

ARES CAPITAL CORP  
Form 10-Q  
August 05, 2014  
Table of Contents

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

---

**FORM 10-Q**

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

**For the quarterly period ended June 30, 2014**

**OR**

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

**For the transition period      to**

**Commission File No. 814-00663**

**ARES CAPITAL CORPORATION**

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

(Exact name of Registrant as specified in its charter)

**Maryland**  
(State or other jurisdiction of  
incorporation or organization)

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

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

(Address of principal executive office) (Zip Code)

**(212) 750-7300**

(Registrant's telephone number, including area code)

---

**N/A**

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

---

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

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

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

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

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

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

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

<b>Class</b>	<b>Outstanding at August 4, 2014</b>
Common stock, \$0.001 par value	314,108,062

---

Table of Contents

**ARES CAPITAL CORPORATION**

**INDEX**

**Part I. Financial Information**

Item 1.	Financial Statements	
	<u>Consolidated Balance Sheet as of June 30, 2014 (unaudited) and December 31, 2013</u>	2
	<u>Consolidated Statement of Operations for the three and six months ended June 30, 2014 (unaudited) and June 30, 2013 (unaudited)</u>	3
	<u>Consolidated Schedule of Investments as of June 30, 2014 (unaudited) and December 31, 2013</u>	5
	<u>Consolidated Statement of Stockholders' Equity for the six months ended June 30, 2014 (unaudited)</u>	49
	<u>Consolidated Statement of Cash Flows for the six months ended June 30, 2014 (unaudited) and June 30, 2013 (unaudited)</u>	50
	<u>Notes to Consolidated Financial Statements (unaudited)</u>	51
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	77
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	103
Item 4.	<u>Controls and Procedures</u>	104

**Part II. Other Information**

Item 1.	<u>Legal Proceedings</u>	104
Item 1A.	<u>Risk Factors</u>	105
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	105
Item 3.	<u>Defaults Upon Senior Securities</u>	105
Item 4.	<u>Mine Safety Disclosures</u>	105
Item 5.	<u>Other Information</u>	105
Item 6.	<u>Exhibits</u>	105

Table of Contents**ARES CAPITAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEET**

(in thousands, except per share data)

	June 30, 2014 (unaudited)	As of	December 31, 2013
<b>ASSETS</b>			
Investments at fair value			
Non-controlled/non-affiliate investments	\$ 5,315,070	\$	5,136,612
Non-controlled affiliate company investments	301,712		260,484
Controlled affiliate company investments	2,451,160		2,235,801
Total investments at fair value (amortized cost of \$7,880,204 and \$7,537,403, respectively)	8,067,942		7,632,897
Cash and cash equivalents	223,154		149,629
Interest receivable	153,077		123,981
Receivable for open trades	963		128,566
Other assets	115,083		106,431
Total assets	\$ 8,560,219	\$	8,141,504
<b>LIABILITIES</b>			
Debt	\$ 3,357,415	\$	2,986,275
Base management fees payable	30,731		29,270
Income based fees payable	25,540		29,001
Capital gains incentive fees payable	74,615		80,937
Accounts payable and other liabilities	76,271		68,649
Interest and facility fees payable	44,527		42,828
Payable for open trades	17,476		100
Total liabilities	3,626,575		3,237,060
Commitments and contingencies (Note 7)			
<b>STOCKHOLDERS EQUITY</b>			
Common stock, par value \$0.001 per share, 500,000 common shares authorized 298,583 and 297,971 common shares issued and outstanding, respectively	299		298
Capital in excess of par value	4,993,323		4,982,477
Accumulated overdistributed net investment income	(45,928)		(8,785)
Accumulated net realized loss on investments, foreign currency transactions, extinguishment of debt and other assets	(201,512)		(165,040)
Net unrealized gain on investments and foreign currency transactions	187,462		95,494
Total stockholders equity	4,933,644		4,904,444
Total liabilities and stockholders equity	\$ 8,560,219	\$	8,141,504
<b>NET ASSETS PER SHARE</b>	\$ 16.52	\$	16.46

See accompanying notes to consolidated financial statements.

Table of Contents**ARES CAPITAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF OPERATIONS****(in thousands, except per share data)**

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>INVESTMENT INCOME:</b>				
From non-controlled/non-affiliate company investments:				
Interest income from investments	\$ 100,780	\$ 94,390	\$ 200,211	\$ 179,512
Capital structuring service fees	12,371	13,527	26,694	17,631
Dividend income	5,601	5,073	13,577	9,097
Management and other fees		349		663
Other income	2,854	3,137	9,902	9,332
Total investment income from non-controlled/non-affiliate company investments	121,606	116,476	250,384	216,235
From non-controlled affiliate company investments:				
Interest income from investments	3,295	5,635	6,195	11,651
Capital structuring service fees			650	
Dividend income	826	560	3,498	1,163
Other income	76	38	403	129
Total investment income from non-controlled affiliate company investments	4,197	6,233	10,746	12,943
From controlled affiliate company investments:				
Interest income from investments	72,075	57,944	143,268	110,983
Capital structuring service fees	9,361	10,622	15,286	12,509
Dividend income	10,322	10,145	30,400	37,607
Management and other fees	6,078	4,644	12,030	8,828
Other income	1,288	59	2,532	2,073
Total investment income from controlled affiliate company investments	99,124	83,414	203,516	172,000
Total investment income	224,927	206,123	464,646	401,178
<b>EXPENSES:</b>				
Interest and credit facility fees	53,151	40,261	105,644	79,608
Base management fees	30,731	24,902	60,815	48,120
Income based fees	25,540	25,390	53,858	49,226
Capital gains incentive fees	10,168	7,984	11,103	4,233
Administrative fees	2,813	2,606	6,556	5,198
Other general and administrative	7,610	7,484	14,040	14,396
Total expenses	130,013	108,627	252,016	200,781

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Table of Contents

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
NET INVESTMENT INCOME BEFORE INCOME TAXES	94,914	97,496	212,630	200,397
Income tax expense, including excise tax	2,923	3,919	8,303	7,723
NET INVESTMENT INCOME	91,991	93,577	204,327	192,674
REALIZED AND UNREALIZED GAINS (LOSSES) ON INVESTMENTS AND FOREIGN CURRENCY TRANSACTIONS:				
Net realized gains (losses):				
Non-controlled/non-affiliate company investments	519	5,777	10,667	16,428
Non-controlled affiliate company investments		128	38	145
Controlled affiliate company investments	(47,956)	2,743	(46,188)	3,753
Foreign currency transactions	(1,080)		(917)	
Net realized gains (losses)	(48,517)	8,648	(36,400)	20,326
Net unrealized gains (losses):				
Non-controlled/non-affiliate company investments	13,031	18,149	9,786	24,098
Non-controlled affiliate company investments	31,955	(580)	47,046	(1,933)
Controlled affiliate company investments	54,630	13,704	35,410	(21,325)
Foreign currency transactions	(259)		(274)	
Net unrealized gains	99,357	31,273	91,968	840
Net realized and unrealized gains from investments	50,840	39,921	55,568	21,166
REALIZED LOSS ON EXTINGUISHMENT OF DEBT			(72)	
NET INCREASE IN STOCKHOLDERS EQUITY RESULTING FROM OPERATIONS	\$ 142,831	\$ 133,498	\$ 259,823	\$ 213,840
BASIC AND DILUTED EARNINGS PER COMMON SHARE (Note 10)	\$ 0.48	\$ 0.50	\$ 0.87	\$ 0.83
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING BASIC AND DILUTED (Note 10)	298,270	266,174	298,122	257,464

See accompanying notes to consolidated financial statements.

Table of Contents**ARES CAPITAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS**

As of June 30, 2014

(dollar amounts in thousands)

(unaudited)

<b>Investment Funds and Vehicles</b>							
Covestia Capital Partners, LP (9)	Investment partnership	Limited partnership interest (47.00% interest)		6/17/2008	487	1,141(2)	
HCI Equity, LLC (7)(8)(9)	Investment company	Member interest (100.00% interest)		4/1/2010	112	385	
Partnership Capital Growth Fund I, L.P. (9)	Investment partnership	Limited partnership interest (25.00% interest)		6/16/2006	1,403	3,498(2)	
PCG-Ares Sidecar Investment, L.P. (9)	Investment partnership	Limited partnership interest (100.00% interest)		5/22/2014	2,042	2,042(2)	
Senior Secured Loan Fund LLC (7)(10)	Co-investment vehicle	Subordinated certificates (\$1,938,046 par due 12/2024)	8.23% (Libor + 8.00%/Q)(27)	10/30/2009	1,938,046	1,967,117	
					1,938,046	1,967,117	
					1,956,755	2,005,330	40.65%
Alegeus Technologies Holdings Corp.	Benefits administration and transaction processing provider	Preferred stock (2,997 shares)		12/13/2013	3,087	2,702	



Edgar Filing: ARES CAPITAL CORP - Form 10-Q

					3,090	2,729
		Common units (83,010 units)		4/12/2013	8	6(2)
California Forensic Medical Group, Incorporated	Correctional facility healthcare operator	First lien senior secured loan (\$48,902 par due 11/2018)	9.25% (Libor + 8.00%/Q)	11/16/2012	48,902	48,902(3)(26)
CT Technologies Intermediate Holdings, Inc. and CT Technologies Holdings LLC (6)	Healthcare analysis services provider	Class A common stock (9,679 shares)		6/15/2007	2,543	3,325(2)
					2,543	3,856
		First lien senior secured loan (\$5,000 par due 2/2018)	9.25%	3/21/2014	4,752	5,000(2)
					9,518	10,000
		Common stock (37,250 shares)		2/10/2014		698(2)

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Table of Contents

As of June 30, 2014

(dollar amounts in thousands)

(unaudited)

GI Advo Opco, LLC	Behavioral treatment services provider	First lien senior secured loan (\$14,381 par due 6/2017)	6.00% (Libor + 4.75%/Q)	12/13/2013	14,745	14,381(26)
		Class A common stock (2,475 shares)		3/11/2014	2,475	2,475(2)
					126,371	127,621
Intermedix Corporation	Revenue cycle management provider to the emergency healthcare industry	Second lien senior secured loan (\$112,000 par due 6/2020)	9.25% (Libor + 8.25%/Q)	12/27/2012	112,000	112,000(2)(26)
MC Acquisition Holdings I, LLC	Healthcare professional provider	Class A units (1,000,000 shares)		1/17/2014	1,000	1,089(2)
MW Dental Holding Corp.	Dental services provider	First lien senior secured loan (\$36,912 par due 4/2017)	8.50% (Libor + 7.00%/M)	4/12/2011	36,912	36,912(2)(26)
		First lien senior secured loan (\$9,746 par due 4/2017)	8.50% (Libor + 7.00%/M)	4/12/2011	9,746	9,746(4)(26)
Napa Management Services Corporation	Anesthesia management services provider	First lien senior secured loan (\$66,734 par due 2/2019)	6.00% (Libor + 5.00%/Q)	4/15/2011	66,734	66,734(2)(21)(26)
				4/15/2011	5,623	8,844(2)

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Common units (5,345 units)						
National Healing Corporation and National Healing Holding Corp.	Wound care service and equipment provider	Second lien senior secured loan (\$10,000 par due 2/2020)	9.25% (Libor + 8.00%/Q)	12/13/2013	10,273	10,000(26)
					11,569	11,472
		First lien senior secured loan (\$35,376 par due 12/2017)	8.75% (Libor + 7.50%/Q)	12/18/2012	35,376	35,376(2)(17)(26)
					40,672	42,264
Nodality, Inc.	Biotechnology company	First lien senior secured loan (\$8,000 par due 2/2018)	8.90%	4/25/2014	7,731	7,920(2)
					7,731	7,961
				11/21/2013	1,000	1,038(2)
		Limited liability company membership				

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Table of Contents

As of June 30, 2014

(dollar amounts in thousands)

(unaudited)

						interest (1.57%)
PerfectServe, Inc.	Communications software platform provider for hospitals and physician practices	First lien senior secured loan (\$2,500 par due 10/2017)	10.00%	12/26/2013	2,475	2,500(2)
		Warrants to purchase up to 34,113 units of Series C preferred stock		12/26/2013		67(2)
PGA Holdings, Inc.	Provider of patient surveys, management reports and national databases for the integrated healthcare delivery system	Preferred stock (333 shares)		3/12/2008	125	18(2)
					292	926
POS I Corp. (fka Vantage Oncology, Inc.)	Radiation oncology care provider	Common stock (62,157 shares)		2/3/2011	4,670	813(2)
		Second lien senior secured loan (\$11,000 par due 10/2019)	10.50% (Libor + 9.50%/Q)	11/4/2011	11,000	11,000(2)(26)
Reed Group Holdings, LLC	Medical disability management services provider	Equity interests		4/1/2010		(2)
		Warrants to purchase up to 99,094 shares of Series C preferred stock		6/28/2012	38	29(2)

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Sage Products Holdings III, LLC	Patient infection control and preventive care solutions provider	Second lien senior secured loan (\$75,000 par due 6/2020)	9.25% (Libor + 8.00%/Q)	12/13/2012	75,000	75,000(2)(26)
Sorbent Therapeutics, Inc.	Orally-administered drug developer	First lien senior secured loan (\$5,980 par due 9/2016)	10.25%	4/23/2013	5,980	5,980(2)
					5,980	5,980
U.S. Anesthesia Partners, Inc.	Anesthesiology service provider	First lien senior secured loan (\$20,000 par due 12/2019)	6.00% (Libor + 5.00%/Q)	6/26/2014	20,000	20,000(2)(26)
					49,850	49,850
Young Innovations, Inc.	Dental supplies and equipment manufacturer	Second lien senior secured loan (\$45,000 par due 7/2019)	9.00% (Libor + 8.00%/Q)	5/30/2014	45,000	45,000(2)(26)

Table of Contents

As of June 30, 2014

(dollar amounts in thousands)

(unaudited)

Services-Other						
		Second lien senior secured loan (\$50,000 par due 12/2021)	9.00% (Libor + 8.00%/Q)	6/30/2014	49,500	50,000(2)(26)
Capital Investments and Ventures Corp.	SCUBA diver training and certification provider	First lien senior secured loan (\$23,539 par due 8/2018)	7.00% (Libor + 5.75%/Q)	8/9/2012	23,539	23,539(3)(26)
					31,912	31,912
		First lien senior secured loan (\$714 par due 12/2014)	7.50% (Base Rate + 4.25%/S)	12/10/2010	714	714(2)(15)(26)
		Warrants to purchase up to 654,618 shares		12/10/2010		(2)
Competitor Group, Inc. and Calera XVI, LLC	Endurance sports media and event operator	First lien senior secured revolving loan (\$2,850 par due 11/2018)	10.00% (Base Rate + 6.75%/Q)	11/30/2012	2,850	2,622(2)(26)
		First lien senior secured loan (\$24,362 par due 11/2018)	10.00% (Libor + 7.75% Cash, 1.00% PIK /Q)	11/30/2012	24,362	22,413(2)(26)
		Membership units (2,500,000 units)		11/30/2012	2,516	640(2)(9)

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Crown Health Care Laundry Services, Inc. and Crown Laundry Holdings, LLC (6)	Provider of outsourced linen management solutions to the healthcare industry	First lien senior secured revolving loan		3/13/2014		(2)(28)
		Class A preferred units (2,475,000 units)		3/13/2014	2,475	2,475(2)
					27,189	27,189
		First lien senior secured loan (\$8,557 par due 6/2018)	8.00% (Base Rate + 4.75%/Q)	10/31/2013	8,557	8,557(2)(26)
ISS #2, LLC	Provider of repairs, refurbishments and services to the broader industrial end user markets	First lien senior secured loan (\$24,875 par due 6/2018)	6.50% (Libor + 5.50%/Q)	6/5/2013	24,875	24,875(2)(26)
					69,425	69,425
		First lien senior secured loan (\$47,716 par due 9/2018)	8.50% (Libor + 7.25%/Q)	9/27/2012	47,716	47,716(3)(26)

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Table of Contents

As of June 30, 2014

(dollar amounts in thousands)

(unaudited)

		Common stock (3,000,000 shares)		9/27/2012	3,000	3,740(2)	
McKenzie Sports Products, LLC	Designer, manufacturer and distributor of taxidermy forms and supplies	First lien senior secured loan (\$7,716 par due 3/2017)	5.75% (Libor + 4.75%/M)	3/30/2012	7,716	7,716(2)(26)	
					16,533	16,533	
The Dwyer Group (6)	Operator of multiple franchise concepts primarily related to home maintenance or repairs	Senior subordinated loan (\$39,900 par due 6/2018)	11.75%	12/22/2010	40,090	39,900(2)	
					44,797	62,618	
					756,784	764,703	15.50%
2329497 Ontario Inc. (8)	Outsourced data center infrastructure and related services provider	Second lien senior secured loan (\$42,480 par due 6/2019)	10.50% (Libor + 9.25%/M)	12/13/2013	43,438	43,038(26)	
BlackArrow, Inc.	Advertising and data solutions software platform provider	First lien senior secured loan (\$8,000 par due 9/2017)	9.25%	3/13/2014	7,740	8,000(2)	
					7,740	8,076	



Edgar Filing: ARES CAPITAL CORP - Form 10-Q

		First lien senior secured loan (\$44,076 par due 12/2017)	5.75% (Libor + 4.75%/Q)	12/24/2012	44,076	44,076(3)(18)(26)
		Class B membership units (2,500,000 units)		12/24/2012	2,500	5,647(2)
CIBT Investment Holdings, LLC	Expedited travel document processing services	Class A shares (2,500 shares)		12/15/2011	2,500	3,787(2)
		Second lien senior secured loan (\$26,500 par due 5/2019)	8.75% (Libor + 7.50%/Q)	9/28/2012	26,500	26,500(2)(26)
Coverall North America, Inc.	Commercial janitorial services provider	Letter of credit facility		1/17/2013		(30)
		Warrants to purchase up to 122,827 units of Series C preferred stock		3/20/2014		7(2)
GHS Interactive Security, LLC and LG Security Holdings, LLC	Originates residential security alarm contracts	First lien senior secured loan (\$5,598 par due 5/2018)	7.50% (Libor + 6.00%/Q)	12/13/2013	5,653	5,598(26)

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Table of Contents

As of June 30, 2014

(dollar amounts in thousands)

(unaudited)

					7,260	7,044
		Class A units (14,293,110 units)		6/26/2008	12,793	(2)
IfByPhone Inc.	Voice-based marketing automation software provider	Warrant to purchase up to 124,300 shares of Series C preferred stock		10/15/2012	88	58(2)
IronPlanet, Inc.	Online auction platform provider for used heavy equipment	First lien senior secured revolving loan (\$5,000 par due 9/2015)	8.00%	9/24/2013	5,000	5,000(2)
		Warrant to purchase to up to 133,333 shares of Series C preferred stock		9/24/2013	214	243(2)
Itel Laboratories, Inc.	Data services provider for building materials to the property insurance industry	Preferred units (1,798,391 units)		6/29/2012	1,000	1,214(2)
		Class A common stock (2,970 shares)		8/22/2013	2,970	4,138(2)
					185,760	186,940
		Common stock (15,000 shares)		12/13/2013	1,982	2,367
Maximus Holdings, LLC				12/13/2013		

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

	Provider of software simulation tools and related services	Warrants to purchase up to 1,050,013 shares of common stock				
		Common units (1,725,280 units)		4/1/2010		
MVL Group, Inc. (7)	Marketing research provider	Senior subordinated loan (\$226 par due 7/2012)		4/1/2010	226	226(2)(25)
					226	226
OpenSky Project, Inc.	Social commerce platform operator	First lien senior secured loan (\$3,000 par due 9/2017)	10.00%	6/4/2014	2,953	2,940(2)
					3,001	2,988
		First lien senior secured loan (\$7,375 par due 5/2019)		11/20/2007	5,592	(2)(25)
					11,357	1,030

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Table of Contents

As of June 30, 2014

(dollar amounts in thousands)

(unaudited)

Powersport Auctioneer Holdings, LLC	Powersport vehicle auction operator	Common units (1,972 units)		3/2/2012	1,000	1,102(2)
R2 Acquisition Corp.	Marketing services	Common stock (250,000 shares)		5/29/2007	250	185(2)
		Warrant to purchase up to 142,210 shares of Series C preferred stock		3/28/2013	88	70(2)
Ship Investor & Cy S.C.A. (8)	Payment processing company	Common stock (936,693 shares)		12/13/2013	2,698	3,079
TOA Technologies, Inc.	Cloud based, mobile workforce management applications provider	First lien senior secured loan (\$11,917 par due 11/2016)	10.25%	10/31/2012	11,561	11,917(2)
					12,166	13,093
		First lien senior secured loan (\$49,875 par due 5/2018)	7.00% (Libor + 5.75%/Q)	5/23/2011	49,875	49,875(3)(26)
		Class A common stock (2,970 shares)		5/23/2011	2,970	9,121(2)

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

				147,800	154,013	
Venturehouse-Ciberneta Investors, LLC	Financial settlement services for intercarrier wireless roaming	Equity interest		4/1/2010		(2)
X Plus Two Solutions, Inc. and X Plus One Solutions, Inc.	Provider of open and integrated software for digital marketing optimization	First lien senior secured revolving loan (\$11,100 par due 9/2014)	8.50%	4/1/2013	11,100	11,100(2)
		First lien senior secured loan (\$2,000 par due 10/2017)	10.00%	3/28/2014	1,793	1,980(2)
		Warrant to purchase up to 999,167 shares of Series C preferred stock		4/1/2013	284	313(2)
				606,641	603,773	12.24%
American Academy Holdings, LLC	Provider of education, training, certification, networking, and consulting services to medical coders and other healthcare professionals	First lien senior secured loan (\$23,425 par due 6/2019)	8.25% (Base Rate + 5.00%/Q)	6/27/2014	23,425	23,425(2)(23)(26)

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Table of Contents

As of June 30, 2014

(dollar amounts in thousands)

(unaudited)

		loan (\$14,696 par due 6/2019)	Rate + 2.00%/Q)			
		First lien senior secured loan (\$4,304 par due 6/2019)	5.25% (Base Rate + 2.00%/Q)	6/27/2014	4,304	4,304(4)(26)
Campus Management Corp. and Campus Management Acquisition Corp. (6)	Education software developer	Preferred stock (485,159 shares)		2/8/2008	10,520	7,601(2)
		Common stock (50,800 shares)		8/1/2011		(2)
Infilaw Holding, LLC	Operator of for-profit law schools	First lien senior secured revolving loan		8/25/2011		(2)(28)
		First lien senior secured loan (\$14,219 par due 8/2016)	9.50% (Libor + 8.50%/Q)	8/25/2011	14,219	14,219(3)(26)
		Series B preferred stock (3.91 units)		10/19/2012	9,245	11,910(2)
Instituto de Banca y Comercio, Inc. & Leeds IV Advisors, Inc.	Private school operator	First lien senior secured loan (\$15,248 par due 12/2016)		4/24/2013	14,531	12,656(2)(25)
		Series B preferred stock (1,750,000 shares)		8/5/2010	5,000	(2)
				6/7/2010		(2)

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

		Common stock (20 shares)				
Lakeland Tours, LLC	Educational travel provider	First lien senior secured revolving loan (\$9,562 par due 12/2016)	5.25% (Libor + 4.25%/Q)	10/4/2011	9,562	9,562(2)(26)(29)
		First lien senior secured loan (\$82,989 par due 12/2016)	8.50% (Libor + 7.50%/Q)	10/4/2011	82,935	82,988(2)(14)(26)
		First lien senior secured loan (\$40,362 par due 12/2016)	8.50% (Libor + 7.50%/Q)	10/4/2011	40,289	40,362(3)(14)(26)
					146,990	147,591
		First lien senior secured loan (\$37,709 par due 6/2016)	7.25% (Libor + 6.25%/M)	12/13/2013	38,593	38,463
R3 Education, Inc. and EIC Acquisitions Corp.	Medical school operator	Preferred stock (8,800 shares)		7/30/2008	2,200	1,936(2)

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Table of Contents

As of June 30, 2014

(dollar amounts in thousands)

(unaudited)

		Warrants to purchase up to 27,890 shares		12/8/2009		(2)
RuffaloCODY, LLC	Provider of student fundraising and enrollment management services	First lien senior secured loan (\$2,087 par due 5/2019)	5.50% (Libor + 4.25%/S)	5/29/2013	2,087	2,087(2)(26)
		First lien senior secured loan (\$11,759 par due 5/2019)	5.50% (Libor + 4.25%/Q)	5/29/2013	11,759	11,759(4)(26)
					16,315	16,315
<b>Consumer Products-Non-durable</b>						
		First lien senior secured loan (\$7,050 par due 3/2019)	4.00% (Libor + 3.00%/M)	4/24/2014	7,050	7,050(2)(26)
					60,150	60,150
		First lien senior secured revolving loan (\$5,050 par due 12/2014)	6.25% (Libor + 5.00%/M)	4/1/2010	5,050	5,050(2)(26)
					31,434	30,754
		Common stock (455 shares)		10/31/2011		904(2)
Indra Holdings Corp.				5/1/2014	78,727	80,000(2)(26)



Edgar Filing: ARES CAPITAL CORP - Form 10-Q

	Designer, marketer, and distributor of rain and cold weather products	Second lien senior secured loan (\$80,000 par due 11/2021)	8.50% (Libor + 7.50%/Q)			
		Class A common stock (155,000 shares)		8/26/2011	6,035	19,230(2)
					31,250	57,770
		Warrants to purchase up to 1,654,678 shares of common stock		7/27/2011		(2)
Oak Parent, Inc.	Manufacturer of athletic apparel	First lien senior secured loan (\$30,939 par due 4/2018)	7.50% (Libor + 7.00%/Q)	4/2/2012	30,841	30,939(3)(26)
		First lien senior secured loan (\$8,744 par due 4/2018)	7.50% (Libor + 7.00%/Q)	4/2/2012	8716	8,744(4)(26)

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Table of Contents

As of June 30, 2014

(dollar amounts in thousands)

(unaudited)

				4/2018)			
PG-ACP Co-Invest, LLC	Supplier of medical uniforms, specialized medical footwear and accessories	Class A membership units (1,000,0000 units)		8/29/2012	1,000	1,726(2)	
		First lien senior secured loan (\$87,671 par due 3/2020)	8.75% (Libor + 7.75%/M)	3/14/2014	87,671	87,671(2)(26)	
					94,561	94,518	
		Second lien senior secured loan (\$34,524 par due 9/2019)		4/1/2010	30,802	10,787(2)(25)	
		Common units (1,116,879 units)		4/1/2010	24		
					61,236	41,520	
		Common units (5,400 units)		6/21/2007		9,303	
Woodstream Corporation	Pet products manufacturer	First lien senior secured loan (\$4,841 par due 8/2016)	6.00% (Libor + 5.00%/Q)	4/18/2012	4,841	4,841(4)(26)	
		Common stock (4,254 shares)		1/22/2010	1,222	2,325(2)	
					490,450	513,263	10.40%

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Alphabet Energy, Inc.	Technology developer to convert waste-heat into electricity	First lien senior secured loan (\$2,000 par due 7/2017)	9.50%	2/26/2014	1,920	2,000(2)
		Series B preferred stock (74,449 shares)		2/26/2014	250	250(2)
					5,070	5,377
Brush Power, LLC	Gas turbine power generation facilities operator	First lien senior secured loan (\$89,144 par due 8/2020)	6.25% (Libor + 5.25%/Q)	8/1/2013	89,144	89,144(2)(26)
Freeport LNG Expansion, L.P.	Liquefied natural gas producer	First lien senior secured loan (\$12,091 par due 11/2014)	8.65% (Libor + 8.50%/Q)	6/27/2014	11,472	12,091(2)
		Warrant to purchase up to 32,051 shares of Series C-2 preferred		7/25/2013		39(2)(8)

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Table of Contents

As of June 30, 2014

(dollar amounts in thousands)

(unaudited)

		stock				
La Paloma Generating Company, LLC	Natural gas fired, combined cycle plant operator	Second lien senior secured loan (\$10,000 par due 2/2020)	9.25% (Libor + 8.25%/Q)	2/20/2014	9,618	9,750(2)(26)
Panda Temple Power II, LLC	Gas turbine power generation facilities operator	First lien senior secured loan (\$20,000 par due 4/2019)	7.25% (Libor + 6.00%/Q)	4/3/2013	19,834	20,000(2)(26)
Sunrun Solar Owner Holdco X, LLC	Residential solar energy provider	First lien senior secured loan (\$59,287 par due 6/2019)	9.50% (Libor + 8.25%/Q)	6/7/2013	59,287	59,287(2)(26)
					431,244	434,234
						8.80%
AllBridgE Financial, LLC (7)	Asset management services	Equity interests		4/1/2010	5,077	10,115
Ciena Capital LLC (7)	Real estate and small business loan servicer	First lien senior secured revolving loan (\$14,000 par due 12/2014)	6.00%	11/29/2010	14,000	14,000(2)
		Equity interests		11/29/2010	53,375	13,771(2)
Commercial Credit Group, Inc.	Commercial equipment finance and leasing company	Senior subordinated loan (\$28,000 par due 5/2018)	12.75%	5/10/2012	28,000	28,000(2)
Gordian Acquisition Corp.	Financial services firm	Common stock (526 shares)		11/30/2012		(2)

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

		2006 Class B common units (7,578 units)		5/10/2007	2	4(2)
					11,250	15,356
Javlin Three LLC, Javlin Four LLC, and Javlin Five LLC (9)	Asset-backed financial services company	First lien senior secured revolving loan (\$37,600 par due 6/2017)	8.41% (Libor + 8.25%/Q)	6/24/2014	37,600	37,600(2)
<b>Manufacturing</b>						
		Warrants to purchase up to 400,000 shares of Series D-4 convertible preferred stock		8/7/2012		13(2)
Component Hardware Group, Inc.	Commercial equipment	First lien senior secured loan (\$8,561 par due 7/2019)	5.50% (Libor + 4.50%/M)	7/1/2013	8,561	8,561(4)(26)
		First lien senior secured loan (\$24,937 par due 3/2020)	5.75% (Libor + 4.75%/Q)	3/28/2014	24,937	24,937(2)(26)

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Table of Contents

As of June 30, 2014

(dollar amounts in thousands)

