in \$6.6 million of net realized gains. These sales and repayments included the \$133.0 million of loans sold to Ivy Hill I. Net realized gains were comprised of \$16.2 million of gross realized gains and \$9.7 million of gross realized losses. The most significant realized gains and losses during the year ended December 31, 2007 were as follows (in millions):

<b>Portfolio Company</b>	<b>Realized Gain (Loss)</b>
The GSI Group, Inc.	\$ 6.2
Varel Holdings, Inc.	4.0
Equinox SMU Partners LLC	3.5
Berkline/Benchcraft Holdings LLC	(8.8)
Other	1.7
<b>Total</b>	<b>\$ 6.6</b>

During the year ended December 31, 2006, Ares Capital had \$457.7 million of sales and repayments resulting in \$27.6 million of net realized gains. Net realized gains were comprised of \$27.7 million of gross realized gains and \$0.1 million of gross realized losses. The most significant realized gains and losses during the year ended December 31, 2006 were as follows (in millions):

<b>Portfolio Company</b>	<b>Realized Gain (Loss)</b>
CICQ, LP	\$ 18.6
United Site Services, Inc.	4.5
GCA Services Group, Inc.	1.0
Other	3.5
<b>Total</b>	<b>\$ 27.6</b>

**Net Unrealized Gains/Losses**

For the year ended December 31, 2008, Ares Capital had net unrealized losses of \$272.8 million, which was comprised of \$54.9 million in unrealized appreciation, \$323.9 million in unrealized depreciation and \$3.8 million relating to the reversal of prior period net unrealized appreciation. The

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

<b>Portfolio Company</b>	<b>Unrealized Appreciation (Depreciation)</b>	
R3 Education, Inc.	\$	5.0
Instituto de Banco Y Comercio, Inc.		4.5
Industrial Container Services LLC		4.1
Diversified Collection Services, Inc.		3.4
Campus Management Corp.		3.0
Prommis Solutions, LLC		(3.1)
309179 Nova Scotia, Inc.		(3.1)
National Print Group, Inc.		(3.1)
Athletic Club Holdings, Inc.		(3.2)
Booz Allen Hamilton, Inc.		(3.2)
Wastequip, Inc.		(3.3)
Direct Buy Holdings, Inc.		(3.6)
OnCURE Medical Corp.		(3.6)
VSS-Tranzact Holdings, LLC		(4.0)
Summit Business Media, LLC		(4.0)
Best Brands Corporation		(4.3)
GG Merger Sub I, Inc.		(4.7)
Apogee Retail, LLC		(4.8)
Ivy Hill Middle Market Credit Fund, Ltd.		(5.6)
Making Memories Wholesale, Inc.		(6.7)
Vistar Corporation		(6.9)
HB&G Building Products		(7.4)
Growing Family, Inc.		(7.5)
Primis Marketing Group, Inc.		(7.6)
Capella Healthcare, Inc.		(9.5)
Wear Me Apparel, LLC		(12.1)
Things Remembered, Inc.		(12.3)
Apple & Eve, LLC		(12.4)
MPBP Holdings, Inc.		(15.3)
DSI Renal, Inc.		(18.1)
Reflexite Corporation		(19.2)
Courtside Acquisition Corp.		(30.9)
FirstLight Financial Corporation		(37.0)
Other		(32.5)
<b>Total</b>	<b>\$</b>	<b>(269.0)</b>

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For the year ended December 31, 2007, Ares Capital had net unrealized losses of \$10.7 million, which was comprised of \$52.5 million in unrealized appreciation, \$60.4 million in unrealized depreciation and \$2.8 million relating to the reversal of prior period net unrealized appreciation. The most significant changes in unrealized appreciation and depreciation during the year ended December 31, 2007 were as follows (in millions):

Portfolio Company	Unrealized Appreciation (Depreciation)	
Reflexite Corporation	\$	27.2
The GSI Group, Inc.		5.6
Waste Pro, Inc.		4.0
Daily Candy, Inc.		3.6
Industrial Container Services, Inc.		3.2
Varel Holdings, Inc.		3.0
Wastequip, Inc.		(3.2)
Making Memories Wholesale, Inc.		(5.0)
Primis Marketing Group, Inc.		(5.6)
Universal Trailer Corporation		(7.2)
Wear Me Apparel, LLC		(8.0)
FirstLight Financial Corporation		(10.0)
MPBP Holdings, Inc.		(10.5)
Other		(5.0)
<b>Total</b>	<b>\$</b>	<b>(7.9)</b>

For the year ended December 31, 2006, Ares Capital had net unrealized losses of \$14.6 million, which was comprised of \$9.2 million in unrealized appreciation, \$8.9 million in unrealized depreciation and \$14.9 million relating to the reversal of prior period net unrealized appreciation. The most significant changes in unrealized appreciation and depreciation during the year ended December 31, 2006 were as follows (in millions):

Portfolio Company	Unrealized Appreciation (Depreciation)	
CICQ, LP	\$	4.0
Universal Trailer Corporation		3.4
Varel Holdings, Inc.		1.0
Making Memories Wholesale, Inc.		(2.4)
Berkshire/Benchcraft Holdings LLC		(6.5)
Other		0.8
<b>Total</b>	<b>\$</b>	<b>0.3</b>

### **Financial Condition, Liquidity and Capital Resources**

Since its inception, Ares Capital's liquidity and capital resources have been generated primarily from the net proceeds of public offerings of common stock, the Debt Securitization, advances from its credit facilities, as well as cash flows from operations.

As of September 30, 2009, Ares Capital had \$61.5 million in cash and cash equivalents and \$767.9 million in total indebtedness outstanding. Subject to leverage restrictions, Ares Capital had approximately \$453.9 million available for additional borrowings under its credit facilities as of September 30, 2009.

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Due to volatility in global markets, the availability of capital and access to capital markets has been limited over the last two years. Ares Capital has responded to recent constraints on raising new capital by pursuing other avenues of liquidity and growth, such as adjusting the pace of its investments, becoming more selective in evaluating investment opportunities to ensure appropriate risk-adjusted returns, pursuing asset sales, developing its third-party asset management capabilities and/or recycling lower yielding investments. Ares Capital also intends to continue pursuing opportunities to manage third-party funds. As the global liquidity situation evolves, Ares Capital will continue to monitor and adjust its funding approach accordingly. However, given the unprecedented nature of the volatility in the global markets, there can be no assurances that these activities will be successful. While levels of market disruption and volatility appear to be improving, there can be no assurance that they will not worsen. If they do, Ares Capital could face materially higher financing costs. Consequently, Ares Capital's operating strategy could be materially and adversely affected. The illiquidity of Ares Capital's investments may make it difficult for Ares Capital to sell such investments if required. As a result, Ares Capital may realize significantly less than the value at which it has recorded its investments.

### Equity Offerings

The following table summarizes the total shares issued and proceeds Ares Capital received net of underwriter, dealer manager and offering costs for the nine months ended September 30, 2009 and 2008 (in millions, except per share data):

	Shares issued	Offering price per share	Proceeds net of dealer manager and offering costs
August 2009 public offering	12.4	\$ 9.25	\$ 109.1
Total for the nine months ended September 30, 2009	12.4		\$ 109.1
April 2008 public offering	24.2	\$ 11.00	\$ 259.8
Total for the nine months ended September 30, 2008	24.2		\$ 259.8

### Debt Capital Activities

Ares Capital's debt obligations consisted of the following as of September 30, 2009 and December 31, 2008 (in millions):

	September 30, 2009		December 31, 2008	
	Outstanding	Total Available(1)	Outstanding	Total Available(1)
Credit Facility	\$ 271.1	\$ 525.0	\$ 480.5	\$ 510.0
CP Funding Facility	223.0	223.0	114.3	350.0
CP Funding II Facility		200.0		
Debt Securitization	273.8	273.8	314.0	314.0
	\$ 767.9	\$ 1,221.8	\$ 908.8	\$ 1,174.0

(1) Subject to borrowing base and leverage restrictions.

The weighted average interest rate and weighted average maturity of all Ares Capital's outstanding borrowings as of September 30, 2009 were 2.02% and 4.8 years, respectively. The weighted average interest rate and weighted average maturity of all Ares Capital's outstanding borrowings as of December 31, 2008 were 3.03% and 4.9 years, respectively.

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The ratio of total debt outstanding to stockholders' equity as of September 30, 2009 was 0.63:1.00 compared to 0.83:1.00 as of December 31, 2008.

A summary of Ares Capital's contractual payment obligations as of December 31, 2008 are as follows (in millions):

	Total	Payments Due by Period			After 5 years
		Less than 1 year	1-3 years	4-5 years	
Credit Facility	\$ 480.5	\$	\$ 480.5	\$	\$
CP Funding Facility	114.3	114.3			
Debt Securitization	314.0				314.0
<b>Total Debt</b>	<b>\$ 908.8</b>	<b>\$ 114.3</b>	<b>\$ 480.5</b>	<b>\$</b>	<b>\$ 314.0</b>

In accordance with the Investment Company Act, with certain limited exceptions, Ares Capital is only allowed to borrow amounts such that Ares Capital's asset coverage, as defined in the Investment Company Act, is at least 200% after such borrowing. As of September 30, 2009, Ares Capital's asset coverage for borrowed amounts was 259%. As of December 31, 2008, Ares Capital's asset coverage for borrowed amounts was 220%.

### ***Credit Facility***

In December 2005, Ares Capital entered into the Credit Facility, under which, as amended as of September 30, 2009, the lenders had agreed to extend credit to Ares Capital in an aggregate principal amount not exceeding \$525 million at any one time outstanding. As of September 30, 2009, the Credit Facility was to expire on December 28, 2010 and was secured by substantially all of the assets of Ares Capital and Ares Capital's consolidated subsidiaries (subject to certain exceptions, including investments held by Ares Capital CP under the CP Funding Facility, investments held by Ares Capital CP II under the CP Funding II Facility and those held as a part of the Debt Securitization, each discussed below) which as of September 30, 2009 consisted of 167 investments.

As of September 30, 2009, the Credit Facility also included an "accordion" feature that allowed Ares Capital to increase the size of the Credit Facility to a maximum of \$765 million under certain circumstances. The Credit Facility also included usual and customary events of default and covenants for senior secured revolving credit facilities of this nature and companies of this type. As of September 30, 2009, there was \$271.1 million outstanding under the Credit Facility and Ares Capital continued to be in compliance with all of the limitations and requirements of the Credit Facility. As of December 31, 2008, there was \$480.5 million outstanding under the Credit Facility. See Note 7 to Ares Capital's consolidated financial statements for the period ended September 30, 2009 for more detail on the Credit Facility.

On January 22, 2010, the Credit Facility was amended and restated to, among other things, increase the size of the facility from \$525 million to \$690 million (comprised of \$615 million in commitments on a stand-alone basis and an additional \$75 million in commitments contingent upon the closing of the merger), extend the maturity date to January 22, 2013, modify pricing and permit certain mergers, including a merger of the type currently contemplated by the merger agreement. Subject to certain exceptions, pricing under the Credit Facility, as amended as of the date of this document, is based on LIBOR plus an applicable spread of between 2.50% and 4.00% or an "alternate base rate" (which is the highest of a prime rate, the federal funds rate plus 0.50% or the one month LIBOR plus 1.00%) plus an applicable spread of between 1.50% and 3.00%, in each case based on a pricing grid depending on Ares Capital's credit rating. The effective LIBOR spread under the Credit Facility on January 22, 2010 was 3.00%. The Credit Facility continues to be secured by substantially all of Ares Capital's assets (subject to certain exceptions, including investments held by Ares Capital CP under the CP Funding Facility and those held as a part of the Debt Securitization, each discussed below).

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The Credit Facility, as amended as of the date of this document, includes an "accordion" feature that allows Ares Capital, under certain circumstances, to increase the size of the Credit Facility to a maximum of \$897.5 million prior to the closing of the merger and up to a maximum of \$1.05 billion upon the closing of the merger. The Credit Facility also continues to include usual and customary events of default and covenants for senior secured revolving credit facilities of this nature and companies of this type. As of January 22, 2010, there was \$490.7 million outstanding under the Credit Facility and Ares Capital continued to be in compliance with all of the limitations and requirements of the Credit Facility.

***CP Funding Facility***

In October 2004, Ares Capital formed Ares Capital CP Funding LLC, or "Ares Capital CP," a wholly owned subsidiary of Ares Capital, through which Ares Capital established the CP Funding Facility that, as amended, allowed Ares Capital CP to issue up to \$350 million of variable funding certificates. On May 7, 2009, Ares Capital and Ares Capital CP entered into an amendment that, among other things, converted the CP 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 million to \$225 million (with a reduction in the outstanding balance required by each of May 7, 2010 and May 7, 2011) and decreased the advance rates applicable to certain types of eligible loans. In addition, the interest rate charged on the CP Funding Facility was increased from the commercial paper rate, Eurodollar or adjusted Eurodollar rate, as applicable, plus 2.50% to the commercial paper, Eurodollar or adjusted Eurodollar rate, as applicable, plus 3.50% and the commitment fee requirement was removed. Ares Capital also paid a renewal fee of 1.25% of the total facility amount, or \$2.8 million. As of September 30, 2009, there was \$223.0 million outstanding under the CP Funding Facility and Ares Capital continued to be in compliance with all of the limitations and requirements of the CP Funding Facility. As of December 31, 2008, there was \$114.3 million outstanding under the CP Funding Facility.

The CP Funding Facility is secured by all of the assets held by Ares Capital CP, which as of September 30, 2009 consisted of 36 investments. In addition, the CP Funding Facility was guaranteed by all of the assets of Ares Capital CP Funding II LLC, or "Ares Capital CP II," an indirect wholly owned subsidiary of Ares Capital.

On January 22, 2010, Ares Capital combined the CP Funding Facility with the CP Funding II Facility into a single \$400 million revolving securitized facility between Ares Capital CP and Wachovia Bank, N.A., or "Wachovia." The combination, among other things, converted the CP Funding Facility from an amortizing facility to a revolving facility, extended the maturity date to January 22, 2013 (with two one-year extension options, subject to mutual consent), modified the pricing structure of the CP Funding Facility and pre-approved the merger. In connection with the combination, Ares Capital terminated the CP Funding II Facility.

The CP Funding Facility is secured by all of the assets held by Ares Capital CP and the membership interest in Ares Capital CP. As of the date of this document, subject to certain exceptions, the interest charged on the CP Funding Facility is based on LIBOR plus an applicable spread of between 2.25% and 3.75% or 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 the credit rating of Ares Capital. The effective LIBOR spread under the CP Funding Facility on January 22, 2010 was 2.75%. The CP Funding Facility continues to include usual and customary events of default and covenants for securitized revolving facilities of this nature and companies of this type. As of January 22, 2010, there was approximately \$209 million outstanding under the CP Funding Facility and Ares Capital CP continued to be in compliance with all of the limitations and requirements of the CP Funding Facility.

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***CP Funding II Facility***

On July 21, 2009, Ares Capital CP II entered into an agreement with Wachovia to establish a new revolving facility, the CP Funding II Facility, whereby Wachovia agreed to extend credit to Ares Capital CP II in an aggregate principal amount not exceeding \$200 million at any one time outstanding. The CP Funding II Facility was scheduled to expire on July 21, 2012, with two one-year extension options, subject to mutual consent. Subject to certain exceptions, the interest charged on the CP Funding II Facility was based on LIBOR plus 4.00%. The CP Funding II Facility was secured by all of the assets held by Ares Capital CP II. As of September 30, 2009, there were no amounts outstanding on the CP Funding II Facility. In addition, the CP Funding II Facility was guaranteed by all of the assets of Ares Capital CP. See Note 7 to Ares Capital's consolidated financial statements for the period ended September 30, 2009 for more detail on the CP Funding II Facility.

On January 22, 2010, Ares Capital combined the CP Funding Facility with the CP Funding II Facility. In connection with the combination, Ares Capital terminated the CP Funding II Facility.

***Debt Securitization***

In July 2006, through Ares Capital's wholly owned subsidiary, ARCC CLO 2006 LLC, or "ARCC CLO," Ares Capital completed the Debt Securitization, and issued approximately \$314.0 million principal amount of CLO Notes (including \$50.0 million of revolving notes, all of which were drawn down as of September 30, 2009) to third parties that are secured by a pool of middle-market loans that were purchased or originated by Ares Capital. Such CLO Notes are included in the September 30, 2009 consolidated balance sheet. Ares Capital retained approximately \$86.0 million of aggregate principal amount of certain BBB/Baa2 and non-rated securities in the Debt Securitization, or the "Retained Notes." During the nine months ended September 30, 2009, Ares Capital repurchased, in several open market transactions, \$34.8 million of CLO Notes, consisting of \$14.0 million of the Class B Notes and \$20.8 million of the Class C Notes, for a total purchase price of \$8.2 million. As a result of these purchases, Ares Capital recognized a \$26.5 million gain on the extinguishment of debt and, as of September 30, 2009, Ares Capital held an aggregate principal amount of \$120.8 million of CLO Notes, in total. All of the CLO Notes mature on December 20, 2019, and, as of September 30, 2009, there was \$273.8 million outstanding under the Debt Securitization (excluding the Retained Notes). The blended pricing of CLO Notes, excluding fees, is approximately 3-month LIBOR plus 27 basis points.

As of September 30, 2009, there were 54 investments securing the notes. See Note 7 to Ares Capital's consolidated financial statements for the period ended September 30, 2009 for more detail on the Debt Securitization.

The Moody's Investors Service rating of the Class A-1B Notes, the Class A-2B Notes, the Class B Notes and the Class C Notes have been reduced below the respective ratings issued for such notes on the facility's closing date. As of September 30, 2009, the Class A-1B Notes had a rating of Aa2, the Class A-2B Notes had a rating of Aa1, the Class B Notes had a rating of A1 and the Class C Notes had a rating of Baa3. As a result of the downgrades, among other things, Ares Capital's ability to transfer loans out of the facility has been restricted and certain principal proceeds must be used to further reduce the outstanding principal balance of such notes on each distribution date.

**Portfolio Valuation**

Investments for which market quotations are readily available are typically valued at such market quotations. In order to validate market quotations, Ares Capital looks 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 Ares Capital's investments) are valued at fair value as determined in good faith by Ares Capital's board of directors, based on the input of Ares Capital's management and audit committee and independent valuation firms that have been engaged at the



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direction of the board 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, with approximately 50% (based on value) of Ares Capital's valuations of portfolio companies without readily available market quotations subject to review by an independent valuation firm each quarter.

As part of the valuation process, Ares Capital may take into account the following types of factors, if relevant, in determining the fair value of Ares Capital's 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 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, Ares Capital uses the pricing indicated by the external event to corroborate Ares Capital's valuation.

Because there is not a readily available market value for most of the investments in Ares Capital's portfolio, Ares Capital values substantially all of its portfolio investments at fair value as determined in good faith by Ares Capital's board of directors, based on the input of its management and audit committee and independent valuation firms under a valuation policy and a consistently applied valuation process. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of Ares Capital's investments may fluctuate from period to period. Additionally, the fair value of Ares Capital's 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 Ares Capital 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 Ares Capital was required to liquidate a portfolio investment in a forced or liquidation sale, Ares Capital may realize significantly less than the value at which Ares Capital has recorded it.

In addition, changes in the market environment, such as inflation, and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than would be realized based on the valuations currently assigned. See "Risk Factors Risks Relating to Ares Capital Price declines and illiquidity in the corporate debt markets have adversely affected, and may in the future adversely affect, the fair value of Ares Capital's portfolio investments, reducing Ares Capital's net asset value through increased net unrealized depreciation."

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

Ares Capital's 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 Ares Capital's portfolio management team.

Preliminary valuation conclusions are then documented and discussed by Ares Capital's management.

The audit committee of Ares Capital's board of directors reviews these preliminary valuations, as well as the input of independent valuation firms with respect to the valuations of approximately 50% (based on value) of Ares Capital's portfolio companies without readily available market quotations.

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The board of directors discusses valuations and determines the fair value of each investment in Ares Capital's portfolio without a readily available market quotation in good faith based on the input of Ares Capital's management and audit committee and independent valuation firms.

Effective January 1, 2008, Ares Capital adopted SFAS 157, which expands the application of fair value accounting for investments (see Note 8 to the consolidated financial statements).

**Off Balance Sheet Arrangements**

As of September 30, 2009 and December 31, 2008, Ares Capital had the following commitments to fund various revolving senior secured and subordinated loans (in millions):

	September 30, 2009	December 31, 2008
Total revolving commitments	\$ 295.4	\$ 419.0
Less: funded commitments	(90.4)	(139.6)
<b>Total unfunded commitments</b>	<b>205.0</b>	<b>279.4</b>
Less: commitments substantially at discretion of Ares Capital	(10.0)	(32.4)
Less: unavailable commitments due to borrowing base or other covenant restriction	(89.0)	(64.5)
<b>Total net adjusted unfunded revolving commitments</b>	<b>\$ 106.0</b>	<b>\$ 182.5</b>

Of the total commitments as of September 30, 2009, \$174.2 million extend beyond the maturity date for the Credit Facility. Additionally, \$104.4 million of the total commitments or \$6.5 million of the net adjusted unfunded commitments are scheduled to expire in 2009. Included within the total commitments as of September 30, 2009 are commitments to issue up to \$24.3 million in standby letters of credit through a financial intermediary on behalf of certain portfolio companies.

Under these arrangements, Ares Capital would be required to make payments to third parties if the portfolio companies were to default on their related payment obligations. As of September 30, 2009, Ares Capital had \$21.4 million in standby letters of credit issued and outstanding on behalf of the portfolio companies, of which no amounts were recorded as a liability. Of these letters of credit, \$0.4 million expire on January 31, 2010, \$0.2 million expire on February 28, 2010, \$3.7 million expire on March 31, 2010, \$8.1 million expire on July 31, 2010 and \$9.0 million expire on September 30, 2010. These letters of credit may be extended under substantially similar terms for additional one-year terms at Ares Capital's option until the Credit Facility, under which the letters of credit were issued, matures. As of September 30, 2009, the Credit Facility matured on December 28, 2010.

As of September 30, 2009 and December 31, 2008, Ares Capital was subject to subscription agreements to fund equity investments in private equity investment partnerships, substantially all at the discretion of Ares Capital, as follows (in millions):

	September 30, 2009	December 31, 2008
Total private equity commitments	\$ 428.3	\$ 428.3
Total unfunded private equity commitments	\$ 419.1	\$ 423.6

**Quantitative and Qualitative Disclosures About Market Risk**

Ares Capital is subject to financial market risks, including changes in interest rates and the valuations of Ares Capital's investment portfolio.

***Interest Rate Risk***

Interest rate sensitivity refers to the change in earnings that may result from changes in the level of interest rates. Because Ares Capital funds a portion of its investments with borrowings, Ares

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Capital's net investment income is affected by the spread between the rate at which Ares Capital invests and the rate at which it borrows. As a result, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on Ares Capital's net investment income.

As of September 30, 2009, approximately 57% of the investments at fair value in Ares Capital's portfolio were at fixed rates while approximately 30% were at variable rates and 13% were non-interest earning. Additionally, 11% of the investments at fair value or 37% of the investments at fair value with variable rates contain interest rate floor features. The Debt Securitization, the CP Funding Facility, the CP Funding II Facility and the Credit Facility all featured variable rates.

Ares Capital regularly measures Ares Capital's exposure to interest rate risk. Ares Capital assesses interest rate risk and manages Ares Capital's interest rate exposure on an ongoing basis by comparing its interest rate sensitive assets to its interest rate sensitive liabilities. Based on that review, Ares Capital determines whether or not any hedging transactions are necessary to mitigate exposure to changes in interest rates.

In October 2008, Ares Capital entered into a two-year interest rate swap agreement for a total notional amount of \$75 million. Under the interest rate swap agreement, Ares Capital will pay a fixed interest rate of 2.985% and receive a floating rate based on the prevailing three-month LIBOR. Ares Capital believes that this agreement will enable it to mitigate interest rate risk and remain match funded.

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

Based on Ares Capital's September 30, 2009 balance sheet, the following table shows the impact on net income of base rate changes in interest rates assuming no changes in Ares Capital's investment and borrowing structure and reflecting the effect of Ares Capital's interest rate swap agreement described above and in Note 11 of the consolidated financial statements (in millions):

<b>Basis Point Change</b>	<b>Interest Income</b>	<b>Interest Expense</b>	<b>Net Income</b>
Up 300 basis points	\$ 14.0	\$ 20.8	\$ (6.8)
Up 200 basis points	\$ 8.9	\$ 13.9	\$ (5.0)
Up 100 basis points	\$ 4.4	\$ 6.9	\$ (2.5)
Down 100 basis points	\$ (2.3)	\$ (4.2)	\$ 1.9
Down 200 basis points	\$ (3.5)	\$ (8.4)	\$ 4.9
Down 300 basis points	\$ (4.7)	\$ (12.6)	\$ 7.9

Based on Ares Capital's December 31, 2008 balance sheet, the following table shows the impact on net income of base rate changes in interest rates assuming no changes in Ares Capital's investment and borrowing structure and reflecting the effect of Ares Capital's interest rate swap agreement described above and in Note 11 of the consolidated financial statements (in millions):

<b>Basis Point Change</b>	<b>Interest Income</b>	<b>Interest Expense</b>	<b>Net Income</b>
Up 300 basis points	\$ 21.4	\$ 25.0	\$ (3.6)
Up 200 basis points	\$ 14.2	\$ 16.7	\$ (2.5)
Up 100 basis points	\$ 7.1	\$ 8.3	\$ (1.2)
Down 100 basis points	\$ (6.2)	\$ (8.3)	\$ 2.1
Down 200 basis points	\$ (11.2)	\$ (15.1)	\$ 3.9
Down 300 basis points	\$ (14.7)	\$ (17.0)	\$ 2.3

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**SENIOR SECURITIES OF ARES CAPITAL**  
**(dollar amounts in thousands, except per share data)**

Information about Ares Capital's senior securities (including preferred stock, debt securities and other indebtedness) is shown in the following tables as of each fiscal year ended December 31 since Ares Capital commenced operations and as of September 30, 2009. The report of Ares Capital's independent registered public accounting firm, KPMG LLP, on the senior securities table as of December 31, 2008 is attached as an exhibit to this document. The " " indicates information that the SEC expressly does not require to be disclosed for certain types of senior securities.

Class and Year	Total Amount Outstanding Exclusive of Treasury Securities(1)	Asset Coverage Per Unit(2)	Involuntary Liquidating Preference Per Unit(3)	Average Market Value Per Unit(4)
<b>Credit Facility</b>				
Fiscal 2009 (as of September 30, 2009, unaudited)	\$ 271,091	\$ 915.15		
Fiscal 2008	\$ 480,486	\$ 1,165.69	\$	N/A
Fiscal 2007	\$ 282,528	\$ 1,098.58	\$	N/A
Fiscal 2006	\$ 193,000	\$ 1,056.23	\$	N/A
Fiscal 2005	\$	\$	\$	N/A
<b>CP Funding Facility</b>				
Fiscal 2009 (as of September 30, 2009, unaudited)	\$ 223,027	\$ 752.90		
Fiscal 2008	\$ 114,300	\$ 277.30	\$	N/A
Fiscal 2007	\$ 85,000	\$ 330.07	\$	N/A
Fiscal 2006	\$ 15,000	\$ 82.09	\$	N/A
Fiscal 2005	\$ 18,000	\$ 32,645.12	\$	N/A
<b>CP Funding II Facility</b>				
Fiscal 2009 (as of September 30, 2009, unaudited)	\$ 0	N/A		
<b>Debt Securitization</b>				
Fiscal 2009 (as of September 30, 2009, unaudited)	\$ 273,753	\$ 924.14		
Fiscal 2008	\$ 314,000	\$ 761.78	\$	N/A
Fiscal 2007	\$ 314,000	\$ 1,220.95	\$	N/A
Fiscal 2006	\$ 274,000	\$ 1,499.51	\$	N/A

(1) Total amount of each class of senior securities outstanding at the end of the period presented.

(2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as Ares Capital's consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by senior securities representing indebtedness. This asset coverage ratio is multiplied by \$1,000 to determine the Asset Coverage Per Unit. In order to determine the specific Asset Coverage Per Unit for each of the Credit Facility, the CP Funding Facility and the Debt Securitization, the total Asset Coverage Per Unit was divided based on the amount outstanding at the end of the period for each.

(3) The amount to which such class of senior security would be entitled upon the involuntary liquidation of Ares Capital in preference to any security junior to it.

(4) Not applicable, as none of Ares Capital's current senior securities are registered for public trading.

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**PORTFOLIO COMPANIES OF ARES CAPITAL**

Ares Capital's investment adviser employs an investment rating system to categorize Ares Capital's investments. See "Business of Ares Capital Ongoing Relationships With and Monitoring of Portfolio Companies." As of September 30, 2009, the weighted average investment grade of the debt in Ares Capital's portfolio was 3.0 with 5.3% of total investments at amortized cost (or 1.7% at fair value) and seven loans past due or on non-accrual status. As of September 30, 2009, the weighted average yield of debt and income producing securities at fair value in Ares Capital's portfolio was approximately 12.53% (11.70% at amortized cost) (fair value is computed as (1) the annual stated interest rate or yield earned plus the net annual amortization of original issue discount and market discount on accruing debt divided by (2) total debt and income producing securities at fair value and amortized cost is computed as (a) annual stated interest rate or yield earned plus the net annual amortization of original issue discount and market discount earned on accruing debt included in such securities, divided by (b) total debt and income producing securities at amortized cost included in such securities).

The following table describes each of the businesses included in Ares Capital's portfolio and reflects data as of September 30, 2009. Percentages shown for class of investment securities held by Ares Capital represent percentage of the class owned and do not necessarily represent voting ownership. Percentages shown for equity securities, other than warrants or options, represent the actual percentage of the class of security held before dilution. Percentages shown for warrants and options held represent the percentage of class of security Ares Capital may own assuming Ares Capital exercises its warrants or options before dilution.

Ares Capital has indicated by footnote portfolio companies (1) where Ares Capital directly or indirectly owns more than 25% of the outstanding voting securities of such portfolio company and, therefore, are presumed to be "controlled" by Ares Capital under the Investment Company Act and (2) where Ares Capital directly or indirectly owns 5% to 25% of the outstanding voting securities of such portfolio company or where Ares Capital holds one or more seats on the portfolio company's board of directors and, therefore, is deemed to be an "affiliated person" under the Investment Company Act. Ares Capital directly or indirectly owns less than 5% of the outstanding voting securities of all other portfolio companies (or has no other affiliations with such portfolio companies) listed on the table. Ares Capital offers to make significant managerial assistance to certain of Ares Capital's portfolio companies. Ares Capital may also receive rights to observe the meetings of Ares Capital's portfolio companies' boards of directors.