(unaudited)

		loan (\$62 par due 3/2020)	Rate + 3.75%/Q)		25,947	26,020
				4/29/2014		(2)
		Warrant to purchase up to 538,314 shares of Series C preferred stock				
Mac Lean-Fogg Company	Provider of intelligent transportation systems products in the traffic and rail industries	Senior subordinated loan (\$100,998 par due 10/2023)	9.50% Cash, 1.50% PIK	10/31/2013	100,998	100,998(2)
		First lien senior secured loan (\$10,000 par due 3/2019)	9.38% (Libor + 8.13%/Q)	6/15/2011	10,000	10,000(4)(26)
NetShape Technologies, Inc.	Metal precision engineered components	First lien senior secured revolving loan (\$907 par due 12/2014)	7.50% (Libor + 6.50%/Q)	4/1/2010	907	907(2)(26)
		First lien senior secured revolving loan (\$452 par due 5/2018)	6.75% (Libor + 5.50%/M)	5/8/2014	435	452(2)(26)
					15,945	16,116
Protective Industries, Inc. dba Caplugs	Plastic protection products	First lien senior secured loan (\$992 par due 10/2019)	6.25% (Libor + 5.25%/M)	11/30/2012	992	992(2)(26)

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

					2,290	7,290
SI Holdings, Inc.	Elastomeric parts, mid-sized composite structures, and composite tooling	Common stock (1,500 shares)		5/30/2014	1,500	1,500(2)
TPTM Merger Corp.	Time temperature indicator products	First lien senior secured loan (\$15,830 par due 9/2018)	6.25% (Libor + 5.25%/Q)	9/12/2013	15,830	15,830(2)(26)
					25,805	25,805
<b>Restaurants and Food Services</b>						
		First lien senior secured loan (\$10,919 par due 12/2018)	9.25% (Libor + 8.25%/Q)	11/27/2006	10,922	10,810(3)(20)(26)
		Warrants to purchase up to 23,750 units of Series		12/18/2013	24	(2)

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Table of Contents

As of June 30, 2014

(dollar amounts in thousands)

(unaudited)

D common stock						
Benihana, Inc.	Restaurant owner and operator	First lien senior secured revolving loan (\$646 par due 7/2018)	7.50% (Base Rate + 4.25%/Q)	8/21/2012	646	646(2)(26)
					5,546	5,546
		First lien senior secured loan (\$42,984 par due 7/2018)	10.00% (Libor + 8.50%/M)	10/3/2013	42,984	42,984(2)(26)
		First lien senior secured loan (\$30,000 par due 2/2017)	9.00% (Libor + 8.00%/Q)	2/15/2012	29,606	30,000(2)(26)
				2/15/2012	669	5,401(2)
Orion Foods, LLC (fka Hot Stuff Foods, LLC) (7)	Convenience food service retailer	First lien senior secured revolving loan (\$3,000 par due 9/2014)	10.75% (Base Rate + 7.50%/M)	4/1/2010	3,000	3,000(2)(26)
		Second lien senior secured loan (\$19,471 par due 9/2014)	7.00%	4/1/2010	733	543(2)
				4/1/2010		(2)
		Class A common units (25,001 units)		4/1/2010		(2)



Edgar Filing: ARES CAPITAL CORP - Form 10-Q

					36,321	36,131
		Common units (3,000,000 units)		1/5/2011	3,000	1,843(2)
					45,675	48,095
Performance Food Group, Inc. and Wellspring Distribution Corp	Food service distributor	Second lien senior secured loan (\$29,451 par due 11/2019)	6.25% (Libor + 5.25%/Q)	5/14/2013	29,326	29,451(2)(26)
					35,629	36,201
S.B. Restaurant Company	Restaurant owner and operator	Preferred stock (46,690 shares)		4/1/2010		(2)

Table of Contents

As of June 30, 2014

(dollar amounts in thousands)

(unaudited)

<b>Containers-Packaging</b>						
ICSH, Inc.	Industrial container manufacturer, reconditioner and servicer	First lien senior secured revolving loan		8/31/2011		(2)(28)
		First lien senior secured loan (\$61,197 par due 8/2016)	7.00% (Libor + 6.00%/Q)	8/31/2011	61,197	61,197(3)(26)
Microstar Logistics LLC, Microstar Global Asset Management LLC, and MStar Holding Corporation	Keg management solutions provider	Second lien senior secured loan (\$142,500 par due 12/2018)	8.50% (Libor + 7.50%/Q)	12/14/2012	142,500	142,500(2)(26)
					146,470	149,098
<b>Automotive Services</b>						
		First lien senior secured loan (\$15 par due 3/2017)	7.25% (Base Rate + 4.00%/Q)	12/16/2011	15	15(2)(26)
		Common stock (25,000 units)		12/16/2011	25	842(2)
Eckler Industries, Inc.	Restoration parts and accessories provider for classic automobiles	First lien senior secured revolving loan (\$2,900 par due 7/2017)	8.25% (Base Rate + 5.00%/Q)	7/12/2012	2,900	2,900(2)(26)
		First lien senior secured loan (\$30,286 par due 7/2017)	7.25% (Libor + 6.00%/M)	7/12/2012	30,286	30,286(3)(26)

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

		Common stock (20,000 shares)		7/12/2012	200	(2)
EcoMotors, Inc.	Engine developer	First lien senior secured loan (\$4,697 par due 10/2016)	10.83%	12/28/2012	4,592	4,697(2)
		First lien senior secured loan (\$4,021 par due 7/2016)	10.13%	12/28/2012	3,946	4,021(2)
					13,409	13,761
		First lien senior secured loan (\$142,464 par due 8/2017)	6.00% (Libor + 5.00%/Q)	8/20/2012	142,464	142,464(2)(16)(26)
		First lien senior secured loan (\$9,540 par due 8/2017)	4.00% (Libor + 3.00%/Q)	8/20/2012	9,540	9,540(4)(26)

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Table of Contents

As of June 30, 2014

(dollar amounts in thousands)

(unaudited)

		Membership interest		8/20/2012	5,000	11,490(2)
					235,693	243,646
						4.94%
Fulton Holdings Corp.	Airport restaurant operator	First lien senior secured loan (\$43,000 par due 5/2018)	8.50%	5/10/2013	43,000	43,000(2)(12)
		Common stock (19,672 shares)		5/28/2010	1,461	2,222(2)
Paper Source, Inc. and Pine Holdings, Inc.	Retailer of fine and artisanal paper products	First lien senior secured loan (\$8,908 par due 9/2018)	7.25% (Libor + 6.25%/Q)	9/23/2013	8,908	8,908(2)(26)
		Class A common stock (36,364 shares)		9/23/2013	6,000	7,127(2)
Things Remembered, Inc.	Personalized gifts retailer	First lien senior secured loan (\$14,738 par due 5/2018)	8.00% (Libor + 6.50%/Q)	5/24/2012	14,738	14,590(4)(26)
<b>Chemicals</b>						
		First lien senior secured loan (\$18,714 par due 5/2019)	5.25% (Libor + 4.25%/M)	5/31/2013	18,714	18,714(2)(26)
Emerald Performance Materials, LLC	Polymers and performance materials manufacturer	First lien senior secured loan (\$17,640 par due 5/2018)	6.75% (Libor + 5.50%/M)	12/13/2013	18,104	17,640(26)
		First lien senior secured loan (\$21,500 par due 8/2019)	7.00% (Libor + 6.00%/M)	8/19/2013	21,500	21,285(2)(26)

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

		First lien senior secured loan (\$20,000 par due 8/2019)	7.00% (Libor + 6.00%/M)	8/19/2013	20,000	19,800(4)(26)	
					123,961	122,639	2.49%
Cadence Aerospace, LLC (fka PRV Aerospace, LLC)	Aerospace precision components manufacturer	First lien senior secured loan (\$4,436 par due 5/2018)	6.50% (Libor + 5.25%/Q)	5/15/2012	4,406	4,436(4)(26)	
					84,064	80,110	
Wyle Laboratories, Inc. and Wyle Holdings, Inc.	Provider of specialized engineering, scientific and technical services	Senior preferred stock (775 shares)	8.00% PIK	1/17/2008	116	116(2)	
					2,407	2,250	

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Table of Contents

As of June 30, 2014

(dollar amounts in thousands)

(unaudited)

Commercial Real Estate Finance						
		Senior subordinated loan (\$26,829 par due 11/2019)	7.00% Cash, 1.00% PIK	4/1/2010	26,829	26,829(2)
		Option (25,000 units)		4/1/2010	25	25
American Commercial Coatings, Inc.	Real estate property	Commercial mortgage loan (\$2,038 par due 12/2025)	8.75% (Libor + 7.25%/Q)	4/1/2010	595	1,350(26)
Commons R-3, LLC	Real estate developer	Real estate equity interests		4/1/2010		
		Common equity interest		4/1/2010		
NPH, Inc.	Hotel property	Real estate equity interests		4/1/2010	5,291	6,023
Printing, Publishing and Media						
		First lien senior secured loan (\$4,090 par due 11/2016)	9.60%	10/31/2012	4,090	4,183(2)(24)
					12,128	12,221
The Teaching Company, LLC and The Teaching Company Holdings, Inc.	Education publications provider	First lien senior secured loan (\$20,670 par due 3/2017)	9.00% (Libor + 7.50%/Q)	3/6/2011	20,670	20,257(2)(26)

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Preferred stock (10,663 shares)	9/29/2006	1,066	2,570(2)
		31,339	32,241
<b>Oil and Gas</b>			
Second lien senior secured loan (\$2,134 par due 12/2016)	4/30/2012	1,801	1,416(2)(25)
Class A common units (151,236 units)	6/17/2011	1,512	(2)
Class B-4 common units (50,000 units)	4/25/2008	500	(2)
Warrant to purchase up to 256,666 shares of	5/2/2014		(2)

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Table of Contents

As of June 30, 2014

(dollar amounts in thousands)

(unaudited)

Class A units							
		Warrant to purchase up to 10,560 shares of Class B-1 units		5/2/2014		(2)	
		Warrant to purchase up to 37,882 shares of Class B-5 units		5/2/2014		(2)	
		Warrant to purchase up to 385,631 shares of Class C units		5/2/2014		(2)	
					59,180	40,602	0.82%
PODS Funding Corp. II	Storage and warehousing	First lien senior secured loan (\$4,087 par due 12/2018)	7.00% (Libor + 6.00%/Q)	3/12/2014	4,087	4,087(26)	
					39,715	39,715	
					39,715	39,715	0.81%
Athletic Club Holdings, Inc.	Premier health club operator	First lien senior secured loan (\$34,000 par due 3/2019)	7.25% (Libor + 6.00%/M)	10/11/2007	34,000	34,000(2)(13)(26)	
		Limited partnership interest (2,218,235 shares)		7/31/2012	2,218	1,812(2)(8)	
					40,370	39,203	0.80%
American Broadband Communications, LLC, American Broadband Holding	Broadband communication services	Warrants to purchase up to 378 shares		11/7/2007		8,516	



Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Company, and Cameron  
Holdings of NC, Inc.

13,022

Quantance, Inc.	Designer of semiconductor products to the mobile wireless market	First lien senior secured loan (\$3,500 par due 9/2016)	10.25%	8/23/2013	3,418	3,500(2)
-----------------	--	---	--------	-----------	-------	----------

3,492 3,574

Wilcon Holdings LLC	Communications infrastructure provider	Class A common stock (2,000,000 shares)		12/13/2013	1,829	1,789
---------------------	--	---	--	------------	-------	-------

**Environmental Services**

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Table of Contents

As of June 30, 2014

(dollar amounts in thousands)

(unaudited)

	platform for the production of chemical products	322,422 shares of Series D preferred stock			
		Limited partnership interest (3.13% interest)	1/8/2014		(2)
Waste Pro USA, Inc.	Waste management services	Preferred Class A common equity (611,615 shares)	11/9/2006	12,263	29,737(2)
<b>Food and Beverage</b>					
Distant Lands Trading Co.	Coffee manufacturer	Class A common stock (1,294 shares)	4/1/2010	980	(2)
				980	
<b>Housing- Building Materials</b>					
		Warrant to purchase up to 325,000 shares of Series A preferred stock	4/22/2014	73	73(2)
				6,441	6,508
					0.13%
BECO Holding Company, Inc.	Wholesale distributor of first response fire protection equipment and related parts	Common stock (25,000 shares)	7/30/2010	2,500	3,630(2)
				\$ 7,880,204	\$ 8,067,942
					163.53%



## Edgar Filing: ARES CAPITAL CORP - Form 10-Q

### Table of Contents

(1) Other than the Company's investments listed in footnote 7 below (subject to the limitations set forth therein), the Company does not Control any of its portfolio companies, for the purposes of the Investment Company Act of 1940, as amended (together with the rules and regulations promulgated thereunder, the Investment Company Act). In general, under the Investment Company Act, the Company would Control a portfolio company if the Company owned more than 25% of its outstanding voting securities (i.e., securities with the right to elect directors) and/or had the power to exercise control over the management or policies of such portfolio company. All of the Company's portfolio company investments, which as of June 30, 2014 represented 164% of the Company's net assets or 94% of the Company's total assets, are subject to legal restrictions on sales.

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

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

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

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

(6) As defined in the Investment Company Act, the Company is deemed to be an Affiliated Person of a 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). Transactions during the six months ended June 30, 2014 in which the issuer was an Affiliated Person (but not a portfolio company that the Company is deemed to Control) are as follows:

Company	Purchases (cost)	Redemptions (cost)	Sales (cost)	Interest income	Capital structuring service fees	Dividend income	Other income	Net realized gains (losses)	Net unrealized gains (losses)
Apple & Eve, LLC and US Juice Partners, LLC	\$	\$	\$	\$	\$	\$	\$	\$	\$ 3,509
Campus Management Corp. and Campus Management Acquisition Corp	\$	\$	\$	\$	\$	\$	\$	\$	\$ 4,264
Cast & Crew Payroll, LLC and Centerstage Co-Investors, L.L.C.	\$	\$	1,536	\$ 5,000	\$ 2,074	\$	\$ 442	\$ 156	\$ 3,253
Crown Health Care Laundry Services, Inc. and Crown Laundry Holdings, LLC	\$ 27,250	\$ 62	\$	\$ 618	\$ 590	\$	\$ 51	\$	\$
	\$ 702	\$ 702	\$	\$ 3	\$	\$	\$ 17	\$	\$ (800)

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

CT Technologies Intermediate Holdings, Inc. and CT Technologies Holdings, LLC									
The Dwyer Group	\$ 14,418	\$ 1,583	\$ 2,198	\$ 60	\$ 2,279	\$ 179		\$ 6,030	
ELC Acquisition Corp. and ELC Holdings Corporation	\$	\$	\$	\$	\$ 704	\$	\$	\$ (1,406)	
Insight Pharmaceuticals Corporation	\$	\$	\$ 1,302	\$	\$	\$	\$	\$ 23,975	
Investor Group Services, LLC	\$	\$	\$	\$	\$ 73	\$	\$	\$ 49	
Multi-Ad Services, Inc.	\$	\$	\$	\$	\$	\$	\$	\$ 688	
Soteria Imaging Services, LLC	\$	\$	\$	\$	\$	\$	\$ 38	\$	
VSS-Tranzact Holdings, LLC	\$	\$	\$	\$	\$	\$	\$	\$ 5,941	
UL Holding Co., LLC	\$	\$ 2,588	\$	\$	\$	\$	\$	\$ 1,543	

Table of Contents

(7) As defined in the Investment Company Act, the Company is deemed to be both an Affiliated Person and Control 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). Transactions during the six months ended June 30, 2014 in which the issuer was both an Affiliated Person and a portfolio company that the Company is deemed to Control are as follows:

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Table of Contents

Company	Purchases	Redemptions (cost)	Sales (cost)	Interest income	Capital structuring service fees	Dividend income	Other income	Net realized gains (losses)	Net unrealized gains (losses)
10th Street, LLC and New 10th Street, LLC	\$ 24,895	\$	\$	\$ 1,903	\$ 455	\$	\$	\$	\$ 8,492
AllBridge Financial, LLC	\$	\$	\$	\$	\$	\$ 200	\$	\$	\$ 396
Callidus Capital Corporation	\$	\$	\$	\$	\$	\$	\$	\$	\$ 13
Ciena Capital LLC	\$	\$ 4,000	\$	\$ 1,992	\$	\$	\$	\$	\$ 2,845
Citipostal, Inc.	\$	\$ 70,270	\$	\$ 60	\$	\$	\$ 11	\$ (20,247)	\$ 25,270
Crescent Hotels & Resorts, LLC and affiliates	\$	\$	\$	\$	\$	\$ 42	\$	\$	\$
HCI Equity, LLC	\$	\$	\$	\$	\$	\$	\$	\$	\$ 51
HCP Acquisition Holdings, LLC	\$	\$	\$	\$	\$	\$	\$	\$	\$
Hot Light Brands, Inc.	\$	\$ 90	\$	\$	\$	\$	\$	\$ 144	\$ (163)
Ivy Hill Asset Management, L.P.	\$	\$	\$	\$	\$	\$ 30,000	\$	\$	\$ (18,071)
MVL Group, Inc.	\$	\$ 30,040	\$	\$	\$	\$	\$	\$ (27,709)	\$ 27,781
Orion Foods, LLC	\$ 3,000	\$ 27,640	\$	\$ 2,424	\$	\$	\$ 416	\$ 1,624	\$ (1,971)
Pillar Processing LLC, PHL Investors, Inc., and PHL Holding Co.	\$	\$ 2,255	\$	\$	\$	\$	\$	\$	\$ (36)
Senior Secured Loan Fund LLC*	\$ 262,055	\$ 69,206	\$	\$ 135,656	\$ 14,831	\$	\$ 14,135	\$	\$ 2,893
Startec Equity, LLC	\$	\$	\$	\$	\$	\$	\$	\$	\$
The Step2 Company, LLC	\$ 4,500	\$	\$	\$ 1,233	\$	\$	\$	\$	\$ (15,181)
The Thymes, LLC	\$	\$ 840	\$	\$	\$	\$ 158	\$	\$	\$ 3,091

\* Together with GE Global Sponsor Finance LLC and General Electric Capital Corporation (together, "GE"), the Company co-invests through the Senior Secured Loan Fund LLC d/b/a the Senior Secured Loan Program (the "SSLP"). The SSLP is capitalized as transactions are completed and all portfolio decisions and generally all other decisions in respect of the SSLP must be approved by an investment committee of the SSLP consisting of representatives of the Company and GE (with approval from a representative of each required); therefore, although the Company owns more than 25% of the voting securities of the SSLP, the Company does not believe that it has control over the SSLP (for purposes of the Investment Company Act or otherwise) because, among other things, these voting securities do not afford the Company the right to elect directors of the SSLP or any other special rights (see Note 4 to the consolidated financial statements).

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

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

(10) In the first quarter of 2011, the staff of the Securities and Exchange Commission (the "Staff") informally communicated to certain business development companies ("BDCs") the Staff's belief that certain entities, which would be classified as an investment company under the Investment Company Act but for the exception from the definition of investment company set forth in Rule 3a-7 promulgated under the Investment Company Act, could not be treated as eligible portfolio companies (as defined in Section 2(a)(46) under the Investment Company Act) (i.e., not eligible to be included in a BDC's 70% qualifying assets basket). Subsequently, in August 2011 the Securities and Exchange Commission issued a concept release (the "Concept Release") which stated that "[a]s a general matter, the Commission presently does not believe that Rule 3a-7 issuers are the type of small, developing and financially troubled businesses in which the U.S. Congress intended BDCs primarily to invest and requested comment on whether or not a 3a-7 issuer should be considered an eligible portfolio company." The Company provided a comment letter in respect of the Concept Release and continues to believe that the language of Section 2(a)(46) of the Investment Company Act

## Edgar Filing: ARES CAPITAL CORP - Form 10-Q

permits a BDC to treat as eligible portfolio companies entities that rely on the 3a-7 exception. However, given the current uncertainty in this area (including the language in the Concept Release) and subsequent discussions with the Staff, the Company has, solely for purposes of calculating the composition of its portfolio pursuant to Section 55(a) of the Investment Company Act, identified such entities, which include the SSLP, as non-qualifying assets should the Staff ultimately disagree with the Company's position.

(11) Variable rate loans to the Company'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 reset annually (A), semi-annually (S), quarterly (Q), bi-monthly (B), monthly (M) or daily (D). For each such loan, the Company has provided the interest rate in effect on the date presented.

(12) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 6.00% on \$12 million aggregate principal amount of a first out tranche of the portfolio company's senior term debt previously syndicated by the Company into first out and last out tranches, whereby the first



Table of Contents

out tranche will have priority as to the last out tranche with respect to payments of principal, interest and any other amounts due thereunder.

(13) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 3.00% on \$15 million aggregate principal amount of a first out tranche of the portfolio company's senior term debt previously syndicated by the Company into first out and last out tranches, whereby the first out tranche will have priority as to the last out tranche with respect to payments of principal, interest and any other amounts due thereunder.

(14) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 3.25% on \$55 million aggregate principal amount of a first out tranche of the portfolio company's senior term debt previously syndicated by the Company into first out and last out tranches, whereby the first out tranche will have priority as to the last out tranche with respect to payments of principal, interest and any other amounts due thereunder.

(15) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 1.13% on \$17 million aggregate principal amount of a first out tranche of the portfolio company's senior term debt previously syndicated by the Company into first out and last out tranches, whereby the first out tranche will have priority as to the last out tranche with respect to payments of principal, interest and any other amounts due thereunder.

(16) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 2.00% on \$135 million aggregate principal amount of a first out tranche of the portfolio company's senior term debt previously syndicated by the Company into first out and last out tranches, whereby the first out tranche will have priority as to the last out tranche with respect to payments of principal, interest and any other amounts due thereunder.

(17) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 3.13% on \$55 million aggregate principal amount of a first out tranche of the portfolio company's senior term debt previously syndicated by the Company into first out and last out tranches, whereby the first out tranche will have priority as to the last out tranche with respect to payments of principal, interest and any other amounts due thereunder.

(18) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 2.00% on \$26 million aggregate principal amount of a first out tranche of the portfolio company's first lien senior secured loans, whereby the first out tranche will have priority as to the last out tranche with respect to payments of principal, interest and any other amounts due thereunder.

(19) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 3.75% on \$25 million aggregate principal amount of a first out tranche of the portfolio company's first lien senior secured loans, whereby the first out tranche will have priority as to the last out tranche with respect to payments of principal, interest and any other amounts due thereunder.

## Edgar Filing: ARES CAPITAL CORP - Form 10-Q

(20) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 5.00% on \$22 million aggregate principal amount of a first out tranche of the portfolio company's first lien senior secured loans, whereby the first out tranche will have priority as to the last out tranche with respect to payments of principal, interest and any other amounts due thereunder.

(21) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 2.00% on \$72 million aggregate principal amount of a first out tranche of the portfolio company's first lien senior secured loans, whereby the first out tranche will have priority as to the last out tranche with respect to payments of principal, interest and any other amounts due thereunder.

(22) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 2.55% on \$29 million aggregate principal amount of a first out tranche of the portfolio company's first lien senior secured loans, whereby the first out tranche will have priority as to the last out tranche with respect to payments of principal, interest and any other amounts due thereunder.

Table of Contents

(23) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 3.00% on \$69 million aggregate principal amount of a first out tranche of the portfolio company's first lien senior secured loans, whereby the first out tranche will have priority as to the last out tranche with respect to payments of principal, interest and any other amounts due thereunder

(24) The Company is entitled to receive a fixed fee upon the occurrence of certain events as defined in the credit agreement governing the Company's debt investment in the portfolio company. The fair value of such fee is included in the fair value of the debt investment.

(25) Loan was on non-accrual status as of June 30, 2014.

(26) Loan includes interest rate floor feature.

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

(28) As of June 30, 2014, no amounts were funded by the Company under this first lien senior secured revolving loan; however, there were letters of credit issued and outstanding through a financial intermediary under the loan. See Note 7 to the consolidated financial statements for further information on letters of credit commitments related to certain portfolio companies.

(29) As of June 30, 2014, in addition to the amounts funded by the Company under this first lien senior secured revolving loan, there were also letters of credit issued and outstanding through a financial intermediary under the loan. See Note 7 to the consolidated financial statements for further information on letters of credit commitments related to certain portfolio companies.

(30) As of June 30, 2014, no amounts were funded by the Company under this letter of credit facility; however, there were letters of credit issued and outstanding through a financial intermediary under the letter of credit facility. See Note 7 to the consolidated financial statements for further information on letters of credit commitments related to certain portfolio companies.

Table of Contents**ARES CAPITAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS**

As of December 31, 2013

(dollar amounts in thousands)

Company(1)	Business Description	Investment	Interest(5)(11)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
<b>Investment Funds and Vehicles</b>							
CIC Flex, LP (9)	Investment partnership	Limited partnership units (0.94 units)		9/7/2007	\$ 867	\$ 2,851(2)	
Covestia Capital Partners, LP (9)	Investment partnership	Limited partnership interest (47.00% interest)		6/17/2008	826	1,177(2)	
Dynamic India Fund IV, LLC (9)	Investment company	Member interest (5.44% interest)		4/1/2010	4,822	3,285	
HCI Equity, LLC (7)(8)(9)	Investment company	Member interest (100.00% interest)		4/1/2010	112	334	
Imperial Capital Private Opportunities, LP (9)	Investment partnership	Limited partnership interest (80.00% interest)		5/10/2007	3,315	10,231(2)	
Partnership Capital Growth Fund I, L.P. (9)	Investment partnership	Limited partnership interest (25.00% interest)		6/16/2006	1,411	3,939(2)	
Partnership Capital Growth Investors III, L.P. (9)	Investment partnership	Limited partnership interest (2.50% interest)		10/5/2011	2,804	2,588(2)	
Piper Jaffray Merchant Banking Fund I, L.P. (9)	Investment partnership	Limited partnership interest (2.00% interest)		8/16/2012	632	563(2)	
Senior Secured Loan Fund LLC (7)(10)	Co-investment vehicle	Subordinated certificates (\$1,745,192 par due 12/2024)	8.24% (Libor + 8.00%/Q)(26)	10/30/2009	1,745,192	1,771,369	
		Membership interest (87.50% interest)		10/30/2009			
					1,745,192	1,771,369	
VSC Investors LLC (9)	Investment company	Membership interest (1.95% interest)		1/24/2008	745	1,211(2)	
					1,760,726	1,797,548	36.65%
<b>Healthcare-Services</b>							
Alegeus Technologies Holdings Corp.	Benefits administration and transaction processing provider	Preferred stock (2,997 shares)		12/13/2013	3,087	3,087	
		Common stock (3 shares)		12/13/2013	3	3	
					3,090	3,090	
ATI Physical Therapy Holdings, LLC	Outpatient rehabilitation services provider	Class C common stock (51,005 shares)		12/13/2013	53	53	
AxelaCare Holdings, Inc. and AxelaCare Investment	Provider of home infusion services	First lien senior secured loan	5.75% (Libor + 4.50%/Q)	4/12/2013	4,458	4,458(2)(25)	

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Holdings, L.P.		(\$4,458 par due 4/2019)				
		Preferred units (8,218,160 units)		4/12/2013	822	855(2)
		Common units (83,010 units)		4/12/2013	8	9(2)
					5,288	5,322
California Forensic Medical Group, Incorporated	Correctional facility healthcare operator	First lien senior secured loan (\$53,640 par due 11/2018)	9.25% (Libor + 8.00%/Q)	11/16/2012	53,640	53,640(3)(25)
CCS Group Holdings, LLC	Correctional facility healthcare operator	Class A units (601,937 units)		8/19/2010	602	1,546(2)
CT Technologies Intermediate Holdings, Inc. and CT Technologies Holdings LLC (6)	Healthcare analysis services provider	Class A common stock (9,679 shares)		6/15/2007	2,543	4,014(2)
		Class C common stock (1,546 shares)		6/15/2007		641(2)
					2,543	4,655
Dialysis Newco, Inc.	Dialysis provider	First lien senior secured loan (\$15,509 par due 8/2020)	5.25% (Libor + 4.25%/Q)	8/16/2013	15,509	15,509(2)(25)
		Second lien senior secured loan (\$56,500 par due 2/2021)	9.75% (Libor + 8.50%/Q)	8/16/2013	56,500	56,500(2)(25)
					72,009	72,009
Genocea Biosciences, Inc.	Vaccine discovery technology company	First lien senior secured loan (\$10,000 par due 4/2017)	8.00%	9/30/2013	9,805	10,000(2)
		Warrant to purchase up to 689,655 shares of Series C convertible preferred stock		9/30/2013		(2)
					9,805	10,000

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Table of Contents

As of December 31, 2013

(dollar amounts in thousands)

Company(1)	Business Description	Investment	Interest(5)(11)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
GI Advo Opco, LLC	Residential behavioral treatment services provider	First lien senior secured loan (\$15,005 par due 6/2017)	6.00% (Libor + 4.75%/Q)	12/13/2013	15,448	15,455(25)	
		First lien senior secured loan (\$13 par due 6/2017)	7.00% (Base Rate + 3.75%/Q)	12/13/2013	13	13(25)	
					15,461	15,468	
INC Research, Inc.	Pharmaceutical and biotechnology consulting services	Common stock (1,410,000 shares)		9/27/2010	1,512	1,758(2)	
Intermedix Corporation	Revenue cycle management provider to the emergency healthcare industry	Second lien senior secured loan (\$112,000 par due 6/2019)	10.25% (Libor + 9.00%/Q)	12/27/2012	112,000	112,000(2)(25)	
JHP Group Holdings, Inc.	Manufacturer of speciality pharmaceutical products	Series A preferred stock (1,000,000 shares)	6.00% PIK	2/19/2013	272	2,673(2)	
LM Acquisition Holdings, LLC (8)	Developer and manufacturer of medical equipment	Class A units (426 units)		9/27/2013	1,000	1,195(2)	
Magnacare Holdings, Inc., Magnacare Administrative Services, LLC, and Magnacare, LLC	Healthcare professional provider	First lien senior secured loan (\$134,115 par due 3/2018)	9.00% (Libor + 8.00%/Q)	9/15/2010	134,721	135,457(2)(25)	
		First lien senior secured loan (\$56,134 par due 3/2018)	9.00% (Libor + 8.00%/Q)	9/15/2010	56,134	56,695(3)(25)	
		First lien senior secured loan (\$4,668 par due 3/2018)	9.00% (Libor + 8.00%/Q)	3/6/2012	4,668	4,715(4)(25)	
					195,523	196,867	
Monte Nido Holdings, LLC	Outpatient eating disorder treatment provider	First lien senior secured loan (\$44,750 par due 12/2019)	7.75% (Libor + 6.75%/Q)	12/20/2013	44,750	44,750(2)(19)(25)	
MW Dental Holding Corp.	Dental services provider	First lien senior secured revolving loan (\$4,500 par due 4/2017)	8.50% (Libor + 7.00%/M)	4/12/2011	4,500	4,500(2)(25)	
		First lien senior secured loan (\$12,582 par due 4/2017)	8.50% (Libor + 7.00%/M)	4/12/2011	12,582	12,582(2)(25)	
		First lien senior secured loan (\$12,460 par due 4/2017)	8.50% (Libor + 7.00%/M)	4/12/2011	12,460	12,460(2)(25)	
		First lien senior secured loan (\$48,757 par due 4/2017)	8.50% (Libor + 7.00%/M)	4/12/2011	48,757	48,757(3)(25)	

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

		4/2017)					
		First lien senior secured loan (\$9,800 par due 4/2017)	8.50% (Libor + 7.00%/M)	4/12/2011	9,800	9,800(4)(25)	
					88,099	88,099	
Napa Management Services Corporation	Anesthesia management services provider	First lien senior secured loan (\$23,496 par due 4/2018)	6.50% (Libor + 5.25%/Q)	4/15/2011	23,496	23,496(2)(25)	
		First lien senior secured loan (\$33,266 par due 4/2018)	6.50% (Libor + 5.25%/Q)	4/15/2011	33,203	33,266(3)(25)	
		Common units (5,000 units)		4/15/2011	5,000	8,896(2)	
					61,699	65,658	
National Healing Corporation and National Healing Holding Corp.	Wound care service and equipment provider	Second lien senior secured loan (\$10,000 par due 2/2020)	9.25% (Libor + 8.00%/S)	12/13/2013	10,297	10,301(25)	
		Preferred stock (869,565 shares)		12/13/2013	1,296	1,296	
					11,593	11,597	
Netsmart Technologies, Inc. and NS Holdings, Inc.	Healthcare technology provider	First lien senior secured loan (\$2,833 par due 12/2017)	7.25% (Libor + 6.00%/Q)	12/18/2012	2,833	2,833(2)(17)(25)	
		First lien senior secured loan (\$36,259 par due 12/2017)	7.25% (Libor + 6.00%/Q)	12/18/2012	36,259	36,259(2)(17)(25)	
		Common stock (2,500,000 shares)		6/21/2010	2,500	2,710(2)	
					41,592	41,802	
New Trident Holdcorp, Inc.	Outsourced mobile diagnostic	Second lien senior	10.25% (Libor +	8/6/2013	78,465	80,000(2)(25)	

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Table of Contents

As of December 31, 2013

(dollar amounts in thousands)

Company(1)	Business Description	Investment	Interest(5)(11)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
	healthcare service provider	secured loan (\$80,000 par due 7/2020)	9.00%/Q)				
OmniSYS Acquisition Corporation, OmniSYS, LLC, and OSYS Holdings, LLC	Provider of technology-enabled solutions to pharmacies	First lien senior secured loan (\$21,000 par due 11/2018)	8.50% (Libor + 7.50%/Q)	11/21/2013	21,000	21,000(2)(25)	
		Limited liability company membership interest (1.57% interest)		11/21/2013	1,000	1,000(2)	
					22,000	22,000	
PerfectServe, Inc.	Communications software platform provider for hospitals and physician practices	First lien senior secured loan (\$3,500 par due 4/2017)	10.00%	12/26/2013	3,465	3,500	
		Warrants to purchase up to 34,113 units of Series C preferred stock		12/26/2013		50	
					3,465	3,550	
PG Mergersub, Inc. and PGA Holdings, Inc.	Provider of patient surveys, management reports and national databases for the integrated healthcare delivery system	Second lien senior secured loan (\$2,368 par due 10/2018)	8.25% (Libor + 7.00%/Q)	4/19/2012	2,439	2,376(25)	
		Second lien senior secured loan (\$21,316 par due 10/2018)	8.25% (Libor + 7.00%/Q)	4/19/2012	21,316	21,380(2)(25)	
		Preferred stock (333 shares)		3/12/2008	125	16(2)	
		Common stock (16,667 shares)		3/12/2008	167	825(2)	
					24,047	24,597	
Physiotherapy Associates Holdings, Inc.	Outpatient rehabilitation physical therapy provider	Class A common stock (100,000 shares)		12/13/2013	3,090	3,090	
POS I Corp. (fka Vantage Oncology, Inc.)	Radiation oncology care provider	Common stock (62,157 shares)		2/3/2011	4,670	1,375(2)	
RCHP, Inc.	Operator of general acute care hospitals	First lien senior secured loan (\$14,887 par due 11/2018)	7.00% (Libor + 5.75%/Q)	11/4/2011	14,888	14,664(2)(25)	
		First lien senior secured loan (\$60,518 par due 11/2018)	7.00% (Libor + 5.75%/Q)	11/4/2011	60,496	59,611(3)(25)	
		Second lien senior secured loan (\$85,000 par due 5/2019)	11.50% (Libor + 10.00%/Q)	11/4/2011	85,000	85,000(2)(25)	
					160,384	159,275	
Reed Group, Ltd.	Medical disability management services provider	Equity interests		4/1/2010		(2)	



Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Respicardia, Inc.	Developer of implantable therapies to improve cardiovascular health	First lien senior secured loan (\$3,800 par due 7/2015)	11.00%	6/28/2012	3,787	3,800(2)
		Warrants to purchase up to 99,094 shares of Series C preferred stock		6/26/2012	38	29(2)
					3,825	3,829
Sage Products Holdings III, LLC	Patient infection control and preventive care solutions provider	Second lien senior secured loan (\$75,000 par due 6/2020)	9.25% (Libor + 8.00%/Q)	12/13/2012	75,000	75,000(2)(25)
Sorbent Therapeutics, Inc.	Orally-administered drug developer	First lien senior secured loan (\$6,500 par due 9/2016)	10.25%	4/23/2013	6,500	6,500(2)
		Warrant to purchase up to 727,272 shares of Series C preferred stock		4/23/2013		25(2)
					6,500	6,525
Soteria Imaging Services, LLC (6)	Outpatient medical imaging provider	Preferred member units (1,823,179 units)		4/1/2010		
SurgiQuest, Inc.	Medical device company	First lien senior secured loan (\$6,281 par due 10/2017)	10.00%	9/28/2012	6,133	6,281(2)
		First lien senior secured loan (\$2,000 par due 10/2017)	10.69%	9/28/2012	1,953	2,000(2)
		Warrants to purchase up to 54,672 shares of		9/28/2012		(2)

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Table of Contents

As of December 31, 2013

(dollar amounts in thousands)

Company(1)	Business Description	Investment	Interest(5)(11)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
		Series D-4 convertible preferred stock			8,086	8,281	
U.S. Anesthesia Partners, Inc.	Anesthesiology service provider	First lien senior secured loan (\$30,000 par due 12/2019)	6.00% (Libor + 5.00%/Q)	12/31/2013	30,000	30,000(2)(25)	
Young Innovations, Inc.	Dental supplies and equipment manufacturer	First lien senior secured loan (\$9,697 par due 1/2019)	5.75% (Libor + 4.50%/Q)	1/31/2013	9,697	9,697(3)(25)	
		First lien senior secured loan (\$32 par due 1/2019)	6.75% (Base Rate + 3.50%/Q)	1/31/2013	32	32(3)(25)	
		First lien senior secured loan (\$13,304 par due 1/2019)	5.75% (Libor + 4.50%/Q)	1/31/2013	13,304	13,304(4)(25)	
		First lien senior secured loan (\$44 par due 1/2019)	6.75% (Base Rate + 3.50%/Q)	1/31/2013	44	44(4)(25)	
					23,077	23,077	
					1,163,140	1,172,781	23.91%
<b>Business Services</b>							
2329497 Ontario Inc. (8)	Provider of outsourced data center infrastructure and related services	Second lien senior secured loan (\$42,333 par due 6/2019)	10.50% (Libor + 9.25%/M)	12/13/2013	43,551	43,603(25)	
Access CIG, LLC	Records and information management services provider	First lien senior secured loan (\$992 par due 10/2017)	7.00% (Libor + 5.75%/M)	10/5/2012	992	992(2)(25)	
BluePay Processing, Inc.	Technology-enabled payment processing solutions provider	First lien senior secured loan (\$6,000 par due 8/2019)	5.00% (Libor + 4.00%/Q)	8/30/2013	6,000	6,000(2)(25)	
Cast & Crew Payroll, LLC and Centerstage Co-Investors, L.L.C. (6)	Payroll and accounting services provider to the entertainment industry	First lien senior secured loan (\$18,107 par due 12/2017)	7.25% (Libor + 6.25%/Q)	12/24/2012	18,107	18,107(2)(18)(25)	
		First lien senior secured loan (\$45,267 par due 12/2017)	7.25% (Libor + 6.25%/Q)	12/24/2012	45,267	45,267(3)(18)(25)	
		Class A membership units (2,500,000 units)		12/24/2012	2,500	4,021(2)	
		Class B membership units (2,500,000 units)		12/24/2012	2,500	4,021(2)	
CIBT Investment Holdings, LLC	Expedited travel document processing	Class A shares (2,500 shares)		12/15/2011	68,374	71,416	
					2,500	3,658(2)	

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

	services					
CitiPostal Inc. (7)	Document storage and management services	First lien senior secured revolving loan (\$3,500 par due 12/2014)	6.50% (Libor + 4.50%/M)	4/1/2010	3,500	3,500(2)(25)
		First lien senior secured loan (\$53,731 par due 12/2014)		4/1/2010	53,731	41,501(2)(24)
		Senior subordinated loan (\$20,193 par due 12/2015)		4/1/2010	13,038	(2)(24)
		Common stock (37,024 shares)		4/1/2010		
					70,269	45,001
Command Alkon, Inc.	Software solutions provider to the ready-mix concrete industry	Second lien senior secured loan (\$10,000 par due 3/2018)	8.75% (Libor + 7.50%/M)	9/28/2012	10,000	10,000(2)(25)
		Second lien senior secured loan (\$34,000 par due 5/2019)	8.75% (Libor + 7.50%/Q)	9/28/2012	34,000	34,000(2)(25)
					44,000	44,000
Coverall North America, Inc.	Commercial janitorial services provider	Letter of credit facility		1/17/2013		(2)(29)
eCommerce Industries, Inc.	Business critical enterprise resource planning software provider	First lien senior secured loan (\$19,936 par due 10/2016)	8.00% (Libor + 6.75%/Q)	12/13/2013	19,936	20,217(22)(25)
GHS Interactive Security, LLC and LG Security Holdings, LLC	Originates residential security alarm contracts	First lien senior secured loan (\$2,091 par due 5/2018)	7.50% (Libor + 6.00%/Q)	12/13/2013	2,153	2,153(25)
		Class A membership		12/13/2013	1,607	1,607

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Table of Contents

As of December 31, 2013

(dollar amounts in thousands)

Company(1)	Business Description	Investment	Interest(5)(11)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
		units (1,560,000 units)			3,760	3,760	
HCPPro, Inc. and HCP Acquisition Holdings, LLC (7)	Healthcare compliance advisory services	Senior subordinated loan (\$9,004 par due 8/2014)		3/5/2013	2,692	(2)(24)	
		Class A units (14,293,110 units)		6/26/2008	12,793	(2)	
					15,485		
IfByPhone Inc.	Voice-based marketing automation software provider	First lien senior secured loan (\$1,533 par due 11/2015)	11.00%	10/15/2012	1,490	1,533(2)	
		First lien senior secured loan (\$833 par due 1/2016)	11.00%	10/15/2012	833	833(2)	
		Warrant to purchase up to 124,300 shares of Series C preferred stock		10/15/2012	88	64(2)	
					2,411	2,430	
Investor Group Services, LLC (6)	Business consulting for private equity and corporate clients	Limited liability company membership interest (8.5% interest)		6/22/2006		633	
IronPlanet, Inc.	Online auction platform provider for used heavy equipment	First lien senior secured revolving loan (\$5,000 par due 9/2015)	8.00%	9/24/2013	5,000	5,000(2)	
		First lien senior secured loan (\$7,500 par due 7/2017)	9.25%	9/24/2013	7,155	7,275(2)	
		Warrant to purchase to up to 133,333 shares of Series C preferred stock		9/24/2013	214	246(2)	
					12,369	12,521	
Itel Laboratories, Inc.	Data services provider for building materials to property insurance industry	Preferred units (1,798,391 units)		6/29/2012	1,000	995(2)	
Keynote Systems, Inc. and Hawaii Ultimate Parent Corp., Inc.	Web and mobile cloud performance testing and monitoring services provider	First lien senior secured loan (\$164,587 par due 2/2020)	9.50% (Libor + 8.50%/Q)	8/22/2013	164,587	164,587(2)(25)	
		Class A common stock (2,970 shares)		8/22/2013	2,970	3,429(2)	
		Class B common stock (1,956,522 shares)		8/22/2013	30	35(2)	
					167,587	168,051	
Market Track Holdings, LLC	Business media consulting services	Preferred stock (1,500 shares)		12/13/2013	1,982	1,982	

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

company						
		Common stock (15,000 shares)		12/13/2013	1,982	1,982
					3,964	3,964
MSC.Software Corporation and Maximus Holdings, LLC	Provider of software simulation tools and related services	First lien senior secured loan (\$42,750 par due 11/2017)	8.50% (Libor + 7.25%/Q)	12/13/2013	44,015	44,033(21)(25)
		Warrants to purchase up to 1,050,013 shares of common stock		12/13/2013	424	424
					44,439	44,457
Multi-Ad Services, Inc. (6)	Marketing services and software provider	Preferred units (1,725,280 units)		4/1/2010	788	1,754
		Common units (1,725,280 units)		4/1/2010		
					788	1,754
MVL Group, Inc. (7)	Marketing research provider	Junior subordinated loan (\$185 par due 7/2012)		4/1/2010		(2)(24)
		Senior subordinated loan (\$33,337 par due 7/2012)		4/1/2010	30,265	2,485(2)(24)
		Common stock (560,716 shares)		4/1/2010		(2)
					30,265	2,485
NComputing, Inc.	Desktop virtualization hardware and software technology service provider	First lien senior secured loan (\$6,500 par due 7/2016)	10.50%	3/20/2013	6,500	6,695(2)
		Warrant to purchase up to 462,726 shares of		3/20/2013		56(2)

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Table of Contents

As of December 31, 2013

(dollar amounts in thousands)

Company(1)	Business Description	Investment	Interest(5)(11)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
		Series C preferred stock			6,500	6,751	
Pillar Processing LLC, PHL Investors, Inc., and PHL Holding Co. (6)	Mortgage services	First lien senior secured loan (\$4,658 par due 11/2018)		7/31/2008	3,982	3,321(2)(24)	
		First lien senior secured loan (\$7,375 par due 5/2019)		11/20/2007	5,862	(2)(24)	
		Class A common stock (576 shares)		7/31/2012	3,768	(2)	
					13,612	3,321	
Platform Acquisition, Inc.	Data center and managed cloud services provider	Common stock (48,604 shares)		12/13/2013	7,536	7,536	
Powersport Auctioneer Holdings, LLC	Powersport vehicle auction operator	Common units (1,972 units)		3/2/2012	1,000	879(2)	
PSSI Holdings, LLC	Provider of mission-critical outsourced cleaning and sanitation services to the food processing industry	First lien senior secured loan (\$1,000 par due 6/2018)	6.00% (Libor + 5.00%/Q)	8/7/2013	1,000	1,000(2)(25)	
R2 Acquisition Corp.	Marketing services	Common stock (250,000 shares)		5/29/2007	250	154(2)	
Rainstor, Inc.	Database solutions provider	First lien senior secured loan (\$2,800 par due 4/2016)	11.25%	3/28/2013	2,735	2,800(2)	
		Warrant to purchase up to 142,210 shares of Series C preferred stock		3/28/2013	88	70(2)	
					2,823	2,870	
Summit Business Media Parent Holding Company LLC	Business media consulting services	Limited liability company membership interest (45.98% interest)		5/20/2011		1,458(2)	
TOA Technologies, Inc.	Cloud based, mobile workforce management applications provider	First lien senior secured loan (\$12,567 par due 11/2016)	10.25%	10/31/2012	12,124	12,567(2)	
		Warrant to purchase up to 2,509,770 shares of Series D preferred stock		10/31/2012	605	1,201(2)	
					12,729	13,768	
Tripwire, Inc.	IT security software provider	First lien senior secured loan (\$74,684 par due 5/2018)	7.50% (Libor + 6.25%/Q)	5/23/2011	74,684	74,684(2)(25)	
		First lien senior secured loan (\$10,266 par due 5/2018)	7.50% (Libor + 6.25%/Q)	5/23/2011	10,266	10,266(2)(25)	
				5/23/2011	49,875	49,875(3)(25)	

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

		First lien senior secured loan (\$49,875 par due 5/2018)	7.50% (Libor + 6.25%/Q)			
		First lien senior secured loan (\$9,975 par due 5/2018)	7.50% (Libor + 6.25%/Q)	5/23/2011	9,975	9,975(4)(25)
		Class B common stock (2,655,638 shares)		5/23/2011	30	84(2)
		Class A common stock (2,970 shares)		5/23/2011	2,970	8,315(2)
					147,800	153,199
Venturehouse-Cibernet Investors, LLC	Financial settlement services for intercarrier wireless roaming	Equity interest		4/1/2010		(2)
VSS-Tranzact Holdings, LLC (6)	Management consulting services	Common membership interest (5.98% interest)		10/26/2007	10,204	5,236
VTE Holdings Corp.	Hosted enterprise resource planning application management services provider	Common units (1,500,000 units)		12/13/2013	3,862	3,862
Worldpay (UK) Limited, Worldpay ECommerce Limited, Ship US Bidco, Inc., Ship Investor & Cy S.C.A. (8)	Payment processing company	First lien senior secured loan (\$5,341 par due 10/2017)	6.00% (Libor + 4.75%/Q)	12/13/2013	5,432	5,394(25)
		Common stock (936,693 shares)		12/13/2013	2,698	2,732
					8,129	8,126
X Plus Two Solutions, Inc. and X	Provider of open and integrated	First lien senior secured	8.50%	4/1/2013	8,600	8,600(2)

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Table of Contents

As of December 31, 2013

(dollar amounts in thousands)

Company(1)	Business Description	Investment	Interest(5)(11)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets	
Plus One Solutions, Inc.	software for digital marketing optimization	revolving loan (\$8,600 par due 9/2014)						
		First lien senior secured loan (\$7,000 par due 3/2017)	10.00%	4/1/2013	6,645	6,860(2)		
		Warrant to purchase up to 999,167 shares of Series C preferred stock			4/1/2013	284	299(2)	
						15,529	15,759	
					768,665	699,856	14.27%	
<b>Services-Other</b>								
Capital Investments and Ventures Corp.	SCUBA diver training and certification provider	First lien senior secured loan (\$24,512 par due 8/2018)	7.00% (Libor + 5.75%/Q)	8/9/2012	24,512	24,512(3)(25)		
		First lien senior secured loan (\$8,719 par due 8/2018)	7.00% (Libor + 5.75%/Q)	8/9/2012	8,719	8,719(4)(25)		
						33,231	33,231	
Community Education Centers, Inc.	Offender re-entry and in-prison treatment services provider	First lien senior secured loan (\$14,286 par due 12/2014)	6.25% (Libor + 5.25%/Q)	12/10/2010	14,286	14,286(2)(15)(25)		
		Second lien senior secured loan (\$35,283 par due 12/2015)	15.24% (Libor + 10.00% Cash, 5.00% PIK/Q)	12/10/2010	35,283	34,225(2)		
		Second lien senior secured loan (\$10,649 par due 12/2015)	15.26% (Libor + 10.00% Cash, 5.00% PIK/Q)	12/10/2010	10,649	10,330(2)		
		Warrants to purchase up to 654,618 shares			12/10/2010		979(2)	
					60,218	59,820		
Competitor Group, Inc. and Calera XVI, LLC	Endurance sports media and event operator	First lien senior secured revolving loan (\$2,850 par due 11/2018)	10.00% (Base Rate + 6.75%/Q)	11/30/2012	2,850	2,508(2)(25)		
		First lien senior secured revolving loan (\$900 par due 11/2018)	9.00% (Libor + 7.75%/Q)	11/30/2012	900	792(2)(25)		
		First lien senior secured loan (\$24,380 par due 11/2018)	10.00% (Libor + 7.75% Cash, 1.00% PIK /Q)	11/30/2012	24,380	21,454(2)(25)		
		First lien senior secured loan (\$29,853 par due 11/2018)	10.00% (Libor + 7.75% Cash, 1.00% PIK /Q)	11/30/2012	29,853	26,271(3)(25)		
					11/30/2012	2,513	17(2)(9)	



Edgar Filing: ARES CAPITAL CORP - Form 10-Q

		Membership units (2,500,000 units)			60,496	51,042
Fox Hill Holdings, Inc.	Third party claims administrator on behalf of insurance carriers	First lien senior secured loan (\$7,442 par due 6/2018)	6.75% (Libor + 5.75%/Q)	10/31/2013	7,442	7,442(2)(25)
		First lien senior secured loan (\$39 par due 6/2018)	8.00% (Base Rate + 4.75%/Q)	10/31/2013	39	39(2)(25)
ISS #2, LLC	Provider of repairs, refurbishments and services to the broader industrial end user markets	First lien senior secured loan (\$14,950 par due 6/2018)	6.50% (Libor + 5.50%/Q)	6/5/2013	14,950	14,950(2)(25)
		First lien senior secured loan (\$44,775 par due 6/2018)	6.50% (Libor + 5.50%/Q)	6/5/2013	44,775	44,775(3)(25)
Massage Envy, LLC	Franchisor in the massage industry	First lien senior secured loan (\$29,177 par due 9/2018)	8.50% (Libor + 7.25%/Q)	9/27/2012	29,177	29,177(2)(25)
		First lien senior secured loan (\$49,291 par due 9/2018)	8.50% (Libor + 7.25%/Q)	9/27/2012	49,291	49,291(3)(25)
		Common stock (3,000,000 shares)		9/27/2012	3,000	3,532(2)
McKenzie Sports Products, LLC	Designer, manufacturer and distributor of taxidermy forms	First lien senior secured loan (\$8,140 par due	5.75% (Libor + 4.75%/M)	3/30/2012	81,468 8,140	82,000 8,140(2)(25)

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Table of Contents

As of December 31, 2013

(dollar amounts in thousands)

Company(1)	Business Description	Investment	Interest(5)(11)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
	and supplies	3/2017) First lien senior secured loan (\$9,302 par due 3/2017)	5.75% (Libor + 4.75%/M)	3/30/2012	9,302	9,302(4)(25)	
					17,442	17,442	
Spin HoldCo Inc.	Laundry service and equipment provider	Second lien senior secured loan (\$140,000 par due 5/2020)	9.00% (Libor + 7.75%/Q)	5/14/2013	140,000	140,000(2)(25)	
The Dwyer Group (6)	Operator of multiple franchise concepts primarily related to home maintenance or repairs	Senior subordinated loan (\$25,686 par due 6/2018)	12.00% Cash, 1.50% PIK	12/22/2010	25,686	25,686(2)	
		Series A preferred units (13,292,377 units)	8.00% PIK	12/22/2010	6,859	18,650(2)	
					32,545	44,336	
Wash Multifamily Laundry Systems, LLC	Laundry service and equipment provider	Second lien senior secured loan (\$78,000 par due 2/2020)	9.75% (Libor + 8.50%/Q)	6/26/2012	78,000	78,000(2)(25)	
					570,606	573,077	11.69%
<b>Education</b>							
American Academy Holdings, LLC	Provider of education, training, certification, networking, and consulting services to medical coders and other healthcare professionals	First lien senior secured revolving loan (\$2,250 par due 3/2019)	6.00% (Libor + 5.00%/Q)	3/18/2011	2,250	2,250(2)(25)	
		First lien senior secured loan (\$56,236 par due 3/2019)	6.00% (Libor + 5.00%/Q)	3/18/2011	56,236	56,236(3)(25)	
		First lien senior secured loan (\$4,651 par due 3/2019)	6.00% (Libor + 5.00%/Q)	3/18/2011	4,651	4,651(4)(25)	
					63,137	63,137	
Campus Management Corp. and Campus Management Acquisition Corp. (6)	Education software developer	Preferred stock (485,159 shares)		2/8/2008	10,520	3,337(2)	
ELC Acquisition Corp., ELC Holdings Corporation, and Excellence Learning Corporation (6)	Developer, manufacturer and retailer of educational products	Preferred stock (99,492 shares)	12.00% PIK	8/1/2011	10,286	10,286(2)	
		Common stock (50,800 shares)		8/1/2011		1,345(2)	
					10,286	11,631	
Infilaw Holding, LLC	Operator of for-profit law schools	First lien senior secured revolving loan		8/25/2011		(2)(27)	
				8/25/2011	1	1(2)(25)	

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

		First lien senior secured loan (\$1 par due 8/2016)	9.50% (Libor + 8.50%/Q)			
		First lien senior secured loan (\$14,362 par due 8/2016)	9.50% (Libor + 8.50%/Q)	8/25/2011	14,362	14,362(3)(25)
		Series A preferred units (124,890 units)	9.50% (Libor + 8.50%/Q)	8/25/2011	124,890	124,890(2)(25)
		Series B preferred units (3.91 units)		10/19/2012	9,245	11,060(2)
					148,498	150,313
Instituto de Banca y Comercio, Inc. & Leeds IV Advisors, Inc.	Private school operator	First lien senior secured loan (\$39,459 par due 6/2015)		4/24/2013	39,385	35,514(3)(24)
		First lien senior secured loan (\$14,774 par due 6/2015)		4/24/2013	14,746	13,297(4)(24)
		Series B preferred stock (1,750,000 shares)		8/5/2010	5,000	(2)
		Series C preferred stock (2,512,586 shares)		6/7/2010	689	(2)
		Common stock (20 shares)		6/7/2010		(2)
					59,820	48,811
Lakeland Tours, LLC	Educational travel provider	First lien senior secured revolving loan		10/4/2011		(2)(27)
		First lien senior secured loan (\$83,140 par due 12/2016)	8.50% (Libor + 7.50%/Q)	10/4/2011	83,067	83,131(2)(14)(25)

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Table of Contents

As of December 31, 2013

(dollar amounts in thousands)

Company(1)	Business Description	Investment	Interest(5)(11)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
		First lien senior secured loan (\$1,585 par due 12/2016)	5.25% (Libor + 4.25%/Q)	10/4/2011	1,585	1,585(2)(25)	
		First lien senior secured loan (\$40,362 par due 12/2016)	8.50% (Libor + 7.50%/Q)	10/4/2011	40,277	40,362(3)(14)(25)	
		First lien senior secured loan (\$8,297 par due 12/2016)	5.25% (Libor + 4.25%/Q)	10/4/2011	8,280	8,297(3)(25)	
		Common stock (5,000 shares)		10/4/2011	5,000	5,117(2)	
					138,209	138,492	
PIH Corporation	Franchisor of education-based early childhood centers	First lien senior secured revolving loan (\$621 par due 6/2016)	7.25% (Libor + 6.25%/M)	12/13/2013	621	621(25)	
		First lien senior secured loan (\$39,062 par due 6/2016)	7.25% (Libor + 6.25%/M)	12/13/2013	39,570	39,594(25)	
					40,191	40,215	
R3 Education, Inc. and EIC Acquisitions Corp.	Medical school operator	Preferred stock (8,800 shares)		7/30/2008	2,200	1,936(2)	
		Common membership interest (26.27% interest)		9/21/2007	15,800	29,584(2)	
		Warrants to purchase up to 27,890 shares		12/8/2009		(2)	
					18,000	31,520	
RuffaloCODY, LLC	Provider of student fundraising and enrollment management services	First lien senior secured loan (\$634 par due 5/2019)	6.50% (Base Rate + 3.25%/Q)	5/29/2013	634	634(2)(25)	
		First lien senior secured loan (\$24,996 par due 5/2019)	5.50% (Libor + 4.25%/Q)	5/29/2013	24,996	24,996(2)(25)	
					25,630	25,630	
					514,291	513,086	10.46%
<b>Energy</b>							
Alphabet Energy, Inc.	Technology developer to convert waste-heat into electricity	First lien senior secured loan (\$3,000 par due 7/2017)	9.62%	12/16/2013	2,721	2,850(2)	
		Warrants to purchase up to 59,524 units of Series B preferred stock		12/16/2013	146	146(2)	
					2,867	2,996	
Brush Power, LLC	Gas turbine power generation facilities operator	First lien senior secured loan (\$89,892 par due 8/2020)	6.25% (Libor + 5.25%/Q)	8/1/2013	89,892	89,892(2)(25)	

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Centinela Funding, LLC	Solar power generation facility developer and operator	Senior subordinated loan (\$56,000 par due 11/2020)	10.00% (Libor + 8.75%/Q)	11/14/2012	56,000	56,000(2)(25)
Joule Unlimited Technologies, Inc. and Stichting Joule Global Foundation	Renewable fuel and chemical production developer	First lien senior secured loan (\$7,500 par due 2/2017)	10.00%	7/25/2013	7,433	7,500(2)
		Warrant to purchase up to 32,051 shares of Series C-2 preferred stock		7/25/2013		34(2)(8)
					7,433	7,534
La Paloma Generating Company, LLC	Natural gas fired, combined cycle plant operator	Second lien senior secured loan (\$68,000 par due 8/2018)	10.25% (Libor + 8.75%/M)	8/9/2011	67,060	67,320(2)(25)
Panda Sherman Power, LLC	Gas turbine power generation facilities operator	First lien senior secured loan (\$32,500 par due 9/2018)	9.00% (Libor + 7.50%/Q)	9/14/2012	32,500	32,500(2)(25)
Panda Temple Power II, LLC	Gas turbine power generation facilities operator	First lien senior secured loan (\$20,000 par due 4/2019)	7.25% (Libor + 6.00%/Q)	4/3/2013	19,820	20,000(2)(25)
Panda Temple Power, LLC	Gas turbine power generation facilities operator	First lien senior secured loan (\$60,000 par due 7/2018)	11.50% (Libor + 10.00%/Q)	7/17/2012	58,402	60,000(2)(25)
Sunrun Solar Owner Holdco X, LLC	Residential solar energy provider	First lien senior secured loan (\$59,749 par due 6/2019)	9.50% (Libor + 8.25%/Q)	6/7/2013	59,749	59,749(2)(25)