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## PORTFOLIO COMPANIES

As of September 30, 2009

(dollar amounts in thousands)

Company	Industry	Investment	Interest(1)	Maturity	% of Class Held at 9-30-09	Fair Value
3091779 Nova Scotia Inc.	Baked goods	Senior secured revolving loan	8.00%	11/3/2012		\$ 7,127(18)
1 Valleybrook Dr., Suite 203 Don Mills, Ontario M3B 2S7	manufacturer	Junior secured loan Common stock warrants	10.00% Cash, 4.00% PIK	11/3/2012	2.25%	\$ 11,278 (2)
ADF Capital, Inc. & ADF Restaurant Group, LLC 165 Passaic Avenue Fairfield, NJ 07004	Restaurant owner and operator	Senior secured revolving loan Senior secured revolving loan Senior secured loan Senior secured loan Promissory note Common stock warrants	6.50% (Libor + 3.50%/Q) 6.50% (Libor + 3.50%/S) 12.50% (Libor + 6.50% Cash, 3.00% PIK/Q) 12.50% (Libor + 6.50% Cash, 3.00% PIK/Q) 12.00% PIK	11/27/2013 11/27/2013 11/27/2012 11/27/2012 11/27/2016		\$ 1,408(3) \$ 2,010(3) \$ 23,615 \$ 11,069 \$ 13,795 \$ 4,370(2)
American Broadband Communications, LLC and American Broadband Holding Company 401 N. Tryon Street, 10th Floor Charlotte, NC 28202	Broadband communication services	Senior subordinated loan Senior subordinated loan Common stock warrants	18.00% (10.00% Cash, 8.00% PIK/Q) 18.00% (10.00% Cash, 8.00% PIK/Q)	11/7/2014 11/7/2014		\$ 34,004 \$ 8,580 (2)
American Renal Associates, Inc. 5 Cherry Hill Drive, Suite 120 Danvers, MA 01923	Dialysis provider	Senior secured loan Senior secured loan Senior secured revolving loan	8.50% (Libor + 6.00%/D) 8.50% (Libor + 6.00%/Q)	12/31/2010 12/13/2011 12/31/2010		\$ 1,082 \$ 10,401 \$ (4)
American Residential Services, LLC 860 Ridge Lake Blvd A3-1860 Memphis, TN 38120	Plumbing, heating and air-conditioning services	Junior secured loan	10.00% Cash, 2.00% PIK	4/1/2015		\$ 19,685
AP Global Holdings, Inc. 1043 North 47th Avenue Phoenix, AZ 85043	Safety and security equipment manufacturer	Senior secured loan	4.75% (Libor + 4.50%/M)	10/26/2013		\$ 7,110

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Apple & Eve, LLC and US Juice Partners, LLC(19) 2 Seaview Blvd Port Washington, NY 11050	Juice manufacturer	Senior secured loan	14.50% (Libor + 11.50%/M)	10/1/2013	\$ 23,974
		Senior secured loan	14.50% (Libor + 11.50%/M)	10/1/2013	\$ 11,752
		Senior secured revolving loan Senior units		10/1/2013	\$ (5)
				8.74%	\$ 3,500
Apogee Retail, LLC	For-profit thrift	Senior secured revolving loan		3/27/2012	\$ (6)
1387 Cope Ave E	retailer	Senior secured loan	12.00% Cash, 4.00% PIK	11/28/2012	\$ 11,296
Maplewood, MN 55109		Senior secured loan	5.49% (Libor + 5.25%/M)	3/27/2012	\$ 1,677
		Senior secured loan	5.49% (Libor + 5.25%/M)	3/27/2012	\$ 2,679
		Senior secured loan	5.50% (Libor + 5.25%/M)	3/27/2012	\$ 24,065
		Senior secured loan	5.50% (Libor + 5.25%/M)	3/27/2012	\$ 10,530
Arrow Group Industries, Inc. 1680 Route 23 North Wayne, NJ 07470	Residential and outdoor shed manufacturer	Senior secured loan	5.28% (Libor + 5.00%/Q)	4/1/2010	\$ 5,223
Athletic Club Holdings, Inc. 5201 East Tudor Road Anchorage, AL 99507	Premier health club operator	Senior secured loan	4.74% (Libor + 4.50%/M)	10/11/2013	\$ 1,540
		Senior secured loan	4.75% (Libor + 4.50%/M)	10/11/2013	\$ 880
		Senior secured loan	4.75% (Libor + 4.50%/M)	10/11/2013	\$ 10,116
		Senior secured loan	4.75% (Libor + 4.50%/M)	10/11/2013	\$ 10,996
		Senior secured loan	7.75% (Base Rate + 4.50%/Q)	10/11/2013	\$ 4
		Senior secured loan	6.75% (Base Rate + 3.50%/Q)	10/11/2013	\$ 4
AWTP, LLC 2080 Lunt Avenue Elk Grove Village, IL 60007	Water treatment services	Junior secured loan	11.50% (Base Rate + 8.25%/Q)	12/22/2012	\$ 4,755
		Junior secured loan	11.50% (Base Rate + 8.25%/Q)	12/22/2012	\$ 2,086
Best Brands Corporation 1765 Yankee Doodle Road Eagan, MN 55121	Baked goods manufacturer	Senior secured loan	7.51% (Libor + 7.25%/M)	12/12/2012	\$ 13,135
		Senior secured loan	7.51% (Libor + 7.25%/M)	6/30/2013	\$ 8,759
		Junior secured loan	12.00% Cash, 4.00% PIK	6/30/2013	\$ 28,692
		Junior secured loan	12.00% Cash, 4.00% PIK	6/30/2013	\$ 8,611
		Junior secured loan	12.00% Cash, 4.00% PIK	6/30/2013	\$ 11,733
Booz Allen Hamilton, Inc. 8283 Greensboro Drive McLean, VA 22102	Strategy and technology consulting services	Senior secured loan	7.50% (Libor + 4.50%/S)	7/31/2015	\$ 743
		Senior subordinated loan	11.00% Cash, 2.00% PIK	7/31/2016	\$ 22,400
		Senior subordinated loan	11.00% Cash, 2.00% PIK	7/31/2016	\$ 250
Bumble Bee Foods, LLC	Canned seafood	Senior	16.25% (12.00% Cash,	11/18/2018	\$ 30,756

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and BB Co-Invest LP  
9655 Granite Ridge  
Dr. Suite 100  
San Diego, CA 92123

manufacturer	subordinated loan	4.25%	
	Common stock	Optional PIK)	5.84% \$ 5,700



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Company	Industry	Investment	Interest(1)	Maturity	% of Class Held at 9-30-09	Fair Value
Campus Management Corp. and Campus Management Acquisition Corp.(19)	Education software	Senior secured loan	13.00% Cash, 3.00% PIK	8/8/2013		\$ 3,280
c/o Leeds Equity Partners, LLC	developer	Senior secured loan	13.00% Cash, 3.00% PIK	8/8/2013		\$ 30,494
350 Park Avenue, 23rd Floor		Senior secured loan	10.00% Cash, 3.00% PIK	8/8/2013		\$ 9,028
New York, NY 10022		Preferred stock	8.00% PIK		5.51%	\$ 12,800
Canon Communications LLC	Print publications	Junior secured loan	13.75%	11/30/2011		\$ 10,121
11444 W. Olympic Blvd.	services	Junior secured loan	(Libor + 8.75% Cash, 2.00% PIK/Q)	11/30/2011		\$ 10,314
Los Angeles, CA 90064		PIK/Q)	13.75% (Base Rate + 8.75% Cash, 2.00%			
Capella Healthcare, Inc.	Acute care hospital	Junior secured loan	13.00%	2/28/2016		\$ 53,350
Two Corporate Center, Suite 200	operator	Junior secured loan	13.00%	2/28/2016		\$ 29,100
501 Corporate Center Drive						
Franklin, TN 37067						
Carador, PLC(19)	Investment company	Ordinary shares			5.08%	\$ 2,311
Georges Quay House						
43 Townend Street						
Dublin 2, Ireland						
CT Technologies Intermediate Holdings, Inc. and CT Technologies Holdings, LLC(19)	Healthcare analysis	Preferred stock	14.00% PIK		20.00%	\$ 7,055
8901 Farrow Rd	services	Common stock			13.07%	\$ 8,134
Columbia, SC 29203		Common stock			20.00%	\$
Charter Baking Company, Inc.	Baked goods	Senior subordinated note	13.00% PIK	2/6/2013		\$ 5,874
3300 Walnut Street	manufacturer	Preferred stock			3.05%	\$ 1,725
Unit C						
Boulder, CO 80301						
CIC Flex, LP	Investment	Limited partnership units			14.28%	\$ 41
60 South Sixth Street, Suite 3720	partnership					
Minneapolis, MN 55402						
Covestia Capital Partners, LP	Investment	Limited partnership interest			46.67%	\$ 1,059
11111 Santa Monica Blvd., Suite 1620	partnership					
Los Angeles, CA 90025						

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Courtside Acquisition Corp. 1700 Broadway New York, NY 10019	Community newspaper publisher	Senior subordinated loan	17.00% PIK	6/29/2014	\$		
Direct Buy Holdings, Inc. and Direct Buy Investors LP(19) 8450 Broadway Merrillville, IN 46410	Membership-based buying club franchisor and operator	Senior secured loan	6.82% (Libor + 6.50%/M)	11/30/2012	19.31%	\$ 1,710	
		Partnership interests				\$ 2,500	
Diversified Collection Services, Inc. 333 North Canyons Pkwy. Livermore, CA 94551	Collections services	Senior secured loan	9.50% (Libor + 6.75%/M)	8/4/2011		\$ 10,529	
		Senior secured loan	9.50% (Libor + 6.75%/M)	8/4/2011		\$ 3,747	
		Senior secured loan	9.50% (Libor + 6.75%/Q)	8/4/2011		\$ 323	
		Senior secured loan	9.50% (Libor + 6.75%/Q)	8/4/2011		\$ 115	
		Senior secured loan	13.75% (Libor + 11.00%/Q)	2/4/2011		\$ 1,931	
		Senior secured loan	13.75% (Libor + 11.00%/Q)	8/4/2011		\$ 7,492	
		Preferred stock				0.68%	\$ 264
		Common stock				0.56%	\$ 286
DSI Renal, Inc.  511 Union Street Suite 1800 Nashville, TN 37219	Dialysis provider	Senior secured revolving loan	5.30% (Libor + 5.00%/M)	3/31/2013		\$ 103(7)	
Senior secured revolving loan		5.30% (Libor + 5.00%/M)	3/31/2013		\$ 2,992(7)		
Senior secured revolving loan		5.30% (Libor + 5.00%/M)	3/31/2013		\$ 952(7)		
Senior secured revolving loan		5.30% (Libor + 5.00%/M)	3/31/2013		\$ 979(7)		
Senior secured revolving loan		5.30% (Libor + 5.00%/M)	3/31/2013		\$ 1,360(7)		
Senior secured revolving loan		5.30% (Libor + 5.00%/M)	3/31/2013		\$ 2(7)		
Senior secured revolving loan		5.30% (Libor + 5.00%/M)	3/31/2013		\$ 15(7)		
Senior secured revolving loan		5.30% (Libor + 5.00%/M)	3/31/2013		\$ 21(7)		
Senior secured revolving loan		5.30% (Libor + 5.00%/M)	3/31/2013		\$ 46(7)		
Senior secured revolving loan		5.30% (Libor + 5.00%/M)	3/31/2013		\$ 14(7)		
Senior secured revolving loan		5.30% (Libor + 5.00%/M)	3/31/2013		\$ 17(7)		
Senior secured revolving loan		5.30% (Libor + 5.00%/M)	3/31/2013		\$ 250(7)		
Senior secured revolving loan		5.30% (Libor + 5.00%/M)	3/31/2013		\$ 37(7)		
Senior secured loan		5.30% (Libor + 5.00%/M)	4/7/2014		\$ 14,472		
Senior subordinated note		16.00% PIK	4/7/2014		\$ 49,263		
Senior subordinated note		16.00% PIK	4/7/2014		\$ 10,577		
ELC Acquisition Corporation 2 Lower Ragsdale Drive Monterey, CA 93940		Developer, manufacturer and retailer of educational products	Senior secured loan	3.50% (Libor + 3.25%/M)	11/29/2012		\$ 154
			Junior secured loan	7.25% (Libor + 7.00%/M)	11/29/2013		\$ 7,917



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Company	Industry	Investment	Interest(1)	Maturity	% of Class Held at 9-30-09	Fair Value
Emerald Performance Materials, LLC 2020 Front Street, Suite 100 Cuyahoga Falls, OH 44221	Polymers and performance materials manufacturer	Senior secured loan	8.25% (Libor + 4.25%/M)	5/22/2011		\$ 8,657
		Senior secured loan	8.25% (Libor + 4.25%/M)	5/22/2011		\$ 515
		Senior secured loan	8.50% (Base Rate + 5.25%/M)	5/22/2011		\$ 150
		Senior secured loan	10.00% (Libor + 6.00%/M)	5/22/2011		\$ 1,508
		Senior secured loan	13.00% Cash, 3.00% PIK	5/22/2011		\$ 4,704
Encanto Restaurants, Inc. c/o Harvest Partners, Inc. 280 Park Avenue, 33rd Floor New York, NY 10017	Restaurant owner and operator	Junior secured loan	7.50% Cash, 3.50% PIK	8/2/2013		\$ 20,299
		Junior secured loan	7.50% Cash, 3.50% PIK	8/2/2013		\$ 3,867
Firstlight Financial Corporation(19) 1700 E. Putnum Ave. Old Greenwich, CT 06870	Investment company	Senior subordinated loan	1.00% PIK	12/31/2016		\$ 54,670
		Common stock			20.00%	\$
		Common stock			100.00%	\$
GCA Services Group, Inc. 1350 Euclid Ave, Suite 1500 Cleveland, OH 44115	Custodial services	Senior secured loan	12.00%	12/31/2011		\$ 23,255
		Senior secured loan	12.00%	12/31/2011		\$ 4,768
		Senior secured loan	12.00%	12/31/2011		\$ 9,866
GG Merger Sub I, Inc. 4130 Parklake Avenue, Suite 400 Raleigh, NC 27612	Drug testing services	Senior secured loan	4.30% (Libor + 4.00%/Q)	12/13/2014		\$ 9,744
		Senior secured loan	4.30% (Libor + 4.00%/Q)	12/13/2014		\$ 10,320
Growing Family, Inc. and GFH Holdings, LLC 3613 Mueller Road Saint Charles, MO 63301	Photography services	Senior secured revolving loan	10.50% (Libor + 3.00% Cash, 4.00% PIK/A)	8/23/2011		\$ 454(8)
		Senior secured loan	13.00% (Libor + 3.50% Cash, 6.00% PIK/Q)	8/23/2011		\$ 3,356
		Senior secured loan	11.25% (Base Rate + 8.00%/A)	8/23/2011		\$ 111
		Senior secured loan	15.50% (Libor + 6.00% Cash, 6.00% PIK/Q)	8/23/2011		\$ 1,073
		Senior secured loan	15.50% (Libor + 6.00% Cash, 6.00% PIK/Q)	8/23/2011		\$ 44
		Common stock			8.43%	\$
HB&G Building Products P.O. Box 589 Troy, AL 36081	Synthetic and wood product manufacturer	Senior subordinated loan	19.00% PIK	3/7/2011		\$ 448
		Common stock			2.39%	\$
		Warrants to purchase common stock			3.89%	\$ (2)

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HCP Acquisition Holdings, LLC c/o Halyard Capital Fund II, LP(20) 600 Fifth Avenue, 17th Floor New York, NY 10020	Healthcare  compliance advisory services	Class A units		26.19%	\$ 7,194
Heartland Dental Care, Inc.  1200 Network Centre Drive, Suite 2 Effingham, IL 62401	Dental services	Senior subordinated note	11.00% Cash, 3.25% PIK	7/30/2014	\$ 32,717
Dufry AG (fka Hudson Group, Inc. and Advent - Hudson, LLC) Hardstrasse 95 CH - 4020 Basel Switzerland	Retail newstand  operator	Common stock		0.67%	\$ 2,200
ILC Industries, Inc.  105 Wilbur Place Bohemia, NY 11716	Industrial products provider	Junior secured loan	11.50%	8/24/2012	\$ 12,000
Imperial Capital Group, LLC and Imperial Capital Private Opportunities, LP(19)  2000 Avenue of the Stars, 9th Floor S Los Angeles, CA 90067	Investment banking  services	Limited partnership interest  Common units  Common units Common units		80.00%  5.00% 5.00% 4.99%	\$ 3,094  \$ 20,000 \$ 3 \$
Industrial Container Services, LLC(19) 1540 Greenwood Avenue  Montebello, CA 90640	Industrial container manufacturer,  reconditioner and servicer	Senior secured revolving loan Senior secured loan Senior secured loan Senior secured loan Senior secured loan Senior secured loan Senior secured loan Senior secured loan Senior secured loan Common stock		9/30/2011  4.25% (Libor + 4.00%/M) 4.25% (Libor + 4.00%/M) 4.29% (Libor + 4.00%/M) 4.29% (Libor + 4.00%/M) 4.28% (Libor + 4.00%/M) 4.28% (Libor + 4.00%/M) 4.25% (Libor + 4.00%/M) 4.25% (Libor + 4.00%/M) 8.88%	\$ (9) \$ 628 \$ 41 \$ 4,680 \$ 306 \$ 5,850 \$ 382 \$ 93 \$ 1,420 \$ 8,550
Innovative Brands, LLC  4729 East Union Hills Drive, Suite #103 Phoenix, AZ 85050	Consumer products and personal care manufacturer	Senior secured loan Senior secured loan	15.50%  15.50%	9/22/2011  9/22/2011	\$ 9,059 \$ 8,362

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Company	Industry	Investment	Interest(1)	Maturity	% of Class Held at 9-30-09	Fair Value
Instituto de Banca y Comercio, Inc. Calle Santa Ana 1660 Santurce, PR 00909-2309	Private school operator	Senior secured loan	8.50% (Libor + 6.00%/Q)	3/15/2014		\$ 11,730
		Senior secured revolving loan	6.50% (Libor + 4.00%/Q)	3/15/2014		\$ 1,232(10)
		Senior subordinated loan	13.00% Cash, 3.00% PIK	6/15/2014		\$ 30,644
		Preferred stock			3.11%	\$ 1,883
		Common stock			4.02%	\$ 2,433
		Preferred stock			4.00%	\$ 1,596
	Common stock			4.00%	\$ 1,596	
Investor Group Services, LLC(19) 2020 Front Street, Suite 100 Boston, MA 02116	Financial services	Senior secured revolving loan		6/22/2011		\$ (11)
		Limited liability company membership interest			10.00%	\$ 500
Ivy Hill Asset Management, L.P.(20) 2000 Avenue of the Stars, 12th Floor Los Angeles, CA 90067		Member interest			100.00%	\$ 11,088
Ivy Hill Middle Market Credit Fund, Ltd.(20) 2000 Avenue of the Stars, 12th Floor Los Angeles, CA 90067	Investment company	Class B deferrable interest notes	6.72% (Libor + 6.00%/Q)	11/20/2018		\$ 36,800
		Subordinated notes			20.00%	\$ 14,113
The Kenan Advantage Group, Inc. 4895 Dressler Road, N.W. #100 Canton, OH 44718	Fuel transportation provider	Senior subordinated notes	9.50% Cash, 3.50% PIK	12/16/2013		\$ 25,381
		Senior secured loan	3.00% (Libor + 2.75%/M)	12/16/2011		\$ 2,238
		Preferred stock	8.00% PIK		1.15%	\$ 1,459
		Common stock			1.15%	\$ 41
Lakeland Finance, LLC 590 Peter Jefferson Parkway, Suite 30 Charlottesville, VA 22911	Private school	Senior secured note	11.50%	12/15/2012		\$ 30,000
	operator	Senior secured note	11.50%	12/15/2012		\$ 3,000
LVCG Holdings LLC(20) c/o The Decatur Group LLC 600 Seventeenth Street, Suite 2800 Denver, CO 80202	Commercial printer	Membership interests			56.53%	\$ 1,980
Mactec, Inc. 1105 Sanctuary Parkway, Suite 300 Alpharetta, GA 30004	Engineering and environmental services	Class B-4 stock			0.01%	\$
		Class C stock			38.47%	\$ 150
Magnacare Holdings, Inc.,						

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Magnacare Administrative Services, LLC, and Magnacare, LLC 825 East Gate Blvd.  Garden City, NY 11530	Healthcare  professional provider	Senior subordinated note	12.75% Cash, 2.00% PIK	1/30/2012	\$ 4,646
Making Memories Wholesale, Inc.(20) 1168 West 500 North Centerville, UT 84014	Scrapbooking  branded products manufacturer	Senior secured loan Senior secured loan Senior secured revolving loan Common stock	10.00% (Libor + 6.50%/Q) 15.00% (7.50% Cash, 7.50% PIK/Q)	8/21/2014 8/21/2014 3/31/2011	\$ 9,875 \$ 3,025 \$ (12)
					10.00% \$
MPBP Holdings, Inc., Cohr Holdings, Inc. and MPBP Acquisition Co., Inc.  21540 Plummer Street Chatsworth, CA 91311	Healthcare  equipment services	Senior secured loan Junior secured loan Junior secured loan Common stock		1/31/2014 1/31/2014 1/31/2014	\$ 489 \$ 5,000 \$ 3,000 2.50% \$
MWD Acquisition Sub, Inc.  680 Hehli Way PO Box 69 Mondovi, WI 54755	Dental services	Junior secured loan	6.49% (Libor + 6.25%/M)	5/3/2013	\$ 4,350
National Print Group, Inc.  2464 Amicola Highway Chattanooga, TN 37406	Printing  management services	Senior secured revolving loan Senior secured revolving loan Senior secured loan Senior secured loan Preferred stock	8.25% (Base Rate + 5.00%/M) 9.00% (Libor + 6.00%/S) 16.00% (Base Rate + 9.00% Cash, 4.00% PIK/Q) 16.00% (Base Rate + 9.00% Cash, 4.00% PIK/M)	3/2/2012 3/2/2012 3/2/2012 3/2/2012	\$ 166(13) \$ 1,114(13) \$ 4,235 \$ 693 5.17% \$
NPA Acquisition, LLC  c/o Transportation Resources Partners, L.P. 13175 Gregg Street Poway, CA 92064	Powersport vehicle auction operator	Junior secured loan Common units	6.99% (Libor + 6.75%/M)	2/24/2013	\$ 12,000 1.94% \$ 2,300
OnCURE Medical Corp.  610 Newport Center Drive, Suite 650 Newport Beach, CA 92660	Radiation oncology care provider	Senior secured loan Senior subordinated note Common stock	3.75% (Libor + 3.50%/M) 11.00% Cash, 1.50% PIK	2/17/2012 8/18/2013	\$ 2,707 \$ 29,288 3.38% \$ 3,000

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Company	Industry	Investment	Interest(1)	Maturity	% of Class Held at 9-30-09	Fair Value
OTG Management, Inc.	Airport restaurant operator	Junior secured loan	20.50% (Libor + 11.00% Cash, 6.50% PIK/M)	6/11/2013		\$ 15,884
One International Plaza, Suite 130 Philadelphia, PA 19113		Warrants to purchase common stock			40.54%	\$ 750(2)
		Warrants to purchase common stock				\$ (2)
Partnership Capital Growth Fund I, LP	Investment	Limited partnership interest			25.00%	\$ 2,711
One Embarcadero, Suite 3810 San Francisco, CA 94111	partnership					
Passport Health Communications, Inc., Passport Holding Corp. and Prism Holding Corp.	Healthcare	Senior secured loan	10.50% (Libor + 7.50%/M)	5/9/2014		\$ 12,470
720 Cool Springs Blvd., Suite 450 Franklin, TN 37067	technology provider	Senior secured loan	10.50% (Libor + 7.50%/M)	5/9/2014		\$ 11,511
		Series A preferred stock			5.23%	\$ 9,900
		Common stock			5.23%	\$ 100
PG Mergersub, Inc.	Provider of patient surveys, management reports and national databases for the integrated healthcare delivery system	Senior subordinated loan	12.50%	3/15/2016		\$ 3,920
c/o Vestar Capital Partners V, LP		Preferred stock			0.13%	\$ 334
245 Park Avenue, 41st Floor New York, NY 10167		Common stock			0.13%	\$ 167
Pillar Holdings LLC and PHL Holding Co.(19)	Mortgage services	Senior secured revolving loan	5.80% (Libor + 5.50%/B)	11/20/2013		\$ 375(14)
220 Northpointe Parkway, Suite G Buffalo, NY 14228		Senior secured revolving loan	5.80% (Libor + 5.50%/B)	11/20/2013		\$ 938(14)
		Senior secured loan	14.50%	5/20/2014		\$ 1,875
		Senior secured loan	14.50%	5/20/2014		\$ 5,500
		Senior secured loan	5.80% (Libor + 5.50%/B)	11/20/2013		\$ 16,902
		Senior secured loan	5.80% (Libor + 5.50%/B)	11/20/2013		\$ 10,550
		Common stock			8.48%	\$ 7,234
Planet Organic Health Corp.	Organic grocery store operator	Junior secured loan	13.00%	7/3/2014		\$ 817
7917 - 104 Street		Junior secured loan	13.00%	7/3/2014		\$ 9,737



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Edmonton Alberta Canada TGE 4E1		Senior subordinated loan	13.00% Cash, 4.00% PIK	7/3/2012	\$ 9,873
Primis Marketing Group, Inc. and Primis Holdings, LLC(19)	Database marketing services	Senior subordinated note	13.50% Cash, 2.00% PIK	2/27/2013	\$ 511
c/o Pcap Managers, LLC 75 State Street, 26 <sup>th</sup> Floor Boston, MA 02109		Preferred units			8.02% \$
		Common units			7.38% \$
Prommis Solutions, LLC, E-Default Services, LLC, Statewide Tax and Title Services, LLC & Statewide Publishing Services, LLC (formerly known as MR Processing Holding Corp.)	Bankruptcy and foreclosure	Senior subordinated note	11.50% Cash, 2.00% PIK	2/23/2014	\$ 25,866
1544 Old Alabama Road		Senior subordinated note	11.50% Cash, 2.00% PIK	2/23/2014	\$ 25,968
Roswell, GA 30076	processing services	Preferred stock			3.17% \$ 6,221
Qualitor, Inc.	Automotive aftermarkets components supplier	Senior secured loan	6.00% (Base Rate + 2.75%/M)	12/31/2011	\$ 1,656
24800 Denso Drive, Suite 255 Southfield, MI 48034		Junior secured loan	9.00% (Base Rate + 5.75%/M)	6/30/2012	\$ 4,750
R2 Acquisition Corp.	Marketing services	Common stock			0.33% \$ 250
Modern Media Building 207 NW Park Ave Portland, OR 97209					
R3 Education, Inc. (formerly known as Equinox EIC Partners, LLC and MUA Management Company, Ltd.)(19)	Medical school operator	Senior secured revolving loan		12/31/2012	\$ (15)
1750 W. Broadway St. #222 Oviedo, FL 32765		Senior secured loan	6.25% (Libor + 6.00%/M)	12/31/2012	\$ 1,162
		Senior secured loan	6.25% (Libor + 6.00%/M)	12/31/2012	\$ 13,830
		Senior secured loan	6.25% (Libor + 6.00%/M)	12/31/2012	\$ 7,130
		Common membership interest			22.19% \$ 17,185
		Preferred stock			18.94% \$ 2,000
		Preferred stock			6.56% \$ 200
RedPrairie Corporation	Software manufacturer	Junior secured loan	6.97% (Libor + 6.50%/Q)	1/20/2013	\$ 3,135
c/o Francisco Partners		Junior secured loan	6.97% (Libor + 6.50%/Q)	1/20/2013	\$ 11,400
2882 Sand Hill Road, Suite 280 Menlo Park, CA 94045					
Reflexite Corporation(20)	Developer and manufacturer of	Senior subordinated loan	12.50% Cash, 5.50% PIK	2/27/2015	\$ 16,557
120 Darling Drive		Common stock			39.49% \$ 24,898

Avon, CT 06001

high-visibility  
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Company	Industry	Investment	Interest(1)	Maturity	% of Class Held at 9-30-09	Fair Value
Savers, Inc. and SAI Acquisition Corporation 11400 SE 6th St. Suite 220 Bellevue, WA 98004	For-profit thrift retailer	Senior subordinated note Senior subordinated note Common stock	10.00% Cash, 2.00% PIK 10.00% Cash, 2.00% PIK	8/11/2014 8/11/2014		\$ 5,923 \$ 21,792 3.44% \$ 5,840
Saw Mill PCG Partners LLC 31005 Solon Road Solon, OH 44139	Precision components manufacturer	Common units			66.67%	\$
The Schumacher Group of Delaware, Inc. 200 Corporate Blvd., Suite 201 Lafayette, LA 70308	Outsourced physician service provider	Senior subordinated loan Senior subordinated loan	11.125% Cash, 1.00% PIK 11.125% Cash, 1.00% PIK	7/31/2012 7/31/2012		\$ 30,909 \$ 5,229
Shoes for Crews, LLC 1400 Centerpark Blvd., Suite 310 West Palm Beach, FL 33401	Safety footwear and slip-related mat manufacturer	Senior secured revolving loan Senior secured loan		7/6/2010 7/6/2010		\$ (16) \$ 302
Sigma International Group, Inc. 700 Goldman Drive Cream Ridge, NJ 08514	Water treatment parts manufacturer	Junior secured loan Junior secured loan Junior secured loan Junior secured loan Junior secured loan Junior secured loan	15.00% (Libor + 7.00%/Q) 15.00% (Libor + 7.00%/Q) 15.00% (Libor + 7.00%/Q) 15.00% (Libor + 7.00%/Q) 15.00% (Libor + 7.00%/Q) 15.00% (Libor + 7.00%/Q)	10/10/2013 10/10/2013 10/10/2013 10/10/2013 10/10/2013 10/10/2013		\$ 2,800 \$ 1,283 \$ 1,925 \$ 4,200 \$ 1,400 \$ 642
Summit Business Media, LLC 375 Park Avenue New York, NY 10152-0002	Business media consulting services	Junior secured loan	15.00% PIK	11/3/2013		\$ 1,600
The Teaching Company, LLC and The Teaching Company Holdings, Inc. 4151 Lafayette Center Drive, No. 100 Chantilly, VA 20151	Education publications provider	Senior secured loan Senior secured loan Preferred stock Common stock	10.50% 10.50% 8.00%	9/29/2012 9/29/2012		\$ 18,000 \$ 10,000 3.64% \$ 3,873 3.64% \$ 4
Thermal Solutions LLC and TSI Group, Inc. 94 Tide Mill Road Hampton, NH 03842	Thermal management and electronic packaging manufacturer	Senior secured loan Senior secured loan Senior subordinated notes	4.03% (Libor + 3.75%/M) 4.53% (Libor + 4.25%/Q) 11.50% Cash, 2.50% PIK	3/21/2011 3/21/2012 3/27/2012 9/28/2012		\$ 549 \$ 2,494 \$ 2,593 \$ 2,042

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		Senior subordinated notes	11.50% Cash, 2.75% PIK			
		Senior subordinated notes	11.50% Cash, 2.75% PIK	9/28/2012		\$ 3,225
		Preferred stock			1.31%	\$ 716
		Common stock			1.31%	\$ 15
Things Remembered, Inc. and TRM Holdings Corporation						
5500 Avion Park Drive	Personalized gifts retailer	Senior secured loan	5.50%, 1.00% PIK Option	9/29/2012		\$ 3,154
Highland Heights, OH 44143		Senior secured loan	5.50%, 1.00% PIK Option	9/29/2012		\$ 5,112
		Senior secured revolving loan	5.50%, 1.00% PIK Option	9/29/2012		\$ 19,882
		Preferred stock				\$ (17)
		Common stock				\$ (2)
		Preferred stock			3.50%	\$
		Common stock			2.98%	\$
		Preferred stock			3.20%	\$
		Warrants to purchase common shares			3.20%	\$
The Thymes, LLC(20)						
629 9th Street SE	Cosmetic products manufacturer	Preferred stock	8.00% PIK		78.54%	\$ 5,654
Minneapolis, MN 55414		Common stock			55.45%	\$
Triad Laboratory Alliance, LLC						
4380 Federal Drive, Suite 100	Laboratory services	Senior secured loan	8.50% (Libor + 5.50%/Q)	12/23/2011		\$ 4,282
Greensboro, NC 27410		Senior subordinated note	12.00% Cash, 1.75% PIK	12/23/2012		\$ 15,068
Trivergance Capital Partners, LP						
2200 Fletcher Avenue, 4th Floor	Investment partnership	Limited partnership interest			100.00%	\$ 1,672
Fort Lee, NJ 07024						
TZ Merger Sub, Inc.						
567 San Nicolas Drive, Suite 360	Computers and electronics	Senior secured loan	7.50% (Libor + 4.50%/Q)	7/15/2015		\$ 4,830
Newport Beach, CA 92660						
UL Holding Co., LLC						
2824 N Ohio	Petroleum product manufacturer	Senior secured loan	9.34% (Libor + 8.88%/Q)	12/24/2012		\$ 10,726
Wichita, KS 67201		Senior secured loan	14.00%	12/24/2012		\$ 2,925
		Senior secured loan	14.00%	12/24/2012		\$ 2,925
		Senior secured loan	14.00%	12/24/2012		\$ 975
		Senior secured loan	9.35% (Libor + 8.88%/Q)	12/24/2012		\$ 2,925
		Common units			0.85%	\$ 500
		Common units			0.86%	\$
Universal Trailer Corporation(19)						
11590 Century Blvd., Suite 103	Livestock and specialty trailer	Common stock			2.06%	\$



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Company	Industry	Investment	Interest(1)	Maturity	% of Class Held at 9-30-09	Fair Value
Vistar Corporation and Wellspring Distribution Corp.	Food service distributor	Senior subordinated loan	13.50%	5/23/2015		\$ 41,444
12650 East Arapahoe Road Centennial, CO 80112		Senior subordinated loan	13.50%	5/23/2015		\$ 23,750
		Senior subordinated loan	13.50%	5/23/2015		\$ 4,750
		Class A non-voting common stock			33.33%	\$ 3,253
VOTC Acquisition Corp.	Radiation oncology care provider	Senior secured loan	11.00% Cash, 2.00% PIK	7/31/2012		\$ 17,329
1500 Rosecrans Ave, Suite 400 Manhattan Beach, CA 90266		Series E preferred shares			28.20%	\$ 3,800
VSC Investors LLC	Investment company	Membership interest			4.63%	\$ 635
401 Vance Street						
VSS-Tranzact Holdings, LLC(19)	Management consulting services	Common membership interest			8.51%	\$ 6,000
350 Park Avenue New York, NY 10022						
Waste Pro USA, Inc.	Waste management services	Class A Common Equity			2.61%	\$ 13,263
2101 West State Road 434, Suite 315 Longwood, FL 32779						
Wastequip, Inc.(19)	Waste management equipment manufacturer	Senior subordinated loan	10.00% Cash, 2.50% PIK	2/5/2015		\$ 3,936
25800 Science Park Drive, Suite 140 Beachwood, OH 44122		Common stock			5.34%	\$
Wear Me Apparel, LLC(19)	Clothing manufacturer	Senior subordinated notes	17.50% PIK	4/2/2013		\$ 18,083
31 W 34th Street New York, NY 10001-3009		Common stock			12.30%	\$
Web Services Company, LLC	Laundry service and equipment provider	Senior secured loan	5.30%	8/28/2014		\$ 4,802
3690 Redondo Beach Ave. Redondo Beach, CA 90278		Senior subordinated loan	(Libor + 5.00%/Q) 11.50% Cash, 2.50% PIK	8/29/2016		\$ 17,198
		Senior subordinated loan	11.50% Cash, 2.50% PIK	8/29/2016		\$ 24,358
Wyle Laboratories, Inc. and Wyle Holdings, Inc.	Provider of specialized	Junior secured loan	15.00%	7/17/2014		\$ 16,000
1960 E. Grand Ave., Suite 900		Junior secured loan	15.00%	7/17/2014		\$ 12,000

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El Segundo, CA 90245-5023	engineering,	Senior preferred stock	10.00% PIK		0.77%	\$	77	
	scientific and	Junior preferred stock	8.00% PIK		0.77%	\$	1,455	
	technical services	Common stock			0.72%	\$	148	
X-rite, Incorporated	Artwork software	Junior secured loan	14.38%	7/31/2013		\$	3,116	
3100 44 <sup>th</sup> Street SW	manufacturer	Junior secured loan	(Libor + 10.38%/Q)	7/31/2013		\$	7,790	
Grandville, MI 49418			14.38%					
			(Libor + 10.38%/Q)					
Total							\$	1,967,724

- 
- (1) All interest is payable in cash unless otherwise indicated. A majority of the variable rate loans to Ares Capital's 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 resets daily (D), monthly (M), bi-monthly (B), quarterly (Q) or semi-annually (S). For each such loan, Ares Capital has provided the current interest rate in effect as of September 30, 2009.
- (2) Percentages shown for warrants or convertible preferred stock held represents the percentages of common stock Ares Capital may own on a fully diluted basis, assuming Ares Capital exercises its warrants or converts its preferred stock to common stock.
- (3) \$1,582 of total commitment of \$5,000 for the revolver remains unfunded as of September 30, 2009.
- (4) Total commitment of \$1,967 remains unfunded as of September 30, 2009.
- (5) Total commitment of \$10,000 remains unfunded as of September 30, 2009.
- (6) Total commitment of \$7,802 remains unfunded as of September 30, 2009.
- (7) Total commitment of \$8,134 remains unfunded as of September 30, 2009.
- (8) \$0 of total commitment of \$2,500 remains unfunded as of September 30, 2009.
- (9) \$12,907 of total commitment of \$15,696 remains unfunded as of September 30, 2009.
- (10) \$3,191 of total commitment of \$11,500 remains unfunded as of September 30, 2009.
- (11) Total commitment of \$2,500 remains unfunded as of September 30, 2009.
- (12) Total commitment of \$2,500 remains unfunded as of September 30, 2009.
- (13) \$0 of total commitment of \$4,109 remains unfunded as of September 30, 2009.
- (14) \$2,033 of total commitment of \$3,750 remains unfunded as of September 30, 2009.
- (15) Total commitment of \$25,000 remains unfunded as of September 30, 2009.
- (16)

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Total commitment of \$5,833 remains unfunded as of September 30, 2009

(17)

Total commitment of \$5,000 remains unfunded as of September 30, 2009.

(18)

\$3,371 of total commitment of \$10,209 remains unfunded as of September 30, 2009.

(19)

As defined in the Investment Company Act, Ares Capital is an "Affiliate" of this portfolio company because it owns 5% or more of the portfolio company's outstanding voting securities.

(20)

As defined in the Investment Company Act, Ares Capital is an "Affiliate" of this portfolio company because it owns 5% or more of the portfolio company's outstanding voting securities or it has 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, Ares Capital "Controls" this portfolio company because it owns more than 25% of the portfolio company's outstanding voting securities or it has the power to exercise control over the management or policies of such portfolio company (including through a management agreement).



Table of Contents**MANAGEMENT OF ARES CAPITAL**

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

**Executive Officers and Board of Directors**

Under Ares Capital's charter and bylaws, Ares Capital's directors are divided into three classes. Directors are elected for staggered terms of three years each, with the term of office of only one of these three classes of directors expiring each year. Each director will hold office for the term to which he or she is elected and until his or her successor is duly elected and qualifies.

*Directors*

Information regarding the board of directors is as follows:

Name	Age	Position	Director Since	Expiration of Term
<b>Independent Directors</b>				
Douglas E. Coltharp	48	Director	2004	2011
Frank E. O'Bryan	76	Director	2005	2010
Gregory W. Penske	47	Director	2009	2012
Eric B. Siegel	51	Director	2004	2010
<b>Interested Directors</b>				
Michael J. Arougheti	37	President and Director	2009	2011
Robert L. Rosen	63	Director	2004	2012
Bennett Rosenthal	46	Chairman and Director	2004	2012

The address for each director is c/o Ares Capital Corporation, 2000 Avenue of the Stars, 12th Floor, Los Angeles, California 90067.

*Executive Officers Who Are Not Directors*

Information regarding Ares Capital's executive officers who are not directors is as follows:

Name	Age	Position
Joshua M. Bloomstein	36	Vice President, General Counsel and Assistant Secretary
Richard S. Davis	51	Chief Financial Officer
Merritt S. Hooper	48	Secretary and Assistant Treasurer
Daniel F. Nguyen	38	Treasurer
Karen A. Tallman	52	Chief Compliance Officer
Michael D. Weiner	57	Vice President

The address for each executive officer is c/o Ares Capital Corporation, 2000 Avenue of the Stars, 12th Floor, Los Angeles, California 90067.

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***Biographical Information***

*Directors*

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

*Independent Directors*

**Douglas E. Coltharp**, 48, has served as a director of Ares Capital since 2004. Since May 2007, Mr. Coltharp has been a partner at Arlington Capital Advisors and Arlington Investment Partners, Birmingham, AL-based financial advisory and private equity businesses. Prior to that, from November 1996 to May 2007, he was the Executive Vice President and Chief Financial Officer of Saks Incorporated and its predecessor organization (NYSE "SKS"). Prior to joining Saks Incorporated, Mr. Coltharp spent ten years in the Corporate Finance Department of NationsBank (now known as Bank of America), most recently as Senior Vice President and head of the Southeast Corporate Finance Group headquartered in Atlanta. Mr. Coltharp holds a B.S. in Finance and Economics from Lehigh University in Bethlehem, Pennsylvania and an M.B.A. from the Wharton School, University of Pennsylvania, in Philadelphia, Pennsylvania. Mr. Coltharp also serves on the board of directors of Under Armour, Inc. (NYSE "UA").

**Frank E. O'Bryan**, 76, has served as a director of Ares Capital since 2005. Mr. O'Bryan served as Chairman of the Board of WMC Mortgage Company from 1997 to 2003 and as a Vice Chairman until 2004, when the company was sold to General Electric Corporation. Mr. O'Bryan served as Vice Chairman of Shearson/American Express Mortgage Corp. (formerly Western Pacific Financial) and as a Director of Shearson American Express from 1981 to 1985 and prior to that served as a Director and senior executive of Shearson Hayden Stone from 1979 to 1981. Mr. O'Bryan has been a Director of The First American Corporation since 1994. Mr. O'Bryan is a past member of the boards of directors of Damon Corporation, Grubb & Ellis, Standard Pacific Corporation and Farmers & Merchants Bank.

**Gregory W. Penske**, 47, has served as a director of Ares Capital since February 2009. Mr. Penske has served as President and CEO of Penske Motor Group, Inc, an automotive group that owns and operates Toyota, Lexus and Scion dealerships in California, since 1993. Mr. Penske was the former President and CEO of Penske Motorsports, Inc., which operated racetracks across the country. Penske Motorsports, Inc. was publicly traded on the NASDAQ exchange and was thereafter sold to International Speedway Corporation in 1999. Mr. Penske serves as a member of the boards of directors for Penske Corporation, the Los Angeles Sports Council and Friends of Golf, Inc., and is on the Board of Trustees for the John Thomas Dye School. He is a member of the Toyota Parts and Service Advisory Council, the Toyota President's Cabinet and the Toyota Board of Governors. Mr. Penske is also a former member of the boards of directors of the Alltel Corporation, International Speedway Corporation and the Southern California Committee for the Olympic Games. Mr. Penske holds a BS in Business from Cornell University.

**Eric B. Siegel**, 51, has served as a director of Ares Capital since 2004. Since 1995, Mr. Siegel has been an independent business consultant providing advice through a limited liability company owned by Mr. Siegel, principally with respect to acquisition strategy and structuring, and the subsequent management of acquired entities. Mr. Siegel is currently a member of the Advisory Board of and consultant to the Milwaukee Brewers Baseball Club and a Director and Chairman of the Executive Committee of El Paso Electric Company, a NYSE publicly traded utility company. Mr. Siegel is also a past member of the boards of directors of a number of public companies, including Kerzner International Ltd. until it went private in 2006. Mr. Siegel rejoined the board of Kerzner International Ltd., currently a private company, in 2008. Mr. Siegel is a retired limited partner of Apollo Advisors, L.P. and Lion Advisors, L.P. Mr. Siegel is also a member of the Board of Trustees of the Marlborough School, a member of the board of directors of the Friends of the Los Angeles Free

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Clinic and a board member of Reprise Theatre Company, a non-profit theatre organization. Mr. Siegel holds his Bachelor of Arts degree *summa cum laude* and Phi Beta Kappa and law degree Order of the Coif from the University of California at Los Angeles.

*Interested Directors*

**Michael J. Arougheti**, 37, serves as President of Ares Capital and became a director of Ares Capital in February 2009. Mr. Arougheti joined Ares Management in May 2004 and is a Founding Member of Ares. Mr. Arougheti is also a Partner in the Private Debt Group of Ares and is a Partner of Ares Capital Management, Ares Capital's investment adviser. In addition, Mr. Arougheti serves as a member of the Investment Committee of Ares Capital Management and of the Investment Committee for the Ares European Private Debt Group. From 2001 to 2004, Mr. Arougheti was employed by Royal Bank of Canada, where he was a Managing Partner of the Principal Finance Group of RBC Capital Partners and a member of the firm's Mezzanine Investment Committee. At RBC Capital Partners, Mr. Arougheti oversaw an investment team that originated, managed and monitored a diverse portfolio of middle-market leveraged loans, senior and junior subordinated debt, preferred equity and common stock, as well as warrants on behalf of RBC and other third party institutional investors. Mr. Arougheti joined Royal Bank of Canada in October 2001 from Indosuez Capital, where he was a Principal, responsible for originating, structuring and executing leveraged transactions across a broad range of products and asset classes. Mr. Arougheti sat on the firm's Investment Committee and was also active in the firm's private equity fund investment and its fund of funds program. Prior to joining Indosuez in 1994, Mr. Arougheti worked at Kidder, Peabody & Co., where he was a member of the firm's Mergers and Acquisitions Group, advising clients in various industries, including natural resources, pharmaceuticals and consumer products. Mr. Arougheti has extensive experience in leveraged finance, including senior bank loans, mezzanine debt and private equity. He has worked on a range of transactions for companies in the consumer products, manufacturing, healthcare, retail and technology industries. Mr. Arougheti also serves on the boards of directors of Reflexite Corporation, Investor Group Services, HCPPro, Inc. and Riverspace Arts, a not-for-profit arts organization. Mr. Arougheti received a BA in Ethics, Politics and Economics, *cum laude*, from Yale University. Mr. Arougheti is an "interested person" of Ares Capital as defined in Section 2(a)(19) of the Investment Company Act because he is the President of Ares Capital, is on the investment committee of Ares Capital Management, Ares Capital's investment adviser, and is a member of Ares Partners Management Company LLC, the parent of Ares Management, the managing member of the investment adviser.

**Robert L. Rosen**, 63, has served as a director of Ares Capital since 2004. From 1987 to present, Mr. Rosen has been CEO of RLR Partners, LLC, a private investment firm with interests in financial services, healthcare media and multi industry companies. In 1998, Mr. Rosen founded National Financial Partners ("NFP"), an independent distributor of financial services to high net worth individuals and small to medium sized corporations. He served as NFP's CEO from 1998 to 2000 and as its Chairman until January 2002. From 1989 to 1993, Mr. Rosen was Chairman and CEO of Damon Corporation, a leading healthcare and laboratory testing company that was ultimately sold to Quest Diagnostics. From 1983 to 1987, Mr. Rosen was Vice Chairman of Maxxam Group. Prior to that, Mr. Rosen spent twelve years at Shearson American Express in positions in research, investment banking and senior management, and for two years was Assistant to Sanford Weill, the then Chairman and CEO of Shearson. Mr. Rosen holds an MBA in finance from NYU's Stern School. Mr. Rosen is an "interested person" of Ares Capital as defined in Section 2(a)(19) of the Investment Company Act because he has entered into a strategic advisory relationship with Ares and an affiliate of Ares Capital owns limited partner interests in a fund controlled by Mr. Rosen.

**Bennett Rosenthal**, 46, has served as Chairman of Ares Capital's board of directors since 2004. Mr. Rosenthal joined Ares Management in 1998 and is a Founding Member of Ares and a Senior Partner in the Private Equity Group. Mr. Rosenthal also serves on the Investment Committee of Ares

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Capital Management. Prior to joining Ares, Mr. Rosenthal was Managing Director in the Global Leveraged Finance Group of Merrill Lynch and was responsible for originating, structuring and negotiating leveraged loan and high yield financings. Mr. Rosenthal was also a senior member of Merrill Lynch's Leveraged Transaction Commitment Committee. Mr. Rosenthal is a member of the following boards of directors: AmeriQual Management, Inc., Aspen Dental Management, Inc., Douglas Dynamics, LLC, Hanger Orthopedic Group, Inc. and National Bedding Company LLC (Serta). Mr. Rosenthal graduated *summa cum laude* with a BS in Economics from the University of Pennsylvania's Wharton School of Business where he also received his MBA with distinction. Mr. Rosenthal is an "interested person" of Ares Capital as defined in Section 2(a)(19) of the Investment Company Act because he is on the investment committee of Ares Capital Management, Ares Capital's investment adviser, and is a member of Ares Partners Management Company LLC, the parent of Ares Management, the managing member of the investment adviser.

*Executive Officers Who Are Not Directors*

**Joshua M. Bloomstein**, 36, serves as Vice President, General Counsel and Assistant Secretary of Ares Capital. He joined Ares Management in November 2006 and currently serves as the Deputy General Counsel of Ares Management. From January 2005 to October 2006, Mr. Bloomstein was an associate in the private equity and corporate groups of Latham & Watkins LLP, focusing on mergers and acquisitions transactions and private equity investments as well as general partnership and corporate matters. Mr. Bloomstein graduated *magna cum laude* with a BA in Political Science from the State University of New York at Albany and received a JD degree, *magna cum laude*, from the University of Miami School of Law.

**Richard S. Davis**, 51, serves as Chief Financial Officer of Ares Capital. He joined Ares Management in June 2006 as Executive Vice President Finance. From December 1997 to May 2006, Mr. Davis was with Arden Realty, Inc., a real estate investment trust and formerly the largest publicly traded owner in Southern California, serving as its Executive Vice President, Chief Financial Officer since July 2000. From 1996 to 1997, Mr. Davis was with Catellus Development Corporation, where he was responsible for accounting and finance for the asset management and development divisions. From 1985 to 1996, Mr. Davis served as a member of the audit staff of both KPMG LLP and Price Waterhouse LLP. Mr. Davis is a Certified Public Accountant and a member of the American Institute of CPAs. Mr. Davis received a BS in Accounting from the University of Missouri at Kansas City.

**Merritt S. Hooper**, 48, serves as Secretary and Assistant Treasurer of Ares Capital. From July 2004 to March 2007, Ms. Hooper served as Treasurer of Ares Capital and, from July 2004 to May 2007, as Vice President of Investor Relations of Ares Capital. Ms. Hooper has been with Ares since its founding and is the Senior Vice President and Director of Investor Relations/Marketing for all Ares funds as well as a senior investment analyst in the Capital Markets Group. Prior to Ares, Ms. Hooper worked at Lion Advisors (an affiliate of Apollo Management L.P.) from 1991 to 1997 as a senior credit analyst participating in both portfolio management and strategy. From 1987 until 1991, Ms. Hooper was with Columbia Savings and Loan, most recently as Vice President in the Investment Management Division. Ms. Hooper serves on the executive and investment boards of Cedars Sinai Medical Center in Los Angeles. Ms. Hooper graduated from the University of California at Los Angeles with a BA in Mathematics and received her MBA in Finance from UCLA's Anderson School of Management.

**Daniel F. Nguyen**, 38, serves as the Treasurer of Ares Capital. He joined Ares Management in August 2000 and currently serves as an Executive Vice President and the Chief Financial Officer of Ares Management. From 1996 to 2000, Mr. Nguyen was with Arthur Andersen LLP, where he was in charge of conducting business audits on numerous financial clients, performing due diligence investigation of potential mergers and acquisitions, and analyzing changes in accounting guidelines for derivatives. At Arthur Andersen LLP, Mr. Nguyen also focused on treasury risk management and on mortgage backed securities and other types of structured financing. Mr. Nguyen graduated with a BS in

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Accounting from the University of Southern California's Leventhal School of Accounting and received an MBA in Global Business from Pepperdine University's Graziadio School of Business and Management. Mr. Nguyen also studied European Business at Oxford University as part of the MBA curriculum. Mr. Nguyen is a Chartered Financial Analyst and a Certified Public Accountant.

**Karen A. Tallman**, 52, serves as Chief Compliance Officer of Ares Capital and joined Ares Management in June 2007. From April 2006 to June 2007, Ms. Tallman acted as counsel to Ares Management. Prior to joining Ares, Ms. Tallman was General Counsel of Continuum Commerce LLC, a direct response marketing firm. From 1997 to 2002, Ms. Tallman was General Counsel and Secretary of Merisel, Inc., a NASDAQ listed computer products distributor, and served as Senior Vice President beginning in 2001. From 1992 to 1997, Ms. Tallman was employed by CB Commercial Real Estate Group, Inc., most recently in the positions of Vice President, Secretary and Senior Counsel. Previously, Ms. Tallman was a corporate attorney for nine years at the law firm of Skadden, Arps, Slate, Meagher & Flom LLP. Ms. Tallman graduated *magna cum laude* with a BA in Economics and Political Science from Miami University and received a JD with highest honors from George Washington University.

**Michael D. Weiner**, 57, serves as Vice President of Ares Capital. Mr. Weiner is also General Counsel of Ares Management. Mr. Weiner joined Ares Management in September 2006 and is a member of Ares. Previously, Mr. Weiner served as General Counsel to Apollo Management L.P., or "Apollo," and had been an officer of the corporate general partners of Apollo since 1992. Prior to joining Apollo, Mr. Weiner was a partner in the law firm of Morgan, Lewis & Bockius specializing in corporate and alternative financing transactions, securities law as well as general partnership, corporate and regulatory matters. Mr. Weiner has served and continues to serve on the boards of directors of several corporations, including Hughes Communications, Inc. and SkyTerra Communications, Inc. Mr. Weiner also serves on the Board of Governors of the Cedars Sinai Medical Center in Los Angeles. Mr. Weiner graduated with a BS in Business and Finance from the University of California at Berkeley and a JD from the University of Santa Clara.

**Investment Committee**

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

<b>Name</b>	<b>Age</b>	<b>Position</b>
Michael J. Arougheti	37	President and Director of Ares Capital, Member of Investment Committee
Eric B. Beckman	43	Member of Investment Committee, Portfolio Manager
R. Kipp deVeer	37	Member of Investment Committee, Portfolio Manager
Mitchell Goldstein	43	Member of Investment Committee, Portfolio Manager
John Kissick	68	Member of Investment Committee
Antony P. Ressler	49	Member of Investment Committee
Bennett Rosenthal	46	Chairman and Director of Ares Capital, Member of Investment Committee
David Sachs	50	Member of Investment Committee
Michael L. Smith	38	Member of Investment Committee, Portfolio Manager

The address for each member of Ares Capital Management's investment committee is c/o Ares Capital Corporation, 2000 Avenue of the Stars, 12th Floor, Los Angeles, California 90067.

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**Eric B. Beckman** Mr. Beckman joined Ares Management in 1998 and serves as a Partner in the Private Debt Group of Ares Management and a member of the Investment Committee of Ares Capital Management. Before joining the Private Debt Group, he served as a Partner in the Private Equity Group focusing on mezzanine and special situation investments. While at Ares Management, he has been responsible for originating, structuring and managing investments in senior loans, mezzanine debt, private equity and distressed securities across a number of industries. Mr. Beckman joined Ares from Goldman, Sachs & Co., or "Goldman Sachs," where he specialized in leveraged loan and high yield bond financings. While at Goldman Sachs, he was also involved in raising and managing the West Street Bridge Loan Fund, and in certain restructuring advisory and distressed lending activities. Earlier in his career he worked in the Office of the Mayor and for the City Council of New York. Mr. Beckman is the chair of the Los Angeles Advisory Committee and a member of the national board of directors of the Posse Foundation, a college access program for inner city youth. He graduated *summa cum laude* with a BA in Political Theory and Economics from Cornell University, and received his JD from the Yale Law School where he was a senior editor of the *Yale Law Journal*.

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

**Mitchell Goldstein** Mr. Goldstein joined Ares Management in May 2005 and serves as a Partner in the Private Debt Group of Ares Management and a member of the Investment Committee of Ares Capital Management. Prior to joining Ares Management, Mr. Goldstein worked at Credit Suisse First Boston, or "CSFB," where he was a Managing Director in the Financial Sponsors Group. At CSFB, Mr. Goldstein was responsible for providing investment banking services to private equity funds and hedge funds with a focus on M&A and restructurings as well as capital raisings, including high yield, bank debt, mezzanine debt, and IPOs. Mr. Goldstein joined CSFB in 2000 at the completion of the merger with Donaldson, Lufkin & Jenrette. From 1998 to 2000, Mr. Goldstein was at Indosuez Capital, where he was a member of the Investment Committee and a Principal, responsible for originating, structuring and executing leveraged transactions across a broad range of products and asset classes. From 1993 to 1998, Mr. Goldstein worked at Bankers Trust, where he was responsible for financing and advising clients in various industries including media and telecommunications, consumer products, automotive and healthcare. Mr. Goldstein graduated *summa cum laude* from the State University of New York at Binghamton with a BS in Accounting, received an MBA from Columbia University's Graduate School of Business and is a Certified Public Accountant.

**John Kissick** Mr. Kissick has been with Ares Management since its founding in 1997 and serves as a Senior Advisor to the Capital Markets Group of Ares Management and as a member of the Investment Committee of Ares Capital Management and all Ares funds. He is also a Founding Member of Ares and a Senior Partner in the Private Equity Group. Prior to Ares, Mr. Kissick was a co-founder of Apollo Management, L.P. in 1990 and was a member of Apollo's original six-member management team. Together with Antony Ressler, Mr. Kissick oversaw and led the activities of Apollo Management, L.P. and Lion Advisors, L.P., an affiliate of Apollo Management L.P., from 1990 until 1997, with a focus on high yield bonds, leveraged loans and other fixed income assets. Prior to 1990,

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Mr. Kissick served as a Senior Executive Vice President of Drexel Burnham Lambert, where he began in 1975, eventually heading its Corporate Finance Department. Mr. Kissick serves on the boards of the Cedars Sinai Medical Center in Los Angeles, the Stanford University Graduate School of Business and Athletic Department as well as Mentor LA, which helps economically disadvantaged children graduate from high school through a variety of mentoring and other programs. Mr. Kissick graduated from Yale University with a BA in Economics and with highest honors from the Stanford Business School with an MBA in Finance.

**Antony P. Ressler** Mr. Ressler has been with Ares Management since its founding in 1997 and is a Founding Member of Ares and a Senior Partner in the Private Equity Group. He serves as a Senior Advisor to the Capital Markets Group of Ares Management and as a member of the Investment Committee of Ares Capital Management and all Ares Private Equity funds. Prior to Ares, Mr. Ressler was a co-founder of Apollo Management, L.P. in 1990 and was a member of Apollo's original six-member management team. Together with Mr. Kissick, Mr. Ressler oversaw and led the capital markets activities of Apollo Management, L.P. and Lion Advisors, L.P. from 1990 until 1997, with a focus on high yield bonds, leveraged loans and other fixed income assets. Prior to 1990, Mr. Ressler served as a Senior Vice President in the High Yield Bond Department of Drexel Burnham Lambert, with responsibility for the New Issue/Syndicate Desk. Mr. Ressler serves on several boards of directors including Kinetics Holdings LLC, National Bedding Company LLC (Serta) and WCA Waste Corporation. Mr. Ressler also is a member of the Board of Trustees of the Center for Early Education, the Los Angeles County Museum of Art, the Alliance for College Ready Public Schools, the Small School Alliance, the Asia Society of Southern California and is involved in the U.S. Chapter of Right to Play (formerly known as Olympic Aid), an international humanitarian organization that is committed to improving the lives of the most disadvantaged children through sports and play, currently operating in over 20 countries worldwide. Mr. Ressler is also one of the founding members of the board of directors of the Painted Turtle Camp, a \$40 million southern California based facility created to serve children dealing with chronic and life threatening illnesses by creating memorable, old-fashioned camping experiences. Mr. Ressler received his BSFS from Georgetown University's School of Foreign Service and his MBA from Columbia University's Graduate School of Business.

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

**Michael L. Smith** Mr. Smith joined Ares Management in May 2004 and serves as a Partner in the Private Debt Group of Ares Management and a member of the Investment Committee of Ares Capital Management. Prior to joining Ares Management, Mr. Smith was a Partner at RBC Capital Partners, a division of Royal Bank of Canada, which led the firm's middle-market financing and principal investment business. Mr. Smith joined RBC in October 2001 from Indosuez Capital, where he was a Vice President in the Merchant Banking Group. Previously, Mr. Smith worked at Kenter, Glastris & Company, a private equity investment firm specializing in leveraged management buyouts, and at Salomon Brothers Inc., in their Debt Capital Markets Group and Financial Institutions Group. Mr. Smith received a BS in Business Administration, *cum laude*, from the University of Notre Dame

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and a Masters in Management from Northwestern University's Kellogg Graduate School of Management.

**Committees of the Board of Directors**

Ares Capital's board of directors has established an audit committee and a nominating committee. Ares Capital does not have a compensation committee because Ares Capital's executive officers do not receive any direct compensation from Ares Capital. During 2009, the board of directors held twenty-one formal meetings, the audit committee held five formal meetings and the nominating committee held four formal meetings. Ares Capital encourages, but does not require, the directors to attend Ares Capital's annual meeting of its stockholders.

***Audit Committee***

The members of the audit committee are Messrs. Coltharp, O'Bryan and Siegel, each of whom is independent for purposes of the Investment Company Act and NASDAQ corporate governance regulations. Mr. Coltharp serves as chairman of the audit committee. The board of directors has adopted a charter for the audit committee, which is available on Ares Capital's website at [www.arescapitalcorp.com](http://www.arescapitalcorp.com). The audit committee is responsible for approving Ares Capital's independent accountants, reviewing with Ares Capital's independent accountants the plans and results of the audit engagement, approving professional services provided by Ares Capital's independent accountants, reviewing the independence of Ares Capital's independent accountants and reviewing the adequacy of Ares Capital's internal accounting controls. The audit committee is also responsible for aiding Ares Capital's board of directors in fair value pricing debt and equity securities that are not publicly traded or for which current market values are not readily available. The audit committee also currently receives input from independent valuation firms that have been engaged at the direction of the board to value certain portfolio investments.

***Nominating Committee***

The members of the nominating committee are Messrs. Coltharp, O'Bryan and Siegel, each of whom is independent for purposes of the Investment Company Act and NASDAQ corporate governance regulations. Mr. Siegel serves as chairman of the nominating committee. Ares Capital's board of directors has adopted a charter for the nominating committee, which is available on Ares Capital's website at [www.arescapitalcorp.com](http://www.arescapitalcorp.com). The nominating committee is responsible for selecting, researching and nominating directors for election by Ares Capital's stockholders, selecting nominees to fill vacancies on the board or a committee of the board, developing and recommending to the board a set of corporate governance principles and overseeing the evaluation of the board and Ares Capital's management.

The nominating committee may consider recommendations for nomination of directors from Ares Capital's stockholders. Nominations made by stockholders must be delivered to or mailed (setting forth the information required by Ares Capital's bylaws) and received at Ares Capital's principal executive offices not earlier than 150 days nor fewer than 120 days in advance of the first anniversary of the date on which Ares Capital first mailed Ares Capital's proxy materials for the previous year's annual meeting of stockholders; *provided, however*, that if the date of the annual meeting has changed by more than 30 days from the prior year, the nomination must be received not earlier than the 150th day prior to the date of such annual meeting nor later than the later of (1) the 120th day prior to the date of such annual meeting or (2) the 10th day following the day on which public announcement of such meeting date is first made.



Table of Contents**Compensation Committee**

Ares Capital does not have a compensation committee because Ares Capital's executive officers do not receive any direct compensation from Ares Capital.

**Beneficial Ownership of Ares Capital's Directors**

The following table sets forth the dollar range of Ares Capital's equity securities based on the closing price of Ares Capital common stock on January 22, 2010 and the number of shares beneficially owned by each of Ares Capital's directors as of December 31, 2009. Ares Capital is not part of a "family of investment companies," as that term is defined in the Investment Company Act.

Name of Director	Aggregate Dollar Range of Equity Securities in Ares Capital(1)(2)
<b>Independent Directors(3)</b>	
Douglas E. Coltharp	\$50,001-\$100,000
Frank E. O'Bryan	Over \$100,000
Gregory W. Penske	None
Eric B. Siegel	Over \$100,000
<b>Interested Directors</b>	
Michael J. Arougheti	Over \$100,000
Robert L. Rosen	\$50,001-\$100,000
Bennett Rosenthal	None

- (1) The dollar ranges are as follows: none, \$1-\$10,000, \$10,001-\$50,000, \$50,001-\$100,000 or over \$100,000. The dollar range of Ares Capital's equity securities beneficially owned is calculated based on the closing sales price of Ares Capital common stock as reported on NASDAQ as of January 22, 2010.
- (2) Beneficial ownership determined in accordance with Rule 16a-1(a)(2) under the Exchange Act.
- (3) As of January 22, 2010, to the best of Ares Capital's knowledge, except as listed above, none of the independent directors, nor any of their immediate family members, had any interest in Ares Capital, Ares Capital's investment adviser or any person or entity directly or indirectly controlling, controlled by or under common control with Ares Capital or its investment adviser.

**Compensation Table**

The following table shows information regarding the compensation received by Ares Capital's directors, none of whom is an employee of Ares Capital, for the fiscal year ended December 31, 2009. No compensation is paid by Ares Capital to directors who are or are being treated as "interested persons." No information has been provided with respect to Ares Capital's executive officers who are

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not directors, since Ares Capital's executive officers do not receive any direct compensation from Ares Capital.

Name	Fees Earned or	
	Paid in Cash(1)	Total
<b>Independent Directors</b>		
Douglas E. Coltharp	\$ 133,000	\$ 133,000
Frank E. O'Bryan	\$ 117,500	\$ 117,500
Gregory W. Penske(2)	\$ 62,500	\$ 62,500
Eric B. Siegel	\$ 130,000	\$ 130,000
<b>Interested Directors</b>		
Michael J. Arougheti(3)	None	None
Robert L. Rosen(4)	None	None
Bennett Rosenthal	None	None

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

(2) Mr. Penske became a director in February 2009.

(3) Mr. Arougheti became a director in February 2009.

(4) While Mr. Rosen did not receive any compensation from Ares Capital for the fiscal year ended December 31, 2009, he did receive \$117,500 from Ares Management for such period in connection with his service as a director of Ares Capital.

The independent directors receive an annual fee of \$75,000. They also receive \$2,500 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each board meeting and will receive \$1,000 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each committee meeting. In addition, the chairman of the audit committee receives an annual fee of \$5,000 and each chairman of any other committee receives an annual fee of \$2,000 for his additional services in these capacities. In addition, Ares Capital purchases directors' and officers' liability insurance on behalf of its directors and officers. Independent directors have the option to receive their directors' fees paid in shares of Ares Capital common stock issued at a price per share equal to the greater of net asset value or the market price at the time of payment.

**Portfolio Managers**

The following individuals function as portfolio managers primarily responsible for the day-to-day management of Ares Capital's portfolio. The portfolio managers are comprised of (1) the underwriting committee, whose primary responsibility is to recommend investments for approval to the Investment

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Committee of Ares Capital Management and (2) members of the Investment Committee of Ares Capital Management who are not otherwise on the underwriting committee.

<b>Name</b>	<b>Position</b>	<b>Length of Service with Ares (years)</b>	<b>Principal Occupation(s) During Past 5 Years</b>
Michael J. Arougheti	President and Director of Ares Capital	5	Mr. Arougheti has served as President of Ares Capital since May 2004 and a director of Ares Capital since February 2009. He is also a Founding Member of Ares. Mr. Arougheti is also a Partner in the Private Debt Group of Ares and is a Partner of Ares Capital Management. In addition, Mr. Arougheti serves as a member of the Investment Committee of Ares Capital Management and of the Investment Committee for the Ares European Private Debt Group. From October 2001 until joining Ares Capital in May 2004, Mr. Arougheti served as a Managing Partner of the Principal Finance Group of RBC Capital Partners and a member of its Mezzanine Investment Committee.
Eric B. Beckman	Partner in Private Debt Group	11	Mr. Beckman joined Ares Management in 1998 and serves as a Partner in the Private Debt Group of Ares Management and serves as a member of the Investment Committee of Ares Capital Management. Before joining the Private Debt Group, Mr. Beckman served as a Senior Partner of the Private Equity Group focusing on mezzanine and special situation investments.
R. Kipp deVeer	Partner in Private Debt Group	5	Mr. deVeer joined Ares Management in May 2004 and serves as a Partner in the Private Debt Group of Ares Management and serves as a member of the Investment Committee of Ares Capital Management. From 2001 until joining Ares Management, Mr. deVeer was a Partner at RBC Capital Partners, a division of Royal Bank of Canada, in the Principal Finance Group, which led the firm's middle-market financing and principal investment business.

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<b>Name</b>	<b>Position</b>	<b>Length of Service with Ares (years)</b>	<b>Principal Occupation(s) During Past 5 Years</b>
Mitchell Goldstein	Partner in Private Debt Group	4	Mr. Goldstein joined Ares Management in May 2005 and serves as a Partner in the Private Debt Group of Ares Management and serves as a member of the Investment Committee of Ares Capital Management. Prior to joining Ares Management, Mr. Goldstein worked at Credit Suisse First Boston, where he was a Managing Director in the Financial Sponsors Group. Mr. Goldstein joined CSFB in 2000 at the completion of the merger with Donaldson Lufkin and Jenrette.
John Kissick	Senior Partner in Private Equity Group	12	Mr. Kissick is a Founding Member of Ares and serves as a Senior Partner in the Private Equity Group of Ares Management. Mr. Kissick is a Senior Advisor to the Capital Markets Group of Ares Management and serves on the Investment Committee of Ares Capital Management and all Ares funds.
Antony P. Ressler	Senior Partner in Private Equity Group	12	Mr. Ressler is a Founding Member of Ares and serves as a Senior Partner in the Private Equity Group. Mr. Ressler is a Senior Advisor to the Capital Markets Group and serves on the Investment Committee of Ares Capital Management and all Ares Private Equity funds.
Bennett Rosenthal	Chairman of the board of directors of Ares Capital; Senior Partner in Private Equity Group	12	Mr. Rosenthal has served as Chairman of Ares Capital's board of directors since 2004. He has been with Ares since 1998, is a Founding Member of Ares and serves as a Senior Partner in the Private Equity Group. Mr. Rosenthal also serves on the Investment Committee of Ares Capital Management.
David Sachs	Senior Partner in Capital Markets Group	12	Mr. Sachs is a Founding Member of Ares and serves as a Senior Partner in the Ares Capital Markets Group. Mr. Sachs serves on the Investment Committee of Ares Capital Management and all Ares funds.

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Name	Position	Length of Service with Ares (years)	Principal Occupation(s) During Past 5 Years
Michael L. Smith	Partner in Private Debt Group	5	Mr. Smith joined Ares Management in May 2004 and serves as a Partner in the Private Debt Group of Ares Management and on the Investment Committee of Ares Capital Management. From 2001 until joining Ares Management, Mr. Smith was a Partner at RBC Capital Partners, a division of Royal Bank of Canada, in the Principal Finance Group, which led the firm's middle-market financing and principal investment business.

None of the individuals listed above is primarily responsible for the day-to-day management of the portfolio of any other account, except that Messrs. Kissick, Ressler, Rosenthal and Sachs are each Senior Partners of Ares with significant responsibilities for other Ares managed funds, which as of December 31, 2009 had approximately \$33 billion (including Ares Capital) of committed capital under management used to calculate Ares' advisory fees related to such funds. See "Risk Factors Risks Relating to Ares Capital There are significant potential conflicts of interest that could impact Ares Capital's investment returns."

Each of Messrs. Arougheti, Beckman, deVeer, Goldstein and Smith is equally responsible for deal origination, execution and portfolio management. Mr. Arougheti, as Ares Capital's President, spends a greater amount of his time on corporate and administrative activities in his role as an officer.

As of September 30, 2009, each of Messrs. Beckman, deVeer, Goldstein and Smith is a full-time employee of Ares Capital Management and receives a fixed salary for the services he provides to Ares Capital. Each will also receive an annual amount that is equal to a fixed percentage of any incentive fee received by Ares Capital Management from Ares Capital for a fiscal year. None of the portfolio managers receives any direct compensation from Ares Capital.

The following table sets forth the dollar range of equity securities of Ares Capital based on the closing price of Ares Capital common stock on January 22, 2010 and the number of shares beneficially owned by each of the portfolio managers described above as of December 31, 2009.

Name	Aggregate Dollar Range of Equity Securities in Ares Capital(1)
Michael J. Arougheti	Over \$1,000,000(2)
Eric B. Beckman	Over \$1,000,000
R. Kipp deVeer	\$100,001-\$500,000
Mitchell Goldstein	\$100,001-\$500,000
John Kissick	None(2)
Antony P. Ressler	Over \$1,000,000(2)
Bennett Rosenthal	None(2)
David Sachs	\$100,001-\$500,000(2)
Michael L. Smith	Over \$1,000,000

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

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(2)

Ares Investments, whose managing member is Ares Partners Management Company LLC, owned 2,859,882 shares of Ares Capital common stock as of December 31, 2009. Each of the members of Ares Partners Management Company LLC (which include Messrs. Arougheti, Kissick, Ressler, Rosenthal and Sachs or vehicles controlled by them) disclaims beneficial ownership of all shares of Ares Capital common stock owned by Ares Investments, except to the extent of any indirect pecuniary interest therein. The shares of Ares Capital common stock held by Ares Investments have been pledged in the ordinary course to secure indebtedness under a credit facility under which Ares Investments is a co-borrower with Ares Management, an indirect subsidiary of Ares Partners Management Company LLC.