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Table of Contents

As of December 31, 2013

(dollar amounts in thousands)

Sunrun Solar Owner Holdco XIII, LLC	Residential solar energy provider	First lien senior secured loan (\$19,300 par due 12/2019)	9.50% (Libor + 7.25% Cash, 1.00% PIK /Q)	11/27/2013	19,079	19,300(2)(25)
<b>Restaurants and Food Services</b>						
		First lien senior secured loan (\$10,919 par due 12/2018)	10.50% (Base Rate + 7.25%/Q)	11/27/2006	10,922	10,919(3)(20)(25)
		Warrants to purchase up to 23,750 units of Series D common stock		12/18/2013	24	(2)
Benihana, Inc.	Restaurant owner and operator	First lien senior secured loan (\$4,925 par due 2/2018)	6.75% (Libor + 5.50%/Q)	8/21/2012	4,925	4,925(4)(25)
		First lien senior secured loan (\$43,750 par due 7/2018)	10.00% (Libor + 8.50%/M)	10/3/2013	43,750	43,750(2)(25)
Hojeij Branded Foods, Inc.	Airport restaurant operator	First lien senior secured revolving loan (\$450 par due 2/2017)	9.00% (Libor + 8.00%/Q)	2/15/2012	450	450(2)(25)(28)
		First lien senior secured loan (\$15,000 par due 2/2017)	9.00% (Libor + 8.00%/Q)	2/15/2012	14,543	15,000(2)(25)
		Warrants to purchase up to 324 shares of Class A common stock		2/15/2012	669	4,307(2)
Orion Foods, LLC (fka Hot Stuff Foods, LLC) (7)	Convenience food service retailer	First lien senior secured revolving loan (\$9,500 par due 9/2014)	10.75% (Base Rate + 7.50%/M)	4/1/2010	9,500	9,500(2)(25)

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Second lien senior secured loan (\$37,552 par due 9/2014)		4/1/2010	18,423	20,205(2)(24)
Class A common units (25,001 units)		4/1/2010		(2)
			60,960	62,742
First lien senior secured loan (\$7,075 par due 12/2017)	8.75% (Libor + 7.25%/Q)	12/11/2012	7,075	7,075(2)(25)
Warrants to purchase up to 7.73% of common units		6/19/2008	100	7,257(2)

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Table of Contents

As of December 31, 2013

(dollar amounts in thousands)

Performance Food Group, Inc. and Wellspring Distribution Corp	Food service distributor	Second lien senior secured loan (\$74,625 par due 11/2019)	6.25% (Libor + 5.25%/Q)	5/14/2013	74,282	74,850(2)(25)	
					80,585	81,379	
		Common stock (22,401 shares)		12/13/2013	379	379	
Restaurant Holding Company, LLC	Fast food restaurant operator	First lien senior secured loan (\$60,125 par due 2/2017)	9.00% (Libor + 7.50%/M)	2/17/2012	59,303	58,922(3)(25)	
					68,425	67,987	
		Warrants to purchase up to 257,429 shares of common stock		4/1/2010		(2)	
					380,848	397,872	8.11%
AllBridgE Financial, LLC (7)	Asset management services	Equity interests		4/1/2010	5,077	9,718	
Ciena Capital LLC (7)	Real estate and small business loan servicer	First lien senior secured revolving loan (\$14,000 par due 12/2014)	6.00%	11/29/2010	14,000	14,000(2)	
		Equity interests		11/29/2010	53,374	10,926(2)	
Commercial Credit Group, Inc.	Commercial equipment finance and leasing company	Senior subordinated loan (\$28,000 par due 5/2018)	12.75%	5/10/2012	28,000	28,000(2)	
Gordian Acquisition Corp.	Financial services firm	Common stock (526 shares)		11/30/2012		(2)	



Edgar Filing: ARES CAPITAL CORP - Form 10-Q

		2007 Class B common units (315 units)		5/10/2007		1(2)	
					15,000	19,678	
					317,162	392,138	8.00%
Gilchrist & Soames, Inc.	Personal care manufacturer	First lien senior secured revolving loan (\$8,700 par due 12/2014)	6.25% (Libor + 5.00%/M)	4/1/2010	8,700	8,700(2)(25)	
					31,204	30,533	
		Common stock (455 shares)		10/31/2011	455	170(2)	

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Table of Contents

As of December 31, 2013

(dollar amounts in thousands)

Insight Pharmaceuticals Corporation (6)	OTC drug products manufacturer	Second lien senior secured loan (\$19,310 par due 8/2017)	13.25% (Libor + 11.75%/Q)	8/26/2011	19,165	19,310(2)(25)
		Class B common stock (155,000 shares)		8/26/2011	6,035	7,234(2)
Matrixx Initiatives, Inc. and Wonder Holdings Acquisition Corp.	Developer and marketer of over-the-counter healthcare products	Warrants to purchase up to 1,654,678 shares of common stock		7/27/2011		1,219(2)
						2,363
		First lien senior secured loan (\$86 par due 4/2018)	9.25% (Base Rate + 6.00%/S)	4/2/2012	85	86(3)(25)
		First lien senior secured loan (\$24 par due 4/2018)	9.25% (Base Rate + 6.00%/S)	4/2/2012	24	24(4)(25)
PG-ACP Co-Invest, LLC	Supplier of medical uniforms, specialized medical footwear and accessories	Class A membership units (1,000,000 units)		8/29/2012	1,000	1,526(2)
		Second lien senior secured loan (\$32,865 par due 4/2015)	10.00%	4/1/2010	30,802	26,292(2)
		Warrants to purchase up to 3,157,895 units		4/1/2010		
The Thymes, LLC (7)	Cosmetic products manufacturer	Preferred units (6,283 units)	8.00% PIK	6/21/2007	4,696	4,221

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

				4,696	10,908
	Senior subordinated loan (\$80,000 par due 2/2017)	11.50%	4/18/2012	77,412	80,000(2)
				87,099	91,150
<b>Containers-Packaging</b>					
	First lien senior secured loan (\$27,740 par due 8/2016)	7.00% (Libor + 6.00%/Q)	8/31/2011	27,777	27,740(2)(25)
	First lien senior secured loan (\$14,718 par due 8/2016)	7.00% (Libor + 6.00%/Q)	8/31/2011	14,718	14,718(4)(25)

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Table of Contents

As of December 31, 2013

(dollar amounts in thousands)

Microstar Logistics LLC, Microstar Global Asset Management LLC, and MStar Holding Corporation	Keg management solutions provider	Second lien senior secured loan (\$142,500 par due 12/2018)	8.50% (Libor + 7.50%/Q)	12/14/2012	142,500	142,500(2)(25)	
					147,500	149,723	
		First lien senior secured loan (\$5 par due 3/2017)	8.50% (Base Rate + 5.25%/Q)	4/25/2012	5	5(2)(25)	
					252,493	254,679	5.19%
Cambrios Technologies Corporation	Nanotechnology-based solutions for electronic devices and computers	First lien senior secured loan (\$3,030 par due 8/2015)	12.00%	8/7/2012	3,030	3,030(2)	
					3,030	3,036	
Lighting Science Group Corporation	Advanced lighting products	Letter of credit facility		9/20/2011		(2)(29)	
MWI Holdings, Inc.	Provider of engineered springs, fasteners, and other precision components	First lien senior secured loan (\$38,274 par due 3/2019)	9.38% (Libor + 8.13%/Q)	6/15/2011	38,274	38,274(2)(25)	
					48,274	48,274	
Pelican Products, Inc.	Flashlights	First lien senior secured loan (\$2,317 par due 7/2018)	6.25% (Libor + 5.00%/Q)	7/13/2012	2,317	2,317(4)(25)	

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

					34,317	34,317	
		Preferred stock (2,379,361 shares)		5/23/2011	1,298	4,837(2)	
Saw Mill PCG Partners LLC	Metal precision engineered components	Common units (1,000 units)		1/30/2007	1,000	(2)	
TPTM Merger Corp.	Time temperature indicator products	First lien senior secured revolving loan (\$950 par due 9/2018)	6.25% (Libor + 5.25%/Q)	9/12/2013	950	950(2)(25)	
		First lien senior secured loan (\$25,935 par due 9/2018)	6.25% (Libor + 5.25%/Q)	9/12/2013	25,935	25,935(2)(25)	
					251,821	254,516	5.19%

Table of Contents

As of December 31, 2013

(dollar amounts in thousands)

<b>Automotive Services</b>						
		Common stock (25,000 units)		12/16/2011	25	808(2)
Eckler Industries, Inc.	Restoration parts and accessories provider for classic automobiles	First lien senior secured revolving loan (\$2,000 par due 7/2017)	8.25% (Base Rate + 5.00%/Q)	7/12/2012	2,000	2,000(2)(25)
		First lien senior secured loan (\$30,609 par due 7/2017)	7.25% (Libor + 6.00%/M)	7/12/2012	30,609	30,609(3)(25)
		Common stock (20,000 shares)		7/12/2012	200	116(2)
EcoMotors, Inc.	Engine developer	First lien senior secured loan (\$5,000 par due 10/2016)	10.83%	12/28/2012	4,869	5,000(2)
		First lien senior secured loan (\$4,833 par due 7/2016)	10.13%	12/28/2012	4,724	4,833(2)
					14,446	14,876
		First lien senior secured loan (\$46,898 par due 8/2017)	6.00% (Libor + 5.00%/Q)	8/20/2012	46,898	46,898(2)(16)(25)
		First lien senior secured loan (\$72,135 par due 8/2017)	6.00% (Libor + 5.00%/Q)	8/20/2012	72,135	72,135(2)(16)(25)

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

		First lien senior secured loan (\$10,000 par due 8/2017)	6.00% (Libor + 5.00%/Q)	8/20/2012	10,000	10,000(3)(16)(25)
					157,694	159,642
<b>Retail</b>						
		First lien senior secured loan (\$40,000 par due 5/2018)	8.50%	5/28/2010	40,000	40,000(3)(12)
					84,461	85,086
		Class A common stock (36,364 shares)		9/23/2013	6,000	6,660(2)
Things Remembered Inc. and	Personalized gifts retailer	First lien senior secured	8.00% (Libor +	5/24/2012	14,813	14,813(4)(25)





Edgar Filing: ARES CAPITAL CORP - Form 10-Q

		First lien senior secured loan (\$40,000 par due 8/2019)	7.00% (Libor + 6.00%/M)				
					108,499	106,830	2.18%
Eberle Design, Inc.	Provider of intelligent transportation systems products in the traffic and rail industries	First lien senior secured loan (\$30,500 par due 8/2018)	7.50% (Libor + 6.25%/Q)	8/26/2013	30,359	30,500(2)(25)	
United Road Towing, Inc.	Towing company	Warrants to purchase up to 607 shares		4/1/2010			
<b>Printing, Publishing and Media</b>							
		First lien senior secured loan (\$4,936 par due 11/2016)	9.60%	10/31/2012	4,936	5,030(2)(23)	
					12,436	12,530	

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Table of Contents

As of December 31, 2013

(dollar amounts in thousands)

		company interests (9.30%)				
The Teaching Company, LLC and The Teaching Company Holdings, Inc.	Education publications provider	First lien senior secured loan (\$20,886 par due 3/2017)	9.00% (Libor + 7.50%/Q)	9/29/2006	20,886	20,469(2)(25)
		Preferred stock (10,663 shares)		9/29/2006	1,066	2,282(2)
					31,656	32,263
<b>Commercial Real Estate Finance</b>						
		Member interest (10.00% interest)		4/1/2010	594	7,257
					26,869	33,532
Cleveland East Equity, LLC	Hotel operator	Real estate equity interests		4/1/2010	1,026	5,305
Crescent Hotels & Resorts, LLC and affiliates (7)	Hotel operator	Senior subordinated loan (\$2,236 par due 9/2011)		4/1/2010		(2)(24)
		Common equity interest		4/1/2010		
Hot Light Brands, Inc. (7)	Real estate holding company	First lien senior secured loan (\$31,384 par due 2/2011)		4/1/2010	90	253(2)(24)
					90	253

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

				33,940	46,122	0.94%
Geotrace Technologies, Inc.	Reservoir processing and development	Warrants to purchase up to 69,978 shares of common stock	4/1/2010	88	(2)	
				2,893	638	
		Second lien senior secured loan (\$42,812 par due 12/2014)	4/30/2012	40,097	30,795(2)(24)	
		Class A common units (151,236 units)	6/17/2011	1,512	(2)	
		Class B-4 common units (50,000 units)	6/17/2011	500	(2)	

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Table of Contents

As of December 31, 2013

(dollar amounts in thousands)

		Class C common units (758,546 units)		4/25/2008		(2)	
					64,661	42,285	0.86%
Athletic Club Holdings, Inc.	Premier health club operator	First lien senior secured loan (\$34,000 par due 3/2019)	7.25% (Libor + 6.00%/M)	10/11/2007	34,000	34,000(2)(13)(25)	
		Limited partnership interest (2,218,235 shares)		7/31/2012	2,218	1,556(2)	
					40,370	38,469	0.78%
American Broadband Communications, LLC, American Broadband Holding Company, and Cameron Holdings of NC, Inc.	Broadband communication services	Warrants to purchase up to 378 shares		11/7/2007		6,833(2)	
					0	10,448	
Quantance, Inc.	Designer of semiconductor products to the mobile wireless market	First lien senior secured loan (\$3,500 par due 9/2016)	10.25%	8/23/2013	3,402	3,465(2)	
					3,476	3,539	
Wilcon Holdings LLC	Communications infrastructure provider	Class A common stock (2,000,000 shares)		12/13/2013	1,829	1,829	
<b>Environmental Services</b>							
		Warrant to purchase 322,422 shares of		3/28/2013		6(2)	

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

		Series D preferred stock			
RE Community Holdings II, Inc. and Pegasus Community Energy, LLC.	Operator of municipal recycling facilities	Preferred stock (1,000 shares)	3/1/2011	8,839	532(2)
				22,541	29,936
0.61%					
Apple & Eve, LLC and US Juice Partners, LLC (6)	Juice manufacturer	Senior units (50,000 units)	10/5/2007	5,000	5,205
		Preferred stock (6,258 shares)	9/1/2006	2,567	2,260(2)
Distant Lands Trading Co.	Coffee manufacturer	Class A common stock (1,294 shares)	4/1/2010	980	(2)
				980	

Table of Contents

As of December 31, 2013

(dollar amounts in thousands)

<b>Wholesale Distribution</b>			
	2,500	3,103	0.06%

(1) Other than the Company's investments listed in footnote 7 below (subject to the limitations set forth therein), the Company does not Control any of its portfolio companies, for the purposes of the Investment Company Act of 1940, as amended (together with the rules and regulations promulgated thereunder, the Investment Company Act). In general, under the Investment Company Act, the Company would Control a portfolio company if the Company owned more than 25% of its outstanding voting securities (i.e., securities with the right to elect directors) and/or had the power to exercise control over the management or policies of such portfolio company. All of the Company's portfolio company investments, which as of December 31, 2013 represented 156% of the Company's net assets or 94% of the Company's total assets, are subject to legal restrictions on sales.

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

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

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

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

(6) As defined in the Investment Company Act, the Company is deemed to be an Affiliated Person of a 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). Transactions during the year ended December 31, 2013 in which the

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

issuer was an Affiliated Person (but not a portfolio company that the Company is deemed to Control) are as follows:

Company	Purchases (cost)	Redemptions (cost)	Sales (cost)	Interest income	Capital structuring service fees	Dividend income	Other income	Net realized gains (losses)	Net unrealized gains (losses)
10th Street, LLC	\$	\$	\$	\$ 3,361	\$	\$	\$	\$	\$ 6,781
Apple & Eve, LLC and US Juice Partners, LLC	\$	\$	\$	\$	\$	\$	\$	\$	\$ 3,807
Campus Management Corp. and Campus Management Acquisition Corp.	\$	\$	\$	\$	\$	\$	\$	\$	\$ (3,252)
Cast & Crew Payroll, LLC and Centerstage Co-Investors, L.L.C.	\$	\$ 6,626	\$ 30,000	\$ 6,177	\$	\$ 128	\$ 154	\$	\$ 3,042
CT Technologies Intermediate Holdings, Inc. and CT Technologies Holdings, LLC	\$	\$ 16,195	\$	\$ 875	\$ 395	\$ 1,047	\$ 10	\$	\$ 615
The Dwyer Group	\$	\$	\$	\$ 3,458	\$	\$ 522	\$	\$	\$ 4,166
ELC Acquisition Corp. and ELC Holdings Corporation	\$	\$ 1,682	\$	\$	\$	\$ 6,121	\$	\$	\$ (2,667)
Insight Pharmaceuticals Corporation	\$	\$	\$	\$ 2,623	\$	\$	\$	\$	\$ (2,114)
Investor Group Services, LLC	\$	\$	\$	\$	\$	\$ 176	\$	\$ 142	\$ (78)
Multi-Ad Services, Inc.	\$	\$	\$	\$	\$	\$	\$	\$	\$ (283)
Pillar Processing LLC and PHL Holding Co.	\$	\$ 3,527	\$	\$	\$	\$	\$	\$ 46	\$ (707)
Soteria Imaging Services, LLC	\$	\$ 2,049	\$	\$	\$	\$	\$	\$ (1,448)	\$ 1,208
VSS-Tranzact Holdings, LLC	\$	\$	\$	\$	\$	\$	\$	\$	\$ 1,584
UL Holding Co., LLC	\$	\$ 295	\$	\$ 3,037	\$	\$	\$ 49	\$ 15	\$ (13,225)

Table of Contents

(7) As defined in the Investment Company Act, the Company is deemed to be both an Affiliated Person and Control 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). Transactions during the period for the year ended December 31, 2013 in which the issuer was both an Affiliated Person and a portfolio company that the Company is deemed to Control are as follows:

Company	Purchases	Redemptions (cost)	Sales (cost)	Interest income	Capital structuring service fees	Dividend income	Other income	Net realized gains (losses)	Net unrealized gains (losses)
AllBridge Financial, LLC	\$	\$ 598	\$	\$	\$	\$ 864	\$	\$	\$ 2,503
AWTP, LLC	\$	\$	\$ 10,333	\$ 1,237	\$	\$	\$ 269	\$ 8,740	\$ (4,580)
Callidus Capital Corporation	\$	\$	\$	\$	\$	\$	\$	\$	\$ (6)
Ciena Capital LLC	\$	\$ 6,000	\$	\$ 4,495	\$	\$	\$	\$	\$ (7,691)
Citipostal, Inc.	\$ 4,000	\$ 4,738	\$	\$ 5,473	\$	\$	\$ (321)	\$	\$ (13,787)
Crescent Hotels & Resorts, LLC and affiliates	\$	\$	\$	\$	\$	\$	\$	\$ 194	\$
HCI Equity, LLC	\$	\$ 340	\$	\$	\$	\$	\$	\$	\$ 227
HCP Acquisition Holdings, LLC	\$ 6,696	\$	\$ 3,559	\$	\$	\$	\$	\$ (809)	\$ (3,137)
Hot Light Brands, Inc.	\$	\$ 1,573	\$	\$	\$	\$	\$	\$	\$ 698
Ivy Hill Asset Management, L.P.	\$	\$	\$	\$	\$	\$ 72,407	\$	\$	\$ (13,904)
MVL Group, Inc.	\$	\$ 5,176	\$	\$ 11	\$	\$	\$	\$	\$ 1,525
Orion Foods, LLC	\$ 2,700	\$ 6,712	\$	\$ 4,285	\$	\$	\$ 808	\$	\$ 7,669
Senior Secured Loan Fund LLC*	\$ 652,458	\$ 145,153	\$	\$ 224,867	\$ 43,119	\$	\$ 23,491	\$ 7,082	\$ 421
The Thymes, LLC	\$	\$	\$	\$	\$	\$ 410	\$	\$	\$ 3,460

\* Together with GE Global Sponsor Finance LLC and General Electric Capital Corporation (together, GE), the Company co invests through the Senior Secured Loan Fund LLC d/b/a the Senior Secured Loan Program (the SSLP). The SSLP is capitalized as transactions are completed and all portfolio decisions and generally all other decisions in respect of the SSLP must be approved by an investment committee of the SSLP consisting of representatives of the Company and GE (with approval from a representative of each required); therefore, although the Company owns more than 25% of the voting securities of the SSLP, the Company does not believe that it has control over the SSLP (for purposes of the Investment Company Act or otherwise) because, among other things, these voting securities do not afford the Company the right to elect directors of the SSLP or any other special rights (see Note 4 to the consolidated financial statements).

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

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

(10) In the first quarter of 2011, the staff of the Securities and Exchange Commission (the Staff) informally communicated to certain business development companies the Staff's belief that certain entities, which would be classified as an investment company under the Investment Company Act but for the exception from the definition of investment company set forth in Rule 3a 7 promulgated under the Investment Company Act, could not be treated as eligible portfolio companies (as defined in Section 2(a)(46) under the Investment Company Act) (i.e., not eligible to be included in a BDC's 70% qualifying assets basket). Subsequently, in August 2011 the Securities and Exchange



## Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Commission issued a concept release (the Concept Release ) which stated that [a]s a general matter, the Commission presently does not believe that Rule 3a 7 issuers are the type of small, developing and financially troubled businesses in which the U.S. Congress intended BDCs primarily to invest

Table of Contents

and requested comment on whether or not a 3a 7 issuer should be considered an eligible portfolio company . The Company provided a comment letter in respect of the Concept Release and continues to believe that the language of Section 2(a)(46) of the Investment Company Act permits a BDC to treat as eligible portfolio companies entities that rely on the 3a 7 exception. However, given the current uncertainty in this area (including the language in the Concept Release) and subsequent discussions with the Staff, the Company has, solely for purposes of calculating the composition of its portfolio pursuant to Section 55(a) of the Investment Company Act, identified such entities, which include the SSLP, as non qualifying assets should the Staff ultimately disagree with the Company s position.

(11) Variable rate loans to the Company 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 reset annually (A), semi annually (S), quarterly (Q), bi monthly (B), monthly (M) or daily (D). For each such loan, the Company has provided the interest rate in effect on the date presented.

(12) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 6.00% on \$12 million aggregate principal amount of a first out tranche of the portfolio company s senior term debt previously syndicated by the Company into first out and last out tranches, whereby the first out tranche will have priority as to the last out tranche with respect to payments of principal, interest and any other amounts due thereunder.

(13) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 3.00% on \$17 million aggregate principal amount of a first out tranche of the portfolio company s senior term debt previously syndicated by the Company into first out and last out tranches, whereby the first out tranche will have priority as to the last out tranche with respect to payments of principal, interest and any other amounts due thereunder.

(14) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 3.25% on \$60 million aggregate principal amount of a first out tranche of the portfolio company s senior term debt previously syndicated by the Company into first out and last out tranches, whereby the first out tranche will have priority as to the last out tranche with respect to payments of principal, interest and any other amounts due thereunder.

(15) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 1.13% on \$18 million aggregate principal amount of a first out tranche of the portfolio company s senior term debt previously syndicated by the Company into first out and last out tranches, whereby the first out tranche will have priority as to the last out tranche with respect to payments of principal, interest and any other amounts due thereunder.

(16) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 2.00% on \$97 million aggregate principal amount of a first out tranche of the portfolio company s senior term debt previously syndicated by the Company into first out and last out tranches, whereby the first out tranche will have priority as to the last out tranche with respect to payments of principal, interest and any other amounts due thereunder.

## Edgar Filing: ARES CAPITAL CORP - Form 10-Q

(17) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 3.13% on \$55 million aggregate principal amount of a first out tranche of the portfolio company's senior term debt previously syndicated by the Company into first out and last out tranches, whereby the first out tranche will have priority as to the last out tranche with respect to payments of principal, interest and any other amounts due thereunder.

(18) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 3.00% on \$27 million aggregate principal amount of a first out tranche of the portfolio company's first lien senior secured loans, whereby the first out tranche will have priority as to the last out tranche with respect to payments of principal, interest and any other amounts due thereunder.

(19) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 3.75% on \$25 million aggregate principal amount of a first out tranche of the portfolio company's first lien senior secured loans, whereby the first out tranche will have priority as to the last out tranche with respect to payments of principal, interest and any other amounts due thereunder.

Table of Contents

(20) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 5.00% on \$23 million aggregate principal amount of a first out tranche of the portfolio company's first lien senior secured loans, whereby the first out tranche will have priority as to the last out tranche with respect to payments of principal, interest and any other amounts due thereunder.

(21) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 0.75% on \$45 million aggregate principal amount of a first out tranche of the portfolio company's first lien senior secured loans, whereby the first out tranche will have priority as to the last out tranche with respect to payments of principal, interest and any other amounts due thereunder.

(22) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 3.75% on \$36 million aggregate principal amount of a first out tranche of the portfolio company's first lien senior secured loans, whereby the first out tranche will have priority as to the last out tranche with respect to payments of principal, interest and any other amounts due thereunder.

(23) The Company is entitled to receive a fixed fee upon the occurrence of certain events as defined in the credit agreement governing the Company's debt investment in the portfolio company. The fair value of such fee is included in the fair value of the debt investment.

(24) Loan was on non accrual status as of December 31, 2013.

(25) Loan includes interest rate floor feature.

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

(27) As of December 31, 2013, no amounts were funded by the Company under this first lien senior secured revolving loan; however, there were letters of credit issued and outstanding through a financial intermediary under the loan. See Note 7 to the consolidated financial statements for further information on letters of credit commitments related to certain portfolio companies.

(28) As of December 31, 2013, in addition to the amounts funded by the Company under this first lien senior secured revolving loan, there were also letters of credit issued and outstanding through a financial intermediary under the loan. See Note 7 to the consolidated financial statements for further information on letters of credit commitments related to certain portfolio companies.

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

(29) As of December 31, 2013, no amounts were funded by the Company under this letter of credit facility; however, there were letters of credit issued and outstanding through a financial intermediary under the letter of credit facility. See Note 7 to the consolidated financial statements for further information on letters of credit commitments related to certain portfolio companies.

Table of Contents**ARES CAPITAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY**

For the Six Months Ended June 30, 2014

(in thousands, except per share data)

(unaudited)

	Common Stock		Capital in	Accumulated	Accumulated	Net Unrealized	Total
	Shares	Amount	Excess of	Overdistributed	Net Realized	Gain on	Stockholders
			Par Value	Net Investment	Loss on	Investments	Equity
				Income	Foreign Currency	and Foreign	
					Transactions,	Currency	
					Extinction of	Transactions	
					Debt and		
					Other Assets		
Balance at December 31, 2013	297,971	\$ 298	\$ 4,982,477	\$ (8,785)	\$ (165,040)	\$ 95,494	\$ 4,904,444
Shares issued in connection with dividend reinvestment plan	612	1	10,846				10,847
Net increase in stockholders equity resulting from operations				204,327	(36,472)	91,968	259,823
Dividends declared and payable (\$0.81 per share)				(241,470)			(241,470)
Balance at June 30, 2014	298,583	\$ 299	\$ 4,993,323	\$ (45,928)	\$ (201,512)	\$ 187,462	\$ 4,933,644

See accompanying notes to consolidated financial statements.

Table of Contents**ARES CAPITAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF CASH FLOWS****(in thousands)**

	<b>For the six months ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>OPERATING ACTIVITIES:</b>		
Net increase in stockholders' equity resulting from operations	\$ 259,823	\$ 213,840
Adjustments to reconcile net increase in stockholders' equity resulting from operations:		
Realized losses on extinguishment of debt	72	
Net realized losses (gains) on investments and foreign currency transactions	36,400	(20,326)
Net unrealized gains on investments and foreign currency transactions	(91,968)	(840)
Net accretion of discount on investments	(828)	(2,970)
Increase in payment-in-kind interest and dividends	(5,706)	(10,583)
Collections of payment-in-kind interest and dividends	7,887	2,571
Amortization of debt issuance costs	7,965	6,906
Accretion of discount on notes payable	7,439	6,569
Depreciation	421	402
Proceeds from sales and repayments of investments	1,480,552	638,364
Purchases of investments	(1,717,878)	(1,498,199)
Changes in operating assets and liabilities:		
Interest receivable	(29,096)	(10,469)
Other assets	(6,677)	(287)
Base management fees payable	1,461	1,786
Income based fees payable	(3,461)	(2,260)
Capital gains incentive fees payable	(6,322)	(7,289)
Accounts payable and other liabilities	7,622	2,920
Interest and facility fees payable	1,699	9,740
Net cash used in operating activities	(50,595)	(670,125)
<b>FINANCING ACTIVITIES:</b>		
Net proceeds from issuance of common stock		333,174
Borrowings on debt	729,050	2,189,000
Repayments and repurchases of debt	(365,424)	(1,829,000)
Debt issuance costs	(8,258)	(4,260)
Dividends paid	(231,248)	(187,315)
Net cash provided by financing activities	124,120	501,599
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>73,525</b>	<b>(168,526)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>149,629</b>	<b>269,043</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 223,154</b>	<b>\$ 100,517</b>
<b>Supplemental Information:</b>		
Interest paid during the period	\$ 82,350	\$ 52,635
Taxes, including excise tax, paid during the period	\$ 14,229	\$ 11,248
Dividends declared and payable during the period	\$ 241,470	\$ 196,344

See accompanying notes to consolidated financial statements.





Table of Contents

**ARES CAPITAL CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**As of June 30, 2014**

**(unaudited)**

**(in thousands, except per share data, percentages and as otherwise indicated;**

**for example, with the words million, billion or otherwise)**

**1. ORGANIZATION**

Ares Capital Corporation (the Company or ARCC) is a specialty finance company that is a closed-end, non-diversified management investment company incorporated in Maryland. The Company has elected to be regulated as a business development company under the Investment Company Act of 1940, as amended (together with the rules and regulations promulgated thereunder, the Investment Company Act). The Company has elected to be treated as a regulated investment company, or a RIC, under the Internal Revenue Code of 1986, as amended (the Code) and operates in a manner so as to qualify for the tax treatment applicable to RICs.