**Investment Advisory and Management Agreement**

*Management Services*

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

determines the composition of Ares Capital's portfolio, the nature and timing of the changes to Ares Capital's portfolio and the manner of implementing such changes;

identifies, evaluates and negotiates the structure of the investments Ares Capital makes (including performing due diligence on Ares Capital's prospective portfolio companies);

closes and monitors the investments Ares Capital makes; and

determines the securities and other assets that Ares Capital purchases, retains or sells.

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

The sole member of Ares Capital Management is Ares Management, an independent international investment management firm. Ares funds, including funds managed by Ares Management, had, as of December 31, 2009, approximately \$33 billion of total committed capital.

*Management Fee*

Pursuant to the investment advisory and management agreement with Ares Capital Management and subject to the overall supervision of Ares Capital's board of directors, Ares Capital Management provides investment advisory services to Ares Capital. For providing these services, Ares Capital Management receives a fee from Ares Capital, consisting of two components a base management fee and an incentive fee. Ares Capital Management has committed to defer up to \$15 million in base management and incentive fees for each of the first two years following the merger if certain earnings targets are not met to help support consistent cash flows and the combined company's dividend payments.

The base management fee is calculated at an annual rate of 1.5% based on the average value of Ares Capital's 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.

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The incentive fee has two parts. One part is calculated and payable quarterly in arrears based on Ares Capital's 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 Ares Capital receives from portfolio companies but excluding fees for providing managerial assistance) accrued during the calendar quarter, minus operating expenses for the quarter (including the base management fee, any expenses payable under the administration agreement, and any interest expense and dividends paid on any outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature such as market discount, debt instruments with payment-in-kind interest, preferred stock with payment-in-kind dividends and zero coupon securities, accrued income that Ares Capital has not yet received in cash. The investment adviser is not under any obligation to reimburse Ares Capital for any part of the incentive fee it received that was based on accrued interest that Ares Capital never actually receives.

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 Ares Capital may pay an incentive fee in a quarter where Ares Capital incurs a loss. For example, if Ares Capital receives pre-incentive fee net investment income in excess of the hurdle rate (as defined below) for a quarter, Ares Capital will pay the applicable incentive fee even if it has incurred a loss in that quarter due to realized and unrealized capital losses.

Pre-incentive fee net investment income, expressed as a rate of return on the value of Ares Capital's 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, Ares Capital may be able to invest its funds in debt instruments that provide for a higher return, which would increase Ares Capital's pre-incentive fee net investment income and make it easier for Ares Capital's investment adviser to surpass the fixed hurdle rate and receive an incentive fee based on such net investment income. Ares Capital's pre-incentive fee net investment income used to calculate this part of the incentive fee is also included in the amount of Ares Capital's total assets (other than cash and cash equivalents but including assets purchased with borrowed funds) used to calculate the 1.5% base management fee.

Ares Capital pays the investment adviser an incentive fee with respect to Ares Capital's 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 Ares Capital's 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. Ares Capital refers to this portion of Ares Capital's 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 Ares Capital's 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 Ares Capital's 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.

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

*Quarterly Incentive Fee Based on Net Investment Income*

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

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

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

The second part of the incentive fee, or 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 Ares Capital's cumulative aggregate realized capital losses and aggregate unrealized capital depreciation from (b) Ares Capital's cumulative aggregate realized capital gains, in each case calculated from October 8, 2004. If such amount is positive at the end of such year, then the Capital Gains Fee for such year is equal to 20% 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 Ares Capital's portfolio when sold and (b) the accreted or amortized cost basis of such investment.

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

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

Ares Capital defers cash payment of any incentive fee otherwise earned by the investment adviser if during the most recent four full calendar quarter period ending on or prior to the date such payment is to be made the sum of (a) the aggregate distributions to the stockholders of Ares Capital 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 Ares Capital's net assets at the beginning of such period. These calculations were appropriately pro rated during the first three calendar quarters following October 8, 2004 and are adjusted for any share issuances or repurchases.



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*Examples of Quarterly Incentive Fee Calculation*

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

*Assumptions*

Hurdle rate(2) = 2.00%

Management fee(3) = 0.375%

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

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- (1) The hypothetical amount of pre-incentive fee net investment income shown is based on a percentage of total net assets. In addition, the example assumes that during the most recent four full calendar quarter period ending on or prior to the date the payment set forth in the example is to be made, the sum of (a) Ares Capital's aggregate distributions to Ares Capital's stockholders and (b) Ares Capital's change in net assets (defined as total assets less indebtedness and before taking into account any incentive fees payable during the period) is at least 8% of Ares Capital's net assets at the beginning of such period (as adjusted for any share issuances or repurchases).
- (2) Represents a quarter of the 8.0% annualized hurdle rate.
- (3) Represents a quarter of the 1.5% annualized management fee.
- (4) Excludes offering expenses.

**Alternative 1**

**Additional Assumptions**

Investment income (including interest, dividends, fees, etc.) = 1.25%

Pre-incentive fee net investment income  
(investment income - (management fee + other expenses)) = 0.675%

Pre-incentive fee net investment income does not exceed the hurdle rate, therefore there is no incentive fee.

**Alternative 2**

**Additional Assumptions**

Investment income (including interest, dividends, fees, etc.) = 2.70%

Pre-incentive fee net investment income  
(investment income - (management fee + other expenses)) = 2.125%

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

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

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**Alternative 3**

**Additional Assumptions**

Investment income (including interest, dividends, fees, etc.) = 3.50%

Pre-incentive fee net investment income (investment income - (management fee + other expenses)) = 2.925%  
 Pre-incentive fee net investment income exceeds hurdle rate, therefore there is an incentive fee.

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

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

**Alternative 1:**

**Assumptions**

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

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

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

Year 4: Investment B sold for \$31 million

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

Year 1: None (No sales transactions)

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

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

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

**Alternative 2**

**Assumptions**

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

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

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

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

Year 5: Investment B sold for \$20 million

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

Year 1: None (No sales transactions)

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

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

Year 4: None (No sales transactions)

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

For the nine months ended September 30, 2009, Ares Capital incurred \$22.5 million in base management fees and \$23.8 million in incentive management fees related to pre-incentive fee net investment income. For the nine months ended September 30, 2009, Ares Capital accrued no incentive management fees related to net realized capital gains. As of September 30, 2009, \$56.5 million was unpaid and included in "management and incentive fees payable" in the accompanying consolidated balance sheet. Payment of \$49 million in incentive management fees for the fifteen months ended September 30, 2009 has been deferred pursuant to the investment advisory and management agreement.

For the year ended December 31, 2008, Ares Capital incurred \$30.5 million in base management fees, \$31.7 million in incentive management fees related to pre-incentive fee net investment income and no incentive management fees related to realized capital gains.

For the year ended December 31, 2007, Ares Capital incurred \$23.5 million in base management fees, \$23.5 million in incentive management fees related to pre-incentive fee net investment income and no incentive management fees related to realized capital gains.

For the year ended December 31, 2006, Ares Capital incurred \$13.6 million in base management fees, \$16.1 million in incentive management fees related to pre-incentive fee net investment income and \$3.4 million in incentive management fees related to realized capital gains.

### ***Payment of Ares Capital's Expenses***

The services of all investment professionals and staff of the investment adviser, when and to the extent engaged in providing investment advisory and management services, and the compensation and routine overhead expenses of such personnel allocable to such services, are provided and paid for by Ares Capital Management (not including services provided to any of Ares Capital's portfolio companies like IHAM, pursuant to separate contractual agreements). Ares Capital bears all other costs and expenses of Ares Capital's operations and transactions, including those relating to: rent; organization; calculation of Ares Capital's net asset value (including the cost and expenses of any independent valuation firm); expenses incurred by Ares Capital Management payable to third parties, including agents, consultants or other advisers, in monitoring Ares Capital's financial and legal affairs and in monitoring Ares Capital's investments and performing due diligence on Ares Capital's prospective



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portfolio companies; interest payable on indebtedness, if any, incurred to finance Ares Capital's investments; offerings of Ares Capital common stock and other securities; investment advisory and management fees; administration fees; fees payable to third parties, including agents, consultants or other advisers, relating to, or associated with, evaluating and making investments; transfer agent and custodial fees; registration fees; listing fees; taxes; independent directors' fees and expenses; costs of preparing and filing reports or other documents with the SEC; the costs of any reports, proxy statements or other notices to stockholders, including printing costs; to the extent Ares Capital is covered by any joint insurance policies, Ares Capital's allocable portion of the insurance premiums for such policies; direct costs and expenses of administration, including auditor and legal costs; and all other expenses incurred by Ares Capital or Ares Operations in connection with administering Ares Capital's business, such as Ares Capital's allocable portion of overhead under the administration agreement, including Ares Capital's allocable portion of the salary and cost of Ares Capital's officers (including Ares Capital's chief compliance officer, chief financial officer, secretary and treasurer) and their respective staffs (including travel).

***Duration and Termination***

Unless terminated earlier, the investment advisory and management agreement will continue in effect until June 1, 2010 and will renew for successive annual periods thereafter if approved annually by Ares Capital's board of directors or by the affirmative vote of the holders of a majority of Ares Capital's outstanding voting securities, including, in either case, approval by a majority of Ares Capital's directors who are not "interested persons." The investment advisory and management agreement will automatically terminate in the event of its assignment. The investment advisory and management agreement may be terminated by either party without penalty upon 60 days' written notice to the other. A discussion regarding the basis for Ares Capital's board of directors' approval of the continuation of the investment advisory and management agreement for 2008 is available in Ares Capital's annual report on Form 10-K for the fiscal year ended December 31, 2008.

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

***Indemnification***

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

***Deferral of Investment Adviser's Base Management and Incentive Fees***

If the merger and subsequent combination are consummated in accordance with the terms set forth in the merger agreement, Ares Capital Management has committed to defer up to \$15 million in base management and incentive fees for each of the first two years following the merger if certain

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earnings targets are not met to help support consistent cash flows and the combined company's dividend payments.

***Organization of the Investment Adviser***

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

**Administration Agreement**

Ares Capital is also party to a separate administration agreement with Ares Capital's administrator, Ares Operations, an affiliate of Ares Capital's investment adviser. Ares Capital's board of directors approved the continuation of Ares Capital's administration agreement on May 4, 2009, which extended the term of the agreement until June 1, 2010. Pursuant to the administration agreement, Ares Operations furnishes Ares Capital with office equipment and clerical, bookkeeping and record keeping services. Under the administration agreement, Ares Operations also performs, or oversees the performance of, Ares Capital's required administrative services, which include, among other things, being responsible for the financial records that Ares Capital is required to maintain and preparing reports to Ares Capital's stockholders and reports filed with the SEC. In addition, Ares Operations assists Ares Capital in determining and publishing Ares Capital's net asset value, oversees the preparation and filing of Ares Capital's tax returns and the printing and dissemination of reports to Ares Capital's stockholders, and generally oversees the payment of Ares Capital's expenses and the performance of administrative and professional services rendered to Ares Capital by others. Payments under the administration agreement are equal to an amount based upon Ares Capital's allocable portion of Ares Operations' overhead in performing its obligations under the administration agreement, including Ares Capital's allocable portion of the cost of Ares Capital's officers (including Ares Capital's chief compliance officer, chief financial officer, 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 nine months ended September 30, 2009, Ares Capital incurred \$2.9 million in administrative fees.

For the year ended December 31, 2008, Ares Capital incurred \$2.7 million in administrative fees. For the year ended December 31, 2007, Ares Capital incurred \$1.0 million in administrative fees. For the year ended December 31, 2006, Ares Capital incurred \$0.9 million in administrative fees.

***Indemnification***

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



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**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS  
OF ARES CAPITAL**

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

Ares Capital's investment adviser, Ares Capital Management, has financial interests in the merger that are different from, and/or in addition to, the interests of Ares Capital's stockholders. For example, Ares Capital Management's management fee is based on a percentage of Ares Capital's total assets. Because total assets under management will increase as a result of the merger, the dollar amount of Ares Capital Management's management fee will increase as a result of the merger. In addition, the incentive fee payable by Ares Capital to Ares Capital Management may be positively impacted as a result of the merger. See "Unaudited Pro Forma Condensed Consolidated Financial Statements."

Ares Capital Management has committed to defer up to \$15 million in base management and incentive fees for each of the first two years following the merger if certain earnings targets are not met to help support consistent cash flows and the combined company's dividend payments.

Pursuant to the terms of the administration agreement, Ares Operations currently provides Ares Capital with the administrative services necessary to conduct Ares Capital's day-to-day operations. Ares Management is the sole member of and controls Ares Operations.

Ares Capital's portfolio company, IHAM, is party to a services agreement with Ares Capital Management. Pursuant to the terms of such services agreement, Ares Capital Management provides IHAM with the facilities, investment advisory services and administrative services necessary for the operations of IHAM. IHAM reimburses Ares Capital Management for the costs and expenses incurred by Ares Capital Management in performing its obligations under such services agreement.

Ares Capital rents office space directly from a third party pursuant to a lease that expires on February 27, 2011. In addition, Ares Capital has entered into a sublease agreement with Ares Management whereby Ares Management subleases approximately 25% of certain office space for a fixed rent equal to 25% of the basic annual rent payable by Ares Capital under this lease, plus certain additional costs and expenses. For the years ended December 31, 2008, 2007 and 2006, such amounts payable to Ares Capital totaled \$0.3 million, \$0.3 million and \$0.1 million, respectively.

Ares Capital has also entered into a license agreement with Ares pursuant to which Ares has agreed to grant Ares Capital a non-exclusive, royalty-free license to use the name "Ares." Under this agreement, Ares Capital will have a right to use the Ares name for so long as Ares Capital Management remains Ares Capital's investment adviser. Other than with respect to this limited license, Ares Capital will have no legal right to the "Ares" name. This license agreement will remain in effect

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for so long as the investment advisory and management agreement with Ares Capital Management is in effect and Ares Capital Management remains its investment adviser. Like the investment advisory and management agreement, the license agreement may also be terminated by either party without penalty upon 60 days' written notice to the other.

In connection with Ares Capital's initial public offering, Ares Capital's investment adviser paid to underwriters, on Ares Capital's behalf, an additional sales load of approximately \$2.5 million. This amount accrued interest at a variable rate that adjusted quarterly equal to the three-month LIBOR plus 2% per annum. Ares Capital repaid this amount in full, plus accrued and unpaid interest, in February 2006.

Table of Contents**CONTROL PERSONS AND PRINCIPAL STOCKHOLDERS OF ARES CAPITAL**

To Ares Capital's knowledge, as of January 15, 2010, there were no persons that owned 25% or more of Ares Capital's outstanding voting securities and no person would be deemed to control Ares Capital, as such term is defined in the Investment Company Act.

The following table sets forth, as of January 15, 2010 (unless otherwise noted), the number of shares of Ares Capital common stock beneficially owned by each of its current directors and executive officers, all directors and executive officers as a group and certain beneficial owners, according to information furnished to Ares Capital by such persons or publicly available filings.

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the securities. Ownership information for those persons who beneficially own 5% or more of Ares Capital's shares of common stock is based upon Schedule 13D, Schedule 13G, Form 13F or other filings by such persons with the SEC and other information obtained from such persons. To Ares Capital's knowledge, as of January 15, 2010, there were no persons that owned 5% or more of Ares Capital's shares of common stock.

The address for each of the directors and executive officers is c/o Ares Capital Corporation, 2000 Avenue of the Stars, 12th Floor, Los Angeles, California 90067.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class(1)
<i>Directors and Executive Officers:</i>		
<b>Interested Directors</b>		
Michael J. Arougheti	153,679(2)	*
Robert L. Rosen	7,500	*
Bennett Rosenthal	None(2)	
<b>Independent Directors</b>		
Douglas E. Coltharp	4,500	*
Frank E. O'Bryan	12,400	*
Gregory W. Penske	None	
Eric B. Siegel	22,389	*
<b>Executive Officers Who Are Not Directors</b>		
Joshua M. Bloomstein	None	
Richard S. Davis	72,093	*
Merritt S. Hooper	None	
Daniel F. Nguyen	None	
Karen A. Tallman	25,000	*
Michael D. Weiner	8,929(2)	*
All Directors and Executive Officers as a Group (13 persons)	306,490(2)	*

\* Represents less than 1%.

(1) Based on 109,944,674 shares of common stock outstanding as of January 15, 2010.

(2) Ares Investments, whose managing member is Ares Partners Management Company LLC, owned 2,859,882 shares of Ares Capital common stock as of January 15, 2010. Each of the members of Ares Partners Management Company LLC (which include Messrs. Rosenthal, Arougheti and Weiner or vehicles controlled by them) disclaims beneficial ownership of all shares of Ares Capital common stock owned by Ares Investments, except to the extent of any indirect pecuniary interest therein. The shares of Ares Capital common stock held by Ares Investments have been pledged in the ordinary course to secure indebtedness under a credit facility under which Ares Investments is a co-borrower with Ares Management, an indirect subsidiary of Ares Partners Management Company LLC.

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**BUSINESS OF ALLIED CAPITAL**

**General**

Allied Capital is a BDC in the private equity business that is internally managed. Specifically, Allied Capital generally invests in primarily private middle-market companies with EBITDA, or earnings before interest, taxes, depreciation and amortization, of between \$5 million and \$150 million in a variety of industries through long-term debt and equity capital instruments. As a BDC, Allied Capital was created to be a source of capital to small and growing businesses in the United States. Allied Capital has participated in the private equity business since it was founded in 1958. Since then through September 30, 2009, Allied Capital has invested more than \$14 billion in thousands of companies nationwide. Allied Capital primarily invests in the American entrepreneurial economy, helping to build middle-market businesses and support American jobs. At September 30, 2009, Allied Capital's private finance portfolio included investments in 88 companies that generate aggregate annual revenues of approximately \$10 billion and employ more than 48,000 people. Allied Capital generally invests in established companies with adequate cash flow for debt service.

Allied Capital's investment objective 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. However, from time to time, Allied Capital has invested in companies that are public, but lack access to additional public capital.

Allied Capital is internally managed by its management team of senior officers and managing directors. At September 30, 2009, Allied Capital had 112 employees. Allied Capital is headquartered in Washington, D.C., with offices in New York, NY and Arlington, VA.

**Private Equity Investing**

The United States and the global economies continue to operate in an unprecedented economic recession and the U.S. capital markets continue to experience volatility and a severe lack of liquidity. Allied Capital's strategy in these difficult economic times has been focused on reducing costs and streamlining its organization; building liquidity through selected asset sales; retaining capital by limiting new investment activity and suspending dividend payments; and working with portfolio companies to help them position for growth when the economy recovers.

As a private equity investor, Allied Capital's portfolio primarily consists of long-term investments in the debt and equity of primarily private middle-market companies. These investments generally are long-term in nature and privately negotiated and no readily available market exists for them. This makes Allied Capital's investments highly illiquid and, as a result, they cannot be readily traded. When Allied Capital makes an investment, it enters into a long-term arrangement where its ultimate exit from that investment may be three to ten years in the future.

Allied Capital has focused on investments in the debt of primarily private middle-market companies because they have been structured to provide recurring cash flow to Allied Capital as the investor. In addition to earning interest income, Allied Capital may earn income from management, consulting, diligence, structuring or other fees. Allied Capital may also enhance its total return with capital gains realized from investments in equity instruments or from equity features, such as nominal cost warrants.

Historically, Allied Capital has competed for investments with a large number of private equity funds and mezzanine funds, other BDCs, hedge funds, investment banks, other equity and non-equity based investment funds and other sources of financing, including specialty finance companies and traditional financial services companies such as commercial banks. However, Allied Capital has primarily competed with other providers of long-term debt and equity capital to middle-market companies, including private equity funds and other BDCs.

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**Private Finance Portfolio.** Allied Capital's private finance portfolio primarily is composed of debt and equity investments. Debt investments include senior loans, unitranche debt (an instrument that combines both senior and subordinated financing, generally in a first lien position) or subordinated debt (with or without equity features). The junior debt that Allied Capital has in the portfolio is lower in repayment priority than the senior debt and is also known as mezzanine debt. Allied Capital's portfolio contains equity investments generally for a minority equity stake in portfolio companies and includes equity features, such as nominal cost warrants, received in conjunction with its debt investments.

Senior loans carry a fixed rate of interest or a floating rate of interest, set as a spread over prime or LIBOR, and generally 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. 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 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.

From time to time, Allied Capital underwrites or arranges senior loans related to its portfolio investments or for other companies that are not in its portfolio. At closing, all or a portion of the underwritten commitment may be funded by Allied Capital, pending sale of the loan to other investors at closing. Allied Capital generally earns a fee on the senior loans it underwrites or arranges whether or not Allied Capital funds the underwritten commitment. After completion of the loan sales, Allied Capital may or may not retain a position in these senior loans. Principal collections include repayments of senior debt funded by Allied Capital that was subsequently sold by Allied Capital or refinanced or repaid by the portfolio companies. These transactions may include loan sales to other portfolio companies controlled by Allied Capital or funds affiliated with or managed by Allied Capital. See "Asset Management" below.

Allied Capital also has invested in the bonds and preferred shares/income notes of collateralized loan obligations, or "CLOs," or collateralized debt obligations, or "CDOs," where the underlying collateral pool consists primarily of senior loans. Certain of the CLOs and CDOs in which Allied Capital has invested may be managed by Allied Capital or Callidus Capital Management, LLC, or "Callidus Capital Management," a wholly owned portfolio company of Allied Capital.

Allied Capital's portfolio includes buyout transactions in which it holds investments in senior debt, subordinated debt and equity (preferred and/or voting or non-voting common) where Allied Capital's equity ownership represents 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, it generally has an option to acquire a controlling stake in the voting securities of the portfolio company at fair market value. Historically, Allied Capital has structured its buyout investments such that it seeks to earn a blended current return on its total capital invested through a combination of interest income on its loans and debt securities, dividends on preferred and common equity and management, consulting or transaction services fees to compensate Allied Capital for the managerial assistance that it may provide to the portfolio company.

The structure of each debt and equity security includes many terms governing interest rate, repayment terms, prepayment penalties, financial covenants, operating covenants, ownership parameters, dilution parameters, liquidation preferences, voting rights and put or call rights. Allied Capital's senior loans and unitranche debt are generally in a first lien position, however in a liquidation

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scenario, the collateral, if any, may not be sufficient to support Allied Capital's outstanding investment. Allied Capital's junior or mezzanine loans are generally unsecured. Allied Capital's investments may be subject to certain restrictions on resale and generally have no established trading market.

At September 30, 2009, 42.2% of the private finance investments at value were in companies more than 25% owned, 7.3% were in companies 5% to 25% owned and 50.5% were in companies less than 5% owned.

Allied Capital monitors the portfolio to maintain diversity within the industries in which it invests. Allied Capital may or may not concentrate in any industry or group of industries in the future. The industry composition of the private finance portfolio at value at September 30, 2009 and December 31, 2008 and 2007, was as follows:

Industry	September 30,	December 31,	
	2009	2008	2007
Business services	32%	36%	37%
Consumer products	28	24	25
Private debt funds	8	6	1
Financial services	8	5	6
CLO/CDO(1)	6	8	6
Consumer services	5	5	4
Industrial products	3	5	10
Retail	2	5	4
Healthcare services	2	2	3
Other	6	4	4
Total	100%	100%	100%

(1)

These funds primarily invest in senior corporate loans. Certain of these funds are managed by Callidus Capital Management, a wholly owned portfolio company of Allied Capital.

**Commercial Real Estate Finance Portfolio.** Allied Capital also has participated in commercial real estate finance over its history. Over the past several years, Allied Capital has not actively participated in commercial real estate finance as it believed that the market for commercial real estate had become too aggressive and that investment opportunities were not priced appropriately. As a result, Allied Capital's commercial real estate finance portfolio totaled \$68.5 million at value, or 2.4% of its total assets, at September 30, 2009, and contained primarily commercial mortgage loans and real estate properties.

### Asset Management

In addition to managing its own assets, Allied Capital 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. In some cases, Allied Capital has invested in the equity of these funds, along with other third parties, from which Allied Capital may earn a current return and/or a future incentive allocation.

At September 30, 2009, Allied Capital had eight separate funds under its management, together, the "Allied Capital Managed Funds," for which Allied Capital may earn management or other fees for its services. On October 30, 2009, Allied Capital sold its investment, including its outstanding commitments and the provision of management services, in the SL Fund to Ares Capital. On December 29, 2009, Allied Capital sold its investment, including the provision of management services,

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in the SD Fund to IHAM, a portfolio company of Ares Capital, and it may sell additional Allied Capital Managed Funds.

The assets of the Allied Capital Managed Funds at September 30, 2009 and December 31, 2008, and Allied Capital's management fees as of September 30, 2009, were as follows:

(\$ in millions) Name of Fund	Assets of Allied Capital Managed Funds		Management Fee(2)
	September 30, 2009	December 31, 2008	
Senior Secured Loan Fund LLC(3)	\$ 921.2	\$ 789.8	0.375%
Allied Capital Senior Debt Fund, L.P.(4)	351.4	412.9	1.625%(1)(2)
Knightsbridge CLO 2007-1 Ltd.	500.7	500.6	0.600%
Knightsbridge CLO 2008-1 Ltd.	304.6	304.8	0.600%
Emporia Preferred Funding I, Ltd.	419.8		0.625%(1)
Emporia Preferred Funding II, Ltd.	355.7		0.650%(1)
Emporia Preferred Funding III, Ltd.	406.1		0.650%(1)
AGILE Fund I, LLC	83.5	99.3	(1)
<b>Total Assets</b>	<b>\$ 3,343.0</b>	<b>\$ 2,107.4</b>	

- (1) In addition to the management fees, Allied Capital is entitled to an incentive allocation subject to certain performance benchmarks. There can be no assurance that the incentive allocation will be earned.
- (2) Management fees are stated as a percent of assets except for the SD Fund, which is stated as a percent of equity capital. The management fee paid by the SD Fund was 2.000% at December 31, 2008 and was reduced to 1.625% effective January 1, 2009 for the 2009 calendar year.
- (3) In June 2009, the Unitranche Fund LLC was renamed the Senior Secured Loan Fund LLC. On October 30, 2009, Allied Capital sold its investment, including its commitments and the provision of management services, in the SL Fund to Ares Capital.
- (4) On December 29, 2009, Allied Capital sold its investment, including the provision of management services, to IHAM, a portfolio company of Ares Capital.

Allied Capital's responsibilities to the Allied Capital Managed Funds may include investment execution, underwriting and portfolio monitoring services. Each of the Allied Capital Managed Funds may separately invest in the debt or equity of companies in Allied Capital's portfolio and these investments may be senior, pari passu or junior to the debt and equity investments held by Allied Capital. Allied Capital may or may not participate in investments made by the Allied Capital Managed Funds.

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In addition to managing these funds, as of the dates listed below Allied Capital held certain investments in the Allied Capital Managed Funds as follows:

(\$ in millions) Name of Fund	Investment Description	September 30, 2009		December 31, 2008	
		Cost	Value	Cost	Value
Senior Secured Loan Fund LLC(1)	Subordinated Certificates and Equity Interests	\$ 165.2	\$ 165.0	\$ 125.4	\$ 125.4
Allied Capital Senior Debt Fund, L.P.(2)	Equity interests	31.8	33.0	31.8	31.8
Knightsbridge CLO 2007-1 Ltd.	Class E Notes and Income Notes	57.4	33.8	59.6	50.1
Knightsbridge CLO 2008-1 Ltd.	Class C Notes, Class D Notes, Class E Notes and Income Notes	53.2	49.2	52.7	52.7
AGILE Fund I, LLC	Equity Interests	0.7	0.4	0.7	0.5
<b>Total</b>		<b>\$ 308.3</b>	<b>\$ 281.4</b>	<b>\$ 270.2</b>	<b>\$ 260.5</b>

- (1) Allied Capital committed up to a total of \$525.0 million of subordinated certificates to the SL Fund. The SL Fund will be capitalized as investment transactions are completed. On October 30, 2009, Allied Capital sold its investment, including its outstanding commitments and the provision of management services, in the SL Fund to Ares Capital.
- (2) On December 29, 2009, Allied Capital sold its investment, including the provision of management services, to IHAM, a portfolio company of Ares Capital.

For additional discussion of the Allied Capital Managed Funds, see "Management's Discussion and Analysis of Financial Condition and Results of Operations of Allied Capital Portfolio and Investment Activity Managed Funds."

### **Business Processes**

**Business Development.** Over the years, Allied Capital believes it has developed and maintained a strong and extensive network of relationships. This network includes private equity investors, investment banks, business brokers, merger and acquisition advisors, financial services companies, banks, law firms and accountants. Allied Capital is well known in the private equity industry and, through these relationships, Allied Capital has been able to source investment opportunities for its portfolio and the Allied Capital Managed Funds.

**New Deal Underwriting and Investment Execution.** In a typical transaction, Allied Capital reviews, analyzes and substantiates through due diligence, the business plan and operations of the potential portfolio company. Allied Capital performs financial due diligence, performs operational due diligence, studies the industry and competitive landscape and conducts reference checks with company management or other employees, customers, suppliers and competitors, as necessary. Allied Capital may work with external consultants, including accounting firms and industry or operational consultants, in performing due diligence and in monitoring its portfolio investments.

Once a prospective portfolio company is determined to be suitable for investment, Allied Capital works with the management and the other capital providers, including senior, junior and equity capital providers, to structure a transaction. Allied Capital's investments are tailored to the facts and circumstances of each deal. The specific structure is designed to protect Allied Capital's rights and manage its risk in the transaction. Allied Capital generally structures the debt instrument to require restrictive affirmative and negative covenants, default penalties or other protective provisions.

In addition, each debt investment is individually priced to achieve a return that reflects Allied Capital's rights and priorities in the portfolio company's capital structure, the structure of the debt instrument and Allied Capital's perceived risk of the investment. Allied Capital's loans and debt securities have an annual stated interest rate; however, that interest rate is only one factor in pricing the investment. The annual stated interest rate may include some component of contractual



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payment-in-kind interest, which represents contractual interest accrued and added to the loan balance that generally becomes due at maturity or upon prepayment. In addition to the interest earned on loans and debt securities, Allied Capital's debt investments may include equity features, such as nominal cost warrants or options to buy a minority interest in the portfolio company.

In a buyout transaction where Allied Capital's equity investment represents a significant portion of the equity, Allied Capital's equity ownership may or may not represent a controlling interest. If non-voting equity is invested in a buyout, Allied Capital generally has an option to acquire a controlling stake in the voting securities of the portfolio company at fair market value.

Allied Capital has a centralized, credit-based approval process for its investments. The key steps in Allied Capital's investment process are:

Initial investment screening;

Initial investment/finance committee, or "IFC," approval;

Due diligence, structuring and negotiation;

Internal review of diligence results, including peer review;

Final IFC approval;

Approval by the investment review committee of Allied Capital's board of directors for all debt investments that represent a commitment equal to or greater than \$20 million and every buyout transaction; and

Funding of the investment.

Allied Capital's IFC is chaired by John Scheurer, CEO, and currently includes William Walton, Chairman of the Board (vice chairman of the committee), Penni Roll, CFO, Scott Binder, Managing Director and Head of Special Assets, Robert Monk, Managing Director, Daniel Russell, Managing Director and Head of Private Finance, Susan Mayer, Managing Director, Dale Lynch, Executive Vice President, John Wellons, Chief Accounting Officer and two Principals on a rotating basis. The composition of the committee may change from time to time.

***Portfolio Monitoring and Development.*** Middle-market companies often lack the management expertise and experience found in larger companies. As a BDC, Allied Capital is required by the Investment Company Act to make available significant managerial assistance to its portfolio companies. Allied Capital's senior level professionals work with portfolio company management teams to assist them in building their businesses. Managerial assistance includes, but is not limited to, management and consulting services related to corporate finance, marketing, human resources, personnel and board member recruiting, business operations, corporate governance, risk management and other general business matters. Allied Capital's corporate finance assistance includes supporting its portfolio companies' efforts to structure and attract additional capital. Allied Capital believes its extensive network of industry relationships and its internal resources help make Allied Capital a collaborative partner in the development of its portfolio companies.

The special assets sub-committee of Allied Capital's IFC is responsible for review and oversight of the investment portfolio, including reviewing the performance of selected portfolio companies, overseeing portfolio companies in workout status, reviewing and approving certain modifications or amendments to or certain additional investments in existing portfolio companies, reviewing and approving certain actions by portfolio companies whose voting securities are more than 50% owned by Allied Capital, reviewing significant investment-related litigation matters where Allied Capital is a named party, approving related activities and reviewing and approving proxy votes with respect to Allied Capital's portfolio investments.



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From time to time, Allied Capital will identify investments that require closer monitoring or become workout assets. Allied Capital develops a workout strategy for workout assets and the special assets sub-committee of the IFC gauges Allied Capital's progress against the strategy. The special assets sub-committee is chaired by John Scheurer, CEO, and currently includes Scott Binder, Managing Director and Head of Special Assets (vice chairman of the committee), William Walton, Chairman of the Board, Penni Roll, CFO, Daniel Russell, Managing Director and Head of Private Finance, Susan Mayer, Managing Director, and Ralph Blasey, Executive Vice President and Corporate Counsel. The composition of the committee may change from time to time.

For debt investments, Allied Capital may have board observation rights that allow it to attend portfolio company board meetings. For buyout investments, Allied Capital generally holds a majority of the seats on the board of directors where it owns a controlling interest in the portfolio company and Allied Capital generally has board observation rights where it does not own a controlling interest in the portfolio company.

**Portfolio Valuation**

Allied Capital determines the value of each investment in its portfolio on a quarterly basis and changes in value result in unrealized appreciation or depreciation being recognized in its statement of operations. "Value," as defined in Section 2(a)(41) of the Investment Company Act, is (1) the market price for those securities for which a market quotation is readily available and (2) for all other securities and assets, fair value is as determined in good faith by the board of directors. Since there is typically no readily available market value for the investments in its portfolio, Allied Capital values substantially all of its portfolio investments at fair value as determined in good faith by its board of directors in accordance with Allied Capital's valuation policy and the provisions of the Investment Company Act and ASC Topic 820, which includes the codification of FASB Statement No. 157, *Fair Value Measurements* and related interpretations, collectively, the "Statement."

Allied Capital 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. At September 30, 2009, portfolio investments recorded at fair value using level 3 inputs (as defined under the Statement) were approximately 88% of Allied Capital's total assets. Because of the inherent uncertainty of determining the fair value of investments that do not have a readily available market quotation in an active market, the fair value of Allied Capital's investments determined in good faith by its 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.

There is no single approach for determining fair value in good faith. As a result, determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment while employing a consistently applied valuation process for the types of investments Allied Capital makes. Unlike banks, Allied Capital is not permitted to provide a general reserve for anticipated loan losses. Instead, Allied Capital is required to specifically value each individual investment on a quarterly basis. Allied Capital will record unrealized depreciation on investments when it determines that the fair value of a security is less than its cost basis and Allied Capital will record unrealized appreciation when it determines that the fair value is greater than its cost basis. Changes in fair value are recorded in the statement of operations as net change in unrealized appreciation or depreciation.

**Valuation Process.** The portfolio valuation process is managed by Allied Capital's Chief Valuation Officer, or "CVO." The CVO works with the investment professionals responsible for each investment. The following is an overview of the steps Allied Capital takes each quarter to determine the value of its portfolio:

Allied Capital's valuation process begins with each portfolio company or investment being initially valued by the investment professionals, led by the Managing Director or senior officer who is responsible for the portfolio company relationship, or the "Deal Team";

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the CVO, members of the valuation team and third-party valuation consultants (see below), as applicable, review the preliminary valuation documentation as prepared by the Deal Team;

the CVO, members of the valuation team, and third-party consultants (see below), as applicable, meet with each Managing Director or responsible senior officer to discuss the preliminary valuation determined and documented by the Deal Team for each of their respective investments;

the Chairman of the Board, CEO, CFO and the Managing Directors meet with the CVO to discuss the preliminary valuation results;

valuation documentation is distributed to the members of Allied Capital's board of directors;

the audit committee of Allied Capital's board of directors meets separately from the full board of directors with the third-party consultants (see below) to discuss the assistance provided and results and the CVO attends this meeting;

the CVO discusses and reviews the valuations with Allied Capital's board of directors;

to the extent there are changes or if additional information is deemed necessary, a follow-up board meeting may take place; and

Allied Capital's board of directors determines the fair value of the portfolio in good faith.

In connection with its valuation process to determine the fair value of a private finance investment, Allied Capital works with third-party consultants to obtain assistance and advice, as additional support in the preparation of its internal valuation analysis, for a portion of the portfolio each quarter. In addition, Allied Capital may receive other third-party assessments of a particular private finance portfolio company's value in the ordinary course of business, most often in the context of a prospective sale transaction or in the context of a bankruptcy process.

The valuation analysis prepared by management is submitted to Allied Capital's board of directors who is ultimately responsible for the determination of fair value of the portfolio in good faith. Allied Capital generally obtains valuation assistance from Duff & Phelps, LLC, or "Duff & Phelps," for Allied Capital's private finance portfolio consisting of certain limited procedures, or "the Procedures," Allied Capital has identified and requested them to perform. Based upon the performance of the Procedures on a selection of Allied Capital's final portfolio company valuations, Duff & Phelps has concluded that the fair value of those portfolio companies subjected to the Procedures did not appear unreasonable. In addition, Allied Capital also receives third-party valuation assistance from other third-party consultants for certain private finance portfolio companies.

Allied Capital currently intends to continue to work with third-party consultants to obtain valuation assistance for a portion of the private finance portfolio each quarter. Allied Capital currently anticipates that it will generally obtain valuation assistance for all companies in the portfolio where it owns more than 50% of the outstanding voting equity securities (excluding companies with a cost less than \$5.0 million and a value less than \$2.5 million) on a quarterly basis and that it will generally obtain assistance for companies where it owns equal to or less than 50% of the outstanding voting equity securities (excluding companies with a cost less than \$5.0 million and a value less than \$2.5 million) at least once during the course of the calendar year. Valuation assistance may or may not be obtained for new companies that enter the portfolio after June 30 of any calendar year during that year or for investments with a cost less than \$5.0 million and value less than \$2.5 million.

For the quarter ended September 30, 2009, Allied Capital received valuation assistance for 78 portfolio companies, which represented 97.8% of the private finance portfolio at value. See "Management's Discussion and Analysis of Financial Condition and Results of Operations of Allied Capital" below.

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**Corporate Structure and Offices**

Allied Capital is a Maryland corporation and a closed-end, non-diversified management investment company that has elected to be regulated as a BDC under the Investment Company Act. Allied Capital has a real estate investment trust subsidiary, Allied Capital REIT, Inc., and several subsidiaries that are single-member limited liability companies established for specific purposes, including holding real estate property. Allied Capital also has a subsidiary, A.C. Corporation, 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 and its portfolio companies. A.C. Corporation also provides fund management services to certain Allied Capital Managed Funds.

Allied Capital's executive offices are located at 1919 Pennsylvania Avenue, NW, Washington, D.C. 20006-3434 and its telephone number is (202) 721-6100. In addition, Allied Capital has offices in New York, NY and Arlington, VA.

**Employees**

On September 30, 2009, Allied Capital employed 112 individuals, including investment and portfolio management professionals, operations professionals and administrative staff. The majority of Allied Capital's employees are located in its Washington, D.C. office.

**Certain Government Regulations**

Allied Capital operates in a highly regulated environment. The following discussion generally summarizes certain government regulations to which Allied Capital is subject.

**Business Development Company.** A BDC is defined and regulated by the Investment Company Act. A BDC must be organized in the United States for the purpose of investing in or lending to primarily private companies and making managerial assistance available to them. A BDC may use capital provided by public stockholders and from other sources to invest in long-term, private investments in businesses.

As a BDC, Allied Capital may not acquire any asset other than "qualifying assets" unless, at the time it makes the acquisition, the value of its qualifying assets represents at least 70% of the value of its total assets. The principal categories of qualifying assets relevant to Allied Capital's business are:

Securities purchased in transactions not involving any public offering, the issuer of which is an eligible portfolio company;

Securities received in exchange for or distributed with respect to securities described in the bullet above or pursuant to the exercise of options, warrants or rights relating to such securities; and

Cash, cash items, government securities or high quality debt securities (within the meaning of the Investment Company Act), maturing in one year or less from the time of investment.

An eligible portfolio company is generally a domestic company that is not an investment company and that:

does not have a class of securities with respect to which a broker may extend margin credit at the time the acquisition is made;

is controlled by the BDC and has an affiliate of a BDC on its board of directors;

does not have any class of securities listed on a national securities exchange;

public companies that list their securities on a national securities exchange with a market capitalization of less than \$250 million; or



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meets such other criteria as may be established by the SEC.

Control, as defined by the Investment Company Act, is presumed to exist where a BDC beneficially owns more than 25% of the outstanding voting securities of the portfolio company.

Allied Capital does not intend to acquire securities issued by any investment company that exceed the limits imposed by the Investment Company Act. Under these limits, Allied Capital generally cannot acquire more than 3% of the voting stock of any investment company (as defined in the Investment Company Act), invest more than 5% of the value of its total assets in the securities of one such investment company or invest more than 10% of the value of its total assets in the securities of such investment companies in the aggregate. With regard to that portion of Allied Capital's portfolio invested in securities issued by investment companies, it should be noted that such investments might subject Allied Capital's stockholders to additional expenses.

To include certain securities described above as qualifying assets for the purpose of the 70% test, a BDC must make available to the issuer of those securities significant managerial assistance such as providing significant guidance and counsel concerning the management, operations, or business objectives and policies of a portfolio company. Allied Capital offers to provide significant managerial assistance to its portfolio companies.

As a BDC, Allied Capital is entitled to issue senior securities in the form of stock or senior securities representing indebtedness, including debt securities and preferred stock, as long as each class of senior security has an asset coverage of at least 200% immediately after each such issuance. In addition, while any senior securities remain outstanding, Allied Capital must make provisions to prohibit any distribution to its stockholders or repurchase of its common stock unless Allied Capital meets the applicable asset coverage ratio at the time of the distribution.

Allied Capital is not generally able to issue and sell its common stock at a price below net asset value per share. Allied Capital may, however, sell its common stock, at a price below the current net asset value of the common stock, or sell warrants, options or rights to acquire such common stock, at a price below the current net asset value of the common stock if its board of directors determines that such sale is in the best interests of the company and its stockholders, and Allied Capital's stockholders approve its policy and practice of making such sales. In any such case, the price at which Allied Capital's securities are to be issued and sold may not be less than a price that, in the determination of Allied Capital's board of directors, closely approximates the market value of such securities (less any distributing commission or discount).

Allied Capital is also limited in the amount of stock options that may be issued and outstanding at any point in time. The Investment Company Act provides that the amount of a BDC's voting securities that would result from the exercise of all outstanding warrants, options and rights at the time of issuance may not exceed 25% of the BDC's outstanding voting securities, except that if the amount of voting securities that would result from the exercise of all outstanding warrants, options, and rights issued to the BDC's directors, officers, and employees pursuant to any executive compensation plan would exceed 15% of the BDC's outstanding voting securities, then the amount of voting securities that would result from the exercise of all outstanding warrants, options, and rights at the time of issuance shall not exceed 20% of the outstanding voting securities of the BDC.

Allied Capital may also be prohibited under the Investment Company Act from knowingly participating in certain transactions with its affiliates without the prior approval of the members of its board of directors who are not interested persons and, in some cases, prior approval by the SEC. Allied Capital has been granted an exemptive order by the SEC permitting it to engage in certain transactions that would be permitted if Allied Capital and its subsidiaries were one company and permitting certain transactions among Allied Capital's subsidiaries, subject to certain conditions and limitations.

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Allied Capital has designated a chief compliance officer and established a compliance program pursuant to the requirements of the Investment Company Act. Allied Capital is periodically examined by the SEC for compliance with the Investment Company Act.

As with other companies regulated by the Investment Company Act, a BDC must adhere to certain substantive regulatory requirements. A majority of Allied Capital's directors must be persons who are not interested persons, as that term is defined in the Investment Company Act. Additionally, Allied Capital is required to provide and maintain a bond issued by a reputable fidelity insurance company to protect it against larceny and embezzlement. Furthermore, as a BDC, Allied Capital is prohibited from protecting any director or officer against any liability to Allied Capital or its stockholders arising from willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person's office.

Allied Capital maintains a code of ethics that establishes procedures for personal investment and restricts certain transactions by its personnel. Allied Capital's code of ethics generally does not permit investment by its employees in securities that have been or are contemplated to be purchased or held by Allied Capital. Allied Capital's code of ethics is posted on its website at [www.alliedcapital.com](http://www.alliedcapital.com) and is also filed as an exhibit to its registration statement which is on file with the SEC. You may read and copy the code of ethics at the SEC's Public Reference Room in Washington, D.C. You may obtain information on operations of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the code of ethics is available on the EDGAR database on the SEC Internet site at <http://www.sec.gov>. You may obtain copies of the code of ethics, after paying a duplicating fee, by electronic request at the following email address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing to the SEC's Public Reference Section, 100 F Street, NE, Washington, D.C. 20549.

Allied Capital may not change the nature of its business so as to cease to be, or withdraw its election as, a BDC unless authorized by vote of a "majority of the outstanding voting securities," as defined in the Investment Company Act. A majority of the outstanding voting securities of a company is defined under the Investment Company Act as the lesser of: (1) 67% or more of such company's shares present at a meeting if more than 50% of the outstanding shares of such company are present and represented by proxy or (2) more than 50% of the outstanding shares of such company.

**Regulated Investment Company Status.** Allied Capital has elected to be taxed as a RIC under Subchapter M of the Code. In order to maintain its status as a RIC and obtain RIC tax benefits, Allied Capital must, in general, (1) continue to qualify as a BDC; (2) derive at least 90% of its gross income from dividends, interest, gains from the sale of securities and other specified types of income; (3) meet asset diversification requirements as defined in the Code; and (4) timely distribute to stockholders at least 90% of its annual investment company taxable income as defined in the Code. Allied Capital currently qualifies as a RIC. However, there can be no assurance that it will continue to qualify for such treatment in future years.

As long as Allied Capital qualifies as a RIC, it is not taxed on its investment company taxable income or realized net capital gains, to the extent that such taxable income or gains are distributed, or deemed to be distributed, to stockholders on a timely basis. Taxable income includes Allied Capital's taxable interest, dividend and fee income, as well as taxable net capital gains. Taxable income generally differs from net income 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 generally are not included in taxable income until they are realized. In addition, gains realized for financial reporting purposes may differ from gains included in taxable income as a result of Allied Capital's election to recognize gains using installment sale treatment, which generally results in the deferment of gains for tax purposes until notes or other amounts, including amounts held in escrow, received as consideration from the sale of investments are collected in cash. Taxable income includes non-cash income, such as payment-in-kind interest and dividends and the



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amortization of discounts and fees. Cash collections of income resulting from contractual payment-in-kind interest or the amortization of discounts and fees generally occur upon the repayment of the loans or debt securities that include such items. Non-cash taxable income is reduced by non-cash expenses, such as realized losses and depreciation and amortization expense.

Taxable income available for distribution includes investment company taxable income and, to the extent not deemed to be distributed or retained, net long-term capital gains. To the extent that annual taxable income available for distribution exceeds dividends paid or deemed distributed from such taxable income for the year, Allied Capital may carry over the excess taxable income into the next year and such excess income will be available for distribution in the next year as permitted under the Code. Such excess income will be treated under the Code as having been distributed during the prior year for purposes of Allied Capital's qualification for RIC tax treatment for such year. The maximum amount of excess taxable income that Allied Capital may carry over for distribution in the next year under the Code is the total amount of dividends paid in the following year, subject to certain declaration and payment guidelines. Excess taxable income carried over and paid out in the next year is generally subject to a nondeductible 4% excise tax.

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

***Compliance with the Sarbanes-Oxley Act of 2002.*** The Sarbanes-Oxley Act of 2002 imposes a wide variety of regulatory requirements on publicly held companies and their insiders. Many of these requirements apply to Allied Capital, including:

Allied Capital's Chairman of the Board, Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer certify the financial statements contained in Allied Capital's periodic reports through the filing of Section 302 certifications;

Allied Capital's periodic reports disclose its conclusions about the effectiveness of Allied Capital's disclosure controls and procedures;

Allied Capital's annual report on Form 10-K contains a report from its management on internal control over financial reporting, including a statement that Allied Capital's management is responsible for establishing and maintaining adequate internal control over financial reporting as well as management's assessment of the effectiveness of Allied Capital's internal control over financial reporting, and an attestation report on the effectiveness of Allied Capital's internal control over financial reporting issued by its independent registered public accounting firm;

Allied Capital's periodic reports disclose whether there were significant changes in Allied Capital's internal control over financial reporting or in other factors that could significantly affect Allied Capital's internal control over financial reporting subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses; and

Allied Capital may not make any loan to any director or executive officer and it may not materially modify any existing loans.

Allied Capital has adopted procedures to comply with the Sarbanes-Oxley Act and the regulations promulgated thereunder. Allied Capital will continue to monitor its compliance with all future

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regulations that are adopted under the Sarbanes-Oxley Act of 2002 and will take actions necessary to ensure that it is in compliance therewith.

Allied Capital has adopted certain policies and procedures to comply with the NYSE corporate governance rules. In accordance with the NYSE procedures, shortly after its 2009 Annual Meeting of Stockholders, Allied Capital submitted the required CEO certification to the NYSE pursuant to Section 303A.12(a) of the listed company manual. Allied Capital's common stock is also listed on NASDAQ.

**Legal Proceedings**

On June 23, 2004, Allied Capital was notified by the SEC that they were 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 its 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, during and following the two-year period of the order, Allied Capital 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, 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) 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. Allied Capital's board of directors 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 during a period of time in 2005. Also, while Allied Capital was gathering documents responsive to the subpoena, allegations were made that management of Allied Capital 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.

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 alleged that Allied Capital and certain members of management violated Sections 10(b) and 20(a) of the Exchange Act 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

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relief. On September 13, 2007, Allied Capital filed a motion to dismiss the lawsuit. On November 4, 2009, the motion to dismiss was granted.

Allied Capital is aware that a number of lawsuits have been filed by stockholders of Allied Capital challenging the merger. The suits are filed either as putative stockholder class actions, shareholder derivative actions or both. All of the actions assert similar claims against the members of Allied Capital's board of directors alleging that the merger agreement is 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 and by failing to adequately value and obtain fair consideration for Allied Capital's shares. They also claim 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. All of the actions demand, among other things, a preliminary and permanent injunction enjoining the merger and rescinding the transaction or any part thereof that has been implemented. Allied Capital believes that each of the lawsuits is without merit, and it intends to defend each of these lawsuits vigorously.

In addition to the above matters, Allied Capital is party to certain lawsuits in the normal course of business. For a discussion of litigation regarding the merger, see "The Merger Litigation Relating to the Merger."

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 practices of Ciena, one of Allied Capital's portfolio companies, see Note 3, "Portfolio Ciena Capital LLC" to the notes to Allied Capital's consolidated financial statements for the period ending September 30, 2009.

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; however, there can be no assurance whether any pending legal proceedings will have a material adverse effect on Allied Capital's financial condition or results of operations in any future reporting period or delay or prevent the merger from becoming effective with the agreed upon timeframe or at all.

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

**Overview**

Allied Capital is a BDC in the private equity business that is internally managed. Specifically, Allied Capital primarily invests in private middle-market companies in a variety of industries through long-term debt and equity capital instruments. Allied Capital's financing generally is used to fund buyouts, acquisitions, growth, recapitalizations, note purchases and other types of financings. Allied Capital's investment objective is to achieve current income and capital gains.

The United States and the global economies continue to operate in an unprecedented economic recession and the U.S. capital markets continue to experience volatility and a severe lack of liquidity. Allied Capital's strategy in these difficult economic times has been focused on reducing costs and streamlining its organization; building liquidity through selected asset sales; retaining capital by limiting new investment activity and suspending dividend payments; and working with portfolio companies to help them position for growth when the economy recovers.

Allied Capital's portfolio composition at September 30, 2009 and 2008 and at December 31, 2008, 2007, and 2006, was as follows:

	September 30,		December 31,		
	2009	2008	2008	2007	2006
Private finance	97%	97%	97%	97%	97%
Commercial real estate finance	3%	3%	3%	3%	3%

Allied Capital's earnings primarily depend on the level of interest and dividend income, fee and other income and net realized and unrealized gains or losses on its investment portfolio after deducting interest expense on borrowed capital, operating expenses and income taxes, including excise tax.

Interest income primarily results from the stated interest rate earned on a loan or debt security and the amortization of loan origination fees and discounts. The level of interest income is directly related to the balance of the interest-bearing investment portfolio outstanding during the period multiplied by the weighted average yield. Allied Capital's ability to generate interest income is dependent on economic, regulatory and competitive factors that influence new investment activity, interest rates on the types of loans it makes, the level of repayments in its portfolio, the amount of loans and debt securities for which interest is not accruing and Allied Capital's ability to secure debt and equity capital for its investment activities.

The level of fee income is primarily related to the level of new investment activity and the level of fees earned from portfolio companies and funds managed by Allied Capital. The level of investment activity can vary substantially from period to period depending on many factors, including the general economic environment, the amount of debt and equity capital available to middle-market companies, the level of merger and acquisition activity for such companies, the competitive environment for the types of investments Allied Capital makes and Allied Capital's ability to secure debt and equity capital for its investment activities.

In addition to managing its own assets, Allied Capital manages certain funds that also invest in the debt and equity securities of primarily private middle-market companies in a variety of industries. At September 30, 2009, Allied Capital had eight separate funds under its management for which Allied Capital may earn management or other fees for its services. In some cases, Allied Capital has invested in the equity of these funds, along with other third parties, from which Allied Capital may earn a current return and/or a future incentive allocation. At September 30, 2009, the Allied Capital Managed Funds had total assets of approximately \$3.3 billion. On October 30, 2009, Allied Capital sold its investment, including its outstanding commitments and the provision of management services, in the

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SL Fund which had assets of \$921.2 million at September 30, 2009, to Ares Capital, and Allied Capital may sell additional Allied Capital Managed Funds. See " Managed Funds" below for further discussion.

In the aggregate, including the total assets on its balance sheet and assets under management in the Allied Capital Managed Funds, Allied Capital had \$5.9 billion in managed assets at September 30, 2009.

On October 26, 2009, Allied Capital entered into the merger agreement with Ares Capital and Merger Sub. Pursuant to the terms of the merger agreement, in the merger Merger Sub will be merged with and into Allied Capital and, immediately thereafter, in the subsequent combination Allied Capital will be merged with and into Ares Capital. Ares Capital will be the surviving entity of the subsequent combination and, following the subsequent combination, Allied Capital will no longer exist as a separate corporation. If the merger is consummated, each share of Allied Capital common stock outstanding immediately prior to the merger will be converted into the right to receive 0.325 of a share of Ares Capital common stock, subject to the payment of cash instead of fractional shares. While there can be no assurances as to the exact timing, or that the merger will be completed at all, Allied Capital and Ares Capital are working to complete the merger in the first quarter of 2010. As more fully described in this document and in the merger agreement, the completion of the merger depends on a number of conditions being satisfied or, where legally permissible, waived. See "Description of the Merger Agreement" and the rest of this document for more details.

**Portfolio and Investment Activity**

The total portfolio at value, investment activity and the yield on interest-bearing investments at and for the nine months ended September 30, 2009 and 2008, and at and for the years ended December 31, 2008, 2007 and 2006, were as follows:

(\$ in millions)	At and for the Nine Months Ended September 30,		At and for the Years Ended December 31,		
	2009	2008	2008	2007	2006
Portfolio at value	\$ 2,511.2	\$ 4,208.5	\$ 3,493.0	\$ 4,780.5	\$ 4,496.1
Investments funded	\$ 118.1	\$ 1,027.8	\$ 1,078.2	\$ 1,846.0	\$ 2,437.8
Payment-in-kind interest and dividends, net of cash collections	\$ 24.4	\$ 35.9	\$ 53.4	\$ 12.0	\$ 4.1
Principal collections related to investment repayments or sales(1)	\$ 650.9	\$ 878.2	\$ 1,037.3	\$ 1,211.6	\$ 1,055.3
Yield on interest-bearing investments(2)	11.9%	11.9%	12.1%	12.1%	11.9%

(1) Principal collections related to investment repayments or sales for the nine months ended September 30, 2009, included \$171.0 million of cash collections related to notes and other receivables received from the sale of investments in portfolio companies in prior periods. Principal collections related to investment repayments or sales for the nine months ended September 30, 2009 and 2008 and for the years ended December 31, 2008, 2007 and 2006, included collections of \$274.9 million, \$352.7 million, \$383.0 million, \$221.9 million and \$0, respectively, related to the sale of loans to certain of Allied Capital Managed Funds. See " Managed Funds" below for further discussion.

(2) The weighted average yield on interest-bearing investments 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, plus the effective interest yield on the preferred

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shares/income notes of CLOs, plus the effective interest yield on the subordinated certificates in the SL Fund, divided by (b) total interest-bearing investments at value. The weighted average yield is computed as of the balance sheet date.

#### *Private Finance*

Allied Capital's private finance portfolio at value, investment activity and the yield on interest-bearing investments at and for the nine months ended September 30, 2009 and 2008, and at and for the years ended December 31, 2008, 2007 and 2006, were as follows:

(\$ in millions)	At and for the Nine Months Ended September 30,				At and for the Years Ended December 31,					
	2009		2008		2008		2007		2006	
	Value	Yield(1)	Yield(1)	Value	Value	Yield(1)	Value	Yield(1)	Value	Yield(1)
<b>Portfolio at value:</b>										
<b>Loans and debt securities:</b>										
Senior loans	\$ 289.4	4.8%	\$ 434.9	4.2%	\$ 306.3	5.6%	\$ 344.3	7.7%	\$ 405.2	8.4%
Unitranche debt	374.7	12.2%	579.3	12.0%	456.4	12.0%	653.9	11.5%	799.2	11.2%
Subordinated debt	1,182.9	13.4%	2,062.6	13.1%	1,829.1	12.9%	2,416.4	12.8%	1,980.8	12.9%
<b>Total loans and debt securities</b>	<b>1,847.0</b>	<b>11.8%</b>	<b>3,076.8</b>	<b>11.7%</b>	<b>2,591.8</b>	<b>11.9%</b>	<b>3,414.6</b>	<b>12.1%</b>	<b>3,185.2</b>	<b>11.9%</b>
<b>Equity securities:</b>										
Preferred shares/income notes of CLOs(2)	84.4	12.1%	218.3	17.1%	179.2	16.4%	203.0	14.6%	97.2	15.5%
Subordinated certificates in SL Fund(2)	165.0	14.0%	114.3	10.3%	125.4	12.0%	0.7	12.4%		
Other equity securities	346.3		692.5		502.7		1,041.0		1,095.5	
<b>Total equity securities</b>	<b>595.7</b>		<b>1,025.1</b>		<b>807.3</b>		<b>1,244.7</b>		<b>1,192.7</b>	
<b>Total portfolio</b>	<b>\$ 2,442.7</b>		<b>\$ 4,101.9</b>		<b>\$ 3,399.1</b>		<b>\$ 4,659.3</b>		<b>\$ 4,377.9</b>	
<b>Investments funded(3)</b>	<b>\$ 115.5(4)</b>		<b>\$ 1,020.7</b>		<b>\$ 1,068.1</b>		<b>\$ 1,828.0</b>		<b>\$ 2,423.4</b>	
Payment-in-kind interest and dividends, net of cash collections	\$ 24.4		\$ 35.8		\$ 53.2		\$ 12.7		\$ 3.4	
Principal collections related to investment repayments or sales(3)	\$ 644.2		\$ 861.5		\$ 1,020.5		\$ 1,188.2		\$ 1,015.4	

- (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. 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) preferred shares/income notes of CLOs at value. The weighted average yield on the subordinated certificates in the SL Fund is computed as the (a) effective interest yield on the subordinated certificates, divided by (b) total investment at value. The weighted average yields are computed as of the balance sheet date.
- (2) Investments in the preferred shares/income notes of CLOs and the subordinated certificates in the SL Fund earn a current return that is included in interest income in Allied Capital's consolidated statement of operations.
- (3) Includes \$171.0 million, respectively, cash collections during the nine months ended September 30, 2009 related to notes and other receivables received from the sale of investments in prior periods. Also includes

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collections from the sale or repayment of senior loans totaling \$77.6 million, \$225.4 million, \$285.3 million, \$393.4 million and \$322.7 million, respectively, for the nine months ended September 30, 2009 and 2008 and for the years ended December 31, 2008, 2007 and 2006.

(4)

Includes \$38.7 million funded under pre-existing commitments under revolving lines of credit during the nine months ended September 30, 2009. During the nine months ended September 30, 2009, a total of \$38.4 million was repaid under these arrangements, which is included in principal collections related to investment repayments or sales.

Allied Capital's private finance portfolio primarily is composed of debt and equity investments. Debt investments include senior loans, unitranche debt (an instrument that combines both senior and subordinated financing, generally in a first lien position) or subordinated debt (with or without equity features). The junior debt that Allied Capital has in the portfolio is lower in repayment priority than senior debt and is also known as mezzanine debt. Allied Capital's portfolio contains equity investments generally for a minority equity stake in portfolio companies and includes equity features such as nominal cost warrants received in conjunction with Allied Capital's debt investments. In a buyout transaction, Allied Capital generally invests in senior and/or subordinated debt and equity (preferred and/or voting or non-voting common) where its equity ownership represents a significant portion of the equity, but may or may not represent a controlling interest.

*Investment Activity.* Investments funded and the weighted average yield on interest-bearing investments funded for the nine months ended September 30, 2009 and 2008, and for the years ended December 31, 2008, 2007 and 2006, consisted of the following:

(\$ in millions)	For the Nine Months Ended September 30, 2009					
	Debt Investments		Buyout Investments		Total	
	Amount	Weighted Average Yield(1)	Amount	Weighted Average Yield(1)	Amount	Weighted Average Yield(1)
Loans and debt securities:						
Senior loans	\$ 33.9	6.3%	\$ 14.3	2.8%	\$ 48.2	5.2%
Unitranche debt	1.0	9.5%			1.0	9.5%
Subordinated debt	3.0	15.0%	3.3	18.0%	6.3	16.5%
<b>Total loans and debt securities</b>	<b>37.9</b>	<b>7.0%</b>	<b>17.6</b>	<b>5.6%</b>	<b>55.5</b>	<b>6.6%</b>
Subordinated certificates in SL Fund(2)	47.4	8.4%			47.4	8.4%
Equity	7.1		5.5		12.6	
<b>Total</b>	<b>\$ 92.4</b>		<b>\$ 23.1</b>		<b>\$ 115.5</b>	

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**For the Nine Months Ended September 30, 2008**

(\$ in millions)	Debt Investments		Buyout Investments		Total	
	Amount	Weighted Average Yield(1)	Amount	Weighted Average Yield(1)	Amount	Weighted Average Yield(1)
<b>Loans and debt securities:</b>						
Senior loans	\$ 155.0	7.3%	\$ 12.6	6.0%	\$ 167.6	7.2%
Senior secured loan to Ciena(8)						
Capital LLC			319.0	0.0%	319.0	0.0%
Unitranche debt(3)	15.3	10.5%	0.5	6.6%	15.8	10.4%
Subordinated debt	243.4(4)	12.6%	50.5	15.2%	293.9	13.0%
<b>Total loans and debt securities</b>	<b>413.7</b>	<b>10.5%</b>	<b>382.6</b>	<b>2.2%</b>	<b>796.3</b>	<b>6.5%</b>
Preferred shares/income notes of CLOs(6)	35.6	18.6%			35.6	18.6%
Subordinated certificates in SL Fund(2)	113.6	10.8%			113.6	10.8%(9)
Equity	37.7		37.5		75.2	
<b>Total</b>	<b>\$ 600.6</b>		<b>\$ 420.1</b>		<b>\$ 1,020.7</b>	

**2008 Investments Funded**

(\$ in millions)	Debt Investments		Buyout Investments		Total	
	Amount	Weighted Average Yield(1)	Amount	Weighted Average Yield(1)	Amount	Weighted Average Yield(1)
<b>Loans and debt securities:</b>						
Senior loans	\$ 175.9	7.4%	\$ 13.9	5.4%	\$ 189.8	7.2%
Senior secured loan to Ciena						
Capital LLC			319.0	0.0%(6)	319.0	0.0%(8)
Unitranche debt(3)	15.3	10.5%	0.5	6.6%	15.8	10.4%
Subordinated debt	246.4(4)	12.6%	54.8	15.4%	301.2	13.1%
<b>Total loans and debt securities</b>	<b>437.6</b>	<b>10.4%</b>	<b>388.2</b>	<b>2.4%</b>	<b>825.8</b>	<b>6.6%(9)</b>
Preferred shares/income notes of CLOs(6)	35.6	18.6%			35.6	18.6%
Subordinated certificates in SL Fund(2)	124.7	10.9%			124.7	10.9%
Equity	40.5		41.5		82.0	
<b>Total</b>	<b>\$ 638.4</b>		<b>\$ 429.7</b>		<b>\$ 1,068.1</b>	

**2007 Investments Funded**

(\$ in millions)	Debt Investments		Buyout Investments		Total	
	Amount	Weighted Average Yield(1)	Amount	Weighted Average Yield(1)	Amount	Weighted Average Yield(1)
<b>Loans and debt securities:</b>						
Senior loans	\$ 249.0	9.2%	\$ 63.1	8.8%	\$ 312.1	9.1%
Unitranche debt(3)	109.1	10.8%	74.9	13.0%	184.0	11.7%
Subordinated debt	719.4(4)	12.8%	197.6	12.1%	917.0	12.6%
<b>Total loans and debt securities</b>	<b>1,077.5</b>	<b>11.7%</b>	<b>335.6</b>	<b>11.7%</b>	<b>1,413.1</b>	<b>11.7%</b>



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Preferred shares/income notes of CLOs(6)	116.2	16.4%		116.2	16.4%
Subordinated certificates in SL Fund(2)	0.7	12.4%		0.7	12.4%
Equity	152.0(7)		146.0	298.0	
<b>Total</b>	<b>\$ 1,346.4</b>		<b>\$ 481.6</b>	<b>\$ 1,828.0</b>	

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(\$ in millions)	2006 Investments Funded					
	Debt Investments		Buyout Investments		Total	
	Amount	Weighted Average Yield(1)	Amount	Weighted Average Yield(1)	Amount	Weighted Average Yield(1)
<b>Loans and debt securities:</b>						
Senior loans	\$ 245.4	9.4%	\$ 239.8	8.9%	\$ 485.2	9.2%
Unitranche debt(3)	471.7	10.7%	146.5	12.9%	618.2	11.3%
Subordinated debt(5)	510.7	13.0%	423.8	14.4%	934.5	13.6%
<b>Total loans and debt securities</b>	<b>1,227.8</b>	<b>11.4%</b>	<b>810.1</b>	<b>12.5%</b>	<b>2,037.9</b>	<b>11.9%</b>
Preferred shares/income notes of CLOs(6)	26.1	14.8%			26.1	14.8%
Equity	65.3		294.1		359.4	
<b>Total</b>	<b>\$ 1,319.2</b>		<b>\$ 1,104.2</b>		<b>\$ 2,423.4</b>	

- (1) The weighted average yield on interest-bearing investments is computed as the (a) annual stated interest on accruing interest-bearing investments, divided by (b) total interest-bearing investments funded. 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) preferred shares/income notes of CLOs funded. The weighted average yield on the subordinated certificates in the SL Fund is computed as the (a) effective interest yield on the subordinated certificates, divided by (b) total investment at value. The weighted average yield is calculated using yields as of the date an investment is funded.
- (2) In June 2009, the Unitranche Fund LLC was renamed the Senior Secured Loan Fund LLC. On October 30, 2009, Allied Capital sold its investment, including its outstanding commitments and the provision of management services, in the SL Fund to Ares Capital.
- (3) Unitranche debt is an investment that combines both senior and subordinated financing, generally in a first lien position. The yield on a unitranche investment reflects the blended yield of senior and subordinated debt.
- (4) Subordinated debt investments for the nine months ended September 30, 2008, and for the years ended December 31, 2008 and 2007, included \$43.8 million, \$43.8 million and \$45.3 million, respectively, in investments in the bonds of CLOs. Certain of these CLOs are managed by Callidus Capital Corporation, or "Callidus," a wholly owned portfolio company of Allied Capital. These CLOs primarily invest in senior corporate loans.
- (5) Debt investments funded for the year ended December 31, 2006 included a \$150 million subordinated debt investment in Advantage Sales & Marketing, Inc., or "Advantage," received in conjunction with its sale and a \$30 million subordinated debt investment in STS Operating, Inc. received in conjunction with its sale.
- (6) CLO equity investments included preferred shares/income notes of CLOs that primarily invest in senior corporate loans. Certain of these CLOs are managed by Allied Capital or by Callidus.
- (7) Equity investments for the year ended December 31, 2007 included \$31.8 million invested in the SD Fund. See " Managed Funds" below.
- (8)

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The senior secured loan to Ciena was acquired on September 30, 2008 and was placed on non-accrual status on the purchase date.

(9)

Excluding the senior secured loan to Ciena, the weighted average yield on new investments for the year ended December 31, 2008, was 10.8%.

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For the nine months ended September 30, 2009, Allied Capital made private finance investments totaling \$115.5 million. Investments arose primarily from fundings under pre-existing investment commitments, including fundings under revolving line of credit instruments and \$47.4 million to fund investments made by the SL Fund. For the year ended December 31, 2008, Allied Capital made private finance investments totaling \$1.1 billion, including \$319.0 million related to its investment in Ciena. Historically, Allied Capital's focus for investments generally has been on higher return junior debt capital investments. Senior loans funded by Allied Capital generally were funded with the intent to sell the loan or for the portfolio company to refinance the loan at some point in the future as discussed below. Allied Capital has made fewer direct unitranche debt investments since the establishment of the SL Fund (formerly, the Unitranche Fund LLC) in the fourth quarter of 2007. Unitranche loans sourced by Allied Capital in these periods generally were referred to the SL Fund. Since its inception, Allied Capital has invested \$172.8 million in the SL Fund. See " Managed Funds" below.