The Company's investment objective is to generate both current income and capital appreciation through debt and equity investments. The Company invests primarily in first lien senior secured loans (including unitranche loans, which are loans that combine both senior and mezzanine debt, generally in a first lien position), second lien senior secured loans and mezzanine debt, which in some cases includes an equity component. To a lesser extent, the Company also makes equity investments.

The Company is externally managed by Ares Capital Management LLC (Ares Capital Management or the Company's investment adviser), a subsidiary of Ares Management, L.P. (Ares Management), a publicly traded, leading global alternative asset manager, pursuant to an investment advisory and management agreement. Ares Operations LLC (Ares Operations or the Company's administrator), a subsidiary of Ares Management, provides certain administrative and other services necessary for the Company to operate.

**2. SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

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

eliminated.

Interim financial statements are prepared in accordance with GAAP for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Articles 6 or 10 of Regulation S-X. In the opinion of management, all adjustments, consisting solely of normal recurring accruals considered necessary for the fair presentation of financial statements for the interim period presented, have been included. The current period's results of operations will not necessarily be indicative of results that ultimately may be achieved for the fiscal year ending December 31, 2014.

#### ***Cash and Cash Equivalents***

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

#### ***Concentration of Credit Risk***

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

#### ***Investments***

Investment transactions are recorded on the trade date. Realized gains or losses are measured by the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment without regard to unrealized gains or losses

Table of Contents

previously recognized, and include investments charged off during the period, net of recoveries. Unrealized gains or losses primarily reflect the change in investment values, including the reversal of previously recorded unrealized gains or losses when gains or losses are realized.

Investments for which market quotations are readily available are typically valued at such market quotations. In order to validate market quotations, the Company 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 the Company's investments) are valued at fair value as determined in good faith by the Company's board of directors, based on, among other things, the input of the Company's investment adviser, audit committee and independent third-party valuation firms that have been engaged at the direction of the Company's board of directors to assist in the valuation of each portfolio investment without a readily available market quotation at least once during a trailing 12-month period (with certain de minimis exceptions) and under a valuation policy and a consistently applied valuation process. The valuation process is conducted at the end of each fiscal quarter, and a minimum of 50% of the Company's portfolio at fair value is subject to review by an independent valuation firm each quarter. In addition, the Company's independent registered public accounting firm obtains an understanding of, and performs select procedures relating to, the Company's investment valuation process within the context of performing the integrated audit.

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

Because there is not a readily available market value for most of the investments in its portfolio, the Company values substantially all of its portfolio investments at fair value as determined in good faith by its board of directors, as described herein. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of the Company's investments may fluctuate from period to period. Additionally, the fair value of the Company'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 the Company 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 the Company was required to liquidate a portfolio investment in a forced or liquidation sale, the Company could realize significantly less than the value at which the Company 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 than the unrealized gains or losses reflected in the valuations currently assigned.

The Company's board of directors undertakes a multi-step valuation process each quarter, as described below:

- The Company'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 the Company's portfolio management team.

## Edgar Filing: ARES CAPITAL CORP - Form 10-Q

- Preliminary valuations are reviewed and discussed with the Company's investment adviser's management and investment professionals, and then valuation recommendations are presented to the Company's board of directors.
- The audit committee of the Company's board of directors reviews these valuations, as well as the input of third parties, including independent third-party valuation firms, who review a minimum of 50% of the Company's portfolio at fair value.
- The Company's board of directors discusses valuations and ultimately determines the fair value of each investment in the Company's portfolio without a readily available market quotation in good faith based on, among other things, the input of the Company's investment adviser, audit committee and, where applicable, independent third-party valuation firms.

See Note 8 for more information on the Company's valuation process.

Table of Contents

***Interest and Dividend Income Recognition***

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

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

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

***Payment-in-Kind Interest***

The Company has loans in its portfolio that contain payment-in-kind ( PIK ) provisions. The PIK interest, computed at the contractual rate specified in each loan agreement, is added to the principal balance of the loan and recorded as interest income. To maintain the Company's status as a RIC, this non-cash source of income must be paid out to stockholders in the form of dividends, even though the Company has not yet collected the cash.

***Capital Structuring Service Fees and Other Income***

The Company's investment adviser seeks to provide assistance to its portfolio companies and in return the Company may receive fees for capital structuring services. These fees are generally only available to the Company as a result of the Company's underlying investments, are normally paid at the closing of the investments, are generally non-recurring and are recognized as revenue when earned upon closing of the investment. The services that the Company's investment adviser provides vary by investment, but generally include reviewing existing credit facilities, arranging bank financing, arranging equity financing, structuring financing from multiple lenders, structuring financing from multiple equity investors, restructuring existing loans, raising equity and debt capital, and providing general financial advice, which concludes upon closing of the investment. Any services of the above nature subsequent to the closing would generally generate a separate fee payable to the Company. In certain instances where the Company is invited to participate as a co-lender in a transaction and does not provide significant services in connection with the investment, a portion of loan fees paid to the Company in such situations will be deferred and amortized over the estimated life of the loan. The Company 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 management and consulting services, loan guarantees, commitments, amendments and other services rendered by the Company to portfolio companies. Such fees are recognized as income when earned or the services are rendered.

***Foreign Currency Translation***

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

- (1) Fair value of investment securities, other assets and liabilities at the exchange rates prevailing at the end of the period.
  
- (2) Purchases and sales of investment securities, income and expenses at the exchange rates prevailing on the respective dates of such transactions, income or expenses.

Results of operations based on changes in foreign exchange rates are separately disclosed in the statement of operations, if any. Foreign security and currency translations may involve certain considerations and risks not typically associated with investing in

Table of Contents

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

***Accounting for Derivative Instruments***

The Company does not utilize hedge accounting and instead marks its derivatives to market in the consolidated statement of operations.

***Equity Offering Expenses***

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

***Debt Issuance Costs***

Debt issuance costs are amortized over the life of the related debt instrument using the straight line method or the effective yield method, depending on the type of debt instrument.

***Income Taxes***

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

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

Certain of the Company's consolidated subsidiaries are subject to U.S. federal and state corporate-level income taxes.

*Dividends to Common Stockholders*

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

The Company has adopted a dividend reinvestment plan that provides for reinvestment of any distributions the Company declares in cash on behalf of its stockholders, unless a stockholder elects to receive cash. As a result, if the Company's board of directors authorizes, and the Company declares, a cash dividend, then the Company's stockholders who have not opted out of the Company's dividend reinvestment plan will have their cash dividends automatically reinvested in additional shares of the Company's common stock, rather than receiving the cash dividend. The Company intends to use primarily newly issued shares to implement the dividend reinvestment plan (so long as the Company is trading at a premium to net asset value). If the Company's shares are trading at a significant enough discount to net asset value and the Company is otherwise permitted under applicable law to purchase such shares, the Company intends to purchase shares in the open market in connection with the Company's obligations under the dividend reinvestment plan. However, the Company reserves the right to issue new shares of the Company's common stock in connection with the Company's obligations under the dividend reinvestment plan even if the Company's shares are trading below net asset value.

*Use of Estimates in the Preparation of Financial Statements*

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



Table of Contents

amounts of income or loss and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the valuation of investments.

*New Accounting Pronouncements*

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update ( ASU ) No. 2014-09, Revenue from Contracts with Customers (Topic 606). The guidance in this ASU supersedes the revenue recognition requirements in Topic 605, Revenue Recognition. Under the new guidance, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in ASU No. 2014-09 are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. The Company is currently evaluating the impact of adopting this ASU on its consolidated financial statements.

**3. AGREEMENTS**

*Investment Advisory and Management Agreement*

The Company is party to an investment advisory and management agreement (the investment advisory and management agreement ) with Ares Capital Management. Subject to the overall supervision of the Company s board of directors, Ares Capital Management provides investment advisory and management services to the Company. For providing these services, Ares Capital Management receives fees from the Company consisting of a base management fee, a fee based on the Company s net investment income ( income based fee ) and a fee based on the Company s net capital gains ( capital gains incentive fee ).

The base management fee is calculated at an annual rate of 1.5% based on the average value of the Company 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.

The income based fee is calculated and payable quarterly in arrears based on the Company s net investment income excluding income based fees and capital gains incentive fees ( 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 the Company 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 income based fee and capital gains incentive fee accrued under GAAP). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature such as market discount, debt instruments with PIK interest, preferred stock with PIK dividends and zero coupon securities, accrued income that the Company has not yet received in cash. The Company s investment adviser is not under any obligation to reimburse the Company for any part of the income based fees it received that was based on accrued interest that the Company never actually received.

Pre-incentive fee net investment income does not include any realized capital gains, realized capital losses, unrealized capital appreciation, unrealized capital depreciation or income tax expense related to realized gains and losses. Because of the structure of the income based fee, it is possible that the Company may pay such fees in a quarter where the Company incurs a loss. For example, if the Company receives pre-incentive fee net investment income in excess of the hurdle rate (as defined below) for a quarter, the Company will pay the applicable income based fee even if the Company has incurred a loss in that quarter due to realized and/or unrealized capital losses.

Pre-incentive fee net investment income, expressed as a rate of return on the value of the Company's net assets (defined as total assets less indebtedness and before taking into account any income based fees and capital gains incentive fees payable during the period) at the end of the immediately preceding calendar quarter, is compared to a fixed hurdle rate of 1.75% per quarter. If market credit spreads rise, the Company may be able to invest its funds in debt instruments that provide for a higher return, which may increase the Company's pre-incentive fee net investment income and make it easier for the Company's investment adviser to surpass the fixed hurdle rate and receive an income based fee based on such net investment income. To the extent the Company has retained pre-incentive fee net investment income that has been used to calculate the income based fee, it is also included in the amount of the Company'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.

Table of Contents

The Company pays its investment adviser an income based fee with respect to the Company's pre-incentive fee net investment income in each calendar quarter as follows:

- no income based fee in any calendar quarter in which the Company's pre-incentive fee net investment income does not exceed the hurdle rate;
- 100% of the Company'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 2.1875% in any calendar quarter. The Company refers to this portion of its pre-incentive fee net investment income (which exceeds the hurdle rate but is less than 2.1875%) as the catch-up provision. The catch-up is meant to provide the Company'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 exceeded 2.1875% in any calendar quarter; and
- 20% of the amount of the Company's pre-incentive fee net investment income, if any, that exceeds 2.1875% in any calendar quarter.

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

The capital gains incentive fee (the Capital Gains Fee) is determined and payable in arrears as of the end of each calendar year (or, upon termination of the investment advisory and management agreement, as of the termination date) and is calculated at the end of each applicable year by subtracting (a) the sum of the Company's cumulative aggregate realized capital losses and aggregate unrealized capital depreciation from (b) the Company's cumulative aggregate realized capital gains, in each case calculated from October 8, 2004 (the date the Company completed its initial public offering). Realized capital gains and losses include gains and losses on investments and foreign currencies, gains and losses on extinguishment of debt and other assets, as well as any income tax expense related to realized gains and losses. 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 the Company's portfolio when sold and (b) the accreted or amortized cost basis of such investment.

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

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

## Edgar Filing: ARES CAPITAL CORP - Form 10-Q

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

The Company defers cash payment of any income based fees and capital gains incentive fees otherwise earned by the Company's 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 Company's stockholders and (b) the change in net assets (defined as total assets less indebtedness and before taking into account any income based fees and capital gains incentive fees payable during the period) is less than 7.0% of the Company's net assets (defined as total assets less indebtedness) at the beginning of such period. Any deferred income based fees and capital gains incentive fees are carried over for payment in subsequent calculation periods to the extent such payment is payable under the investment advisory and management agreement.

The Capital Gains Fee payable to the Company's investment adviser as calculated under the investment advisory and management agreement (as described above) for the three and six months ended June 30, 2014 was \$0. However, in accordance with

Table of Contents

GAAP, the Company had cumulatively accrued a capital gains incentive fee of \$74,615 as of June 30, 2014 that is not currently due under the investment advisory and management agreement. GAAP requires that the capital gains incentive fee accrual consider the cumulative aggregate unrealized capital appreciation in the calculation, as a capital gains incentive fee would be payable if such unrealized capital appreciation were realized, even though such unrealized capital appreciation is not permitted to be considered in calculating the fee actually payable under the investment advisory and management agreement. This GAAP accrual is calculated using the aggregate cumulative realized capital gains and losses and aggregate cumulative unrealized capital depreciation included in the calculation of the Capital Gains Fee plus the aggregate cumulative unrealized capital appreciation. If such amount is positive at the end of a period, then GAAP requires the Company to record a capital gains incentive fee equal to 20% of such cumulative amount, less the aggregate amount of actual Capital Gains Fees paid or capital gains incentive fees accrued under GAAP in all prior periods. As of June 30, 2014, the Company has paid Capital Gains Fees since inception totaling \$33,411, of which \$17,425 was paid in the first quarter of 2014. The resulting accrual for any capital gains incentive fee under GAAP in a given period may result in an additional expense if such cumulative amount is greater than in the prior period or a reversal of previously recorded expense if such cumulative amount is less than in the prior period. If such cumulative amount is negative, then there is no accrual. There can be no assurance that such unrealized capital appreciation will be realized in the future.

For the three and six months ended June 30, 2014, base management fees were \$30,731 and \$60,815, respectively, income based fees were \$25,540 and \$53,858, respectively, and capital gains incentive fees calculated in accordance with GAAP were \$10,168 and \$11,103, respectively.

For the three and six months ended June 30, 2013, base management fees were \$24,902 and \$48,120, respectively, income based fees were \$25,390 and \$49,226, respectively, and the capital gains incentive fees calculated in accordance with GAAP were \$7,984 and \$4,233, respectively.

***Administration Agreement***

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

For the three and six months ended June 30, 2014, the Company incurred \$2,813 and \$6,556, respectively, in administrative fees. For the three and six months ended June 30, 2013, the Company incurred \$2,606 and \$5,198, respectively, in administrative fees. As of June 30, 2014, \$2,813 of these fees were unpaid and included in "accounts payable and other liabilities" in the accompanying consolidated balance sheet.

4. INVESTMENTS

As of June 30, 2014 and December 31, 2013, investments consisted of the following:

	June 30, 2014		As of December 31, 2013	
	Amortized Cost(1)	Fair Value	Amortized Cost(1)	Fair Value
First lien senior secured loans	\$ 3,564,342	\$ 3,551,247	\$ 3,405,597	\$ 3,377,608
Second lien senior secured loans	1,299,016	1,261,540	1,335,761	1,319,191
Subordinated certificates of the SSLP(2)	1,938,046	1,967,117	1,745,192	1,771,369
Senior subordinated debt	383,759	383,130	364,094	323,171
Preferred equity securities	230,086	241,363	226,044	229,006
Other equity securities	458,042	651,910	453,732	600,214
Commercial real estate	6,913	11,635	6,983	12,338
Total	\$ 7,880,204	\$ 8,067,942	\$ 7,537,403	\$ 7,632,897

Table of Contents

(1) The amortized cost represents the original cost adjusted for the accretion of discounts and amortization of premiums, if any.

(2) The proceeds from these certificates were applied to co-investments with GE Global Sponsor Finance LLC and General Electric Capital Corporation to fund first lien senior secured loans to 50 and 47 different borrowers as of June 30, 2014 and December 31, 2013, respectively.

The industrial and geographic compositions of the Company's portfolio at fair value as of June 30, 2014 and December 31, 2013 were as follows:

	June 30, 2014	As of December 31, 2013
<b>Industry</b>		
Investment Funds and Vehicles(1)	24.9%	23.6%
Healthcare Services	12.8	15.4
Other Services	9.5	7.5
Business Services	7.5	9.2
Education	6.7	6.7
Consumer Products	6.4	3.5
Energy	5.4	5.4
Financial Services	5.0	5.1
Manufacturing	3.7	3.3
Restaurants and Food Services	3.6	5.2
Containers and Packaging	3.1	3.3
Automotive Services	3.0	2.9
Retail	1.6	1.6
Chemicals	1.5	1.4
Aerospace and Defense	1.3	1.4
Other	4.0	4.5
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

(1) Includes the Company's investment in the SSLP, which had made first lien senior secured loans to 50 and 47 different borrowers as of June 30, 2014 and December 31, 2013, respectively. The portfolio companies in the SSLP are in industries similar to the companies in the Company's portfolio.

	June 30, 2014	As of December 31, 2013
<b>Geographic Region</b>		
West (1)	51.8%	50.0%
Midwest	18.8	15.8
Mid Atlantic	13.0	15.9
Southeast	12.3	13.6
Northeast	2.2	1.0
International	1.9	3.7
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

---

(1) Includes the Company's investment in the SSLP, which represented 24.4% and 23.2% of the total investment portfolio at fair value as of June 30, 2014 and December 31, 2013, respectively.



Table of Contents

As of June 30, 2014, 1.9% of total investments at amortized cost (or 1.2% of total investments at fair value) were on non-accrual status. As of December 31, 2013, 3.1% of total investments at amortized cost (or 2.1% of total investments at fair value) were on non-accrual status.

***Senior Secured Loan Program***

The Company co-invests in first lien senior secured loans of middle market companies with GE Global Sponsor Finance LLC and General Electric Capital Corporation (together, "GE") through an unconsolidated Delaware limited liability company, the Senior Secured Loan Fund LLC (d/b/a the "Senior Secured Loan Program") or the "SSLP". The SSLP is capitalized as transactions are completed and all portfolio decisions and generally all other decisions in respect of the SSLP must be approved by an investment committee of the SSLP consisting of representatives of the Company and GE (with approval from a representative of each required). The Company provides capital to the SSLP in the form of subordinated certificates (the "SSLP Certificates").

As of June 30, 2014 and December 31, 2013, GE and the Company had agreed to make \$11.0 billion of capital available to the SSLP, of which approximately \$9.4 billion and \$8.7 billion in aggregate principal amount, respectively, was funded. As of June 30, 2014 and December 31, 2013, the Company had agreed to make available to the SSLP approximately \$2.3 billion, of which approximately \$1.9 billion and \$1.7 billion in aggregate principal amount, respectively, was funded. Investment of any unfunded amount must be approved by the investment committee of the SSLP described above.

As of June 30, 2014 and December 31, 2013, the SSLP had total assets of \$9.5 billion and \$8.7 billion, respectively. As of June 30, 2014 and December 31, 2013, GE's investment in the SSLP consisted of senior notes of \$7.2 billion and \$6.7 billion, respectively, and SSLP Certificates of \$276.9 million and \$249.3 million, respectively. The SSLP Certificates are junior in right of payment to the senior notes held by GE. As of June 30, 2014 and December 31, 2013, the Company and GE owned 87.5% and 12.5%, respectively, of the outstanding SSLP Certificates.

The SSLP's portfolio consisted of first lien senior secured loans to 50 and 47 different borrowers as of June 30, 2014 and December 31, 2013, respectively. As of June 30, 2014 and December 31, 2013, the portfolio was comprised of all first lien senior secured loans to U.S. middle-market companies. As of June 30, 2014 and December 31, 2013, one loan was on non-accrual status, representing 0.9% and 1.0%, respectively, of the total loans at principal amount in the SSLP. As of June 30, 2014 and December 31, 2013, the largest loan to a single borrower in the SSLP's portfolio in aggregate principal amount was \$347.5 million and \$321.7 million, respectively, and the five largest loans to borrowers in the SSLP totaled \$1.6 billion as of the end of both such periods. The portfolio companies in the SSLP are in industries similar to the companies in the Company's portfolio. Additionally, as of June 30, 2014 and December 31, 2013, the SSLP had commitments to fund various delayed draw investments to certain of its portfolio companies of \$437.9 million and \$510.4 million, respectively, which had been approved by the SSLP investment committee. As of June 30, 2014 and December 31, 2013, the Company had commitments to co-invest in the SSLP for its portion of the SSLP's commitments to fund such delayed draw investments of up to \$82.5 million and \$85.1 million, respectively.

The amortized cost and fair value of the SSLP Certificates held by the Company were \$1.9 billion and \$2.0 billion, respectively, as of June 30, 2014 and \$1.7 billion and \$1.8 billion, respectively, as of December 31, 2013. The SSLP Certificates pay a weighted average coupon of approximately LIBOR plus 8.0% and also entitle the holders thereof to receive a portion of the excess cash flow from the loan portfolio, which may result in a return to the holders of the SSLP Certificates that is greater than the contractual coupon. The Company's yield on its investment in the SSLP at fair value was 13.9% and 14.8% as of June 30, 2014 and December 31, 2013, respectively. For the three and six months ended June 30, 2014, the Company earned interest income of \$68.0 million and \$135.7 million, respectively, from its investment in the SSLP Certificates. For the three and six months ended June 30, 2013, the Company earned interest income of \$53.4 million and \$102.0 million,

## Edgar Filing: ARES CAPITAL CORP - Form 10-Q

respectively, from its investment in the SSLP Certificates. The Company is also entitled to certain fees in connection with the SSLP. For the three and six months ended June 30, 2014, in connection with the SSLP, the Company earned capital structuring service, sourcing and other fees totaling \$16.5 million and \$29.0 million, respectively. For the three and six months ended June 30, 2013, in connection with the SSLP, the Company earned capital structuring service, sourcing and other fees totaling \$15.1 million and \$22.9 million, respectively.

### *Ivy Hill Asset Management, L.P.*

Ivy Hill Asset Management, L.P. ( IHAM ) is an asset management services company and an SEC-registered investment adviser. The Company has made investments in IHAM, its wholly owned portfolio company and previously made investments in certain vehicles managed by IHAM. As of June 30, 2014, IHAM had assets under management ( IHAM AUM )<sup>(1)</sup> of approximately \$2.8 billion and managed 13 vehicles and served as the sub-manager/sub-servicer for three other vehicles (these vehicles managed or sub-managed/sub-serviced by IHAM are collectively referred to as the IHAM Vehicles ). IHAM earns fee income from managing the IHAM Vehicles and has also invested in certain of these vehicles as part of its business strategy. As of June 30, 2014 and December 31, 2013, IHAM had total investments of \$205 million and \$170 million, respectively. For the three and six months ended

Table of Contents

June 30, 2014, IHAM had management and incentive fee income of \$4 million and \$11 million, respectively, and other investment-related income of \$7 million and \$13 million, respectively. For the three and six months ended June 30, 2013, IHAM had management and incentive fee income of \$5 million and \$9 million, respectively, and other investment-related income of \$26 million and \$38 million, respectively.

The amortized cost and fair value of the Company's investment in IHAM was \$171.0 million and \$262.3 million, respectively, as of June 30, 2014, and \$171.0 million and \$280.4 million, respectively, as of December 31, 2013. For the three and six months ended June 30, 2014, the Company received distributions consisting entirely of dividend income from IHAM of \$10.0 million and \$30.0 million, respectively. The dividend income for the six months ended June 30, 2014 included an additional dividend of \$10.0 million, in addition to the quarterly dividends generally paid by IHAM. For the three and six months ended June 30, 2013, the Company received distributions consisting entirely of dividend income from IHAM of \$10.0 million and \$37.4 million, respectively. The dividend income for the six months ended June 30, 2013 included an additional dividend of \$17.4 million that was paid in the first quarter of 2013 in addition to the quarterly dividends generally paid by IHAM. IHAM paid the additional dividends out of accumulated earnings that had previously been retained by IHAM.

From time to time, IHAM or certain IHAM Vehicles may purchase investments from, or sell investments to, the Company. For any such sales or purchases by the IHAM Vehicles to or from the Company, the IHAM Vehicles must obtain approval from third parties unaffiliated with the Company or IHAM, as applicable. During the six months ended June 30, 2014, IHAM or certain of the IHAM Vehicles purchased \$64.5 million of investments from the Company. No realized gains or losses were recognized on these transactions for the six months ended June 30, 2014. During the six months ended June 30, 2013, IHAM or certain of the IHAM Vehicles purchased \$35.0 million of investments from the Company. A net realized gain of \$0.1 million was recorded on these transactions for the six months ended June 30, 2013. During the six months ended June 30, 2014 and 2013, the Company purchased \$10.4 million and \$126.9 million of investments, respectively, from certain of the IHAM Vehicles.

IHAM is party to an administration agreement, referred to herein as the IHAM administration agreement, with Ares Operations. Pursuant to the IHAM administration agreement, Ares Operations provides IHAM with, among other things, office facilities, equipment, clerical, bookkeeping and record keeping services, services relating to the marketing and sale of interests in vehicles managed by IHAM, services of, and oversight of, custodians, depositories, accountants, attorneys, underwriters and such other persons in any other capacity deemed to be necessary. Under the IHAM administration agreement, IHAM reimburses Ares Operations for all of the actual costs associated with such services, including Ares Operations' allocable portion of overhead and the cost of its officers, employees and respective staff in performing its obligations under the IHAM administration agreement.

---

(1) IHAM AUM refers to the assets of the vehicles managed, sub-managed and sub-serviced by IHAM. It includes drawn and undrawn amounts, including certain amounts that are subject to regulatory leverage restrictions and/or borrowing base restrictions. IHAM AUM amounts are as of June 30, 2014 and are unaudited. Certain amounts are preliminary and remain subject to change, and differences may arise due to rounding.

**5. DEBT**

In accordance with the Investment Company Act, with certain limited exceptions, the Company is only allowed to borrow amounts such that its asset coverage, calculated pursuant to the Investment Company Act, is at least 200% after such borrowing. As of June 30, 2014 the Company's asset coverage was 247%.

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

The Company's outstanding debt as of June 30, 2014 and December 31, 2013 were as follows:

	June 30, 2014			As of December 31, 2013		
	Total Aggregate Principal Amount Committed/ Outstanding(1)	Principal Amount Outstanding	Carrying Value	Total Aggregate Principal Amount Committed/ Outstanding(1)	Principal Amount Outstanding	Carrying Value
Revolving Credit Facility	\$ 1,250,000(2)		\$	\$ 1,060,000		\$
Revolving Funding Facility	540,000(3)	395,000	395,000	620,000	185,000	185,000
SMBC Funding Facility	400,000			400,000		
February 2016 Convertible Notes	575,000	575,000	560,650(4)	575,000	575,000	556,456(4)
June 2016 Convertible Notes	230,000	230,000	223,380(4)	230,000	230,000	221,788(4)
2017 Convertible Notes	162,500	162,500	159,694(4)	162,500	162,500	159,220(4)
2018 Convertible Notes	270,000	270,000	264,755(4)	270,000	270,000	264,097(4)
2019 Convertible Notes	300,000	300,000	295,699(4)	300,000	300,000	295,279(4)
2018 Notes	750,000	750,000	750,785(5)	600,000	600,000	596,756(5)
February 2022 Notes	143,750	143,750	143,750	143,750	143,750	143,750
October 2022 Notes	182,500	182,500	182,500	182,500	182,500	182,500
2040 Notes	200,000	200,000	200,000	200,000	200,000	200,000
2047 Notes	229,557	229,557	181,202(6)	230,000	230,000	181,429(6)
Total	\$ 5,233,307	\$ 3,438,307	\$ 3,357,415	\$ 4,973,750	\$ 3,078,750	\$ 2,986,275

Table of Contents

---

- (1) Subject to borrowing base and leverage restrictions. Represents the total aggregate amount committed or outstanding, as applicable, under such instrument.
- (2) Provides for a feature that allows the Company, under certain circumstances, to increase the size of the Revolving Credit Facility to a maximum of \$1,755,000.
- (3) Provides for a feature that allows the Company and Ares Capital CP, under certain circumstances, to increase the size of the Revolving Funding Facility to a maximum of \$865,000.
- (4) Represents the aggregate principal amount outstanding of the Convertible Unsecured Notes (as defined below) less the unaccreted discount initially recorded upon issuance of the Convertible Unsecured Notes. The total unaccreted discount for the February 2016 Convertible Notes, the June 2016 Convertible Notes, the 2017 Convertible Notes, the 2018 Convertible Notes and the 2019 Convertible Notes was \$14,350, \$6,620, \$2,806, \$5,245 and \$4,301, respectively, as of June 30, 2014. The total unaccreted discount for the February 2016 Convertible Notes, the June 2016 Convertible Notes, the 2017 Convertible Notes, the 2018 Convertible Notes and the 2019 Convertible Notes was \$18,544, \$8,212, \$3,280, \$5,903 and \$4,721 respectively, as of December 31, 2013.
- (5) As of June 30, 2014, represents the aggregate principal amount outstanding plus the net unamortized premium of \$785 that was initially recorded upon the issuances of the 2018 Notes. As of December 31, 2013, represents the aggregate principal amount less the unaccreted discount of \$3,244 initially recognized on the first issuance of the 2018 Notes.
- (6) Represents the aggregate principal amount outstanding less the unaccreted purchased discount initially recorded as a part of the Allied Acquisition (as defined below). The total unaccreted purchased discount for the 2047 Notes was \$48,355 and \$48,571 as of June 30, 2014 and December 31, 2013, respectively.

The weighted average stated interest rate and weighted average maturity, both on aggregate principal amount, of all the Company's outstanding debt as of June 30, 2014 were 5.1% and 7.2 years, respectively, and as of December 31, 2013 were 5.3% and 7.9 years, respectively.

***Revolving Credit Facility***

The Company is party to a senior secured revolving credit facility (as amended and restated, the *Revolving Credit Facility*), which allows the Company to borrow up to \$1,250,000 at any one time outstanding. The end of the revolving period and the stated maturity date for the *Revolving Credit Facility* are May 4, 2018 and May 4, 2019, respectively. The *Revolving Credit Facility* also includes a feature that allows, under certain circumstances, for an increase in the size of the facility to a maximum of \$1,755,000. The *Revolving Credit Facility* generally requires payments of interest at the end of each LIBOR interest period, but no less frequently than quarterly, on LIBOR based loans, and monthly payments of interest on other loans. From the end of the revolving period to the stated maturity date, the Company is required to repay

## Edgar Filing: ARES CAPITAL CORP - Form 10-Q

outstanding principal amounts under the Revolving Credit Facility on a monthly basis in an amount equal to 1/12th of the outstanding principal amount at the end of the revolving period.