Allied Capital generally funds new investments using cash. In addition, Allied Capital may acquire securities in exchange for its common equity. Also, Allied Capital may acquire new securities through the reinvestment of previously accrued interest and dividends in debt or equity securities or the current reinvestment of interest and dividend income through the receipt of a debt or equity security (payment-in-kind income). From time to time Allied Capital may opt to reinvest accrued interest receivable in a new debt or equity security in lieu of receiving such interest in cash.

Allied Capital may underwrite or arrange senior loans related to its portfolio investments or for other companies that are not in its portfolio. When Allied Capital underwrites or arranges senior loans, it may earn a fee for such activities. Senior loans underwritten or arranged by Allied Capital may be funded by Allied Capital at closing. When these senior loans are closed, Allied Capital may fund all or a portion of the underwritten commitment pending sale of the loan to other investors, which may include loan sales to the Allied Capital Managed Funds or funds managed by Callidus. After completing loan sales, Allied Capital may retain a position in these senior loans. Allied Capital generally earns a fee on the senior loans it underwrites or arranges whether or not Allied Capital funds the underwritten commitment. In addition, Allied Capital may fund most or all of the debt and equity capital upon the closing of certain buyout transactions, which may include investments in lower-yielding senior debt. Subsequent to the closing, the portfolio company may refinance all or a portion of the lower-yielding senior debt, which would reduce Allied Capital's investment.

Allied Capital has focused its efforts on selling assets in its portfolio to generate capital. Principal collections related to private finance investment repayments or sales were \$644.2 million for the nine months ended September 30, 2009, including \$171.0 million of cash collections related to notes and other receivables received from the sale of investments in portfolio companies in prior periods. Principal collections related to private finance investment repayments or sales were \$1.0 billion for the year ended December 31, 2008, which included \$216.3 million sold to Allied Capital Managed Funds. Principal collections include repayments of senior debt funded by Allied Capital that was subsequently sold by Allied Capital or refinanced or repaid by the portfolio companies. Allied Capital plans to continue to sell assets and re-balance its portfolio with an emphasis on current income. However, there can be no assurance that Allied Capital will be able to achieve these objectives.

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*Outstanding Investment Commitments.* At September 30, 2009, Allied Capital had outstanding private finance investment commitments as follows:

(\$ in millions)	Companies More Than 25% Owned(1)	Companies 5% to 25% Owned	Companies Less Than 5% Owned	Total
Senior loans	\$ 15.4	\$ 7.4	\$ 63.0	\$ 85.8
Unitranche debt	3.0		11.6	14.6
Subordinated debt	16.5	4.3		20.8
Total loans and debt securities	34.9	11.7	74.6	121.2(2)
SL Fund	352.2			352.2
Equity securities	14.2	7.0	20.9	42.1(3)
<b>Total</b>	<b>\$ 401.3</b>	<b>\$ 18.7</b>	<b>\$ 95.5</b>	<b>\$ 515.5</b>

- (1) Includes a \$4.0 million revolving line of credit commitment for working capital to Callidus, a wholly owned portfolio company of Allied Capital, which owns 100% of Callidus Capital Management, an asset management company that structures and manages CLOs, CDOs and other related investments.
- (2) Includes \$91.8 million in the form of revolving debt facilities to 22 companies.
- (3) Includes \$26.7 million in commitments to seven private equity and venture capital funds. These fund commitments are generally drawn over a multi-year period of time as the funds make investments.

Total commitments were \$515.5 million at September 30, 2009, or \$163.3 million excluding the \$352.2 million in commitments to the SL Fund. See " Managed Funds." On October 30, 2009, Allied Capital sold its investment, including its outstanding commitments and the provision for management services, in the SL Fund to Ares Capital.

In addition to these outstanding investment commitments at September 30, 2009, Allied Capital also had outstanding guarantees to private finance portfolio companies. See " Financial Condition, Liquidity and Capital Resources" below. Allied Capital intends to fund these commitments with existing cash and through cash flows from operations before new investments, although there can be no assurance that Allied Capital will generate sufficient cash flows to satisfy these commitments.

*Net Unrealized Depreciation on Private Finance Portfolio.* At September 30, 2009, Allied Capital's private finance portfolio totaled \$4.2 billion at cost and \$2.4 billion at value, which included net unrealized depreciation of \$1.8 billion. \$1.0 billion or 59.7% of the total net unrealized depreciation of \$1.8 billion was related to Allied Capital's investments in four portfolio companies and its investment in CLO bonds and preferred shares/income notes and CDO bonds, or "CLO/CDO Assets," as follows: \$445.3 million or 25.4% related to Allied Capital's investment in Ciena; \$217.2 million or 12.4% related to investments in CLO/CDO Assets; \$186.8 million or 10.7% related to Allied Capital's investment in EarthColor, Inc.; \$106.8 million or 6.1% related to Allied Capital's investment in WMA Equity Corporation and affiliates; and \$89.7 million or 5.1% related to Allied Capital's investment in Hot Stuff Foods, LLC.

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*Investments in Collateralized Loan Obligations and Collateralized Debt Obligations (CLO/CDO Assets).* At September 30, 2009 and December 31, 2008 and 2007, Allied Capital had investments in CLO issuances and a CDO bond which totaled as follows:

(\$ in millions)	September 30,			December 31,			2007		
	2009			2008					
	Cost	Value	Yield(1)	Cost	Value	Yield(1)	Cost	Value	Yield(1)
CLO/CDO bonds(2)	\$ 130.0	\$ 73.3	12.7%	\$ 127.7	\$ 86.1	18.5%	\$ 90.7	\$ 89.9	13.3%
Preferred shares/income notes of CLOs	245.0	84.4	12.1%	248.2	179.2	16.4%	218.3	203.0	14.6%
<b>Total</b>	<b>\$ 375.0</b>	<b>\$ 157.7</b>		<b>\$ 375.9</b>	<b>\$ 265.3</b>		<b>\$ 309.0</b>	<b>\$ 292.9</b>	
Percentage of total assets		5.6%			7.1%			5.6%	

(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/CDO assets at value. The market yield used in the valuation of the CLO/CDO assets may be different than the interest yields shown above. See discussion below.

(2) Included in private finance subordinated debt.

The CLO and CDO issuances in which Allied Capital has invested are primarily invested in senior corporate loans. Certain of these funds are managed by Callidus and certain of these funds are managed by Allied Capital. See also Note 3, "Portfolio" from Allied Capital's notes to its consolidated financial statements for the year ending December 31, 2008.

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 CLO/CDO Assets 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 generally is allocated first to the senior bonds in order of priority, then any remaining cash flow is 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. At both September 30, 2009 and December 31, 2008, the face value of the CLO/CDO Assets held by Allied Capital was subordinate to as much as 94% of the face value of the securities outstanding in these CLOs and CDO.

At September 30, 2009 and December 31, 2008 and 2007, the underlying collateral assets of these CLO and CDO issuances, consisting primarily of senior corporate loans, were issued by 627 issuers, 658 issuers and 671 issuers, respectively, and had balances as follows:

(\$ in millions)	September 30,		December 31,	
	2009	2008	2007	
Bonds	\$ 232.3	\$ 268.3	\$ 288.5	
Syndicated loans	4,387.2	4,477.3	4,122.7	
Cash(1)	107.9	89.6	104.4	
<b>Total underlying collateral assets(2)</b>	<b>\$ 4,724.4</b>	<b>\$ 4,835.2</b>	<b>\$ 4,515.6</b>	

(1) Includes undrawn liability amounts.



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(2)

At September 30, 2009 and at December 31, 2008 and 2007, the total face value of defaulted obligations was \$139.6 million, \$95.0 million and \$18.4 million, respectively, or approximately 3.0%, 2.0% and 0.4%, respectively, of the total underlying collateral assets.

Throughout 2008, market yields for CLO securities increased. As the market yields for Allied Capital's investments in CLO preferred shares/income notes increased, the fair value of certain of Allied Capital's investments in these assets decreased. At September 30, 2009, the market yield used to value Allied Capital's preferred shares/income notes ranged from 27.5% to 31.5%. At December 31, 2008, the market yield used to value Allied Capital's preferred shares/income notes was 27.5%, with the exception of the income notes in one CLO with a cost and value of \$21.3 million where Allied Capital used a market yield of 23.1% due to the characteristics of this issuance. Ratings agencies have continued to downgrade the underlying collateral in these types of structures regardless of the payment status of the loan or debt security.

In the current economic environment, Allied Capital expects ratings downgrades, defaults and losses to increase and Allied Capital has also considered this in its valuation analysis. Net change in unrealized appreciation or depreciation for the nine months ended September 30, 2009 and for the year ended December 31, 2008, included a net decrease of \$6.1 million and \$94.7 million, respectively, related to Allied Capital's investments in CLO/CDO Assets. Allied Capital received third-party valuation assistance for its investments in the CLO/CDO Assets in each quarter of 2008 and in the first three quarters of 2009. See " Results of Operations Valuation Methodology Private Finance" below for further discussion of the third-party valuation assistance received by Allied Capital.

As the debt capital markets show significant volatility, yield spreads may widen further. As a result, if the market yields for Allied Capital's investments in CLOs continue to increase or should the performance of the underlying assets in the CLOs decrease, the fair value of Allied Capital's investments may decrease further.

*Ciena Capital LLC.* Ciena has provided loans to commercial real estate owners and operators. Ciena has been a participant in the SBA 7(a) Guaranteed Loan Program and its wholly owned subsidiary is licensed by the SBA as a Small Business Lending Company. 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, or "the Bankruptcy Code" in the U.S. Bankruptcy Court for the Southern District of New York, or "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, Allied Capital's unconditional guaranty of the obligations outstanding under Ciena's revolving credit facility became due and, in lieu of paying under its guarantee, Allied Capital purchased the positions of the senior lenders under Ciena's revolving credit facility. As of September 30, 2009, the senior secured loan to Ciena had a cost basis of \$319.0 million and a value of \$102.2 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 its 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.



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At September 30, 2009 and at December 31, 2008 and 2007, Allied Capital's investment in Ciena was as follows:

(\$ in millions)	September 30, 2009		December 31, 2008		December 31, 2007	
	Cost	Value	Cost	Value	Cost	Value
Senior Loan	\$ 319.0	\$ 102.2	\$ 319.0	\$ 104.9	\$	\$
Class A Equity Interests					99.0	68.6
Class B Equity Interests(1)	119.5		119.5		119.5	
Class C Equity Interests(1)	109.1		109.3		109.3	
<b>Total(2)</b>	<b>\$ 547.6</b>	<b>\$ 102.2</b>	<b>\$ 547.8</b>	<b>\$ 104.9</b>	<b>\$ 327.8</b>	<b>\$ 68.6</b>

(1) At September 30, 2009 and at December 31, 2008 and 2007, Allied Capital held 100% of the Class B equity interests and 94.9% of the Class C equity interests.

(2) In addition to its investment in Ciena included in the portfolio, Allied Capital has amounts receivable from or related to Ciena that are included in other assets in Allied Capital's consolidated financial statements. See below.

During the nine months ended September 30, 2009, Allied Capital funded \$97.4 million to support Ciena's term securitizations in lieu of draws under related standby letters of credit, including the funding of \$46.0 million during the third quarter of 2009. 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 Allied Capital's former revolving line of credit. The amounts funded were recorded as other assets in Allied Capital's consolidated balance sheet as of September 30, 2009. At September 30, 2009 and December 31, 2008 and 2007, other assets included amounts receivable from or related to Ciena totaling \$112.7 million, \$15.4 million and \$5.4 million, respectively at cost, and \$2.0 million, \$2.1 million and \$5.4 million, respectively at value.

Net change in unrealized appreciation or depreciation included a net decrease related to Allied Capital's investment in and receivables from Ciena of \$99.8 million for the nine months ended September 30, 2009. Net change in unrealized appreciation or depreciation included a net decrease in Allied Capital's investment in and receivables from Ciena of \$220.5 million for the nine months ended September 30, 2008. At December 31, 2008 and 2007, other assets included amounts receivable from or related to Ciena totaling \$15.4 million and \$5.4 million at cost and \$2.1 million and \$5.4 million at value, respectively. During the fourth quarter of 2008, Allied Capital sold its Class A Equity Interests in Ciena for nominal consideration to affiliates of AllBridge Financial, LLC and realized a loss of \$98.9 million. Net change in unrealized appreciation or depreciation for the year ended December 31, 2008, included a decrease in Allied Capital'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 Class A equity interests. Net change in unrealized appreciation or depreciation included a net decrease in Allied Capital's investment in Ciena of \$174.5 million and \$142.3 million for the years ended December 31, 2007 and 2006, respectively. See " Valuation of Ciena Capital LLC" below.

At September 30, 2009, Allied Capital had no outstanding standby letters of credit issued under its former revolving line of credit. Allied Capital has considered the letters of credit and the funding thereof in the valuation of Ciena at September 30, 2009 and December 31, 2008.

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 nine months ended September 30, 2009 and 2008.

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At September 30, 2009, 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 issued a performance guaranty whereby it 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 securitizations.

The OIG and the U.S. 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 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. 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 Allied Capital's financial results. Allied Capital 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 September 30, 2009 and December 31, 2008.

**Commercial Real Estate Finance**

The commercial real estate finance portfolio at value, investment activity and the yield on interest-bearing investments, at and for the nine months ended September 30, 2009 and at and for the years ended December 31, 2008, 2007 and 2006, were as follows:

(\$ in millions)	At and for the Nine Months Ended September 30, 2009		At and for the Years Ended December 31,					
	Value	Yield(1)	2008		2007		2006	
	Value	Yield(1)	Value	Yield(1)	Value	Yield(1)	Value	Yield(1)
Portfolio at value:								
Commercial mortgage loans	\$ 50.5	6.9%	\$ 53.5	7.4%	\$ 65.4	6.8%	\$ 71.9	7.5%
Real estate owned	6.2		20.8		21.3		19.6	
Equity interests	11.8		19.6		34.5		26.7	
<b>Total portfolio</b>	<b>\$ 68.5</b>		<b>\$ 93.9</b>		<b>\$ 121.2</b>		<b>\$ 118.2</b>	
Investments funded	\$ 2.6		\$ 10.1		\$ 18.0		\$ 14.4	
Payment-in-kind interest, net of cash collections	\$		\$ 0.2		\$ (0.7)		\$ 0.7	
Principal collections related to investment repayments or sales	\$ 6.0		\$ 16.8		\$ 23.4		\$ 39.9	

(1)

The weighted average yield on the interest-bearing investments 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 interest-bearing investments 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. Interest-bearing investments for the commercial real estate finance portfolio include all investments except for real estate owned and equity interests.

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At September 30, 2009, Allied Capital had outstanding funding commitments related to the commercial real estate portfolio of \$28.4 million.

**Managed Funds**

In addition to managing its own assets, Allied Capital 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. In some cases, Allied Capital has invested in the equity of these funds, along with other third parties, from which Allied Capital may earn a current return and/or a future incentive allocation. At September 30, 2009, Allied Capital had eight separate funds under its management for which Allied Capital may earn management or other fees for its services. On October 30, 2009, Allied Capital sold its investment, including its outstanding commitments and the provision of management services, in the SL Fund to Ares Capital and Allied Capital may sell additional Allied Capital Managed Funds.

In the first quarter of 2009, Allied Capital completed the acquisition of the management contracts of three middle-market senior debt CLOs, 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 Allied Capital's consolidated balance sheet as of September 30, 2009 and will be amortized over the life of the contracts.

The assets of the Allied Capital Managed Funds at September 30, 2009 and December 31, 2008, and Allied Capital's management fees as of September 30, 2009, were as follows:

(\$ in millions) Name of Fund	Assets of Allied Capital Managed Funds		Management Fee(2)
	September 30, 2009	December 31, 2008	
SL Fund(3)	\$ 921.2	\$ 789.8	0.375%
Allied Capital Senior Debt Fund, L.P.	351.4	412.9	1.625%(1)(2)
Knightsbridge CLO 2007-1 Ltd.	500.7	500.6	0.600%
Knightsbridge CLO 2008-1 Ltd.	304.6	304.8	0.600%
Emporia Preferred Funding I, Ltd.	419.8		0.625%(1)
Emporia Preferred Funding II, Ltd.	355.7		0.650%(1)
Emporia Preferred Funding III, Ltd.	406.1		0.650%(1)
AGILE Fund I, LLC	83.5	99.3	(1)
<b>Total Assets</b>	<b>\$ 3,343.0</b>	<b>\$ 2,107.4</b>	

(1) In addition to the management fees, Allied Capital is entitled to an incentive allocation subject to certain performance benchmarks. There can be no assurance that the incentive allocation will be earned.

(2) Management fees are stated as a percent of assets except for the SD Fund which is stated as a percent of equity capital. The management fee paid by the SD Fund was 2.000% at December 31, 2008 and was reduced to 1.625% effective January 1, 2009 for the 2009 calendar year.

(3) In June 2009, the Unitranche Fund LLC was renamed the Senior Secured Loan Fund LLC. On October 30, 2009, Allied Capital sold its investment, including its commitments and the provision of management services, in the SL Fund to Ares Capital.

A portion of the management fees earned by Allied Capital may be deferred under certain circumstances. Collection of the fees earned is dependent in part on the performance of the relevant fund. Allied Capital may pay a portion of management fees it receives to Callidus for services provided to the SD Fund, the Knightsbridge Funds and the Emporia Funds.

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Allied Capital's responsibilities to the Allied Capital Managed Funds may include investment execution, underwriting and portfolio monitoring services. Each of the Allied Capital Managed Funds may separately invest in the debt or equity of companies in Allied Capital's portfolio and these investments may be senior, pari passu or junior to the debt and equity investments held by Allied Capital. Allied Capital may or may not participate in investments made by the Allied Capital Managed Funds.

During the nine months ended September 30, 2009, Allied Capital sold assets to certain of the Allied Capital Managed Funds for which it received proceeds of \$9.7 million and Allied Capital recognized a net realized gain of \$6.3 million. During the nine months ended September 30, 2008, Allied Capital sold assets to certain of the Allied Capital Managed Funds, for which it received proceeds of \$352.7 million, and Allied Capital recognized realized gains of \$2.8 million.

In addition to managing these funds, Allied Capital holds certain investments in the Allied Capital Managed Funds as follows:

(\$ in millions) Name of Fund	Investment Description	September 30, 2009		December 31, 2008	
		Cost	Value	Cost	Value
SL Fund(1)	Subordinated Certificates and Equity Interests	\$ 165.2	\$ 165.0	\$ 125.4	\$ 125.4
Allied Capital Senior Debt Fund, L.P.	Equity interests	31.8	33.0	31.8	31.8
Knightsbridge CLO 2007-1 Ltd.	Class E Notes and Income Notes	57.4	33.8	59.6	50.1
Knightsbridge CLO 2008-1 Ltd.	Class C Notes, Class D Notes, Class E Notes and Income Notes	53.2	49.2	52.7	52.7
AGILE Fund I, LLC	Equity Interests	0.7	0.4	0.7	0.5
Total		\$ 308.3	\$ 281.4	\$ 270.2	\$ 260.5

- (1) Allied Capital has committed up to a total of \$525.0 million of subordinated certificates to the SL Fund. The SL Fund will be capitalized as investment transactions are completed. On October 30, 2009, Allied Capital sold its investment, including its outstanding commitments and the provision of management services, in the SL Fund to Ares Capital.

**Portfolio Asset Quality***Loans and Debt Securities on Non-Accrual Status*

In general, interest is not accrued on loans and debt securities if Allied Capital has doubt about interest collection or where the enterprise value of the portfolio company may not support further accrual. In addition, interest may not accrue on loans to portfolio companies that are more than 50% owned by Allied Capital depending on such company's capital requirements. To the extent interest payments are received on a loan that is not accruing interest, Allied Capital may use such payments to reduce its cost basis in the investment in lieu of recognizing interest income.

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At September 30, 2009 and at December 31, 2008 and 2007, loans and debt securities at value not accruing interest for the total investment portfolio were as follows:

(\$ in millions)	September 30, 2009	December 31, 2008	2007
<b>Private finance</b>			
Companies more than 25% owned	\$ 194.2	\$ 176.1	\$ 135.5
Companies 5% to 25% owned	15.3		25.1
Companies less than 5% owned	96.3	151.8	37.1
Commercial real estate finance	9.2	7.7	14.3
<b>Total</b>	<b>\$ 315.0</b>	<b>\$ 335.6</b>	<b>\$ 212.0</b>
<b>Percentage of total portfolio</b>	<b>12.5%</b>	<b>9.6%</b>	<b>4.4%</b>

At September 30, 2009 and December 31, 2008, private finance non-accruals included Allied Capital's senior secured debt in Ciena, which was \$102.2 million or 4.1% and \$104.9 million or 3.0%, respectively, of the total portfolio at value. The Ciena senior secured loan was acquired in the third quarter of 2008 and was placed on nonaccrual status upon its purchase. At December 31, 2007, private finance non-accruals included Allied Capital's Class A equity interest in Ciena, which was \$68.6 million or 1.4% of total portfolio at value. See " Private Finance Ciena Capital LLC" above.

During the nine months ended September 30, 2009, Allied Capital placed certain interest bearing investments in eight portfolio companies on non-accrual; however, non-accruals decreased primarily due to unrealized depreciation. The increase in loans and debt securities not accruing interest as a percentage of the total portfolio as of September 30, 2009, as compared to December 31, 2008, is primarily the result of the overall decrease in the size of the portfolio. During the third quarter of 2009, one new loan was placed on non-accrual status with a fair value of approximately \$14.9 million. The remainder of the increase from June 30, 2009 to September 30, 2009 was the result of a net increase in the fair value of loans on non-accrual status.

### *Loans and Debt Securities Over 90 Days Delinquent*

Loans and debt securities greater than 90 days delinquent at value at September 30, 2009 and at December 31, 2008 and 2007 were as follows:

(\$ in millions)	September 30, 2009	December 31, 2008	2007
Private finance	\$ 124.8	\$ 106.6	\$ 139.9
Commercial mortgage loans	4.3	1.4	9.2
<b>Total</b>	<b>\$ 129.1</b>	<b>\$ 108.0</b>	<b>\$ 149.1</b>
<b>Percentage of total portfolio</b>	<b>5.1%</b>	<b>3.1%</b>	<b>3.1%</b>

At September 30, 2009 and December 31, 2008, private finance loans and debt securities over 90 days delinquent included Allied Capital's senior secured debt in Ciena, which was \$102.2 million or 4.1% and \$104.9 million or 3.0%, respectively, of the total portfolio at value. The Ciena senior secured loan was acquired in the third quarter of 2008 and was placed on nonaccrual status upon its purchase. At December 31, 2007, loans and debt securities over 90 days delinquent included Allied Capital's Class A equity interest in Ciena, which was \$68.6 million or 1.4% of total portfolio at value. See " Private Finance Ciena Capital LLC" above.

The increase in loans over 90 days delinquent from June 30, 2009 to September 30, 2009 was due to the addition of two new loans with a fair value of approximately \$19.4 million. The remainder of the increase was the result of a net increase in the fair value of loans over 90 days delinquent.

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The amount of the portfolio that is on non-accrual status or greater than 90 days delinquent may vary from period to period primarily resulting from changes in the composition of the portfolio as a result of new investment, repayment and exit activity and changes in investment values. The private equity business is, in part, about working with troubled portfolio companies to improve their businesses and protect Allied Capital's investment. Allied Capital continues to follow its historical practice of working with portfolio companies in order to realize the potential of each investment. Loans and debt securities on non-accrual status and over 90 days delinquent should not be added together as they are two separate measures of portfolio asset quality. Loans and debt securities that are in both categories (i.e., on non-accrual status *and* over 90 days delinquent) totaled \$129.1 million, \$108.0 million and \$149.1 million at September 30, 2009, and December 31, 2008 and 2007, respectively. Allied Capital's assets on non-accrual are higher than its loans over 90 days delinquent primarily due to the effect of loans with payment-in-kind interest. Loans with payment-in-kind interest experience no payment delinquency, but collection of that payment-in-kind interest in the future may be doubtful and Allied Capital may determine that the loan should be placed on non-accrual. Given the severity of this economic recession, Allied Capital would expect that non-accruals and loans over 90 days delinquent may increase in the future.

**Other Assets and Other Liabilities**

Other assets primarily are composed of fixed assets, prepaid expenses, deferred financing and offering costs and accounts receivable, which includes amounts received in connection with the sale of portfolio companies, including amounts held in escrow, and other receivables from portfolio companies. At September 30, 2009 and December 31, 2008 and 2007, other assets totaled \$125.7 million, \$122.9 million and \$157.9 million, respectively. The decrease since December 31, 2007, was primarily the result of the March 2008 distribution of the assets held in deferred compensation trusts, which totaled \$21.1 million at December 31, 2007.

Accounts payable and other liabilities primarily are composed of the liabilities related to accrued interest, bonus and taxes, including excise tax. At September 30, 2009 and December 31, 2008 and 2007, accounts payable and other liabilities totaled \$45.1 million, \$58.8 million and \$153.3 million, respectively. The decrease in accounts payable and other liabilities since year end 2007 was in part the result of the termination of Allied Capital's deferred compensation plans in March 2008, the liability for which totaled \$52.5 million at December 31, 2007. In addition, accounts payable and other liabilities at December 31, 2008 were reduced by the payment of liabilities in 2008 related to accrued 2007 bonuses of \$40.1 million and excise tax of \$16.0 million, offset by an increase in liabilities in 2008 related to accrued bonuses and 2009 performance awards totaling approximately \$12.2 million. Accrued interest payable fluctuates from period to period depending on the amount of debt outstanding and the contractual payment dates of the interest on such debt.

Table of Contents**Results of Operations***Comparison of the Three and Nine Months Ended September 30, 2009 and 2008*

The following table summarizes Allied Capital's operating results for the three and nine months ended September 30, 2009 and 2008.

(in thousands, except per share amounts)	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2009	2008	Change	Percent Change	2009	2008	Change	Percent Change
	(unaudited)				(unaudited)			
<b>Interest and Related Portfolio Income</b>								
Interest and dividends	\$ 65,630	\$ 112,207	\$ (46,577)	(41.5)%	\$ 230,017	\$ 366,079	\$ (136,062)	(37.2)%
Fees and other income	6,808	8,455	(1,647)	(19.5)%	22,233	34,105	(11,872)	(34.8)%
Total interest and related portfolio income	72,438	120,662	(48,224)	(40.0)%	252,250	400,184	(147,934)	(37.0)%
<b>Expenses</b>								
Interest	42,421	35,949	6,472	18.0%	129,023	109,974	19,049	17.3%
Employee	10,905	21,443	(10,538)	(49.1)%	32,939	57,439	(24,500)	(42.7)%
Employee stock options	392	1,477	(1,085)	(73.5)%	2,369	9,531	(7,162)	(75.1)%
Administrative	7,205	14,138	(6,933)	(49.0)%	25,509	36,100	(10,591)	(29.3)%
Impairment of long-lived asset					2,873		2,873	
Total operating expenses	60,923	73,007	(12,084)	(16.6)%	192,713	213,044	(20,331)	(9.5)%
Net investment income before income taxes	11,515	47,655	(36,140)	(75.8)%	59,537	187,140	(127,603)	(68.2)%
Income tax expense (benefit), including excise tax	1,930	2,060	(130)	(6.3)%	4,205	8,141	(3,936)	(48.3)%
Net investment income	9,585	45,595	(36,010)	(79.0)%	55,332	178,999	(123,667)	(69.1)%
<b>Net Realized and Unrealized Gains (Losses)</b>								
Net realized gains (losses)	(5,090)	62,042	(67,132)	*	(158,255)	47,330	(205,585)	*
Net change in unrealized appreciation or depreciation	(27,681)	(425,899)	398,218	*	(380,528)	(687,506)	306,978	*
Total net gains (losses)	(32,771)	(363,857)	331,086	*	(538,783)	(640,176)	101,393	*
Gain on repurchase of debt				*	83,532		83,532	*
Loss on extinguishment of debt	(117,497)		(117,497)	*	(117,497)		(117,497)	*
Net income (loss)	\$ (140,683)	\$ (318,262)	\$ 177,579	55.8%	\$ (517,416)	\$ (461,177)	\$ (56,239)	12.2%
Diluted earnings (loss) per common share	\$ (0.79)	\$ (1.78)	\$ 1.00	55.9%	\$ (2.89)	\$ (2.70)	\$ (0.19)	(7.3)%
Weighted average common shares outstanding diluted	179,054	178,692	362	0.2%	178,815	171,084	7,731	4.5%

\*

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Comparisons may not be meaningful. Net change in unrealized appreciation or depreciation and net gains (losses) can fluctuate significantly from period to period.

*Interest and Related Portfolio Income.* Interest and related portfolio income includes interest and dividend income and fees and other income.



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*Interest and Dividends.*

Interest and dividend income for the three and nine months ended September 30, 2009 and 2008, was composed of the following:

(\$ in millions)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
<b>Interest</b>				
Private finance loans and debt securities	\$ 55.9	\$ 95.8	\$ 193.8	\$ 311.0
Preferred shares/income notes of CLOs	2.3	9.4	11.7	24.8
Subordinated certificates in SL Fund	5.9	2.9	11.8	4.5
Commercial mortgage loans	0.9	0.9	2.7	3.1
Cash, U.S. Treasury bills, money market and other securities	0.0	1.2	0.5	3.6
<b>Total interest</b>	<b>65.0</b>	<b>110.2</b>	<b>220.5</b>	<b>347.0</b>
<b>Dividends</b>	<b>0.6</b>	<b>2.0</b>	<b>9.5</b>	<b>19.1</b>
<b>Total interest and dividends</b>	<b>\$ 65.6</b>	<b>\$ 112.2</b>	<b>\$ 230.0</b>	<b>\$ 366.1</b>

The level of interest income, which includes interest paid in cash and in kind, is directly related to the balance of the interest-bearing investment portfolio outstanding during the period multiplied by the weighted average yield. The interest-bearing investments in the portfolio at value and the yield on the interest-bearing investments in the portfolio at September 30, 2009 and 2008, were as follows:

(\$ in millions)	2009		2008	
	Value	Yield(1)	Value	Yield(1)
<b>Private finance:</b>				
Loans and debt securities:				
Senior loans	\$ 289.4	4.8%	\$ 434.9	4.2%
Unitranche debt	374.7	12.2%	579.3	12.0%
Subordinated debt	1,182.9	13.4%	2,062.6	13.1%
Equity securities:				
Preferred shares/income notes of CLOs	84.4	12.1%	218.3	17.1%
Subordinated certificates in SL Fund	165.0	14.0%	114.3	10.3%
<b>Commercial real estate:</b>				
Commercial mortgage loans	50.5	6.9%	51.4	7.4%
<b>Total interest-bearing investments</b>	<b>\$ 2,146.9</b>	<b>11.9%</b>	<b>\$ 3,460.8</b>	<b>11.9%</b>

(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 interest-bearing investments at value. 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) preferred shares/income notes of CLOs at value. The weighted average yield on the subordinated certificates in the SL Fund is computed as the (a) effective interest yield on the subordinated certificates, divided by (b) total investment at value. This yield excludes any return from the potential future excess cash flows from portfolio earnings available to the subordinated certificate holders and from related structuring fees and management and sourcing fees. See " Fees and Other Income" below. The weighted average yields are computed as of the balance sheet date.



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Interest income has decreased over the 2008 periods primarily as a result of decreases in the aggregate size of the interest-bearing portfolio due to disposition of certain investments as Allied Capital has been selectively selling assets from its portfolio in order to generate capital to repay its indebtedness and de-lever its balance sheet. The amount of subordinated debt in Allied Capital's portfolio, which carries a higher yield than other categories of loans and debt securities, has decreased from \$2.1 billion at September 30, 2008 to \$1.2 billion at September 30, 2009. Interest income also decreased by approximately \$11.4 million due to additional investments being placed on non-accrual status during the nine months ended September 30, 2009. The weighted average yield varies from period to period based on the current stated interest on interest-bearing investments, the yield on interest-bearing investments funded, the yield on amounts repaid, the amount of interest-bearing investments for which interest is not accruing, changes in the value of interest-bearing investments and the mix of interest-bearing investments in the portfolio. Because Allied Capital recently has exited, and in the future intends to exit, several interest-bearing investments in order to accumulate capital for repayment of debt, Allied Capital expects that income from its interest-bearing investments will continue to decrease for the remainder of 2009.

Dividend income results from the dividend yield on preferred equity interests, if any, or the declaration of dividends by a portfolio company on preferred or common equity interests. Dividend income for the nine months ended September 30, 2009, was \$9.5 million as compared to \$19.1 million for the nine months ended September 30, 2008. Dividend income for the nine months ended September 30, 2008 included a \$7.1 million dividend received in connection with the recapitalization of Norwesco, Inc., and \$5.4 million of dividends received in connection with the sale of certain portfolio assets to AGILE Fund I, LLC. Dividend income will vary from period to period depending upon the timing and amount of dividends that are declared or paid by a portfolio company on preferred or common equity interests.

*Fees and Other Income*

Fees and other income primarily include fees related to financial structuring, diligence, transaction services, management and consulting services to portfolio companies, commitments, guarantees and other services and loan prepayment premiums. As a BDC, Allied Capital is required to make significant managerial assistance available to the companies in its investment portfolio. Managerial assistance includes, but is not limited to, management and consulting services related to corporate finance, marketing, human resources, personnel and board member recruiting, business operations, corporate governance, risk management and other general business matters.

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Fees and other income for the three and nine months ended September 30, 2009 and 2008 included fees relating to the following:

(\$ in millions)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
Fund management fees(1)	\$ 4.4	\$ 1.8	\$ 11.5	\$ 4.0
Management, consulting and other services provided to portfolio companies	1.8	2.9	5.9	8.9
Structuring and diligence	0.0	2.3	1.5	15.8
Commitment, guaranty and other fees from portfolio companies	0.6	1.1	2.4	4.7
Loan prepayment premiums		0.3	0.9	0.6
Other income		0.1		0.1
<b>Total fees and other income</b>	<b>\$ 6.8</b>	<b>\$ 8.5</b>	<b>\$ 22.2</b>	<b>\$ 34.1</b>

(1) See " Portfolio and Investment Activity Managed Funds" above.

Fees and other income generally are related to specific transactions or services and therefore may vary substantially from period to period depending on the level of investment activity and types of services provided and the level of assets in Allied Capital Managed Funds for which Allied Capital earns management or other fees.

The increase in fund management fees for the three and nine months ended September 30, 2009 as compared to the three and nine months ended September 30, 2008 was due to an increase in assets under management related to the Allied Capital Managed Funds. The amount of fund management fees is directly based on the amount of assets under management.