Under the Revolving Credit Facility, the Company is required to comply with various covenants, reporting requirements and other customary requirements for similar revolving credit facilities, including, without limitation, covenants related to: (a) limitations on the incurrence of additional indebtedness and liens, (b) limitations on certain investments, (c) limitations on certain restricted payments, (d) maintaining a certain minimum stockholders' equity, (e) maintaining a ratio of total assets (less total liabilities other

Table of Contents

than indebtedness) to total indebtedness of the Company and its consolidated subsidiaries of not less than 2.0:1.0, (f) limitations on pledging certain unencumbered assets, and (g) limitations on the creation or existence of agreements that prohibit liens on certain properties of the Company and certain of its subsidiaries. These covenants are subject to important limitations and exceptions that are described in the documents governing the Revolving Credit Facility. Borrowings under the Revolving Credit Facility (and the incurrence of certain other permitted debt) are also subject to compliance with a borrowing base that applies different advance rates to different types of assets in the Company's portfolio that are pledged as collateral. As of June 30, 2014, the Company was in compliance in all material respects with the terms of the Revolving Credit Facility.

As of June 30, 2014 and December 31, 2013, there were no amounts outstanding under the Revolving Credit Facility. The Revolving Credit Facility also provides for a sub-limit for the issuance of letters of credit for up to an aggregate amount of \$200,000. As of June 30, 2014 and December 31, 2013, the Company had \$28,069 and \$47,898, respectively, in letters of credit issued through the Revolving Credit Facility. The amount available for borrowing under the Revolving Credit Facility is reduced by any letters of credit issued. As of June 30, 2014, there was \$1,221,931 available for borrowing (net of letters of credit issued) under the Revolving Credit Facility.

Since May 2, 2013, subject to certain exceptions, the interest rate charged on the Revolving Credit Facility is based on LIBOR plus an applicable spread of 2.00% or a base rate (as defined in the agreements governing the Revolving Credit Facility) plus an applicable spread of 1.00%. From May 5, 2012 through May 1, 2013, the interest rate charged on the Revolving Credit Facility was based on LIBOR plus an applicable spread of 2.25% or a base rate plus an applicable spread of 1.25%. As of June 30, 2014, the one, two, three and six month LIBOR was 0.16%, 0.19%, 0.23% and 0.33%, respectively. As of December 31, 2013, the one, two, three and six month LIBOR was 0.17%, 0.21%, 0.25% and 0.35%, respectively. In addition to the stated interest expense on the Revolving Credit Facility, the Company is required to pay a commitment fee of 0.375% per annum on any unused portion of the Revolving Credit Facility. Since May 2, 2013, the Company is also required to pay a letter of credit fee of 2.25% per annum on letters of credit issued. From May 5, 2012 through May 1, 2013, the letter of credit fee was 2.50%.

The Revolving Credit Facility is secured by certain assets in the Company's portfolio and excludes investments held by Ares Capital CP under the Revolving Funding Facility and those held by ACJB under the SMBC Funding Facility, each as discussed below, and certain other investments.

For the three and six months ended June 30, 2014 and 2013, the components of interest and credit facility fees expense for the Revolving Credit Facility were as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Stated interest expense	\$	\$ 653	\$	\$ 653
Facility fees	1,282	989	2,466	2,079
Amortization of debt issuance costs	601	678	1,273	1,483
Total interest and credit facility fees expense	\$ 1,883	\$ 2,320	\$ 3,739	\$ 4,215
Cash paid for interest expense	\$	\$ 362	\$	\$ 362
Average stated interest rate		% 2.19%		% 1.10%
Average outstanding balance	\$	\$ 117,747	\$	\$ 59,199

***Revolving Funding Facility***

The Company's consolidated subsidiary, Ares Capital CP Funding LLC ( Ares Capital CP ), is party to a revolving funding facility (as amended, the Revolving Funding Facility ), which allows Ares Capital CP to borrow up to \$540,000 at any one time outstanding. The Revolving Funding Facility is secured by all of the assets held by, and the membership interest in, Ares Capital CP. The end of the reinvestment period and the stated maturity date for the Revolving Funding Facility are May 14, 2017 and May 14, 2019, respectively. The Revolving Funding Facility also includes a feature that allows, under certain circumstances, for an increase in the Revolving Funding Facility to a maximum of \$865,000.

Amounts available to borrow under the Revolving Funding Facility are subject to a borrowing base that applies different advance rates to different types of assets held by Ares Capital CP. Ares Capital CP is also subject to limitations with respect to the loans securing the Revolving Funding Facility, including restrictions on sector concentrations, loan size, payment frequency and status, collateral interests, loans with fixed rates and loans with certain investment ratings, as well as restrictions on portfolio company leverage, which may also affect the borrowing base and therefore amounts available to borrow. The Company and Ares Capital CP are



Table of Contents

also required to comply with various covenants, reporting requirements and other customary requirements for similar facilities. These covenants are subject to important limitations and exceptions that are described in the agreements governing the Revolving Funding Facility. As of June 30, 2014, the Company and Ares Capital CP were in compliance in all material respects with the terms of the Revolving Funding Facility.

As of June 30, 2014 and December 31, 2013, there was \$395,000 and \$185,000 outstanding, respectively, under the Revolving Funding Facility. Since January 25, 2013, the interest charged on the Revolving Funding Facility is based on applicable spreads ranging from 2.25% to 2.50% over LIBOR and ranging from 1.25% to 1.50% over base rate (as defined in the agreements governing the Revolving Funding Facility) in each case, determined monthly based on the composition of the borrowing base relative to outstanding borrowings under the Revolving Funding Facility. From January 18, 2012 through January 24, 2013, the interest rate charged on the Revolving Funding Facility was based on LIBOR plus an applicable spread of 2.50% or on a base rate plus an applicable spread of 1.50%. As of June 30, 2014 and December 31, 2013, the interest rate in effect was based on one month LIBOR, which was 0.16% and 0.17%, respectively. Through May 13, 2014, Ares Capital CP was required to pay a commitment fee between 0.50% and 1.75% per annum depending on the size of the unused portion of the Revolving Funding Facility. Since May 14, 2014, Ares Capital CP is required to pay a commitment fee between 0.50% and 1.50% per annum depending on the size of the unused portion of the Revolving Funding Facility.

For the three and six months ended June 30, 2014 and 2013, the components of interest and credit facility fees expense, cash paid for interest expense, average stated interest rates (i.e., rate in effect plus the spread) and average outstanding balances for the Revolving Funding Facility were as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Stated interest expense	\$ 370	\$ 1,727	\$ 543	\$ 2,201
Facility fees	1,484	746	3,296	2,354
Amortization of debt issuance costs	553	504	1,060	1,006
Total interest and credit facility fees expense	\$ 2,407	\$ 2,977	\$ 4,899	\$ 5,561
Cash paid for interest expense	\$ 219	\$ 358	\$ 1,742	\$ 2,503
Average stated interest rate	2.40%	2.45%	2.41%	2.46%
Average outstanding balance	\$ 60,934	\$ 279,396	\$ 44,890	\$ 177,994

**SMBC Funding Facility**

The Company's consolidated subsidiary, Ares Capital JB Funding LLC (ACJB), is party to a revolving funding facility (as amended, the SMBC Funding Facility) with ACJB, as the borrower, and Sumitomo Mitsui Banking Corporation (SMBC), as the administrative agent, collateral agent, and lender, which allows ACJB to borrow up to \$400,000 at any one time outstanding. The SMBC Funding Facility is secured by all of the assets held by ACJB. The end of the reinvestment period and the stated maturity date for the SMBC Funding Facility are September 14, 2016 and September 14, 2021, respectively. The reinvestment period and the stated maturity date are both subject to two one-year extensions by mutual agreement.

Amounts available to borrow under the SMBC Funding Facility are subject to a borrowing base that applies an advance rate to assets held by ACJB. The Company and ACJB are also required to comply with various covenants, reporting requirements and other customary requirements for similar facilities. These covenants are subject to important limitations and exceptions that are described in the documents governing the SMBC Funding Facility. As of June 30, 2014, the Company and ACJB were in compliance in all material respects with the terms of the SMBC

Funding Facility.

As of June 30, 2014 and December 31, 2013, there were no amounts outstanding under the SMBC Funding Facility. Since December 19, 2013, subject to certain exceptions, the interest rate charged on the SMBC Funding Facility is based on one month LIBOR plus an applicable spread of 2.00% or a base rate (as defined in the agreements governing the SMBC Funding Facility) plus an applicable spread of 1.00%. Prior to and including December 19, 2013, subject to certain exceptions, the interest rate charged on the SMBC Funding Facility was based on one month LIBOR plus an applicable spread of 2.125% or a base rate (as defined in the agreements governing the SMBC Funding Facility) plus an applicable spread of 1.125%. As of June 30, 2014 and December 31, 2013, one-month LIBOR was 0.16% and 0.17%, respectively. ACJB was not required to pay a commitment fee until September 15, 2013 and through December 19, 2013, at which time ACJB was required to pay a commitment fee of up to 0.50% per annum depending on the size of the unused portion of the SMBC Funding Facility. From December 20, 2013 through March 14, 2014, ACJB was required to pay a commitment fee of up to 0.75% per annum depending on the size of the unused portion of the SMBC Funding Facility. After

Table of Contents

March 14, 2014, ACJB is required to pay a commitment fee of between 0.35% and 0.875% per annum depending on the size of the unused portion of the SMBC Funding Facility.

For the three and six months ended June 30, 2014 and 2013, the components of interest and credit facility fees expense for the SMBC Funding Facility were as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Stated interest expense	\$	\$	\$	\$
Facility fees		437		805
Amortization of debt issuance costs		281		561
Total interest and credit facility fees expense	\$	718	\$	1,366
Cash paid for interest expense	\$		\$	16
Average stated interest rate		%		%
Average outstanding balance	\$	\$	\$	\$

**Convertible Unsecured Notes**

In January 2011, the Company issued \$575,000 aggregate principal amount of unsecured convertible notes that mature on February 1, 2016 (the February 2016 Convertible Notes), unless previously converted or repurchased in accordance with their terms. In March 2011, the Company issued \$230,000 aggregate principal amount of unsecured convertible notes that mature on June 1, 2016 (the June 2016 Convertible Notes), unless previously converted or repurchased in accordance with their terms. In March 2012, the Company issued \$162,500 aggregate principal amount of unsecured convertible notes that mature on March 15, 2017 (the 2017 Convertible Notes), unless previously converted or repurchased in accordance with their terms. In the fourth quarter of 2012, the Company issued \$270,000 aggregate principal amount of unsecured convertible notes that mature on January 15, 2018 (the 2018 Convertible Notes), unless previously converted or repurchased in accordance with their terms. In July 2013, the Company issued \$300,000 aggregate principal amount of unsecured convertible notes that mature on January 15, 2019 (the 2019 Convertible Notes) and together with the February 2016 Convertible Notes, the June 2016 Convertible Notes, the 2017 Convertible Notes and the 2018 Convertible Notes, the Convertible Unsecured Notes), unless previously converted or repurchased in accordance with their terms. The Company does not have the right to redeem the Convertible Unsecured Notes prior to maturity. The February 2016 Convertible Notes, the June 2016 Convertible Notes, the 2017 Convertible Notes, the 2018 Convertible Notes and the 2019 Convertible Notes bear interest at a rate of 5.750%, 5.125%, 4.875%, 4.750% and 4.375%, respectively, per year, payable semi-annually.

In certain circumstances, the Convertible Unsecured Notes will be convertible into cash, shares of the Company's common stock or a combination of cash and shares of its common stock, at the Company's election, at their respective conversion rates (listed below as of June 30, 2014) subject to customary anti-dilution adjustments and the requirements of their respective indenture (the Convertible Unsecured Notes Indentures). Prior to the close of business on the business day immediately preceding their respective conversion date (listed below), holders may convert their Convertible Unsecured Notes only under certain circumstances set forth in the Convertible Unsecured Notes Indentures. On or after their respective conversion dates until the close of business on the scheduled trading day immediately preceding their respective maturity date, holders may convert their Convertible Unsecured Notes at any time. In addition, if the Company engages in certain corporate events as described in their respective Convertible Unsecured Notes Indenture, holders of the Convertible Unsecured Notes may require the Company to repurchase for cash all or part of the Convertible Unsecured Notes at a repurchase price equal to 100% of the principal amount of the Convertible Unsecured Notes to be repurchased, plus accrued and unpaid interest through, but excluding, the required repurchase date.

## Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Certain key terms related to the convertible features for each of the Convertible Unsecured Notes as of June 30, 2014 are listed below.

	<b>February 2016</b>	<b>June 2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<b>Convertible Notes</b>	<b>Convertible Notes</b>	<b>Convertible Notes</b>	<b>Convertible Notes</b>	<b>Convertible Notes</b>
Conversion premium	17.5%	17.5%	17.5%	17.5%	15.0%
Closing stock price at issuance	\$ 16.28	\$ 16.20	\$ 16.46	\$ 16.91	\$ 17.53
Closing stock price date	January 19, 2011	March 22, 2011	March 8, 2012	October 3, 2012	July 15, 2013
Conversion price (1)	\$ 18.59	\$ 18.50	\$ 19.03	\$ 19.70	\$ 20.05
Conversion rate (shares per one thousand dollar principal amount)(1)	53.7871	54.0527	52.5380	50.7591	49.8854
Conversion dates	August 15, 2015	December 15, 2015	September 15, 2016	July 15, 2017	July 15, 2018

Table of Contents

(1) Represents conversion price and conversion rate, as applicable, as of June 30, 2014, taking into account certain de minimis adjustments that will be made on the conversion date.

As of June 30, 2014, the principal amounts of each series of the Convertible Unsecured Notes exceeded the value of the underlying shares multiplied by the per share closing price of the Company's common stock.

The Convertible Unsecured Notes Indentures contain certain covenants, including covenants requiring the Company to comply with Section 18(a)(1)(A) as modified by Section 61(a)(1) of the Investment Company Act and to provide financial information to the holders of the Convertible Unsecured Notes under certain circumstances. These covenants are subject to important limitations and exceptions that are described in the Convertible Unsecured Notes Indentures. As of June 30, 2014, the Company was in compliance in all material respects with the terms of the Convertible Unsecured Notes Indentures.

The Convertible Unsecured Notes are accounted for in accordance with Accounting Standards Codification (ASC) 470-20. Upon conversion of any of the Convertible Unsecured Notes, the Company intends to pay the outstanding principal amount in cash and to the extent that the conversion value exceeds the principal amount, the Company has the option to pay in cash or shares of the Company's common stock (or a combination of cash and shares) in respect of the excess amount, subject to the requirements of the Convertible Unsecured Notes Indentures. The Company has determined that the embedded conversion options in the Convertible Unsecured Notes are not required to be separately accounted for as a derivative under GAAP. In accounting for the Convertible Unsecured Notes, the Company estimated at the time of issuance separate debt and equity components for each of the Convertible Unsecured Notes. An original issue discount equal to the equity components of the Convertible Unsecured Notes was recorded in capital in excess of par value in the accompanying consolidated balance sheet. Additionally, the issuance costs associated with the Convertible Unsecured Notes were allocated to the debt and equity components in proportion to the allocation of the proceeds and accounted for as debt issuance costs and equity issuance costs, respectively.

The debt and equity component percentages, the issuance costs and the equity component amounts for each of the Convertible Unsecured Notes are listed below.

	February 2016		June 2016		2017		2018		2019	
	Convertible Notes		Convertible Notes		Convertible Notes		Convertible Notes		Convertible Notes	
Debt and equity component percentages, respectively(1)	93.0% and 7.0%		93.0% and 7.0%		97.0% and 3.0%		98.0% and 2.0%		99.8% and 0.2%	
Debt issuance costs(1)	\$	15,778	\$	5,913	\$	4,813	\$	5,712	\$	4,475
Equity issuance costs(1)	\$	1,188	\$	445	\$	149	\$	116	\$	9
Equity component, net of issuance costs(2)	\$	39,062	\$	15,654	\$	4,724	\$	5,243	\$	582

(1) At time of issuance.

(2) At time of issuance and as of June 30, 2014.

## Edgar Filing: ARES CAPITAL CORP - Form 10-Q

In addition to the original issue discount equal to the equity components of the Convertible Unsecured Notes, the 2018 Convertible Notes and the 2019 Convertible Notes were each issued at a discount. The Company records interest expense comprised of both stated interest expense as well as accretion of any original issue discount.

As of June 30, 2014, the components of the carrying value of the Convertible Unsecured Notes, the stated interest rate and the effective interest rate were as follows:

	<b>February 2016</b> <b>Convertible Notes</b>	<b>June 2016</b> <b>Convertible Notes</b>	<b>2017</b> <b>Convertible Notes</b>	<b>2018</b> <b>Convertible Notes</b>	<b>2019</b> <b>Convertible Notes</b>
Principal amount of debt	\$ 575,000	\$ 230,000	\$ 162,500	\$ 270,000	\$ 300,000
Original issue discount, net of accretion	(14,350)	(6,620)	(2,806)	(5,245)	(4,301)
Carrying value of debt	\$ 560,650	\$ 223,380	\$ 159,694	\$ 264,755	\$ 295,699
Stated interest rate	5.750%	5.125%	4.875%	4.750%	4.375%
Effective interest rate(1)	7.2%	6.5%	5.5%	5.2%	4.7%

Table of Contents

(1) The effective interest rate of the debt component of the Convertible Unsecured Notes is equal to the stated interest rate plus the accretion of original issue discount.

For the three and six months ended June 30, 2014 and 2013, the components of interest expense and cash paid for

interest expense for the Convertible Notes were as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Stated interest expense	\$ 19,680	\$ 16,399	\$ 39,361	\$ 32,798
Amortization of debt issuance costs	1,805	1,610	3,565	3,215
Accretion of original issue discount	3,700	3,256	7,337	6,456
Total interest expense	\$ 25,185	\$ 21,265	\$ 50,263	\$ 42,469
Cash paid for interest expense	\$ 5,894	\$ 5,894	\$ 39,251	\$ 26,386

**Unsecured Notes***2018 Notes*

In November 2013, the Company issued \$600,000 aggregate principal amount of unsecured notes that mature on November 30, 2018 (the 2018 Notes). The 2018 Notes bear interest at a rate of 4.875% per year, payable semi-annually and all principal is due upon maturity. The 2018 Notes may be redeemed in whole or in part at any time at the Company's option at a redemption price equal to par plus a make whole premium, as determined pursuant to the indenture governing the 2018 Notes, and any accrued and unpaid interest. The 2018 Notes were issued at a discount at the time of issuance totaling \$3,312. The Company records interest expense comprised of both stated interest expense as well as any accretion of any original issue discount. Total proceeds from the issuance of the 2018 Notes, net of the original issue discount, underwriting discounts and offering costs, were \$586,014.

In January 2014, the Company issued an additional \$150,000 aggregate principal amount of the 2018 Notes at a premium of 102.7% of their principal amount (the Additional 2018 Notes). The original issue premium recognized upon issuance of the Additional 2018 Notes totaled \$4,050. Total proceeds from the issuance of the Additional 2018 Notes, net of underwriting discounts and offering costs, were approximately \$151,900.

*February 2022 Notes*

In February 2012, the Company issued \$143,750 aggregate principal amount of unsecured notes that mature on February 15, 2022 (the February 2022 Notes). The February 2022 Notes bear interest at a rate of 7.00% per year, payable quarterly and all principal is due upon maturity. The February 2022 Notes may be redeemed in whole or in part at any time or from time to time at the Company's option on or after February 15, 2015, at a par redemption price of \$25.00 per security plus accrued and unpaid interest. Total proceeds from the issuance of the

## Edgar Filing: ARES CAPITAL CORP - Form 10-Q

February 2022 Notes, net of underwriting discounts and offering costs, were \$138,338.

### *October 2022 Notes*

In September 2012 and October 2012, the Company issued \$182,500 aggregate principal amount of unsecured notes that mature on October 1, 2022 (the October 2022 Notes). The October 2022 Notes bear interest at a rate of 5.875% per year, payable quarterly and all principal is due upon maturity. The October 2022 Notes may be redeemed in whole or in part at any time or from time to time at the Company's option on or after October 1, 2015, at a par redemption price of \$25.00 per security plus accrued and unpaid interest. Total proceeds from the issuance of the October 2022 Notes, net of underwriting discounts and offering costs, were \$176,054.

### *2040 Notes*

In October 2010, the Company issued \$200,000 aggregate principal amount of unsecured notes that mature on October 15, 2040 (the 2040 Notes). The 2040 Notes bear interest at a rate of 7.75% per year, payable quarterly and all principal is due upon maturity. The 2040 Notes may be redeemed in whole or in part at any time or from time to time at the Company's option on or after October 15, 2015, at a par redemption price of \$25.00 per security plus accrued and unpaid interest. Total proceeds from the issuance of the 2040 Notes, net of underwriting discounts and offering costs, were \$192,664.



Table of Contents*2047 Notes*

As part of the acquisition of Allied Capital Corporation ( *Allied Capital* ) in April 2010 (the *Allied Acquisition* ), the Company assumed \$230,000 aggregate principal amount of unsecured notes due on April 15, 2047 (the *2047 Notes* ) and together with the 2018 Notes, the February 2022 Notes, the October 2022 Notes and the 2040 Notes, the *Unsecured Notes* ). The 2047 Notes bear interest at a rate of 6.875%, payable quarterly and all principal is due upon maturity. The 2047 Notes may be redeemed in whole or in part at any time or from time to time at the Company's option, at a par redemption price of \$25.00 per security plus accrued and unpaid interest. During the six months ended June 30, 2014, the Company purchased \$443 aggregate principal amount of the 2047 Notes and as a result of these transactions, the Company recognized a realized loss of \$72. As of June 30, 2014 and December 31, 2013, the outstanding principal was \$229,557 and \$230,000, respectively, and the carrying value was \$181,202 and \$181,429, respectively. The carrying value represents the outstanding principal amount of the 2047 Notes less the unaccreted purchased discount initially recorded as a part of the *Allied Acquisition*.

For the three and six months ended June 30, 2014 and 2013, the components of interest expense and cash paid for interest expense for the *Unsecured Notes* were as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Stated interest expense	\$ 22,158	\$ 13,024	\$ 43,769	\$ 26,048
Amortization of debt issuance costs	778	349	1,506	698
Accretion of purchase discount	22	57	102	113
Total interest expense	\$ 22,958	\$ 13,430	\$ 45,377	\$ 26,859
Cash paid for interest expense	\$ 31,013	\$ 13,024	\$ 41,357	\$ 23,368

The *Unsecured Notes* contain certain covenants, including covenants requiring the Company to comply with Section 18(a)(1)(A) as modified by Section 61(a)(1) of the Investment Company Act and to provide financial information to the holders of such notes under certain circumstances. These covenants are subject to important limitations and exceptions set forth in the indentures governing such notes. As of June 30, 2014, the Company was in compliance in all material respects with the terms of the respective indentures governing each of the *Unsecured Notes*.

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

## 6. DERIVATIVE INSTRUMENTS

The Company may enter into forward currency contracts from time to time to help mitigate the impact that an adverse change in foreign exchange rates would have on the value of the Company's investments denominated in foreign currencies. Forward contracts are considered undesignated derivative instruments.

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Certain information related to the Company's derivative financial instruments is presented below as of June 30, 2014:

Description	As of June 30, 2014				Balance Sheet Location	
	Notional Amount	Maturity Date	Fair Value			
Foreign currency forward contract	CAD	45,000	9/30/2014	\$	189	Accounts payable and other liabilities
Foreign currency forward contract		14,925	9/30/2014		171	Accounts payable and other liabilities
<b>Total</b>				<b>\$</b>	<b>360</b>	

Table of Contents**7. COMMITMENTS AND CONTINGENCIES**

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

As of June 30, 2014 and December 31, 2013, the Company had the following commitments to fund various revolving and delayed draw senior secured and subordinated loans, including commitments to fund which are at (or substantially at) the Company's discretion:

	As of	
	June 30, 2014	December 31, 2013
Total revolving and delayed draw commitments	\$ 897,269	\$ 834,444
Less: funded commitments	(131,003)	(87,073)
Total unfunded commitments	766,266	747,371
Less: commitments substantially at discretion of the Company	(6,000)	(16,000)
Less: unavailable commitments due to borrowing base or other covenant restrictions	(1,660)	(1,660)
Total net adjusted unfunded revolving and delayed draw commitments	\$ 758,606	\$ 729,711

Included within the total revolving and delayed draw commitments as of June 30, 2014 were commitments to issue up to \$41,875 in letters of credit through a financial intermediary on behalf of certain portfolio companies. As of June 30, 2014, the Company had \$18,098 in letters of credit issued and outstanding under these commitments on behalf of portfolio companies. In addition to these letters of credit included as a part of the total revolving and delayed draw commitments to portfolio companies, as of June 30, 2014 the Company also had \$5,284 of letters of credit issued and outstanding on behalf of other portfolio companies. For all these letters of credit issued and outstanding, the Company would be required to make payments to third parties if the portfolio companies were to default on their related payment obligations. None of these letters of credit issued and outstanding are recorded as a liability on the Company's balance sheet as such letters of credit are considered in the valuation of the investments in the portfolio company. Of these letters of credit \$5,883 expire in 2014 and \$17,499 expire in 2015.

The Company also has commitments to co-invest in the SSLP for the Company's portion of the SSLP's commitments to fund delayed draw investments to certain portfolio companies of the SSLP. See Note 4 for more information.

As of June 30, 2014 and December 31, 2013, the Company was party to subscription agreements to fund equity investments in private equity investment partnerships as follows:

	As of	
	June 30, 2014	December 31, 2013
Total private equity commitments	\$ 109,500	\$ 59,500
Less: funded private equity commitments	(14,977)	(11,891)
Total unfunded private equity commitments	94,523	47,609
Less: private equity commitments substantially at discretion of the Company	(91,163)	(43,206)

## Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Total net adjusted unfunded private equity commitments	\$	3,360	\$	4,403
--	----	-------	----	-------

In the ordinary course of business, the Company may sell certain of its investments to third party purchasers. In particular, in connection with the sale of certain controlled portfolio company equity investments (as well as certain other sales) the Company has, and may continue to do so in the future, agreed to indemnify such purchasers for future liabilities arising from the investments and the related sale transaction. Such indemnification provisions have given rise to liabilities in the past and may do so in the future.

Table of Contents

As of June 30, 2014, one of the Company's portfolio companies, Ciena Capital LLC (Ciena), had one non-recourse securitization Small Business Administration (SBA) loan warehouse facility, which has reached its maturity date but remains outstanding. Ciena is working with the providers of the SBA loan warehouse facility with regard to the repayment of that facility. Allied Capital had previously issued a performance guaranty (which the Company succeeded to as a result of the Allied Acquisition) whereby the Company must indemnify the warehouse providers for any damages, losses, liabilities and related costs and expenses that they may incur as a result of Ciena's failure to perform any of its obligations as loan originator, loan seller or loan servicer under the warehouse facility. As of June 30, 2014, there are no known issues or claims with respect to this performance guaranty.

**8. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Company follows ASC 825-10, which provides companies the option to report selected financial assets and liabilities at fair value. ASC 825-10 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to more easily understand the effect of the company's choice to use fair value on its earnings. ASC 825-10 also requires entities to display the fair value of the selected assets and liabilities on the face of the balance sheet. The Company has not elected the ASC 825-10 option to report selected financial assets and liabilities at fair value. With the exception of the line items entitled other assets and debt, which are reported at amortized cost, all assets and liabilities approximate fair value on the balance sheet. The carrying value of the lines titled interest receivable, receivable for open trades, payable for open trades, accounts payable and other liabilities, base management fees payable, income based fees payable, capital gains incentive fees payable and interest and facility fees payable approximate fair value due to their short maturity.

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

- Level 1 Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.
  
- Level 2 Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
  
- Level 3 Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

## Edgar Filing: ARES CAPITAL CORP - Form 10-Q

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

The Company's portfolio investments (other than as discussed below in the following paragraph) are typically valued using two different valuation techniques. The first valuation technique is an analysis of the enterprise value (EV) of the portfolio company. Enterprise value means the entire value of the portfolio 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. The primary method for determining EV uses a multiple analysis whereby appropriate multiples are applied to the portfolio company's EBITDA (net income before net interest expense, income tax expense, depreciation and amortization). EBITDA multiples are typically determined based upon review of market comparable transactions and publicly traded comparable companies, if any. The Company may also employ other valuation multiples to determine EV, such as revenues or, in the case of certain portfolio companies in the energy industry, kilowatt capacity. The second method for determining EV uses a discounted cash flow analysis whereby future expected cash flows of the portfolio company are discounted to determine a present value using estimated discount rates (typically a weighted average cost of capital based on costs of debt and equity consistent with current market conditions). The EV analysis is performed to determine the value of equity

Table of Contents

investments, the value of debt investments in portfolio companies where the Company has control or could gain control through an option or warrant security, and to determine if there is credit impairment for debt investments. If debt investments are credit impaired, an EV analysis may be used to value such debt investments; however, in addition to the methods outlined above, other methods such as a liquidation or wind-down analysis may be utilized to estimate enterprise value. The second valuation technique is a yield analysis, which is typically performed for non-credit impaired debt investments in portfolio companies where the Company does not own a controlling equity position. To determine fair value using a yield analysis, a current price is imputed for the investment based upon an assessment of the expected market yield for a similarly structured investment with a similar level of risk. In the yield analysis, the Company considers the current contractual interest rate, the maturity and other terms of the investment relative to risk of the company and the specific investment. A key determinant of risk, among other things, is the leverage through the investment relative to the enterprise value of the portfolio company. As debt investments held by the Company are substantially illiquid with no active transaction market, the Company depends on primary market data, including newly funded transactions, as well as secondary market data with respect to high yield debt instruments and syndicated loans, as inputs in determining the appropriate market yield, as applicable.

For other portfolio investments such as investments in collateralized loan obligations and the SSLP Certificates, discounted cash flow analysis is the primary technique utilized to determine fair value. Expected future cash flows associated with the investment are discounted to determine a present value using a discount rate that reflects estimated market return requirements.

The following tables summarize the significant unobservable inputs the Company used to value the majority of its investments categorized within Level 3 as of June 30, 2014 and December 31, 2013. The tables are not intended to be all-inclusive, but instead capture the significant unobservable inputs relevant to the Company's determination of fair values.

## As of June 30, 2014

Asset Category	Fair Value	Primary Valuation Techniques	Input	Unobservable Input	
				Estimated Range	Weighted Average
First lien senior secured loans	\$ 3,551,247	Yield analysis	Market yield	4.0% - 19.0%	8.5%
Second lien senior secured loans	1,261,540	Yield analysis	Market yield	6.3% - 20.0%	9.5%
Subordinated certificates of the SSLP	1,967,117	Discounted cash flow	Discount rate	10.0% - 13.0%	11.5%
Senior subordinated debt	383,130	Yield analysis	Market yield	8.3% - 12.8%	10.8%
Preferred equity securities	241,363	EV market multiple analysis	EBITDA multiple	4.5x - 16.8x	9.2x
Other equity securities and other	663,545	EV market multiple analysis	EBITDA multiple	4.5x - 14.5x	9.0x
Total	\$ 8,067,942				

## As of December 31, 2013

Asset Category	Fair Value	Primary Valuation Techniques	Input	Unobservable Input	
				Estimated Range	Weighted Average
First lien senior secured loans	\$ 3,377,608	Yield analysis	Market yield	4.0% - 19.0%	8.4%
Second lien senior secured loans	1,319,191	Yield analysis	Market yield	6.1% - 25.3%	10.3%
	1,771,369	Discounted cash flow	Discount rate		12.3%

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Subordinated certificates of the SSLP				10.5% - 13.5%	
Senior subordinated debt	323,171	Yield analysis	Market yield	9.0% - 17.5%	11.4%
Preferred equity securities	229,006	EV market multiple analysis	EBITDA multiple	4.5x - 11.6x	8.3x
Other equity securities and other	612,552	EV market multiple analysis	EBITDA multiple	4.5x - 14.8x	8.6x
Total	\$ 7,632,897				

Changes in market yields, discount rates or EBITDA multiples, each in isolation, may change the fair value of certain of the Company's investments. Generally, an increase in market yields or discount rates or decrease in EBITDA multiples may result in a decrease in the fair value of certain of the Company's investments.

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 the Company's investments may fluctuate from period to period. Additionally, the fair value of the Company'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 the Company 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 the Company was required to liquidate a portfolio investment in a forced or liquidation sale, it could realize significantly less than the value at which the Company has recorded it.



Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Table of Contents

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

The following table presents fair value measurements of cash and cash equivalents, investments and derivatives as of June 30, 2014:

	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 223,154	\$ 223,154	\$	\$
Investments	\$ 8,067,942	\$ 2,116	\$	\$ 8,065,826
Derivatives	\$ (360)	\$	\$ (360)	\$

The following table presents fair value measurements of cash and cash equivalents and investments as of December 31, 2013:

	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 149,629	\$ 149,629	\$	\$
Investments	\$ 7,632,897	\$	\$	\$ 7,632,897

The following table presents changes in investments that use Level 3 inputs as of and for the three and six months ended June 30, 2014:

	As of and for the three months ended June 30, 2014	
Balance as of March 31, 2014	\$	7,798,942
Net realized losses		(47,437)
Net unrealized gains		99,648
Purchases		906,493
Sales		(197,193)
Redemptions		(496,428)
Payment-in-kind interest and dividends		2,806
Net accretion of discount on securities		489
Net transfers in and/or out of Level 3		(1,494)
Balance as of June 30, 2014	\$	8,065,826

	As of and for the six months ended June 30, 2014	
Balance as of December 31, 2013	\$	7,632,897
Net realized losses		(35,483)
Net unrealized gains		91,621
Purchases		1,735,253
Sales		(379,929)
Redemptions		(983,573)
Payment-in-kind interest and dividends		5,706

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Net accretion of discount on securities		828
Net transfers in and/or out of Level 3		(1,494)
Balance as of June 30, 2014	\$	8,065,826

As of June 30, 2014, the net unrealized appreciation on the investments that use Level 3 inputs was \$186,688.

For the three and six months ended June 30, 2014, the total amount of gains (losses) for the period included in earnings attributable to the change in unrealized gains (losses) relating to the Company's Level 3 assets still held as of June 30, 2014, and

## Edgar Filing: ARES CAPITAL CORP - Form 10-Q

### Table of Contents

reported within the net unrealized gains (losses) from investments in the Company's consolidated statement of operations was \$76,633 and \$67,028, respectively.

The following table presents changes in investments that use Level 3 inputs as of and for the three and six months ended June 30, 2013:

	<b>As of and for the three months ended June 30, 2013</b>	
Balance as of March 31, 2013	\$	6,030,459
Net realized gains		8,648
Net unrealized gains		31,273
Purchases		1,141,500
Sales		(130,445)
Redemptions		(272,351)
Payment-in-kind interest and dividends		4,473
Accretion of discount on securities		1,403
Net transfers in and/or out of Level 3		
Balance as of June 30, 2013	\$	6,814,960

	<b>As of and for the six months ended June 30, 2013</b>	
Balance as of December 31, 2012	\$	5,914,657
Net realized gains		11,764
Net unrealized gains		9,306
Purchases		1,496,635
Sales		(175,318)
Redemptions		(455,637)
Payment-in-kind interest and dividends		10,583
Accretion of discount on securities		2,970
Net transfers in and/or out of Level 3		
Balance as of June 30, 2013	\$	6,814,960

As of June 30, 2013, the net unrealized appreciation on the investments that use Level 3 inputs was \$101,944.

For the three and six months ended June 30, 2013, the total amount of gains (losses) for the period included in earnings attributable to the change in unrealized gains (losses) relating to the Company's Level 3 assets still held as of June 30, 2013 and reported within the net unrealized gains (losses) from investments in the Company's consolidated statement of operations was \$35,445 and \$12,944, respectively.

Transfers between levels, if any, are recognized at the beginning of the quarter in which the transfers occur.

## Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Following are the carrying and fair values of the Company's debt obligations as of June 30, 2014 and December 31, 2013. Fair value is estimated by discounting remaining payments using applicable current market rates, which take into account changes in the Company's marketplace credit ratings, or market quotes, if available.

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Table of Contents

	June 30, 2014		As of		December 31, 2013	
	Carrying value(1)	Fair value	Carrying value(1)	Fair value	Carrying value(1)	Fair value
Revolving Credit Facility	\$		\$		\$	
Revolving Funding Facility		395,000		395,000		185,000
SMBC Funding Facility						
February 2016 Convertible Notes (principal amount outstanding of \$575,000)		560,650(2)		614,980		556,456(2)
June 2016 Convertible Notes (principal amount outstanding of \$230,000)		223,380(2)		247,013		221,788(2)
2017 Convertible Notes (principal amount outstanding of \$162,500)		159,694(2)		174,281		159,220(2)
2018 Convertible Notes (principal amount outstanding of \$270,000)		264,755(2)		287,855		264,096(2)
2019 Convertible Notes (principal amount outstanding of \$300,000)		295,699(2)		319,158		295,279(2)
2018 Notes (principal amount outstanding of \$750,000 and \$600,000, respectively)		750,785(3)		798,787		596,757(3)
February 2022 Notes (principal amount outstanding of \$143,750)		143,750		148,847		143,750
October 2022 Notes (principal amount outstanding of \$182,500)		182,500		187,120		182,500
2040 Notes (principal amount outstanding of \$200,000)		200,000		207,128		200,000
2047 Notes (principal amount outstanding of \$229,557 and \$230,000, respectively)		181,202(4)		228,428		181,429(4)
	\$	3,357,415(5)	\$	3,608,597	\$	2,986,275(5)
					\$	3,177,660

(1) Except for the Convertible Unsecured Notes, the 2018 Notes and the 2047 Notes, all carrying values are the same as the principal amounts outstanding.

(2) Represents the aggregate principal amount outstanding of the Convertible Unsecured Notes less the unaccreted discount initially recorded upon issuance of each respective series of the Convertible Unsecured Notes.

(3) As of June 30, 2014, represents the aggregate principal amount outstanding plus the net unamortized premium that was initially recorded upon the issuances of the 2018 Notes. As of December 31, 2013, represents the aggregate principal amount outstanding of the 2018 Notes less the unaccreted discount initially recognized on the first issuance of the 2018 Notes.

(4) Represents the aggregate principal amount outstanding of the 2047 Notes less the unaccreted purchased discount.

(5) Total principal amount of debt outstanding totaled \$3,438,307 and \$3,078,750 as of June 30, 2014 and December 31, 2013, respectively.

The following table presents fair value measurements of the Company's debt obligations as of June 30, 2014 and December 31, 2013:

Fair Value Measurements Using	As of	
	June 30, 2014	December 31, 2013
Level 1	\$ 771,523	\$ 736,948
Level 2	2,837,074	2,440,712
Total	\$ 3,608,597	\$ 3,177,660

## 9. STOCKHOLDERS' EQUITY

There were no sales of the Company's equity securities for the six months ended June 30, 2014. The following table summarizes the total shares issued and proceeds received in public offerings of the Company's common stock net of underwriting discounts and offering costs for the six months ended June 30, 2013:

	Shares issued	Offering price per share	Proceeds net of underwriting and offering costs
April 2013 public offering	19,147	\$ 17.43(1)	\$ 333,174
Total for the six months ended June 30, 2013	19,147	\$ 17.43	\$ 333,174

(1) The shares were sold to the underwriters for a price of \$17.43 per share, which the underwriters were then permitted to sell at variable prices to the public.

Table of Contents

The Company used the net proceeds from the above public equity offerings to repay outstanding indebtedness and for general corporate purposes, which included funding investments in accordance with its investment objective. See Note 15 for more information regarding an equity offering completed subsequent to June 30, 2014.

**10. EARNINGS PER SHARE**

The following information sets forth the computations of basic and diluted net increase in stockholders' equity resulting from operations per share for the three and six months ended June 30, 2014 and 2013:

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Net increase in stockholders' equity resulting from operations available to common stockholders:	\$ 142,831	\$ 133,498	\$ 259,823	\$ 213,840
Weighted average shares of common stock outstanding - basic and diluted:	298,270	266,174	298,122	257,464
Basic and diluted net increase in stockholders' equity resulting from operations per share:	\$ 0.48	\$ 0.50	\$ 0.87	\$ 0.83

For the purpose of calculating diluted net increase in stockholders' equity resulting from operations per share, the average closing price of the Company's common stock for the three and six months ended June 30, 2014 and 2013 was each less than the conversion price for each of the Convertible Unsecured Notes outstanding as of June 30, 2014 and 2013, respectively. Therefore, for all periods presented in the financial statements, the underlying shares for the intrinsic value of the embedded options in the Convertible Unsecured Notes have no impact on the computation of diluted net increase in stockholders' equity resulting from operations per share.

**11. DIVIDENDS AND DISTRIBUTIONS**

The following table summarizes the Company's dividends declared and payable during the six months ended June 30, 2014 and 2013:

Date Declared	Record Date	Payment Date	Per Share Amount	Total Amount
May 6, 2014	June 16, 2014	June 30, 2014	\$ 0.38	\$ 113,343
February 26, 2014	March 14, 2014	March 31, 2014	0.38	113,228
November 5, 2013	March 14, 2014	March 28, 2014	0.05(1)	14,899
Total declared and payable for the six months ended June 30, 2014			\$ 0.81	\$ 241,470
May 7, 2013	June 14, 2013	June 28, 2013	\$ 0.38	\$ 101,856
February 27, 2013	March 15, 2013	March 29, 2013	0.38	94,488

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Total declared and payable for the six months ended June 30, 2013	\$	0.76	\$	196,344
--	----	------	----	---------

---

(1) Represents an additional dividend.



Table of Contents

The Company has a dividend reinvestment plan, whereby the Company may buy shares of its common stock in the open market or issue new shares in order to satisfy dividend reinvestment requests. When the Company issues new shares in connection with the dividend reinvestment plan, the issue price is equal to the closing price of its common stock on the dividend payment date. Dividend reinvestment plan activity for the six months ended June 30, 2014 and 2013 was as follows:

	For the six months ended June 30,			
	2014	612	2013	512
Shares issued				
Average price per share	\$	17.74	\$	17.63

**12. RELATED PARTY TRANSACTIONS**

In accordance with the investment advisory and management agreement, the Company bears all costs and expenses of the operation of the Company and reimburses its investment adviser or its affiliates for certain of such costs and expenses incurred in the operation of the Company. For the three and six months ended June 30, 2014, the Company's investment adviser or its affiliates incurred such expenses totaling \$1,609 and \$3,058, respectively. For the three and six months ended June 30, 2013, the Company's investment adviser or its affiliates incurred such expenses totaling \$962 and \$2,177, respectively. As of June 30, 2014, \$1,507 was unpaid and such payable is included in accounts payable and other liabilities in the accompanying consolidated balance sheet.

The Company is party to office leases pursuant to which it is leasing office facilities from third parties. For certain of these office leases, the Company has also entered into separate subleases with Ares Management LLC, the sole member of Ares Capital Management, and IHAM, pursuant to which Ares Management LLC and IHAM sublease a portion of these leases. For the three and six months ended June 30, 2014, amounts payable to the Company under these subleases totaled \$1,048 and \$1,746, respectively. For the three and six months ended June 30, 2013, amounts payable to the Company under these subleases totaled \$404 and \$822, respectively.

Ares Management LLC has also entered into separate subleases with the Company, pursuant to which the Company subleases certain office leases from Ares Management LLC. For the three and six months ended June 30, 2014, amounts payable to Ares Management LLC under these subleases totaled \$93 and \$185, respectively. For the three and six months ended June 30, 2013, amounts payable to Ares Management LLC under these subleases totaled \$13 and \$26, respectively.

See Note 3 for descriptions of other related party transactions.

**13. FINANCIAL HIGHLIGHTS**

The following is a schedule of financial highlights as of and for the six months ended June 30, 2014 and 2013:

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Per Share Data:	For the Six Months Ended June 30,	
	2014	2013
Net asset value, beginning of period(1)	\$ 16.46	\$ 16.04
Issuances of common stock		0.10
Net investment income for period(2)	0.68	0.75
Net realized and unrealized gains for period(2)	0.19	0.08
Net increase in stockholders' equity	0.87	0.93
Total distributions to stockholders	(0.81)	(0.76)
Net asset value at end of period(1)	\$ 16.52	\$ 16.21
Per share market value at end of period	\$ 17.86	\$ 17.20
Total return based on market value(3)	5.06%	2.63%
Total return based on net asset value(4)	5.29%	5.17%
Shares outstanding at end of period	298,583	268,312
Ratio/Supplemental Data:		
Net assets at end of period	\$ 4,933,644	\$ 4,348,045
Ratio of operating expenses to average net assets(5)(6)	10.33%	9.74%
Ratio of net investment income to average net assets(5)(7)	8.38%	9.34%
Portfolio turnover rate(5)	36%	20%

Table of Contents

---

(1) The net assets used equals the total stockholders' equity on the consolidated balance sheet.

(2) Weighted average basic per share data.

(3) For the six months ended June 30, 2014, the total return based on market value equaled the increase of the ending market value at June 30, 2014 of \$17.86 per share from the ending market value at December 31, 2013 of \$17.77 per share plus the declared and payable dividends of \$0.81 per share for the six months ended June 30, 2014, divided by the market value at December 31, 2013. For the six months ended June 30, 2013, the total return based on market value equaled the decrease of the ending market value at June 30, 2013 of \$17.20 per share from the ending market value at December 31, 2012 of \$17.50 per share plus the declared dividends of \$0.76 per share for the six months ended June 30, 2013, divided by the market value at December 31, 2012. Total return based on market value is not annualized. The Company's shares fluctuate in value. The Company's performance changes over time and currently may be different than that shown. Past performance is no guarantee of future results.

(4) For the six months ended June 30, 2014, the total return based on net asset value equaled the change in net asset value during the period plus the declared and payable dividends of \$0.81 per share for the six months ended June 30, 2014, divided by the beginning net asset value at December 31, 2013. For the six months ended June 30, 2013, the total return based on net asset value equaled the change in net asset value during the period plus the declared dividends of \$0.76 per share for the six months ended June 30, 2013, divided by the beginning net asset value at December 31, 2012. These calculations are adjusted for shares issued in connection with the dividend reinvestment plan, the issuance of common stock in connection with any equity offerings and the equity components of any convertible notes issued during the period. Total return based on net asset value is not annualized. The Company's performance changes over time and currently may be different than that shown. Past performance is no guarantee of future results.

(5) The ratios reflect an annualized amount.

(6) For the six months ended June 30, 2014, the ratio of operating expenses to average net assets consisted of 2.49% of base management fees, 2.67% of income based fees and capital gains incentive fees, 4.33% of the cost of borrowing and 0.84% of other operating expenses. For the six months ended June 30, 2013, the ratio of operating expenses to average net assets consisted of 2.33% of base management fees, 2.59% of income based fees and capital gains incentive fees, 3.87% of the cost of borrowing and 0.95% of other operating expenses. These ratios reflect annualized amounts.

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

**14. LITIGATION**

## Edgar Filing: ARES CAPITAL CORP - Form 10-Q

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

On May 20, 2013, the Company was named as one of several defendants in an action filed in the United States District Court for the Eastern District of Pennsylvania (the Pennsylvania Court ) by the bankruptcy trustee of DSI Renal Holdings LLC and two related companies. On March 17, 2014 the action was transferred to the United States District Court for the District of Delaware pursuant to a motion filed by the defendants and granted by the Pennsylvania Court. On May 6, 2014, the United States District Court for the District of Delaware referred the action to the United States Bankruptcy Court for the District of Delaware. The complaint in the action alleges, among other things, that each of the named defendants participated in a purported fraudulent transfer involving the restructuring of a subsidiary of DSI Renal Holdings LLC. Among other things, the complaint seeks, jointly and severally from all defendants, (1) damages of approximately \$425 million, of which the complaint states the Company's individual share is approximately \$117 million, and (2) punitive damages. The Company is currently unable to assess with any certainty whether it may

Table of Contents

have any exposure in this action. The Company believes the plaintiff's claims are without merit and intends to vigorously defend itself in this action.

**15. SUBSEQUENT EVENTS**

The Company's management has evaluated subsequent events through the date of issuance of the consolidated financial statements included herein. There have been no subsequent events that occurred during such period that would require disclosure in this Form 10-Q or would be required to be recognized in the Consolidated Financial Statements as of and for the six months ended June 30, 2014, except as disclosed below.

In July 2014, the Company completed a public equity offering (the July 2014 Offering) pursuant to which the Company sold 15,525,000 shares of common stock (including 2,025,000 shares pursuant to the exercise in full by the underwriters of their option to purchase additional shares) at a price of \$16.63 per share to the participating underwriters. Total proceeds from the July 2014 Offering, net of estimated offering expenses payable by the Company, were approximately \$257.7 million. The Company used the net proceeds of the July 2014 Offering to repay certain outstanding indebtedness under its debt facilities and for general corporate purposes, which included investing in portfolio companies in accordance with its investment objective.

**Item 2. Management's Discussion And Analysis Of Financial Condition And Results Of Operations.**

The information contained in this section should be read in conjunction with our financial statements and notes thereto appearing elsewhere in this Quarterly Report. In addition, some of the statements in this report (including in the following discussion) constitute forward-looking statements, which relate to future events or the future performance or financial condition of Ares Capital Corporation (the Company, ARCC, Ares Capital, we, us, or our). The forward-looking statements contained in this report involve a number of risks and uncertainties, including statements concerning:

- our, or our portfolio companies', future business, operations, operating results or prospects;
- the return or impact of current and future investments;
- the impact of a protracted decline in the liquidity of credit markets on our business;
- the impact of fluctuations in interest rates on our business;

## Edgar Filing: ARES CAPITAL CORP - Form 10-Q

- the impact of changes in laws or regulations (including the interpretation thereof) governing our operations or the operations of our portfolio companies or the operations of our competitors;
- the valuation of our investments in portfolio companies, particularly those having no liquid trading market;
- our ability to recover unrealized losses;
- market conditions and our ability to access alternative debt markets and additional debt and equity capital;
- our contractual arrangements and relationships with third parties;
- the general economy and its impact on the industries in which we invest;
- uncertainty surrounding the financial stability of the U.S. and the EU;
- Middle East turmoil and the potential for rising energy prices and its impact on the industries in which we invest;
- the financial condition of and ability of our current and prospective portfolio companies to achieve their objectives;
- our expected financings and investments;
- our ability to successfully complete and integrate any acquisitions;
- the adequacy of our cash resources and working capital;

Table of Contents

- the timing, form and amount of any dividend distributions;
- the timing of cash flows, if any, from the operations of our portfolio companies; and
- the ability of our investment adviser to locate suitable investments for us and to monitor and administer our investments.

We use words such as anticipates, believes, expects, intends, will, should, may and similar expressions to identify forward-looking statements, although not all forward-looking statements include these words. Our actual results and condition could differ materially from those implied or expressed in the forward-looking statements for any reason, including the factors set forth in Risk Factors in our annual report on Form 10-K for the fiscal year ended December 31, 2013.

We have based the forward-looking statements included in this Quarterly Report on information available to us on the date of this Quarterly Report, and we assume no obligation to update any such forward-looking statements. Although we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through reports that we have filed or in the future may file with the Securities and Exchange Commission (SEC), including annual reports on Form 10-K, registration statements on Form N-2, quarterly reports on Form 10-Q and current reports on Form 8-K.

**OVERVIEW**

We are a specialty finance company that is a closed-end, non-diversified management investment company incorporated in Maryland. We have elected to be regulated as a business development company (BDC) under the Investment Company Act of 1940, as amended (together with the rules and regulations promulgated thereunder, the Investment Company Act).

We are externally managed by Ares Capital Management LLC (Ares Capital Management or our investment adviser), a subsidiary of Ares Management, L.P. (Ares Management), a publicly traded, leading global alternative asset manager, pursuant to our investment advisory and management agreement. Ares Operations LLC (Ares Operations or our administrator), a subsidiary of Ares Management, provides certain administrative and other services necessary for us to operate.

Our investment objective is to generate both current income and capital appreciation through debt and equity investments. We invest primarily in first lien senior secured loans (including unitranche loans), second lien senior secured loans and mezzanine debt, which in some cases includes an equity component like warrants.

## Edgar Filing: ARES CAPITAL CORP - Form 10-Q

To a lesser extent, we also make preferred and/or common equity investments, which have generally been non-control equity investments, of less than \$20 million (usually in conjunction with a concurrent debt investment). However, we may increase the size or change the nature of these investments.

Since our initial public offering on October 8, 2004 through June 30, 2014, our exited investments resulted in an aggregate cash flow realized internal rate of return to us of approximately 13% (based on original cash invested, net of syndications, of approximately \$8.7 billion and total proceeds from such exited investments of approximately \$10.7 billion). Internal rate of return is the discount rate that makes the net present value of all cash flows related to a particular investment equal to zero. Internal rate of return is gross of expenses related to investments as these expenses are not allocable to specific investments. Investments are considered to be exited when the original investment objective has been achieved through the receipt of cash and/or non-cash consideration upon the repayment of a debt investment or sale of an investment or through the determination that no further consideration was collectible and, thus, a loss may have been realized. Approximately 70% of these exited investments resulted in an aggregate cash flow realized internal rate of return to us of 10% or greater.

Additionally, since our initial public offering on October 8, 2004 through June 30, 2014, our realized gains have exceeded our realized losses by approximately \$222 million (excluding a one-time gain on the acquisition of Allied Capital Corporation ( Allied Capital ) and realized gains/losses from the extinguishment of debt and other assets). For this same time period, our average annualized net realized gain rate was approximately 1.0% (excluding a one-time gain on the acquisition of Allied Capital and realized gains/losses from the extinguishment of debt and other assets). Net realized gain/loss rates for a particular period are the amount of net realized gains/losses during such period divided by the average quarterly investments at amortized cost in such period.

Information included herein regarding internal rates of return, realized gains and losses and annualized net realized gain rates since our initial public offering are historical results relating to our past performance and are not necessarily indicative of future results, the achievement of which cannot be assured.



Table of Contents

As a BDC, we are required to comply with certain regulatory requirements. For instance, we generally have to invest at least 70% of our total assets in qualifying assets, including securities and indebtedness of private U.S. companies 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. We also may invest up to 30% of our portfolio in non-qualifying assets, as permitted by the Investment Company Act. Specifically, as part of this 30% basket, we may invest in entities that are not considered eligible portfolio companies (as defined in the Investment Company Act), including companies located outside of the United States, entities that are operating pursuant to certain exceptions under the Investment Company Act, and publicly traded entities whose public equity market capitalization exceeds the levels provided for under the Investment Company Act.

We have elected to be treated as a regulated investment company, or a RIC, under the Internal Revenue Code of 1986, as amended (the Code), and operate in a manner so as to qualify for the tax treatment applicable to RICs. To qualify as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements and timely distribute to our stockholders generally at least 90% of our investment company taxable income, as defined by the Code, for each year. Pursuant to this election, we generally will not have to pay U.S. federal corporate-level taxes on any income that we distribute to our stockholders provided that we satisfy those requirements.

**PORTFOLIO AND INVESTMENT ACTIVITY**

Our investment activity for the three months ended June 30, 2014 and 2013 is presented below (information presented herein is at amortized cost unless otherwise indicated).

(dollar amounts in millions)	For the three months ended June 30,	
	2014	2013
<b>New investment commitments (1):</b>		
New portfolio companies	\$ 512.2	\$ 499.8
Existing portfolio companies(2)	506.7	703.4
Total new investment commitments	1,018.9	1,203.2
Less:		
Investment commitments exited	767.3	394.7
Net investment commitments	\$ 251.6	\$ 808.5
<b>Principal amount of investments funded:</b>		
First lien senior secured loans	\$ 435.8	\$ 633.4
Second lien senior secured loans	288.1	304.7
Subordinated certificates of the Senior Secured Loan Fund LLC (the SSLP)(3)	174.5	202.2
Preferred equity securities		0.7
Other equity securities	8.1	0.5
Total	\$ 906.5	\$ 1,141.5
<b>Principal amount of investments sold or repaid:</b>		
First lien senior secured loans	\$ 420.2	\$ 85.0
Second lien senior secured loans	213.9	256.5
Subordinated certificates of the SSLP(3)	51.3	35.6
Senior subordinated debt	46.4	7.8
Preferred equity securities		6.1
Other equity securities	8.6	3.0
Commercial real estate		0.1
Total	\$ 740.4	\$ 394.1
<b>Number of new investment commitments (4)</b>	29	22
<b>Average new investment commitment amount</b>	\$ 35.1	\$ 54.7
<b>Weighted average term for new investment commitments (in months)</b>	73	67

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

<b>Percentage of new investment commitments at floating rates</b>	96%	93%
<b>Percentage of new investment commitments at fixed rates</b>	3%	7%
<b>Weighted average yield of debt and other income producing securities (5):</b>		
Funded during the period at amortized cost	9.2%	9.8%
Funded during the period at fair value (6)	9.2%	9.8%
Exited or repaid during the period at amortized cost	8.5%	10.6%
Exited or repaid during the period at fair value (6)	8.4%	10.5%

Table of Contents

- (1) New investment commitments include new agreements to fund revolving credit facilities or delayed draw loans.
- (2) Includes investment commitments to the SSLP to make co-investments with GE Global Sponsor Finance LLC and General Electric Capital Corporation (together, "GE") in first lien senior secured loans of middle market companies of \$205.2 million and \$209.7 million for the three months ended June 30, 2014 and 2013, respectively.
- (3) See "Senior Secured Loan Program" below and Note 4 to our consolidated financial statements for the three and six months ended June 30, 2014 for more information on the SSLP.
- (4) Number of new investment commitments represents each commitment to a particular portfolio company or a commitment to multiple companies as part of an individual transaction (e.g., the purchase of a portfolio of investments).
- (5) Weighted average yield of debt and other income producing securities at amortized cost is computed as the (a) annual stated interest rate or yield earned plus the net annual amortization of original issue discount and market discount or premium earned on accruing debt and other income producing securities, divided by (b) total accruing debt and other income producing securities at amortized cost. Weighted average yield of debt and other income producing securities at fair value is computed as the (a) annual stated interest rate or yield earned plus the net annual amortization of original issue discount and market discount or premium earned on accruing debt and other income producing securities, divided by (b) total accruing debt and other income producing securities at fair value.
- (6) Represents fair value for investments in the portfolio as of the most recent prior quarter end, if applicable.

As of June 30, 2014 and December 31, 2013, our investments consisted of the following:

(in millions)	As of			
	June 30, 2014		December 31, 2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
First lien senior secured loans	\$ 3,564.3	\$ 3,551.2	\$ 3,405.6	\$ 3,377.6
Second lien senior secured loans	1,299.0	1,261.6	1,335.8	1,319.2
Subordinated certificates of the SSLP(1)	1,938.1	1,967.1	1,745.2	1,771.4
Senior subordinated debt	383.8	383.1	364.1	323.2
Preferred equity securities	230.1	241.4	226.0	229.0
Other equity securities	458.0	651.9	453.7	600.2
Commercial real estate	6.9	11.6	7.0	12.3
	\$ 7,880.2	\$ 8,067.9	\$ 7,537.4	\$ 7,632.9

## Edgar Filing: ARES CAPITAL CORP - Form 10-Q

(1) The proceeds from these certificates were applied to co-investments with GE to fund first lien senior secured loans to 50 and 47 different borrowers as of June 30, 2014 and December 31, 2013, respectively.

The weighted average yields at amortized cost and fair value of the following portions of our portfolio as of June 30, 2014 and December 31, 2013 were as follows:

	June 30, 2014		As of		December 31, 2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Debt and other income producing securities(1)	10.1%	10.0%	10.4%	10.4%	10.4%	10.4%
Total portfolio(2)	9.2%	9.0%	9.4%	9.3%	9.4%	9.3%
First lien senior secured loans(2)	7.9%	7.9%	7.8%	7.8%	7.8%	7.8%
Second lien senior secured loans(2)	8.7%	8.9%	9.4%	9.5%	9.4%	9.5%
Subordinated certificates of the SSLP (2)(3)	14.1%	13.9%	15.0%	14.8%	15.0%	14.8%
Senior subordinated debt(2)	10.8%	10.8%	10.3%	11.6%	10.3%	11.6%
Income producing equity securities (2)	9.6%	8.5%	10.1%	9.1%	10.1%	9.1%

Table of Contents

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

(2) Weighted average yields at amortized cost are computed as the (a) annual stated interest rate or yield earned plus the net annual amortization of original issue discount and market discount or premium earned on the relevant accruing debt and other income producing securities, divided by (b) the total relevant investments at amortized cost. Weighted average yields at fair value are computed as the (a) annual stated interest rate or yield earned plus the net annual amortization of original issue discount and market discount or premium earned on the relevant accruing debt and other income producing securities, divided by (b) the total relevant investments at fair value.

(3) The proceeds from these certificates were applied to co-investments with GE to fund first lien senior secured loans.