On October 30, 2009, Allied Capital sold its interests, including its outstanding commitments and the provision of management services, in the SL Fund to Ares Capital. For the three and nine months ended September 30, 2009, fee income related to the SL Fund was approximately \$1.2 million and \$4.5 million, respectively.

Despite the increase in assets under management for the three and nine months ended September 30, 2009, fees and other income were lower for the three and nine months ended September 30, 2009 than for the three and nine months ended September 30, 2008 due to the significant decrease in Allied Capital's investment activity.

Loan origination fees that represent yield enhancement on a loan are capitalized and amortized into interest income over the life of the loan.

Structuring and diligence fees included fees earned by Allied Capital in connection with investments made by the SL Fund of \$0.0 million and \$2.1 million for the three months ended September 30, 2009 and 2008, respectively, and \$1.4 million and \$9.3 million, for the nine months ended September 30, 2009 and 2008, respectively. See " Managed Funds" above. The remainder of the structuring and diligence fees for 2008 primarily related to the higher level of new investment execution activities in 2008. Because Allied Capital expects new investment activity to continue to be at a low level, Allied Capital expects structuring and diligence fees to be lower for 2009 than for 2008.

*Operating Expenses.* Operating expenses include interest, employee, employee stock options, administrative expenses and the impairment of a long-lived asset.

Table of Contents*Interest Expense*

The fluctuations in interest expense during the three and nine months ended September 30, 2009 and 2008 primarily were attributable to increases in Allied Capital's weighted average cost of debt capital as well as changes in the level of Allied Capital's borrowings under various notes payable and its former revolving line of credit. Allied Capital's contractual borrowing activity and weighted average cost of debt, including fees and debt financing costs, at and for the three and nine months ended September 30, 2009 and 2008, were as follows:

(\$ in millions)	At and for the Three Months Ended September 30,		At and for the Nine Months Ended September 30,	
	2009	2008	2009	2008
Total outstanding debt at par	\$ 1,636.5	\$ 2,131.0	\$ 1,636.5	\$ 2,131.0
Average outstanding debt	\$ 1,711.8	\$ 1,967.2	\$ 1,839.0	\$ 2,072.8
Weighted average cost(1)	10.7%	6.8%	10.7%	6.8%

(1)

The weighted average annual interest cost is computed as the (a) annual stated interest rate on the debt plus the annual amortization of commitment fees, other facility fees and debt financing costs that are recognized into interest expense over the contractual life of the respective borrowings, divided by (b) debt outstanding on the balance sheet date.

On December 30, 2008, Allied Capital amended its former private notes and former revolving line of credit, which increased the stated interest rate on those obligations by 100 basis points. Subsequent to this amendment, events of default occurred on these instruments. Pursuant to the terms of the former revolving credit facility, during the continuance of an event of default, the applicable spread on outstanding borrowings and fees on any letters of credit outstanding under the former revolving credit facility increased by an additional 200 basis points. Pursuant to the private notes, during the continuance of an event of default, the rate of interest borne by the former private notes increased by an additional 200 basis points. During the three and nine months ended September 30, 2009, Allied Capital incurred additional interest expense totaling \$3.2 million and \$12.0 million, respectively, related to the default interest. On August 28, 2009, Allied Capital completed the restructuring of its private notes and bank facility. The restructuring significantly increases Allied Capital's cost of capital. See " Financial Condition, Liquidity and Capital Resources" below.

In addition, interest expense included interest paid to the IRS related to installment sale gains totaling \$1.5 million and \$2.0 million for the three months ended September 30, 2009 and 2008, respectively, and \$4.9 million and \$5.8 million for the nine months ended September 30, 2009 and 2008, respectively. Installment interest expense for the year ended December 31, 2009, is estimated to be approximately \$7.8 million. See " Dividends and Distributions" below.

Table of Contents*Employee Expense*

Employee expenses for the three and nine months ended September 30, 2009 and 2008 were as follows:

(\$ in millions)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
Salaries and employee benefits(1)	\$ 10.9	\$ 17.0	\$ 32.9	\$ 48.1
Individual performance award (IPA)		2.0		6.6
IPA mark to market expense (benefit)				(4.1)
Individual performance bonus (IPB)		2.4		6.8
<b>Total employee expense(2)</b>	<b>\$ 10.9</b>	<b>\$ 21.4</b>	<b>\$ 32.9</b>	<b>\$ 57.4</b>
Number of employees at end of period	112	155	112	155

(1) Includes bonuses and performance awards.

(2) Excludes employee stock options expense. See below.

During the second half of 2008, Allied Capital consolidated its investment execution activities to its Washington, D.C. headquarters and its office in New York in an effort to improve its operating efficiencies and reduced Allied Capital's headcount by approximately 50 employees. Allied Capital's employee expense for the first three quarters of 2009 reflects this reduction in headcount. During the third quarter of 2009, Allied Capital further reduced headcount by approximately 22 employees. In connection with this reduction in headcount, Allied Capital incurred approximately \$1.6 million of severance expense in the third quarter of 2009.

The quarterly accrual for employee bonuses is based upon an estimate of annual bonuses and is subject to change. The amount of the current year bonuses will be finalized by Allied Capital's compensation committee and the board of directors at the end of the year. Employee bonuses generally are paid after the completion of the fiscal year.

The individual performance awards, or "IPA," and individual performance bonus, or "IPB," were part of an incentive compensation program for certain officers and generally were determined annually at the beginning of each year but could be 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 Allied Capital 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 Allied Capital. Allied Capital has not established an IPA or IPB for 2009.

The trusts for the IPA payments were consolidated with Allied Capital's accounts. The common stock was classified as common stock held in deferred compensation trust in Allied Capital's 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 Allied Capital 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, Allied Capital's board of directors made a determination that it was in Allied Capital's best interest to terminate its deferred compensation arrangements. Allied Capital's board of director's decision primarily was in response to increased complexity resulting from changes in the regulation of deferred compensation arrangements. Allied Capital's board of directors resolved that the accounts under these arrangements would be distributed to participants in full on March 18, 2008, the termination and

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distribution date, or as soon as was reasonably practicable thereafter, in accordance with the provisions of each of these arrangements.

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 Allied Capital common stock, net of required withholding taxes. The distribution of the accounts under the deferred compensation arrangements resulted in a tax deduction for 2008, subject to the limitations set by Section 162(m) of the Code for persons subject to such section.

*Employee Stock Options Expense*

The employee stock options expense for the three and nine months ended September 30, 2009 and 2008 was as follows:

(\$ in millions)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
Employee Stock Option Expense:				
Previously awarded, unvested options as of January 1, 2006	\$	\$	\$	\$ 3.9
Options granted on or after January 1, 2006	0.4	1.5	2.4	5.6
Total employee stock option expense	\$ 0.4	\$ 1.5	\$ 2.4	\$ 9.5

On March 3, 2009, the compensation committee of Allied Capital's board of directors granted 10.6 million options with an exercise price of \$0.73 per share. The options vest in three equal installments on June 30, 2009, June 30, 2010 and June 30, 2011. On May 13, 2009, the compensation committee of Allied Capital's board of directors granted 0.9 million options with an exercise price of \$2.63 per share. A total of 55,000 options vested immediately and the remaining options vest as follows: 166,667 on June 30, 2009, 333,333 on April 30, 2010, 180,000 on June 30, 2010 and 180,000 on June 30, 2011.

Allied Capital estimates that the employee-related stock options expense will be approximately \$3.4 million, \$3.9 million and \$4.0 million for the years ended December 31, 2009, 2010, and 2011, respectively. This estimate does not include any expense related to stock option grants after September 30, 2009, as the fair value of those stock options will be determined at the time of grant. This estimate may change if Allied Capital's assumptions related to future option forfeitures change.

*Administrative Expense*

Administrative expenses include legal and accounting fees, valuation assistance fees, insurance premiums, the cost of leases for Allied Capital's headquarters in Washington, D.C. and its regional offices, portfolio origination and development expenses, travel costs, stock record expenses, directors' fees and stock option expense and various other expenses.

Administrative expenses were \$7.2 million and \$14.1 million, for the three months ended September 30, 2009 and 2008, respectively, and \$25.5 million and \$36.1 million for the nine months ended September 30, 2009 and 2008, respectively. Administrative expenses decreased primarily due to a decrease in travel costs and other professional fees.

Table of Contents*Impairment of Long-Lived Asset*

In its efforts to reduce overall administrative expenses, Allied Capital sold its corporate aircraft during 2009. The sales price of the aircraft was less than its carrying cost, therefore, Allied Capital recorded an impairment charge of \$2.9 million during the quarter ended March 31, 2009.

*Loss on Extinguishment of Debt.* During the third quarter of 2009, Allied Capital completed a comprehensive restructuring of its private notes and bank facility and recorded a loss on the extinguishment of debt of \$117.5 million. In addition to the \$11 million of previously deferred unamortized debt costs associated with the private notes and bank facility, Allied Capital incurred and paid costs to the lenders of \$146 million and other third party advisory and other fees of approximately \$26 million in connection with the restructuring. Approximately \$20 million of the restructuring costs were deferred and are being amortized into interest expense over the life of the private notes and bank facility. In addition, Allied Capital recorded approximately \$45 million of original issue discount, or "OID," related to the restructuring of the private notes, which is being amortized into interest expense over the life of the private notes. The loss on extinguishment of debt is comprised of the following:

## (\$ in millions)

Previously deferred unamortized costs	\$ 11.3
Fees paid to noteholders/lenders	145.9
Advisory and other fees paid	26.0
Costs deferred and amortizing into interest expense	(20.3)
OID recorded and amortizing into interest expense	(45.4)
Loss on extinguishment of debt	\$ 117.5

*Gain on Repurchase of Debt.* During the nine months ended September 30, 2009, Allied Capital purchased publicly issued notes in the market with a total par value of \$134.5 million, which consisted of \$80.1 million of Allied Capital's 6.625% Notes due 2011 and \$54.4 million of Allied Capital's 6.000% Notes due 2012, for a total cost of \$50.3 million. After recognizing the remaining unamortized original issue discount associated with the notes repurchased, Allied Capital recognized a net gain on repurchase of debt of \$0.0 million and \$83.5 million for the three and nine months ended September 30, 2009, respectively.

*Income Tax Expense (Benefit), Including Excise Tax.* Income tax expense (benefit) for the three and nine months ended September 30, 2009 and 2008 was as follows:

(\$ in millions)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
Income tax expense (benefit)	\$ 1.9	\$ 1.2	\$ 4.2	\$ 3.0
Excise tax expense(1)		0.9		5.1
Income tax expense (benefit), including excise tax	\$ 1.9	\$ 2.1	\$ 4.2	\$ 8.1

(1)

While excise tax expense is presented in Allied Capital's consolidated statement of operations as a reduction to net investment income, excise tax relates to both net investment income and net realized gains (losses).

Allied Capital's wholly-owned subsidiary, A.C. Corporation, is a corporation subject to federal and state income taxes and records a benefit or expense for income taxes as appropriate based on its operating results in a given period. Allied Capital did not record an excise tax for the three and nine months ended September 30, 2009. See " Dividends and Distributions" below.



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*Realized Gains and Losses.* Net realized gains or losses primarily result from the sale of portfolio investments. Net realized gains (losses) for the three and nine months ended September 30, 2009 and 2008 were as follows:

(\$ in millions)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
Realized gains	\$ 14.5	\$ 97.5	\$ 35.9	\$ 135.2
Realized losses	(19.6)	(35.5)	(194.2)	(87.9)
Net realized gains (losses)	\$ (5.1)	\$ 62.0	\$ (158.3)	\$ 47.3

When Allied Capital exits an investment and realizes a gain or loss, it makes an accounting entry to reverse any unrealized appreciation or depreciation, respectively, that Allied Capital had previously recorded to reflect the appreciated or depreciated value of the investment.

For the three and nine months ended September 30, 2009 and 2008, Allied Capital reversed previously recorded unrealized appreciation or depreciation when gains or losses were realized or dividends were received as follows:

(\$ in millions)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
Reversal of previously recorded net unrealized appreciation associated with realized gains	\$ (8.9)	\$ (80.4)	\$ (20.8)	\$ (115.1)
Reversal of previously recorded net unrealized appreciation associated with dividends received	(0.4)	(1.6)	(10.8)	(15.1)
Reversal of previously recorded net unrealized depreciation associated with realized losses	18.0	34.8	151.3	80.2
Total reversal	\$ 8.7	\$ (47.2)	\$ 119.7	\$ (50.0)

Realized gains for the three months ended September 30, 2009 and 2008 were as follows:

(\$ in millions)	2009	Amount
<b>Portfolio Company</b>		
<b>Private Finance:</b>		
CK Franchising, Inc.		\$ 13.6
Other		0.9
Total private finance		14.5
<b>Commercial Real Estate:</b>		
Other		

Total commercial real estate

Total realized gains \$ 14.5

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	2008	Amount
<b>Portfolio Company</b>		
<b>Private Finance:</b>		
Norwesco, Inc.	\$	86.9
BI Incorporated		7.4
Passport Health Communications, Inc.		1.8
Other		1.3
Total private finance		97.4
<b>Commercial Real Estate:</b>		
Other		0.1
Total commercial real estate		0.1
Total realized gains	\$	97.5

Realized losses for the three months ended September 30, 2009 and 2008 were as follows:

(\$ in millions)

	2009	Amount
<b>Portfolio Company</b>		
<b>Private Finance:</b>		
Worldwide Express Operations, LLC	\$	13.0
Baird Capital Partners IV Limited		2.0
Snow Phipps Group, L.P.		1.6
Centre Capital Investors V, L.P.		1.4
Other		1.6
Total private finance		19.6
<b>Commercial Real Estate:</b>		
Real Estate Owned		
Total commercial real estate		
Total realized gains		19.6

	2008	Amount
<b>Portfolio Company</b>		
<b>Private Finance:</b>		
Pendum, Inc.	\$	34.0
Other		1.5
Total realized losses	\$	35.5

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Realized gains for the nine months ended September 30, 2009 and 2008 were as follows:

(\$ in million)

	2009	Amount
<b>Portfolio Company</b>		
<b>Private Finance:</b>		
CK Franchising, Inc.	\$	13.6
Advantage Sales & Marketing, Inc.		6.9
GC-Sun Holdings, LP		6.8
Other		4.4
Total private finance		31.7
<b>Commercial Real Estate:</b>		
Real Estate Owned		4.1
Other		0.1
Total commercial real estate		4.2
Total realized gains	\$	35.9

	2008	Amount
<b>Portfolio Company</b>		
<b>Private Finance:</b>		
Norwesco, Inc.	\$	97.6
BI Incorporated		7.4
BenefitMall, Inc.		4.9
Advantage Sales & Marketing, Inc.(1)		3.4
Mercury Air Centers, Inc.		3.3
Financial Pacific Company		3.1
Passport Health Communications, Inc.		1.8
Service Champ, Inc.		1.7
Penn Detroit Diesel Allison, LLC		1.4
Coverall North America, Inc.		1.4
Med Assets, Inc.		1.3
CR Holdings, Inc.		1
Other		6.5
Total private finance		134.8
<b>Commercial Real Estate:</b>		
Other		0.4
Total commercial real estate		0.4
Total realized gains	\$	135.2

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- (1) Includes an additional realized gain of \$1.9 million related to the release of escrowed funds from the sale of Allied Capital's majority equity investment in 2006.



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Realized losses for the nine months ended September 30, 2009 and 2008 were as follows:

(\$ in millions)

Portfolio Company	2009	Amount
<b>Private Finance:</b>		
MHF Logistical Solutions, Inc.		\$ 70.7
Advantage Sales & Marketing, Inc.		27.3
Triax Holdings, LLC		22.7
Worldwide Express Operations, LLC		13.0
FCP-BHI Holdings, LLC		8.2
Augusta Sportswear Group, Inc.		6.2
The Hillman Companies, Inc.		5.7
Old Orchard Brands, LLC		4.5
Tank Intermediate Holding Corp.		4.2
Abraxas Corporation		3.5
Pro Mach, Inc.		2.9
Becker Underwood, Inc.		2.8
Baird Capital Partners IV Limited		2.0
Penn Detroit Diesel Allison, LLC		1.7
Snow Phipps Group, L.P.		1.6
Centre Capital Investors V, L.P.		1.4
Huddle House, Inc.		1.3
Summit Energy Services, Inc.		1.3
Other		5.3
<b>Total private finance</b>		<b>186.3</b>
<b>Commercial Real Estate:</b>		
Real Estate Owned		7.9
Other		
<b>Total commercial real estate</b>		<b>7.9</b>
<b>Total realized losses</b>		<b>\$ 194.2</b>

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	2008	
Portfolio Company		Amount
<b>Private Finance:</b>		
Pendum, Inc.	\$	34.0
Creative Group, Inc.		15.6
Crescent Equity Corp-Longview Cable & Data LLC		8.4
Mid-Atlantic Venture Fund IV, L.P.		5.2
WMA Equity Corporation and Affiliates		4.5
Driven Brands, Inc.		1.9
Direct Capital Corporation		1.7
EarthColor, Inc.		1.7
Sweet Traditions, Inc.		1.5
Walker Investment Fund II, LLLP		1.4
Other		9.5
<b>Total private finance</b>		<b>85.4</b>
<b>Commercial Real Estate:</b>		
Other		2.5
<b>Total commercial real estate</b>		<b>2.5</b>
<b>Total realized losses</b>	<b>\$</b>	<b>87.9</b>

During the nine months ended September 30, 2009, Allied Capital focused its efforts on selectively selling assets from its portfolio in order to generate capital to repay indebtedness and de-lever its balance sheet. These asset sales have been completed under distressed conditions in a very difficult market and consequently Allied Capital has realized net losses upon their disposition. For the nine months ended September 30, 2009, Allied Capital sold or had repayments on portfolio investments that generated cash proceeds of \$650.8 million.

Realized gains and losses for the nine months ended September 30, 2009 and 2008, included net realized gains of \$6.3 million and \$2.8 million, respectively (subsequent to post-closing adjustments), from the sales of certain investments to Allied Capital Managed Funds. See "Managed Funds" above.

*Change in Unrealized Appreciation or Depreciation.* Allied Capital determines the value of each investment in its portfolio on a quarterly basis and changes in value result in unrealized appreciation or depreciation being recognized in Allied Capital's statement of operations. "Value," as defined in Section 2(a)(41) of the Investment Company Act, is (1) the market price for those securities for which a market quotation is readily available and (2) for all other securities and assets, fair value is as determined in good faith by the board of directors. Since there is typically no readily available market value for the investments in its portfolio, Allied Capital values substantially all of its portfolio investments at fair value as determined in good faith by Allied Capital's board of directors in accordance with Allied Capital's valuation policy and the provisions of the Investment Company Act and ASC 820, which includes the codification of FASB Statement No. 157, *Fair Value Measurements* and related interpretations, collectively, the "Statement." Allied Capital 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. At September 30, 2009, portfolio investments recorded at fair value using level 3 inputs (as defined under the Statement) were approximately 88% of Allied Capital's total assets. Because of the inherent uncertainty of determining the fair value of investments that do not have a readily available market quotation in an active market, the fair value of Allied Capital's investments determined in good faith by its board of directors may differ significantly

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from the values that would have been used had a ready market existed for the investments and the differences could be material.

There is no single approach for determining fair value in good faith. As a result, determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment while employing a consistently applied valuation process for the types of investments Allied Capital makes. Unlike banks, Allied Capital is not permitted to provide a general reserve for anticipated loan losses. Instead, Allied Capital is required to specifically value each individual investment on a quarterly basis. Allied Capital will record unrealized depreciation on investments when it determines that the fair value of a security is less than its cost basis and Allied Capital will record unrealized appreciation when it determines that the fair value is greater than its cost basis. Changes in fair value are recorded in Allied Capital's statement of operations as net change in unrealized appreciation or depreciation.

As a BDC, Allied Capital invests in illiquid securities including debt and equity securities of portfolio companies, CLO bonds and preferred shares/income notes, CDO bonds and investment funds. The structure of each debt and equity security is specifically negotiated to enable Allied Capital to protect its investment and maximize its returns. Allied Capital includes many terms governing interest rate, repayment terms, prepayment penalties, financial covenants, operating covenants, ownership parameters, dilution parameters, liquidation preferences, voting rights and put or call rights. Allied Capital's investments may be subject to certain restrictions on resale and generally have no established trading market.

Because of the type of investments that Allied Capital makes and the nature of its business, Allied Capital's valuation process requires an analysis of various factors. Allied Capital's fair value methodology includes the examination of, among other things, the underlying investment performance, financial condition and market changing events that impact valuation.

*Valuation Methodology*

Allied Capital adopted the standards in ASC Topic 820 on a prospective basis in the first quarter of 2008. These standards require Allied Capital 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 Statement, Allied Capital has considered its principal market or the market in which Allied Capital exits its portfolio investments with the greatest volume and level of activity.

Allied Capital has determined that for its buyout investments, where Allied Capital 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, or "M&A," market as the principal market, generally through a sale or recapitalization of the portfolio company. Allied Capital 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, Allied Capital 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. Allied Capital allocates the enterprise value to these securities in order of the legal priority of the securities.



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There is no one methodology to determine enterprise value and, in fact, for any one portfolio company, enterprise value is best expressed as a range of fair values. However, Allied Capital must derive a single estimate of enterprise value. To determine the enterprise value of a portfolio company, Allied Capital analyzes the portfolio company's historical and projected financial results. This financial and other information is generally obtained from the portfolio companies and may represent unaudited, projected or pro forma financial information. Allied Capital generally requires portfolio companies to provide annual audited and quarterly unaudited financial statements as well as annual projections for the upcoming fiscal year. Typically in the private equity business, companies are bought and sold based on multiples of EBITDA, cash flow, net income, revenues or, in limited instances, book value. The private equity industry uses financial measures such as EBITDA or EBITDAM (Earnings Before Interest, Taxes, Depreciation, Amortization and, in some instances, Management fees) in order to assess a portfolio company's financial performance and to value a portfolio company. EBITDA and EBITDAM are not intended to represent cash flow from operations as defined by U.S. generally accepted accounting principles and such information should not be considered as an alternative to net income, cash flow from operations or any other measure of performance prescribed by U.S. generally accepted accounting principles. When using EBITDA to determine enterprise value, Allied Capital may adjust EBITDA for non-recurring items. Such adjustments are intended to normalize EBITDA to reflect the portfolio company's earnings power. Adjustments to EBITDA may include compensation to previous owners, acquisition, recapitalization or restructuring related items or one-time non-recurring income or expense items.

In determining a multiple to use for valuation purposes, Allied Capital generally looks to private M&A statistics, the entry multiple for the transaction, public trading multiples or industry practices. In estimating a reasonable multiple, Allied Capital considers not only the fact that its portfolio company may be a private company relative to a peer group of public comparables, but Allied Capital also considers the size and scope of its portfolio company and the specific strengths and weaknesses of the portfolio company. In some cases, the best valuation methodology may be a discounted cash flow analysis based on future projections. If a portfolio company is distressed, a liquidation analysis may provide the best indication of enterprise value.

While Allied Capital typically exits its securities upon the sale or recapitalization of the portfolio company in the M&A market, for investments in portfolio companies where Allied Capital does not have control or the ability to gain control through an option or warrant security, Allied Capital 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, Allied Capital 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. Allied Capital 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 Allied Capital's equity investment in these portfolio companies. The determined equity values are generally discounted when Allied Capital 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, Allied Capital performs a yield analysis assuming a hypothetical current sale of the investment. The yield analysis requires Allied Capital to estimate the expected repayment date of the instrument and a market participant's required yield. Allied Capital's estimate of the expected repayment date of a loan or debt security may be shorter than the legal maturity of the instruments as Allied Capital's loans have historically 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, Allied Capital will use the value determined by the yield analysis as the fair value for that security. A change in the assumptions that Allied Capital uses to estimate the fair value of its loans and debt securities using the yield analysis could have a material impact on the determination of fair value. If there is deterioration

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in credit quality or a loan or debt security is in workout status, Allied Capital 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.

Allied Capital's equity investments in private debt and equity funds are generally valued based on the fund's net asset value, unless other factors lead to a determination of fair value at a different amount. The value of Allied Capital'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 Allied Capital's 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 for similar bonds and preferred shares/ income notes, when available. Allied Capital 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. Allied Capital determines the fair value of its CLO/CDO Assets on an individual security-by-security basis. If Allied Capital were to sell a group of these CLO/CDO Assets in a pool in one or more transactions, the total value received for that pool may be different than the sum of the fair values of the individual assets.

Allied Capital 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), Allied Capital 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, Allied Capital 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.

As a participant in the private equity business, Allied Capital invests primarily in private middle-market companies for which there is generally no publicly available information. Because of the private nature of these businesses, there is a need to maintain the confidentiality of the financial and other information that Allied Capital has for the private companies in its portfolio. Allied Capital believes that maintaining this confidence is important, as disclosure of such information could disadvantage its portfolio companies and could put Allied Capital at a disadvantage in attracting new investments. Therefore, Allied Capital does not intend to disclose financial or other information about its portfolio companies, unless required, because Allied Capital believes doing so may put them at an economic or competitive disadvantage, regardless of Allied Capital's level of ownership or control.

Allied Capital works with third-party consultants to obtain assistance in determining fair value for a portion of the private finance portfolio each quarter. Allied Capital works with these consultants to obtain assistance as additional support in the preparation of its internal valuation analysis. In addition, Allied Capital may receive third-party assessments of a particular private finance portfolio company's

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value in the ordinary course of business, most often in the context of a prospective sale transaction or in the context of a bankruptcy process.

The valuation analysis prepared by management is submitted to Allied Capital's board of directors who is ultimately responsible for the determination of fair value of the portfolio in good faith. Valuation assistance from Duff & Phelps, LLC, or "Duff & Phelps," for Allied Capital's private finance portfolio consisted of certain limited procedures, or "the Procedures," Allied Capital identified and requested them to perform. Based upon the performance of the Procedures on a selection of Allied Capital's final portfolio company valuations, Duff & Phelps concluded that the fair value of those portfolio companies subjected to the Procedures did not appear unreasonable. In addition, Allied Capital also received third-party valuation assistance from other third-party consultants for certain private finance portfolio companies. For the three and nine months ended September 30, 2009 and 2008, Allied Capital received third-party valuation assistance as follows:

	2009			2008		
	Q1	Q2	Q3	Q1	Q2	Q3
Number of private finance portfolio companies reviewed	93	91	78	124	119	128
Percentage of private finance portfolio reviewed at value	94.0%	96.9%	97.8%	94.0%	94.9%	97.2%

Professional fees for third-party valuation assistance were \$1.9 million for the year ended December 31, 2008 and are estimated to be approximately \$1.3 million for 2009.

*Net Change in Unrealized Appreciation or Depreciation*

Net change in unrealized appreciation or depreciation for the three and nine months ended September 30, 2009 and 2008 consisted of the following:

(\$ in millions)	For the Three Months September 30,		For the Nine Months September 30,	
	2009(1)	2008(1)	2009(1)	2008(1)
Net unrealized appreciation (depreciation)	\$ (36.4)	\$ (378.7)	\$ (500.2)	\$ (637.5)
Reversal of previously recorded unrealized appreciation associated with realized gains	(8.9)	(80.4)	(20.8)	(115.1)
Reversal of previously recorded net unrealized appreciation associated with dividends received	(0.4)	(1.6)	(10.8)	(15.1)
Reversal of previously recorded unrealized depreciation associated with realized losses	18.0	34.8	151.3	80.2
Net change in unrealized appreciation or depreciation	\$ (27.7)	\$ (425.9)	\$ (380.5)	\$ (687.5)

- (1) The net change in unrealized appreciation or depreciation can fluctuate significantly from period to period. As a result, quarterly comparisons may not be meaningful.

*Per Share Amounts.* All per share amounts included in Management's Discussion and Analysis of Financial Condition and Results of Operations of Allied Capital have been computed using the weighted average common shares used to compute diluted earnings per share, which were 179.1 million and 178.7 million for the three months ended September 30, 2009 and 2008, respectively, and were 178.8 million and 171.1 million for the nine months ended September 30, 2009 and 2008, respectively.

Table of Contents**Comparison of the Years Ended December 31, 2008, 2007 and 2006**

The following table summarizes Allied Capital's operating results for the years ended December 31, 2008, 2007 and 2006.

(in thousands, except per share amounts)	2008	2007	Change	Percent Change	2007	2006	Change	Percent Change
<b>Interest and Related Portfolio Income</b>								
Interest and dividends	\$ 457,418	\$ 417,576	\$ 39,842	10%	\$ 417,576	\$ 386,427	\$ 31,149	8%
Fees and other income	44,826	44,129	697	2%	44,129	66,131	(22,002)	(33)%
Total interest and related portfolio income	502,244	461,705	40,539	9%	461,705	452,558	9,147	2%
<b>Expenses</b>								
Interest	148,930	132,080	16,850	13%	132,080	100,600	31,480	31%
Employee	76,429	89,155	(12,726)	(14)%	89,155	92,902	(3,747)	(4)%
Employee stock options	11,781	35,233	(23,452)	(67)%	35,233	15,599	19,634	126%
Administrative	49,424	50,580	(1,156)	(2)%	50,580	39,005	11,575	30%
Total operating expenses	286,564	307,048	(20,484)	(7)%	307,048	248,106	58,942	24%
Net investment income before income taxes	215,680	154,657	61,023	39%	154,657	204,452	(49,795)	(24)%
Income tax expense, including excise tax	2,506	13,624	(11,118)	(82)%	13,624	15,221	(1,597)	(10)%
Net investment income	213,174	141,033	72,141	51%	141,033	189,231	(48,198)	(25)%
<b>Net Realized and Unrealized Gains (Losses)</b>								
Net realized gains (losses)	(129,418)	268,513	(397,931)	(148)%	268,513	533,301	(264,788)	(50)%
Net change in unrealized appreciation or depreciation	(1,123,762)	(256,243)	(867,519)	*	(256,243)	(477,409)	221,166	*
Total net gains (losses)	(1,253,180)	12,270	(1,265,450)	*	12,270	55,892	(43,622)	*
Net income	\$ (1,040,006)	\$ 153,303	\$ (1,193,309)	(778)%	\$ 153,303	\$ 245,123	\$ (91,820)	(37)%
<b>Diluted earnings per common share</b>								
Diluted earnings per common share	\$ (6.01)	\$ 0.99	\$ (7.00)	(707)%	\$ 0.99	\$ 1.68	\$ (0.69)	(41)%
<b>Weighted average common shares outstanding diluted</b>								
Weighted average common shares outstanding diluted	172,996	154,687	18,309	12%	154,687	145,599	9,088	6%

\*

Net change in unrealized appreciation or depreciation and net gains (losses) can fluctuate significantly from year to year. As a result, comparisons may not be meaningful.

*Total Interest and Related Portfolio Income.* Total interest and related portfolio income includes interest and dividend income and fees and other income.

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Interest and dividend income for the years ended December 31, 2008, 2007 and 2006 were composed of the following:

(\$ in millions)	2008	2007	2006
<b>Interest</b>			
Private finance loans and debt securities	\$ 393.3	\$ 376.1	\$ 348.4
Preferred shares/income notes of CLOs	34.1	18.0	11.5
Subordinated certificates in SL Fund(1)	8.3		
Commercial mortgage loans	4.1	6.4	8.3
Cash, U.S. Treasury bills, money market and other securities	4.4	15.1	14.0
<b>Total interest</b>	<b>444.2</b>	<b>415.6</b>	<b>382.2</b>
<b>Dividends</b>	<b>13.2</b>	<b>2.0</b>	<b>4.2</b>
<b>Total interest and dividends</b>	<b>\$ 457.4</b>	<b>\$ 417.6</b>	<b>\$ 386.4</b>

(1)

In June 2009, the Unitranche Fund LLC was renamed the SL Fund LLC. On October 30, 2009, Allied Capital sold its investment, including its outstanding commitments and the provision of management services, in the SL Fund to Ares Capital.

The level of interest income, which includes interest paid in cash and in kind, is directly related to the balance of the interest-bearing investment portfolio outstanding during the year multiplied by the weighted average yield. The interest-bearing investments in the portfolio at value and the yield on the interest-bearing investments in the portfolio at December 31, 2008, 2007 and 2006 were as follows:

(\$ in millions)	2008		2007		2006	
	Value	Yield(1)	Value	Yield(1)	Value	Yield(1)
<b>Private finance:</b>						
Loans and debt securities:						
Senior loans	\$ 306.3	5.6%	\$ 344.3	7.7%	\$ 405.2	8.4%
Unitranche debt	456.4	12.0%	653.9	11.5%	799.2	11.2%
Subordinated debt	1,829.1	12.9%	2,416.4	12.8%	1,980.8	12.9%
Equity securities:						
Preferred shares/income notes of CLOs	179.2	16.4%	203.0	14.6%	97.2	15.5%
Subordinated certificates in SL Fund	125.4	12.0%	0.7	12.4%		
<b>Commercial real estate:</b>						
Commercial mortgage loans	53.5	7.4%	65.4	6.8%	71.9	7.5%
<b>Total interest-bearing investments</b>	<b>\$ 2,949.9</b>	<b>12.1%</b>	<b>\$ 3,683.7</b>	<b>12.1%</b>	<b>\$ 3,354.3</b>	<b>11.9%</b>

(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 interest-bearing investments at value. The

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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) preferred shares/income notes of CLOs at value. The weighted average yield on the subordinated certificates in the SL Fund is computed as the (a) annual stated interest, divided by (b) total investment at value. This yield excludes any return from the potential future excess cash flows from portfolio earnings available to the subordinated certificate holders and from related structuring fees and

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management and sourcing fees. See " Fees and Other Income" below. The weighted average yields are computed as of the balance sheet date.

Interest income has increased over the 2006 through 2008 period as a result of increases in the interest-bearing portfolio as a percent of the total portfolio. Interest-bearing investments represented 84%, 77% and 75% of the total portfolio at value at December 31, 2008, 2007 and 2006, respectively. The weighted average yield varies from period to period based on the current stated interest on interest-bearing investments, the yield on interest-bearing investments funded, the yield on amounts repaid, the amount of interest-bearing investments for which interest is not accruing, changes in value of interest-bearing investments and the mix of interest-bearing investments in the portfolio, including the amount of lower-yielding senior or unitranche debt in the portfolio at the end of the period. Allied Capital currently intends to exit several interest-bearing investments in order to accumulate capital for repayment of debt. As a result, Allied Capital expects that income from its interest-bearing investments will decrease in 2009.

Dividend income results from the dividend yield on preferred equity interests, if any, or the declaration of dividends by a portfolio company on preferred or common equity interests. Dividend income for the year ended December 31, 2008 was \$13.2 million as compared to \$2.0 million for the year ended December 31, 2007. Dividend income for 2008 includes a \$3.1 million dividend received in connection with the recapitalization of Norwesco, Inc. and \$6.4 million of dividends received in connection with the sale of certain portfolio assets to AGILE Fund I, LLC. Dividend income will vary from period to period depending upon the timing and amount of dividends that are declared or paid by a portfolio company on preferred or common equity interests.

*Fees and Other Income*

Fees and other income primarily include fees related to financial structuring, diligence, transaction services, management and consulting services to portfolio companies, commitments, guarantees and other services and loan prepayment premiums. As a BDC, Allied Capital is required to make significant managerial assistance available to the companies in its investment portfolio. Managerial assistance includes, but is not limited to, management and consulting services related to corporate finance, marketing, human resources, personnel and board member recruiting, business operations, corporate governance, risk management and other general business matters.

Fees and other income for the years ended December 31, 2008, 2007 and 2006 included fees relating to the following:

(\$ in millions)	2008	2007	2006
Structuring and diligence	\$ 19.2	\$ 20.7	\$ 37.3
Management, consulting and other services provided to portfolio companies(1)	11.4	9.6	11.1
Commitment, guaranty and other fees from portfolio companies(2)	6.3	9.3	8.8
Fund management fees(3)	6.1	0.5	
Loan prepayment premiums	0.6	3.7	8.8
Gain on prepayment of notes payable(4)	1.1		
Other income	0.1	0.3	0.1
<b>Total fees and other income</b>	<b>\$ 44.8</b>	<b>\$ 44.1</b>	<b>\$ 66.1</b>

(1)

2006 includes \$1.8 million in management fees from Advantage prior to its sale on March 29, 2006. 2006 included management fees from Ciena of \$1.7 million. Allied Capital did not charge Ciena management fees in 2008, 2007 or in the fourth quarter of 2006. See " Private Finance Ciena Capital LLC" above.

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- (2) Includes guaranty and other fees from Ciena of \$0, \$5.4 million and \$6.1 million for 2008, 2007 and 2006, respectively. See " Private Finance Ciena Capital LLC" above.
- (3) See " Portfolio and Investment Activity Managed Funds" above.
- (4) In December 2008, Allied Capital prepaid private notes at a discount, which resulted in a net gain of \$1.1 million. See " Financial Condition, Liquidity and Capital Resources" below.

Fees and other income generally are related to specific transactions or services and, therefore, may vary substantially from year to year depending on the level of investment activity and the types of services provided and the level of assets in Allied Capital Managed Funds for which Allied Capital earns management or other fees. Allied Capital added two new Allied Capital Managed Funds in 2008, which resulted in an increase in fund management fees. Given Allied Capital's outlook for future investment activity for its balance sheet as well as for certain Allied Capital Managed Funds, Allied Capital expects that fee income in the future will reflect lower new investment levels. Loan origination fees that represent yield enhancement on a loan are capitalized and amortized into interest income over the life of the loan.

Structuring and diligence fees for the year ended December 31, 2008 included \$10.4 million earned by Allied Capital in connection with investments made by the SL Fund. See " Managed Funds" above. The remainder of the structuring and diligence fees primarily relate to the level of new investment execution activities, which were lower in 2008 than 2007. Private finance investments funded were \$1.1 billion for the year ended December 31, 2008, as compared to \$1.8 billion and \$2.4 billion for the years ended December 31, 2007 and 2006, respectively. Because Allied Capital expects a significant reduction in new investment activity, Allied Capital expects structuring and diligence fees to be lower in 2009.

Loan prepayment premiums for the year ended December 31, 2006, included \$5.0 million related to the repayment of Allied Capital's subordinated debt in connection with the sale of its majority equity interest in Advantage in 2006. While the scheduled maturities of private finance and commercial real estate loans generally range from five to ten years, it is not unusual for borrowers to refinance or pay off their debts to Allied Capital ahead of schedule. Therefore, Allied Capital generally structures its loans to require a prepayment premium for the first three to five years of the loan. Accordingly, the amount of prepayment premiums will vary depending on the level of repayments and the age of the loans at the time of repayment. In the current economic environment, Allied Capital would expect loan prepayment premiums to be negligible.

*Operating Expenses.* Operating expenses include interest, employee, employee stock options and administrative expenses.

*Interest Expense*

The fluctuations in interest expense during the years ended December 31, 2008, 2007 and 2006 primarily were attributable to changes in the level of Allied Capital's borrowings under various notes payable and its revolving line of credit as well as an increase in Allied Capital's weighted average cost



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of debt capital. Allied Capital's borrowing activity and weighted average cost of debt, including fees and debt financing costs, at and for the years ended December 31, 2008, 2007 and 2006, were as follows:

(\$ in millions)	2008	2007	2006
Total outstanding debt	\$ 1,945.0	\$ 2,289.5	\$ 1,899.1
Average outstanding debt	\$ 2,091.6	\$ 1,924.2	\$ 1,491.0
Weighted average cost(1)	7.7%	6.5%	6.5%

- (1) The weighted average annual interest cost is computed as the (a) annual stated interest rate on the debt plus the annual amortization of commitment fees, other facility fees and debt financing costs that are recognized into interest expense over the contractual life of the respective borrowings, divided by (b) debt outstanding on the balance sheet date.

At the end of the fourth quarter of 2008, Allied Capital amended its private notes and revolving line of credit, which increased the stated interest rate on those obligations by 100 basis points. Subsequent to this amendment, events of default occurred on these instruments. Pursuant to the terms of the revolving credit facility, during the continuance of an event of default, the applicable spread on any borrowings outstanding and fees on any letters of credit outstanding under the revolving credit facility increase by up to an additional 200 basis points. Pursuant to the private notes, during the continuance of an event of default, the rate of interest borne by the private notes increases by an additional 200 basis points. See " Financial Condition, Liquidity and Capital Resources" below.

In addition, interest expense included interest paid to the IRS related to installment sale gains totaling \$7.7 million, \$5.8 million and \$0.9 million for the years ended December 31, 2008, 2007 and 2006, respectively. See " Dividends and Distributions" below.

*Employee Expense*

Employee expenses for the years ended December 31, 2008, 2007 and 2006 were as follows:

(\$ in millions)	2008	2007	2006
Salaries and employee benefits	\$ 63.2	\$ 83.9	\$ 73.8
Individual performance award (IPA)	8.5	9.8	8.1
IPA mark to market expense (benefit)	(4.1)	(14.0)	2.9
Individual performance bonus (IPB)	8.8	9.5	8.1
<b>Total employee expense(1)</b>	<b>\$ 76.4</b>	<b>\$ 89.2</b>	<b>\$ 92.9</b>

Number of employees at end of period	152	177	170
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- (1) Excludes stock options expense. See below.

During the third quarter of 2008, Allied Capital consolidated its investment execution activities to its Washington, D.C. headquarters and its office in New York in an effort to improve Allied Capital's operating efficiencies. As Allied Capital transitioned and consolidated its operations, Allied Capital reduced its headcount by approximately 30 employees in the third quarter of 2008. In January 2009, Allied Capital terminated an additional 20 employees and further consolidated its operations. As a result of these headcount reductions, Allied Capital incurred severance expense of \$9.7 million for the year ended December 31, 2008. Severance expense is included in salaries and employee benefits.

During 2008, Allied Capital substantially decreased its bonus pool from \$40.1 million in 2007 to \$1.0 million in 2008. In addition, Allied Capital accrued \$11.2 million in performance awards in 2008 which are included in salaries and employee benefits expense. In lieu of paying these amounts as a 2008 bonus, Allied Capital will pay these amounts in four quarterly installments ending on January 15,

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2010. An employee must be employed on the quarterly payment dates in order to receive the quarterly payment. Allied Capital's Chief Executive Officer, Chief Operating Officer and Chief Financial Officer received no bonus or performance award for 2008. Primarily as a result of the reductions in employee headcount and bonus pool, salaries and employee benefits decreased in 2008 as compared to 2007.

The IPA and IPB are part of an incentive compensation program for certain officers and are generally determined annually at the beginning of each year but may be adjusted throughout the year. In 2008, IPAs were 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 Allied Capital 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 Allied Capital. Allied Capital has not established an IPA or IPB for 2009.

The trusts for the IPA payments were consolidated with Allied Capital's accounts. The common stock was classified as common stock held in deferred compensation trust in Allied Capital's 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 Allied Capital 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. On December 14, 2007, Allied Capital's board of directors made a determination that it was in Allied Capital's best interest to terminate its deferred compensation arrangements. Allied Capital's board of director's decision primarily was in response to increased complexity resulting from recent changes in the regulation of deferred compensation arrangements. Allied Capital's board of directors resolved that the accounts under these arrangements would be distributed to participants in full on March 18, 2008, the termination and distribution date, or as soon as was reasonably practicable thereafter, in accordance with the provisions of each of these arrangements.

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 Allied Capital common stock, net of required withholding taxes. The distribution of the accounts under the deferred compensation arrangements resulted in a tax deduction for 2008, subject to the limitations set by Section 162(m) of the Code for persons subject to such section.

*Stock Options Expense*

The stock option expense for the years ended December 31, 2008, 2007 and 2006 was as follows:

(\$ in millions)	2008	2007	2006
Employee Stock Option Expense:			
Options granted:			
Previously awarded, unvested options as of January 1, 2006	\$ 3.9	\$ 10.1	\$ 13.2
Options granted on or after January 1, 2006	7.9	10.7	2.4
Total options granted	11.8	20.8	15.6
Options cancelled in connection with tender offer (see below)		14.4	
Total employee stock option expense	\$ 11.8	\$ 35.2	\$ 15.6

In addition to employee stock option expense, administrative expense included \$0.1 million, \$0.2 million and \$0.2 million for the years ended December 31, 2008, 2007 and 2006, respectively, for options granted to non-officer directors. Options granted to non-officer directors vest on the grant date and, therefore, the full expense is recorded on the grant date.

Table of Contents*Options Cancelled in Connection with Tender Offer*

On July 18, 2007, Allied Capital completed a tender offer to its optionees who held vested "in-the-money" stock options as of June 20, 2007, where optionees received an option cancellation payment, or "OCP," equal to the "in-the-money" value of the stock options cancelled determined using a weighted average market price of \$31.75 paid one-half in cash and one-half in unregistered shares of Allied Capital common stock. Allied Capital accepted for cancellation 10.3 million vested options held by employees and non-officer directors, 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 Allied Capital common stock. Allied Capital's stockholders approved the issuance of the shares of Allied Capital common stock in exchange for the cancellation of vested "in-the-money" stock options at Allied Capital's 2006 annual meeting of stockholders. Cash payments to employee optionees were paid net of required payroll and income tax withholdings.

In accordance with the terms of the tender offer, the weighted average market price represented the volume weighted average price of Allied Capital 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 Allied Capital common stock at the close of the offer on July 18, 2007, SFAS 123R required Allied Capital 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 Allied Capital's net asset value. The portion of the OCP paid in cash of \$52.8 million reduced Allied Capital's additional paid-in capital and therefore reduced its net asset value. For income tax purposes, Allied Capital'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 resulting from the OCP or an exercise of stock options in the market is limited by Section 162(m) of the Code.

*Administrative Expense*

Administrative expenses include legal and accounting fees, valuation assistance fees, insurance premiums, the cost of leases for Allied Capital's headquarters in Washington, D.C. and its regional offices, portfolio origination and development expenses, travel costs, stock record expenses, directors' fees and related stock options expense and various other expenses.

(\$ in millions)	2008	2007	2006
Administrative expenses	\$ 48.3	\$ 44.8	\$ 34.0
Investigation and litigation costs	1.1	5.8	5.0
<b>Total</b>	<b>\$ 49.4</b>	<b>\$ 50.6</b>	<b>\$ 39.0</b>

Administrative expenses for 2008 were \$48.3 million, as compared to administrative expenses of \$44.8 million for 2007. Administrative expenses in 2007 included costs of \$1.4 million incurred to engage a third party to conduct a review of Ciena's internal control systems. See " Private Finance Ciena Capital LLC" above. In addition, administrative expenses included \$2.5 million in placement fees related to securing equity commitments to the SD Fund in the second quarter of 2007. Excluding these costs, administrative expenses for 2007 were \$40.9 million. The increase from 2007 (excluding these costs) was \$7.4 million, which was primarily related to an increase in corporate legal costs of \$2.5 million, loss on disposal of fixed assets of \$0.9 million and an increase in costs related to investor relations and proxy solicitation of \$0.6 million.

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Administrative expenses, excluding certain costs outlined above, were \$40.9 million for 2007 as compared to \$34.0 million for 2006. The \$6.9 million increase from 2006 primarily was due to increased expenses related to directors' fees of \$1.6 million, an increase in stock record expenses of \$0.7 million due to the increase in Allied Capital's stockholder base, an increase in rent expense of \$0.7 million and an increase in costs related to evaluating potential new investments of \$0.7 million.

Investigation and litigation costs are difficult to predict and may vary from year to year. See "Business of Allied Capital Legal Proceedings."

*Income Tax Expense, Including Excise Tax.* Income tax expense for the years ended December 31, 2008, 2007 and 2006 was as follows:

(\$ in millions)	2008	2007	2006
Income tax expense (benefit)	\$ 3.1	\$ (2.7)	\$ 0.1
Excise tax expense (benefit)(1)	(0.6)	16.3	15.1
<b>Income tax expense, including excise tax</b>	<b>\$ 2.5</b>	<b>\$ 13.6</b>	<b>\$ 15.2</b>

- (1) While excise tax expense is presented in Allied Capital's consolidated statement of operations as a reduction to net investment income, excise tax relates to both net investment income and net realized gains.

Allied Capital's wholly owned subsidiary, A.C. Corporation, is a corporation subject to federal and state income taxes and records a benefit or expense for income taxes as appropriate based on its operating results in a given period. Allied Capital met its dividend distribution requirements for the 2008 tax year and, therefore, it did not record an excise tax for the year ended December 31, 2008. See "Dividends and Distributions" below.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. This interpretation is effective for fiscal years beginning after December 15, 2006. The adoption of this interpretation did not have a significant effect on Allied Capital's consolidated financial position or its results of operations.

*Realized Gains and Losses.* Net realized gains or losses primarily result from the sale of equity securities associated with certain private finance investments and the realization of unamortized discount resulting from the sale and early repayment of private finance loans and commercial mortgage loans, offset by losses on investments. Net realized gains (losses) for the years ended December 31, 2008, 2007 and 2006 were as follows:

(\$ in millions)	2008	2007	2006
Realized gains	\$ 150.5	\$ 400.5	\$ 557.5
Realized losses	(279.9)	(132.0)	(24.2)
<b>Net realized gains (losses)</b>	<b>\$ (129.4)</b>	<b>\$ 268.5</b>	<b>\$ 533.3</b>

When Allied Capital exits an investment and realizes a gain or loss, it makes an accounting entry to reverse any unrealized appreciation or depreciation, respectively, it had previously recorded to reflect the appreciated or depreciated value of the investment. For the years ended December 31, 2008,

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2007 and 2006, Allied Capital reversed previously recorded unrealized appreciation or depreciation when gains or losses were realized as follows:

(\$ in millions)	2008	2007	2006
Reversal of previously recorded net unrealized appreciation associated with realized gains	\$ (119.6)	\$ (332.6)	\$ (501.5)
Reversal of previously recorded net unrealized appreciation associated with dividends received	(11.5)	(1.1)	
Reversal of previously recorded net unrealized depreciation associated with realized losses	249.9	140.9	22.5
Total reversal	\$ 118.8	\$ (192.8)	\$ (479.0)

Realized gains for the years ended December 31, 2008, 2007 and 2006, were as follows:

(\$ in millions)	2008	Amount
<b>Portfolio Company</b>		
<b>Private Finance:</b>		
Norwesco, Inc.		\$ 104.9
BI Incorporated		7.9
BenefitMall, Inc.		4.9
Mercury Air Centers, Inc.		6.0
Advantage Sales and Marketing, Inc.(3)		3.4
Financial Pacific Company		3.1
Passport Health Communications, Inc.		1.8
Service Champ, Inc.		1.7
HMT, Inc.		1.6
Coverall North America, Inc.		1.4
Penn Detroit Diesel Allison, LLC		1.4
Avborne Heavy Maintenance		1.2
MedAssets, Inc.		1.3
Legacy Partners Group, Inc.		1.3
Other		8.2
Total Private Finance		150.1
<b>Commercial Real Estate:</b>		
Other		0.4
Total Commercial Real Estate		0.4
Total realized gains		\$ 150.5

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	2007	
Portfolio Company		Amount
<b>Private Finance:</b>		
Mercury Air Centers, Inc.		\$ 262.4
HMT, Inc.		39.9
Healthy Pet Corp.		36.6
Palm Coast Data, LLC		20.0
Woodstream Corporation		14.6
Wear Me Apparel Corporation		6.1
Mogas Energy, LLC		5.7
Tradesmen International, Inc.		3.8
ForeSite Towers, LLC		3.8
Advantage Sales & Marketing, Inc.		3.4
Geotrace Technologies, Inc.		1.1
Other		3.0
Total private finance		400.4
<b>Commercial Real Estate:</b>		
Other		0.1
Total commercial real estate		0.1
Total realized gains		\$ 400.5

	2006	
Portfolio Company		Amount
<b>Private Finance:</b>		
Advantage Sales & Marketing, Inc.(1)		\$ 434.4
STS Operating, Inc.		94.8
Oriental Trading Company, Inc.		8.9
Advantage Sales & Marketing, Inc.(2)		4.8
United Site Services, Inc.		3.3
Component Hardware Group, Inc.		2.8
Opinion Research Corporation		1.9
Nobel Learning Communities, Inc.		1.5
MHF Logistical Solutions, Inc.		1.2
The Debt Exchange, Inc.		1.1
Other		1.5
Total private finance		556.2
<b>Commercial Real Estate:</b>		
Other		1.3
Total commercial real estate		1.3
Total realized gains		\$ 557.5

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(1)

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Represents the realized gain on Allied Capital's majority equity investment only. See " Private Finance" above.

(2)

Represents a realized gain on Allied Capital's minority equity investment only. See " Private Finance" above.

(3)

Includes an additional realized gain of \$1.9 million related to the release of escrowed funds from the sale of Allied Capital's majority equity investment in 2006.

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Realized losses for the years ended December 31, 2008, 2007 and 2006 were as follows:

(\$ in millions)

	2008	
Portfolio Company		Amount
<b>Private Finance:</b>		
Ciena Capital LLC	\$	98.9
Alaris Consulting, LLC		36.0
Pendum, Inc.		34.0
Line-X, Inc.		23.3
Creative Group, Inc.		15.6
Driven Brands, Inc.		10.8
Triview Investments, Inc.		8.6
MedBridge Healthcare LLC		7.6
Garden Ridge Corporation		5.4
Mid-Atlantic Venture Fund IV, L.P.		5.2
WMA Equity Corporation (and affiliates)		4.5
Legacy Partners Group, Inc.		4.3
Direct Capital Corporation		1.7
EarthColor, Inc.		1.7
Crescent Equity Corp. Longview Cable & Data, LLC		1.6
Summit Energy Services, Inc.		1.6
Sweet Traditions, Inc.		1.6
Walker Investment Fund II, LLLP		1.4
United Road Towing		1.3
Other		10.2
Total Private Finance		275.3
<b>Commercial Real Estate:</b>		
Other		4.6
Total commercial real estate		4.6
Total realized losses	\$	279.9

	2007	
Portfolio Company		Amount
<b>Private Finance:</b>		
Global Communications, LLC	\$	34.3
Jakel, Inc.		24.8
Startec Global Communications, Inc.		20.2
Gordian Group, Inc.		19.3
Powell Plant Farms, Inc.		11.6
Universal Environmental Services, LLC		8.6
PresAir, LLC		6.0
Legacy Partners Group, LLC		5.8
Alaris Consulting, LLC		1.0
Other		0.4
Total realized losses	\$	132.0





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	2006	
Portfolio Company		Amount
<b>Private Finance:</b>		
Staffing Partners Holding Company, Inc.	\$	10.6
Acme Paging, L.P.		4.7
Cooper Natural Resources, Inc.		2.2
Aspen Pet Products, Inc.		1.6
Nobel Learning Communities, Inc.		1.4
Other		1.6
Total private finance		22.1
<b>Commercial Real Estate:</b>		
Other		2.1
Total commercial real estate		2.1
Total realized losses	\$	24.2

Realized gains and losses for the year ended December 31, 2008 included a net realized gain totaling \$8.3 million (subsequent to post-closing adjustments) from the sale of certain investments to AGILE Fund I, LLC in the first quarter of 2008. In addition, realized losses for the year ended December 31, 2008 included \$7.0 million (subsequent to post-closing adjustments) related to the sale of certain venture capital and private equity limited partnership investments to a fund managed by Goldman Sachs. For the year ended December 31, 2008, net realized losses also include net realized losses totaling \$7.3 million resulting from the sale of loans and debt securities totaling \$216.3 million to the SD Fund and the Knightsbridge Funds. For the year ended December 31, 2007, net realized gains also include net realized gains totaling \$1.0 million resulting from the sale of loans and debt securities totaling \$224.2 million to the SD Fund. See " Managed Funds" above.

*Change in Unrealized Appreciation or Depreciation.* Allied Capital determines the value of each investment in its portfolio on a quarterly basis and changes in value result in unrealized appreciation or depreciation being recognized in Allied Capital's statement of operations. Value, as defined in Section 2(a)(41) of the Investment Company Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) for all other securities and assets, fair value is as determined in good faith by the board of directors. Since there is typically no readily available market value for the investments in its portfolio, Allied Capital values substantially all of its portfolio investments at fair value as determined in good faith by Allied Capital's board of directors in accordance with Allied Capital's valuation policy and the provisions of the Investment Company Act and the Statement. Allied Capital 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. At December 31, 2008, portfolio investments recorded at fair value using level 3 inputs (as defined under the Statement) were approximately 94% of Allied Capital's total assets. Because of the inherent uncertainty of determining the fair value of investments that do not have a readily available market quotation in an active market, the fair value of Allied Capital's investments determined in good faith by its 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. For a discussion of Allied Capital's valuation methodology, see " Results of Operations Comparison of Three and Nine Months ended September 30, 2009 and 2008 Change in Unrealized Appreciation or Depreciation" and " Results of Operations Comparison of Three and Nine Months ended September 30, 2009 and 2008 Valuation Methodology" above.

The valuation analysis prepared by management is submitted to Allied Capital's board of directors who is ultimately responsible for the determination of fair value of the portfolio in good faith.

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Valuation assistance from Duff & Phelps for Allied Capital's private finance portfolio consisted of the Procedures Allied Capital has identified and requested them to perform. Based upon the performance of the Procedures on a selection of Allied Capital's final portfolio company valuations, Duff & Phelps concluded that the fair value of those portfolio companies subjected to the Procedures did not appear unreasonable. In addition, Allied Capital also received third-party valuation assistance from other third-party consultants for certain private finance portfolio companies. For the years ended December 31, 2008, 2007 and 2006, Allied Capital received third-party valuation assistance as follows:

	<b>2008</b>			
	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
Number of private finance portfolio companies reviewed	97	128	119	124
Percentage of private finance portfolio reviewed at value	91.6%	97.2%	94.9%	94.0%

	<b>2007</b>			
	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
Number of private finance portfolio companies reviewed	112	135	92	88
Percentage of private finance portfolio reviewed at value	91.1%	92.1%	92.1%	91.8%

	<b>2006</b>			
	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
Number of private finance portfolio companies reviewed	81	105	78	78
Percentage of private finance portfolio reviewed at value	82.9%	86.5%	89.6%	87.0%

Professional fees for third-party valuation assistance for the years ended December 31, 2008, 2007 and 2006 were \$1.9 million, \$1.8 million and \$1.5 million, respectively.

### *Net Change in Unrealized Appreciation or Depreciation*

Net change in unrealized appreciation or depreciation for the years ended December 31, 2008, 2007 and 2006 consisted of the following:

<b>(\$ in millions)</b>	<b>2008(1)</b>	<b>2007(1)</b>	<b>2006(1)</b>
Net unrealized appreciation (depreciation)(2)	\$ (1,242.6)	\$ (63.4)	\$ 1.6
Reversal of previously recorded unrealized appreciation associated with realized gains	(119.6)	(332.6)	(501.5)
Reversal of previously recorded net unrealized appreciation associated with dividends received	(11.5)	(1.1)	
Reversal of previously recorded unrealized depreciation associated with realized losses	249.9	140.9	22.5
<b>Net change in unrealized appreciation or depreciation</b>	<b>\$ (1,123.8)</b>	<b>\$ (256.2)</b>	<b>\$ (477.4)</b>

- 
- (1) The net change in unrealized appreciation or depreciation can fluctuate significantly from year to year. As a result, annual comparisons may not be meaningful.
- (2) The sale of certain of Allied Capital's portfolio investments to Goldman Sachs that occurred in the first quarter of 2008 provided transaction values for 59 portfolio investments that were used in the December 31, 2007 valuation process.

The primary drivers of the net unrealized depreciation of \$1.2 billion related to changes in portfolio value for the year ended December 31, 2008 were (1) additional depreciation of \$296.0 million related to Allied Capital's investment in Ciena resulting from the decline in value of



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their residual interest assets and other financial assets as discussed below, (2) depreciation on non-buyout debt investments totaling \$87.2 million primarily as a result of using a yield analysis, (3) depreciation of \$278.7 million on six companies in the consumer products and retail industries, (4) depreciation in Allied Capital's other financial services and asset management portfolio companies and its CLO/CDO Assets, which totaled \$254.0 million, (5) depreciation of \$110.1 million on four companies in the automotive/RV parts and services industry and (6) decreased enterprise values as a result of the decline in market benchmarks and, in some cases, lower EBITDA generally driven by current economic conditions, including rising oil and food prices.

In the current economic environment, the values of financial assets have declined significantly and it is difficult to predict when the values for financial assets will cease to decrease in value. As a result, Allied Capital may continue to experience further net unrealized depreciation in its portfolio due to declining asset values. In addition, Allied Capital may continue to experience further net unrealized depreciation in its portfolio due to declining values or due to decreased operating performance of its portfolio companies in this difficult economy. Also, Allied Capital may choose to sell assets for proceeds totaling less than fair value in order to generate capital to repay debt.

*Valuation of Ciena Capital LLC.* Allied Capital's investment in Ciena totaled \$547.8 million at cost and \$104.9 million at value, which included unrealized depreciation of \$442.9 million, at December 31, 2008 and \$327.8 million at cost and \$68.6 million at value, which included unrealized depreciation of \$259.2 million, at December 31, 2007. Net change in unrealized appreciation or depreciation for the year ended December 31, 2008 included a decrease in Allied Capital'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 Allied Capital's Class A equity interests in Ciena. Net change in unrealized appreciation or depreciation related to Allied Capital's investment in Ciena included a net decrease of \$174.5 million and \$142.3 million for the years ended December 31, 2007 and 2006, respectively. To value its investment at December 31, 2008, Allied Capital continued to consider the effect of Ciena's voluntary filing for bankruptcy protection. See " Private Finance Ciena Capital LLC" above.

Ciena's origination platform has been discontinued and Allied Capital continues to attribute no value to Ciena's enterprise due to the state of the securitization markets, among other factors. Allied Capital valued its investment in Ciena at December 31, 2008 solely based on the estimated net realizable value of Ciena's assets, including the estimated net realizable value of the cash flows generated from Ciena's retained interests in its current servicing portfolio, which includes portfolio servicing fees as well as cash flows from Ciena's equity investments in its securitizations and its interest-only strip. The decrease in value primarily is a result of the continued decline in the fair value of the assets supporting Ciena's retained interests and assets held on Ciena's balance sheet. This decrease primarily is a result of an increase in borrower defaults in the current economic environment and decreasing values for assets. Allied Capital also continued to consider Ciena's current regulatory issues and ongoing investigations and litigation in performing the valuation analysis at December 31, 2008. See " Private Finance Ciena Capital LLC" above.

At December 31, 2008, Allied Capital had standby letters of credit issued under its line of credit of \$102.6 million in connection with term securitization transactions completed by Ciena. Allied Capital no longer has any outstanding standby letters of credit issued under its former revolving line of credit. Allied Capital has considered any funding under the letters of credit in the valuation of Ciena at December 31, 2008. See " Financial Condition, Liquidity and Capital Resources" below.

Allied Capital received valuation assistance from Duff & Phelps for its investment in Ciena at December 31, 2008, 2007 and 2006. See " Valuation Methodology" above for further discussion of the third-party valuation assistance Allied Capital received.

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*Per Share Amounts.* All per share amounts included in Management's Discussion and Analysis of Financial Condition and Results of Operations of Allied Capital have been computed using the weighted average common shares used to compute diluted earnings per share, which were 173.0 million, 154.7 million and 145.6 million for the years ended December 31, 2008, 2007 and 2006, respectively.

**Other Matters**

*Regulated Investment Company Status*

Allied Capital has elected to be taxed as a RIC under Subchapter M of the Code. In order to maintain its status as a RIC and obtain RIC tax benefits, Allied Capital must, in general, (1) continue to qualify as a BDC; (2) derive at least 90% of its gross income from dividends, interest, gains from the sale of securities and other specified types of income; (3) meet asset diversification requirements as defined in the Code; and (4) timely distribute to stockholders at least 90% of its annual investment company taxable income (i.e., net ordinary investment income) as defined in the Code.

With respect to taxable realized net long-term capital gains, Allied Capital may choose to (1) distribute, (2) deem to distribute, or (3) retain and pay corporate level tax on such gains.

Allied Capital currently qualifies as a RIC. However, there can be no assurance that Allied Capital will continue to qualify for such treatment in future years.

As long as Allied Capital qualifies as a RIC, it is not taxed on its investment company taxable income or realized net capital gains, to the extent that such taxable income or gains are distributed, or deemed to be distributed, to stockholders on a timely basis. Taxable income includes Allied Capital's taxable interest, dividend and fee income, as well as taxable net capital gains. Taxable income generally differs from net income 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 generally are not included in taxable income until they are realized. In addition, gains realized for financial reporting purposes may differ from gains included in taxable income as a result of Allied capital's election to recognize gains using installment sale treatment, which generally results in the deferment of gains for tax purposes until notes or other amounts, including amounts held in escrow, received as consideration from the sale of investments are collected in cash. Taxable income includes non-cash income, such as payment-in-kind interest and dividends and the amortization of discounts and fees. Cash collections of income resulting from contractual payment-in-kind interest or the amortization of discounts and fees generally occur upon the repayment of the loans or debt securities that include such items. Non-cash taxable income is reduced by non-cash expenses, such as realized losses and depreciation and amortization expense.

Taxable income available for distribution includes investment company taxable income and, to the extent not deemed to be distributed or retained, net long-term capital gains. To the extent that annual taxable income available for distribution exceeds dividends paid or deemed distributed from such taxable income for the year, Allied Capital may carry over the excess taxable income into the next year and such excess income will be available for distribution in the next year as permitted under the Code (see discussion below). Such excess income will be treated under the Code as having been distributed during the prior year for purposes of Allied Capital's qualification for RIC tax treatment for such year. The maximum amount of excess taxable income that Allied Capital may carry over for distribution in the next year under the Code is the total amount of dividends paid in the following year, subject to certain declaration and payment guidelines. Excess taxable income carried over and paid out in the next year is generally subject to a nondeductible 4% excise tax.

Table of Contents*Dividends and Distributions*

Allied Capital has elected to be taxed as a RIC under Subchapter M of the Code. As a RIC, Allied Capital is required to distribute substantially all of its investment company taxable income to stockholders through the payment of dividends. In certain circumstances, Allied Capital is restricted in its ability to pay dividends. Each of Allied Capital's private notes and its bank facility contain provisions that limit the amount of dividends Allied Capital can pay. In addition, pursuant to the Investment Company Act, Allied Capital may be precluded from declaring dividends or other distributions to its stockholders unless its asset coverage is at least 200%.

Allied Capital has met its dividend distribution requirements for the 2008 tax year. Allied Capital intends to retain capital in 2009 in order to achieve the 200% asset coverage threshold under the Investment Company Act and currently estimates that it will have no distribution requirement for 2009; therefore, Allied Capital currently does not expect to declare dividends in 2009. In August 2009, Allied Capital completed a restructuring of its bank facility and its private notes. The restructured debt significantly increases Allied Capital's cost of capital. As a result, Allied Capital expects its profitability will be substantially reduced and that it will not be able to pay a cash dividend for an extended period of time. No dividends were paid or declared for the three and nine months ended September 30, 2009. Dividends to common stockholders were \$0.65 per share each quarter for the first three quarters of 2008.

Allied Capital currently qualifies as a RIC. However, there can be no assurance that Allied Capital will be able to comply with the RIC requirements to distribute income for the current and future years and Allied Capital may be required to pay a corporate-level income tax.

Total dividends to Allied Capital's common stockholders were \$2.60, \$2.57 and \$2.42, per common share for the years ended December 31, 2008, 2007 and 2006, respectively. An extra cash dividend of \$0.07 and \$0.05 per common share was declared during each of 2007 and 2006 and was paid to shareholders on December 27, 2007 and January 19, 2007, respectively.

The summary of Allied Capital's taxable income and distributions of such taxable income for the years ended December 31, 2008, 2007 and 2006 is as follows:

(\$ in millions)	2008	2007	2006
Taxable income(1)	\$ 40.4	\$ 397.8	\$ 601.2
Taxable income earned in prior year and carried forward and distributed in current year	393.3	402.8	156.5
Taxable income earned in current year and carried forward for distribution in next year		(393.3)	(402.8)
Distributions from accumulated earnings	22.8		
<b>Total dividends to common shareholders</b>	<b>\$ 456.5</b>	<b>\$ 407.3</b>	<b>\$ 354.9</b>

(1) See Note 10, "Dividends and Distributions and Taxes" of the notes to Allied Capital's consolidated financial statements for the year ending December 31, 2008 for further information on the differences between net income for book purposes and taxable income.

Allied Capital had cumulative deferred taxable income related to installment sale gains of approximately \$218.9 million as of December 31, 2008. These gains were recognized for financial reporting purposes in the respective years they were realized, but are deferred for tax purposes until the notes or other amounts received from the sale of the related investments are collected in cash. See " Other Matters Regulated Investment Company Status" above. To the extent that installment sale gains are deferred for recognition in taxable income, Allied Capital pays interest to the IRS. Installment-related interest expense for the years ended December 31, 2008, 2007 and 2006, was

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\$7.7 million, \$5.8 million and \$0.9 million, respectively. This interest is included in interest expense in Allied Capital's consolidated statement of operations.

*Financial Condition, Liquidity and Capital Resources*

At September 30, 2009 and December 31, 2008 and 2007, Allied Capital's cash and investments in money market and other securities, total assets, total debt outstanding, total stockholders' equity, debt to equity ratio and asset coverage for senior indebtedness were as follows:

(\$ in millions)	September 30, 2009	December 31, 2008      2007	
Cash and investments in money market and other securities (including money market and other securities: 2009 \$90.0; 2008 \$0.3, 2007 \$201.2)	\$ 153.4	\$ 50.7	\$ 204.8
Total assets	\$ 2,840.2	\$ 3,722.2	\$ 5,214.6
Total debt outstanding	\$ 1,636.5	\$ 1,945.0	\$ 2,289.5
Total shareholders' equity	\$ 1,201.3	\$ 1,718.4	\$ 2,771.8
Debt to equity ratio	1.33	1.13	0.83
Asset coverage ratio(1)	175%	188%	221%

(1)