Ares Capital Management, our investment adviser, employs an investment rating system to categorize our investments. In addition to various risk management and monitoring tools, our investment adviser grades the credit risk of all investments on a scale of 1 to 4 no less frequently than quarterly. This system is intended primarily to reflect the underlying risk of a portfolio investment relative to our initial cost basis in respect of such portfolio investment (i.e., at the time of origination or acquisition), although it may also take into account under certain circumstances 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 to our initial cost basis. The trends and risk factors for this investment since origination or acquisition are generally favorable, which may include the performance of the portfolio company or a potential exit. Investments graded 3 involve a level of risk to our initial cost basis that is similar to the risk to our initial cost basis at the time of origination or acquisition. This portfolio company is generally performing as expected and the risk factors to our ability to ultimately recoup the cost of our investment are neutral to favorable. All investments or acquired investments in new portfolio companies are initially assessed a grade of 3. Investments graded 2 indicate that the risk to our ability to recoup the initial cost basis of such investment has increased materially since origination or acquisition, including as a result of factors such as declining performance and non-compliance with debt covenants; however, payments are generally not more than 120 days past due. An investment grade of 1 indicates that the risk to our ability to recoup the initial cost basis of such investment has substantially increased since origination or acquisition, and the portfolio company likely has materially declining performance. For debt investments with an investment grade of 1, most or all of the debt covenants are out of compliance and payments are substantially delinquent. For investments graded 1, it is anticipated that we will not recoup our initial cost basis and may realize a substantial loss of our initial cost basis upon exit. For investments graded 1 or 2, our investment adviser enhances its level of scrutiny over the monitoring of such portfolio company. The grade of a portfolio investment may be reduced or increased over time.

Set forth below is the grade distribution of our portfolio companies as of June 30, 2014 and December 31, 2013:

(dollar amounts in millions)	As of								
	June 30, 2014				December 31, 2013				
	Fair Value	%	Number of Companies	%	Fair Value	%	Number of Companies	%	
Grade 1	\$ 50.8	0.6%	5	2.5%	\$ 54.6	0.7%	7	3.6%	
Grade 2	249.6	3.1%	9	4.4%	256.3	3.4%	12	6.2%	
Grade 3	6,861.8	85.1%	169	83.7%	6,636.2	86.9%	162	84.0%	
Grade 4	905.7	11.2%	19	9.4%	685.8	9.0%	12	6.2%	

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

\$	8,067.9	100.0%	202	100.0%	\$	7,632.9	100.0%	193	100.0%
----	---------	--------	-----	--------	----	---------	--------	-----	--------

As of June 30, 2014 and December 31, 2013, the weighted average grade of the investments in our portfolio at fair value was 3.1 and 3.0, respectively.

Table of Contents

As of June 30, 2014, loans on non-accrual status represented 1.9% and 1.2% of the total investments at amortized cost and at fair value, respectively. As of December 31, 2013, loans on non-accrual status represented 3.1% and 2.1% of the total investments at amortized cost and at fair value, respectively.

**Senior Secured Loan Program**

We co-invest in first lien senior secured loans of middle market companies with GE through an unconsolidated Delaware limited liability company, the Senior Secured Loan Fund LLC (d/b/a the Senior Secured Loan Program ) or the SSLP. The SSLP is capitalized as transactions are completed and all portfolio decisions and generally all other decisions in respect of the SSLP must be approved by an investment committee of the SSLP consisting of representatives of ours and GE (with approval from a representative of each required). We provide capital to the SSLP in the form of subordinated certificates (the SSLP Certificates ).

As of June 30, 2014 and December 31, 2013, we and GE had agreed to make \$11.0 billion of capital available to the SSLP, of which approximately \$9.4 billion and \$8.7 billion in aggregate principal amount, respectively, was funded. As of June 30, 2014 and December 31, 2013, we had agreed to make available to the SSLP approximately \$2.3 billion, of which approximately \$1.9 billion and \$1.7 billion in aggregate principal amount, respectively, was funded. Investment of any unfunded amount must be approved by the investment committee of the SSLP as described above.

As of June 30, 2014 and December 31, 2013, the SSLP had total assets of \$9.5 billion and \$8.7 billion, respectively. As of June 30, 2014 and December 31, 2013, GE's investment in the SSLP consisted of senior notes of \$7.2 billion and \$6.7 billion, respectively, and SSLP Certificates of \$276.9 million and \$249.3 million, respectively. The SSLP Certificates are junior in right of payment to the senior notes held by GE. As of June 30, 2014 and December 31, 2013, we and GE owned 87.5% and 12.5%, respectively, of the outstanding SSLP Certificates.

As of June 30, 2014 and December 31, 2013, the SSLP portfolio was comprised of all first lien senior secured loans to U.S. middle-market companies. As of June 30, 2014 and December 31, 2013, one loan was on non-accrual status, representing 0.9% and 1.0%, respectively, of the total loans at principal amount in the SSLP. The portfolio companies in the SSLP are in industries similar to the companies in our portfolio. Additionally, as of June 30, 2014 and December 31, 2013, the SSLP had commitments to fund various delayed draw investments to certain of its portfolio companies of \$437.9 and \$510.4 million, respectively, which had been approved by the SSLP investment committee. As of June 30, 2014 and December 31, 2013, we had commitments to co-invest in the SSLP for its portion of the SSLP's commitments to fund such delayed draw investments of up to \$82.5 million and \$85.1 million, respectively.

Below is a summary of the SSLP's portfolio, followed by a listing of the individual first lien senior secured loans in the SSLP's portfolio as of June 30, 2014 and December 31, 2013:

(dollar amounts in millions)	As of	
	June 30, 2014	December 31, 2013
Total first lien senior secured loans(1)	\$ 9,318.3	\$ 8,664.4

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Weighted average yield on first lien senior secured loans(2)		6.9%		7.1%
Number of borrowers in the SSLP		50		47
Largest loan to a single borrower(1)	\$	347.5	\$	321.7
Total of five largest loans to borrowers(1)	\$	1,557.2	\$	1,510.7

---

(1) At principal amount.

(2) Computed as the (a) annual stated interest rate on accruing first lien senior secured loans, divided by (b) total first lien senior secured loans at principal amount.



Table of Contents**SSLP Loan Portfolio as of June 30, 2014**

(dollar amounts in millions) Portfolio Company	Business Description	Maturity Date	Stated Interest Rate(1)	Principal Amount
Access CIG, LLC(2)	Records and information management services provider	10/2017	7.0%	\$ 193.4
ADG, LLC	Dental services	9/2019	8.1%	213.7
AMZ Products Merger Corporation	Specialty chemicals manufacturer	12/2018	6.8%	236.4
Argon Medical Devices, Inc.	Manufacturer and marketer of single-use specialty medical devices	4/2018	6.5%	235.0
BECO Holding Company, Inc.(4)	Wholesale distributor of first response fire protection equipment and related parts	12/2017	8.3%	139.3
Brewer Holdings Corp.	Provider of software and technology-enabled content and analytical solutions to insurance brokers	11/2019	7.0%	174.6
Cambridge International, Inc.	Manufacturer of custom designed and engineered metal products	4/2018	8.0%	84.9
CCS Group Holdings, LLC(4)	Correctional facility healthcare operator	4/2017	7.3%	216.9
CH Hold Corp.	Collision repair company	11/2019	5.5%	269.3
Chariot Acquisition, LLC	Distributor and designer of aftermarket golf cart parts and accessories	1/2019	7.8%	154.2
CIBT Holdings, Inc.(4)	Expedited travel document processing services	12/2018	6.8%	183.4
Connoisseur Media, LLC	Owner and operator of radio stations	6/2019	7.3%	100.0
CWD, LLC	Supplier of automotive aftermarket brake parts	6/2016	10.0%	128.2
Drayer Physical Therapy Institute, LLC	Outpatient physical therapy provider	7/2018	8.0%	133.9
Driven Brands, Inc.(2)(4)	Automotive aftermarket car care franchisor	3/2017	6.0%	201.7
ECI Purchaser Company, LLC	Manufacturer of specialized pressure regulators, valves and other control equipment for use with liquefied and compressed gases	12/2019	6.0%	236.2
Excelligence Learning Corporation(4)	Developer, manufacturer and retailer of educational products	8/2018	7.8%	171.6
Fleischmann's Vinegar Company, Inc.	Manufacturer and marketer of industrial vinegar	5/2016	8.0%	74.3
Fox Hill Holdings, LLC(2)	Third party claims administrator on behalf of insurance carriers	6/2018	6.8%	288.0
Gentle Communications, LLC	Dental services provider	6/2020	6.5%	85.0
III US Holdings, LLC	Provider of library automation software and systems	3/2018	6.0%	216.3
Implus Footcare, LLC(4)	Provider of footwear and other accessories	4/2019	6.8%	246.4
Instituto de Banca y Comercio, Inc.(2)(4)(5)	Private school operator	12/2016		85.1
Intermedix Corporation(3)	Revenue cycle management provider to the emergency healthcare industry	12/2019	5.8%	271.3
iParadigms, LLC	Provider of anti-plagiarism software to the education industry	4/2019	6.5%	163.4
Laborie Medical Technologies Corp(4)	Provider of medical diagnostics products	10/2018	6.8%	113.0
MCH Holdings, Inc.(4)	Healthcare professional provider	1/2020	6.3%	180.0
MWI Holdings, Inc.(2)	Provider of engineered springs, fasteners, and other precision components	3/2019	7.4%	261.3
Noranco Manufacturing (USA) Ltd.	Supplier of complex machined and sheet metal components for the aerospace industry	4/2019	6.8%	160.5

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Nordco, Inc.	Designer and manufacturer of railroad maintenance-of-way machinery	8/2019	7.0%	218.9
Oak Parent, Inc.(2)	Manufacturer of athletic apparel	4/2018	7.5%	303.6
Penn Detroit Diesel Allison, LLC	Distributor of new equipment and aftermarket parts to the heavy-duty truck industry	12/2016	9.0%	56.0
PetroChoice Holdings, LLC	Provider of lubrication solutions	1/2017	10.0%	156.2
PODS Funding Corp. II(2)	Storage and warehousing	12/2018	7.0%	347.5
Pretium Packaging, L.L.C.(4)	Plastic container and closure manufacturer	6/2020	6.0%	185.3
Protective Industries, Inc. dba Caplugs(2)(4)	Plastic protection products	10/2019	6.3%	276.9
PSSI Holdings, LLC(2)	Provider of mission-critical outsourced cleaning and sanitation services to the food processing industry	6/2018	6.0%	247.3
Restaurant Technologies, Inc.	Provider of bulk cooking oil management services to the restaurant and fast food service industries	6/2018	7.0%	200.3
Sanders Industries Holdings, Inc.(4)	Manufacturer of elastomeric parts, mid-sized composite structures, and composite tooling	5/2020	7.0%	84.0
Selig Sealing Products, Inc.	Manufacturer of container sealing products for rigid packaging applications	10/2019	6.8%	198.5
Singer Sewing Company	Manufacturer of consumer sewing machines	6/2017	7.3%	196.0
STATS Acquisition, LLC	Sports technology, data and content company	6/2020	7.0%	92.0
Strategic Partners, Inc.(4)	Supplier of medical uniforms, specialized medical footwear and accessories	8/2018	7.8%	230.9
TecoStar Acquisition Company	Manufacturer of precision complex components for the medical device market and the aerospace and defense market	12/2019	6.4%	117.7
The Teaching Company, LLC(2)(4)	Education publications provider	3/2017	9.0%	110.3
Towne Holdings, Inc.	Provider of contracted hospitality services and parking systems	12/2019	6.8%	153.6
U.S. Anesthesia Partners, Inc.(2)	Anesthesiology service provider	12/2019	7.3%	323.4
Universal Services of America, LP	Provider of security officer and guard services	7/2019	6.0%	294.7
WB Merger Sub, Inc.	Importer, distributor and developer of premium wine and spirits	12/2016	9.7%	154.9
Wrigley Purchaser, LLC and Wrigley Management, LLC(2)	Provider of outpatient rehabilitation services	5/2020	6.1%	153.0
			\$	9,318.3

Table of Contents

---

- (1) Represents the weighted average annual stated interest rate as of June 30, 2014. All interest rates are payable in cash. For loans on non-accrual status, the stated interest rate is not shown as there is no current yield on such loans.
  
- (2) We also hold a portion of this company's first lien senior secured loan.
  
- (3) We also hold a portion of this company's second lien senior secured loan.
  
- (4) We hold an equity investment in this company.
  
- (5) Loan was on non-accrual status, as determined by the investment committee of the SSLP, as of June 30, 2014.

Table of Contents**SSLP Loan Portfolio as of December 31, 2013**

<b>(dollar amounts in millions)</b> <b>Portfolio Company</b>	<b>Business Description</b>	<b>Maturity Date</b>	<b>Stated Interest Rate(1)</b>	<b>Principal Amount</b>	<b>Fair Value(2)</b>
Access CIG, LLC(3)	Records and information management services provider	10/2017	7.0%	\$ 186.9	\$ 186.9
ADG, LLC	Dental services	9/2019	8.1%	217.5	217.5
AMZ Products Merger Corporation	Specialty chemicals manufacturer	12/2018	6.8%	237.6	237.6
Argon Medical Devices, Inc.	Manufacturer and marketer of single-use specialty medical devices	4/2018	6.5%	239.2	239.2
BECO Holding Company, Inc.(5)	Wholesale distributor of first response fire protection equipment and related parts	12/2017	8.3%	143.4	143.4
Brewer Holdings Corp. and Zywave, Inc.	Provider of software and technology-enabled content and analytical solutions to insurance brokers	11/2019	7.0%	175.5	175.5
Cambridge International, Inc.	Manufacturer of custom designed and engineered metal products	4/2018	8.0%	86.0	86.0
CCS Group Holdings, LLC(5)	Correctional facility healthcare operator	4/2016	8.0%	134.5	134.5
CH Hold Corp.	Collision repair company	11/2019	5.5%	270.0	270.0
Chariot Acquisition, LLC	Distributor and designer of aftermarket golf cart parts and accessories	1/2019	7.8%	142.3	142.3
CIBT Holdings, Inc.(5)	Expedited travel document processing services	12/2018	6.8%	178.9	178.9
CWD, LLC	Supplier of automotive aftermarket brake parts	6/2016	10.0%	130.5	130.5
Drayer Physical Therapy Institute, LLC	Outpatient physical therapy provider	7/2018	7.5%	136.7	136.7
Driven Holdings, LLC(5)	Automotive aftermarket car care franchisor	3/2017	7.0%	159.1	159.1
ECI Purchaser Company, LLC	Manufacturer of equipment to safely control pressurized gases	12/2019	6.0%	209.0	209.0
Excelligence Learning Corporation(5)	Developer, manufacturer and retailer of educational products	8/2018	7.8%	174.0	174.0
Fleischmann's Vinegar Company, Inc.	Manufacturer and marketer of industrial vinegar products	5/2016	8.0%	74.7	74.7
Fox Hill Holdings, LLC(3)	Third party claims administrator on behalf of insurance carriers	6/2018	6.8%	289.5	289.5
III US Holdings, LLC	Provider of library automation software and systems	3/2018	7.6%	194.5	194.5
Implus Footcare, LLC(5)	Provider of footwear and other accessories	10/2016	9.0%	210.3	210.3
Instituto de Banca y Comercio, Inc.(3)(5)(6)	Private school operator	6/2015		82.4	74.2
Intermedix Corporation(4)	Revenue cycle management provider to the emergency healthcare industry	12/2018	6.3%	321.7	321.7
iParadigms, LLC	Provider of anti-plagiarism software to the education industry	4/2019	6.5%	164.2	164.2
JHP Pharmaceuticals, LLC(5)	Manufacturer of specialty pharmaceutical products	12/2019	6.8%	182.2	182.2
Laborie Medical Technologies Corp(5)	Developer and manufacturer of medical equipment	10/2018	6.8%	113.5	113.5
LJSS Acquisition, Inc.	Fluid power distributor	10/2017	6.8%	159.8	159.8

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

MWI Holdings, Inc.(3)	Provider of engineered springs, fasteners, and other precision components	3/2019	7.4%	261.6	261.6
Noranco Manufacturing (USA) Ltd.	Supplier of complex machined and sheet metal components for the aerospace industry	4/2019	6.8%	161.1	161.1
Nordco, Inc.	Designer and manufacturer of railroad maintenance-of-way machinery	8/2019	7.0%	224.7	224.7
Oak Parent, Inc.(3)	Manufacturer of athletic apparel	4/2018	7.5%	307.1	307.1
Penn Detroit Diesel Allison, LLC	Distributor of new equipment and aftermarket parts to the heavy-duty truck industry	12/2016	9.0%	59.5	59.5
PetroChoice Holdings, LLC	Provider of lubrication solutions	1/2017	10.0%	158.3	158.3
PODS Funding Corp. II(3)	Storage and warehousing	12/2018	7.0%	314.1	314.1
Pregis Corporation, Pregis Intellipack Corp. and Pregis Innovative Packaging Inc.(3)	Provider of highly-customized, tailored protective packaging solutions	3/2017	7.8%	152.0	152.0
Protective Industries, Inc. dba Caplugs(3)(5)	Plastic protection products	10/2019	6.8%	278.3	278.3
PSSI Holdings, LLC(3)	Provider of mission-critical outsourced cleaning and sanitation services to the food processing industry	6/2018	6.0%	224.4	224.4
Restaurant Technologies, Inc.	Provider of bulk cooking oil management services to the restaurant and fast food service industries	6/2018	7.0%	202.7	202.7
Selig Sealing Products, Inc.	Manufacturer of container sealing products for rigid packaging applications	10/2019	6.8%	209.0	209.0

Table of Contents

<b>(dollar amounts in millions)</b>					
<b>Portfolio Company</b>	<b>Business Description</b>	<b>Maturity Date</b>	<b>Stated Interest Rate(1)</b>	<b>Principal Amount</b>	<b>Fair Value(2)</b>
Singer Sewing Company	Manufacturer of consumer sewing machines	6/2017	7.3%	197.0	197.0
Strategic Partners, Inc.(5)	Supplier of medical uniforms, specialized medical footwear and accessories	8/2018	7.8%	232.1	232.1
Talent Partners G.P. and Print Payroll Services, G.P.	Provider of technology-enabled payroll to the advertising industry	10/2017	8.0%	62.0	62.0
TecoStar Acquisition Company	Manufacturer of precision components for orthopedic medical devices	12/2019	6.4%	118.0	118.0
The Teaching Company, LLC(3)(5)	Education publications provider	3/2017	9.0%	111.5	109.3
Towne Holdings, Inc.	Provider of contracted hospitality services and parking systems	12/2019	6.8%	154.0	154.0
U.S. Anesthesia Partners, Inc.(3)	Anesthesiology service provider	12/2019	6.0%	210.0	210.0
Universal Services of America, LP	Provider of security officer and guard services	7/2019	6.0%	253.9	253.9
WB Merger Sub, Inc.	Importer, distributor and developer of premium wine and spirits	12/2016	9.0%	159.2	159.2
				\$ 8,664.4	\$ 8,654.0

Table of Contents

---

- (1) Represents the weighted average annual stated interest rate as of December 31, 2013. All interest rates are payable in cash. For loans on non-accrual status, the stated interest rate is not shown as there is no current yield on such loans.
- (2) Represents the fair value in accordance with Accounting Standards Codification 820-10. The determination of such fair value is not included in our board of directors valuation process described elsewhere herein.
- (3) We also hold a portion of this company's first lien senior secured loan.
- (4) We also hold a portion of this company's second lien senior secured loan.
- (5) We hold an equity investment in this company.
- (6) Loan was on non-accrual status, as determined by the investment committee of the SSLP, as of December 31, 2013.

The amortized cost and fair value of our SSLP Certificates was \$1.9 billion and \$2.0 billion, respectively, as of June 30, 2014, and \$1.7 billion and \$1.8 billion, respectively, as of December 31, 2013. The SSLP Certificates pay a weighted average contractual coupon of three month LIBOR plus approximately 8.0% and also entitle the holders thereof to receive a portion of the excess cash flow from the underlying loan portfolio, which may result in a return to the holders of the SSLP Certificates that is greater than both the contractual coupon on the SSLP Certificates as well as the weighted average yield on the SSLP's portfolio of 6.9% and 7.1% at June 30, 2014 and December 31, 2013, respectively. Our yield on our investment in the SSLP at amortized cost and fair value was 14.1% and 13.9%, respectively, as of June 30, 2014, and 15.0% and 14.8%, respectively, as of December 31, 2013. For the three and six months ended June 30, 2014, we earned interest income of \$68.0 million and \$135.7 million, respectively, from our investment in the SSLP Certificates. For the three and six months ended June 30, 2013, we earned interest income of \$53.4 million and \$102.0 million, respectively, from our investment in the SSLP Certificates.

We are also entitled to certain fees in connection with the SSLP. For the three and six months ended June 30, 2014, in connection with the SSLP, we earned capital structuring service, sourcing and other fees totaling \$16.5 million and \$29.0 million, respectively. For the three and six months ended June 30, 2013, in connection with the SSLP, we earned capital structuring service, sourcing and other fees totaling \$15.1 million and \$22.9 million, respectively.

Selected financial information for the SSLP as of and for the year ended December 31, 2013 is as follows:

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

(in millions)	As of and for the Year Ended December 31, 2013	
<b>Selected Balance Sheet Information:</b>		
Investments in loans receivable, net of discount for loan origination fees	\$	8,601.6
Cash and other assets	\$	142.3
Total assets	\$	8,743.9
Senior notes	\$	6,699.5
Other liabilities	\$	64.2
Total liabilities	\$	6,763.7
Subordinated certificates and members' capital	\$	1,980.2
Total liabilities and members' capital	\$	8,743.9
<b>Selected Statement of Operations Information:</b>		
Total revenues	\$	554.2
Total expenses	\$	296.7
Net income	\$	257.5

**RESULTS OF OPERATIONS**

*For the three and six months ended June 30, 2014 and 2013*

Operating results for the three and six months ended June 30, 2014 and 2013 were as follows:



## Edgar Filing: ARES CAPITAL CORP - Form 10-Q

### Table of Contents

(in millions)	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Total investment income	\$ 224.9	\$ 206.1	\$ 464.6	\$ 401.2
Total expenses	130.0	108.6	252.0	200.8
Net investment income before income taxes	94.9	97.5	212.6	200.4
Income tax expense, including excise tax	2.9	3.9	8.3	7.7
Net investment income	92.0	93.6	204.3	192.7
Net realized gains (losses) on investments and foreign currency transactions	(48.5)	8.6	(36.4)	20.3
Net unrealized gains on investments and foreign currency transactions	99.3	31.3	92.0	0.8
Realized loss on extinguishment of debt			(0.1)	
Net increase in stockholders' equity resulting from operations	\$ 142.8	\$ 133.5	\$ 259.8	\$ 213.8

Net income can vary substantially from period to period due to various factors, including acquisitions, the level of new investment commitments, 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**

(in millions)	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Interest income from investments	\$ 176.2	\$ 158.0	\$ 349.7	\$ 302.2
Capital structuring service fees	21.7	24.1	42.6	30.1
Dividend income	16.7	15.8	47.5	47.9
Management and other fees	6.1	5.0	12.0	9.5
Other income	4.2	3.2	12.8	11.5
Total investment income	\$ 224.9	\$ 206.1	\$ 464.6	\$ 401.2

The increase in interest income from investments for the three months ended June 30, 2014 from the comparable period in 2013 was primarily due to an increase in the size of our portfolio, which increased from an average of \$6.3 billion at amortized cost for the three months ended June 30, 2013 to an average of \$7.8 billion at amortized cost for the comparable period in 2014. The decrease in capital structuring fees for the three months ended June 30, 2014 from the comparable period in 2013 was primarily due to the decrease in new investment commitments, which decreased from \$1.2 billion for the three months ended June 30, 2013 to \$1.0 billion for the comparable period in 2014, partially offset by the increase in the average capital structuring service fees received on new investments, from 2.0% for the three months ended June 30, 2013 to 2.1% in the comparable period in 2014. Dividend income for the three months ended June 30, 2014 and 2013 included dividends received from Ivy Hill Asset Management, L.P. ( IHAM ) totaling \$10.0 million for each period. Also during the three months ended June 30, 2014, we received \$2.9 million in other non-recurring dividends from non-income producing equity securities compared to \$1.0 million for the comparable period in 2013.

The increase in interest income from investments for the six months ended June 30, 2014 from the comparable period in 2013, was primarily due to the increase in the size of the portfolio, which increased from an average of \$6.1 billion at amortized cost for the six months ended June 30, 2013 to an average of \$7.7 billion at amortized cost for the comparable period in 2014. The increase in capital structuring service fees for the six months ended June 30, 2014 from the comparable period in 2013 was primarily due to the increase in new investment commitments, which increased from \$1.6 billion for the six months ended June 30, 2013 to \$1.9 billion for the comparable period in 2014, as well as due to the increase in the average capital structuring service fees received as a percentage of total new investment commitments, which increased from

## Edgar Filing: ARES CAPITAL CORP - Form 10-Q

1.9% in 2013 to 2.3% in 2014. Dividend income for the six months ended June 30, 2014 and 2013 included dividends received from IHAM totaling \$30.0 million and \$37.4 million, respectively. The dividends received from IHAM for the six months ended June 30, 2014 and 2013 included additional dividends of \$10.0 million and \$17.4 million, respectively, that were paid in addition to the quarterly dividends generally paid by IHAM. IHAM paid the additional dividends out of accumulated earnings that had previously been retained by IHAM. Also during the six months ended June 30, 2014, we received \$9.5 million in other non-recurring dividends from non-income producing equity securities compared to \$1.5 million for the comparable period in 2013.

Table of Contents**Operating Expenses**

(in millions)	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Interest and credit facility fees	\$ 53.2	\$ 40.3	\$ 105.6	\$ 79.6
Base management fees	30.7	24.9	60.8	48.1
Income based fees	25.5	25.4	53.9	49.2
Capital gains incentive fees	10.2	8.0	11.1	4.2
Professional fees	4.4	3.7	7.1	6.9
Administrative fees	2.8	2.6	6.6	5.2
Other general and administrative	3.2	3.7	6.9	7.6
Total expenses	\$ 130.0	\$ 108.6	\$ 252.0	\$ 200.8

Interest and credit facility fees for the three and six months ended June 30, 2014 and 2013, were comprised of the following:

(in millions)	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Stated interest expense	\$ 42.2	\$ 31.8	\$ 83.7	\$ 61.7
Facility fees	3.2	1.8	6.6	4.4
Amortization of debt issuance cost	4.0	3.4	7.9	6.9
Accretion of discount on notes payable	3.8	3.3	7.4	6.6
Total interest and credit facility fees	\$ 53.2	\$ 40.3	\$ 105.6	\$ 79.6

Stated interest expense for the three months ended June 30, 2014 increased from the comparable period in 2013 primarily due to the increase in the average principal amount of debt outstanding, which increased to \$3.1 billion as compared to \$2.4 billion for the comparable period in 2013. Stated interest expense for the six months ended June 30, 2014 increased from the comparable period in 2013 primarily due to the increase in the average principal amount of debt outstanding, which increased to \$3.1 billion as compared to \$2.2 billion for the comparable period in 2013.

The increase in base management fees and fees based on our net investment income ( income based fees ) for the three and six months ended June 30, 2014 from the comparable period in 2013 were primarily due to the increase in the size of the portfolio and in the case of income based fees, the related increase in net investment income excluding income based fees and fees based on our net capital gains ( capital gains incentive fees ).

For the three and six months ended June 30, 2014, the capital gains incentive fee expense accrual calculated in accordance with GAAP was \$10.2 million and \$11.1 million, respectively. For the three and six months ended June 30, 2013, the capital gains incentive fee expense accrual calculated in accordance with GAAP was \$8.0 million and \$4.2 million, respectively. The capital gains incentive fee accrued under GAAP includes an accrual related to unrealized capital appreciation, whereas the capital gains incentive fee actually payable under our investment advisory and management agreement does not. There can be no assurance that such unrealized capital appreciation will be realized in the future. The accrual for any capital gains incentive fee under GAAP in a given period may result in an additional expense if such cumulative amount is greater than in the prior period or a reduction of previously recorded expense if such cumulative amount is less than in the prior period. If such cumulative amount is negative, then there is no accrual. As of June 30, 2014, the total capital gains incentive fee accrual calculated in accordance with GAAP was \$74.6 million (included in capital gains incentive fees payable in the consolidated balance sheet). However, as of June 30, 2014, there was no capital gains incentive fee actually payable under our investment advisory and management agreement. See Note 3 to our consolidated financial statements for the year ended December 31, 2013 for more information on the base management fees, income

based fees and capital gains incentive fees.

Administrative fees represent fees paid to Ares Operations for our allocable portion of overhead and other expenses incurred by Ares Operations in performing its obligations under the administration agreement, including our allocable portion of the cost of certain of our executive officers and their respective staffs. Other general and administrative expenses include professional fees, rent, insurance, depreciation, director's fees and other costs.

**Income Tax Expense, Including Excise Tax**

We have elected to be treated as a RIC under the Code and operate in a manner so as to qualify for the tax treatment applicable to RICs. To qualify as a RIC, we must, among other things, timely distribute to our stockholders generally at least 90% of our investment company taxable income, as defined by the Code, for each year. In order to maintain our RIC status, we, among other

Table of Contents

things, have made and intend to continue to make the requisite distributions to our stockholders which will generally relieve us from U.S. federal corporate-level income taxes.

Depending on the level of taxable income earned in a tax year, we may choose to carry forward taxable income in excess of current year dividend distributions from such current year taxable income into the next tax year and pay a 4% excise tax on such income, as required. To the extent that we determine that our estimated current year annual taxable income will be in excess of estimated current year dividend distributions from such income, we accrue excise tax on estimated excess taxable income as such taxable income is earned. For the three and six months ended June 30, 2014, we recorded a net expense of \$1.5 million and \$4.0 million, respectively, for U.S. federal excise tax. For the three and six months ended June 30, 2013, we recorded a net expense of \$3.0 million and \$6.0 million, respectively, for U.S. federal excise tax.

Certain of our consolidated subsidiaries are subject to U.S. federal and state income taxes. For the three and six months ended June 30, 2014, we recorded a tax expense of approximately \$1.4 million and \$4.3 million, respectively, for these subsidiaries. For the three and six months ended June 30, 2013, we recorded a tax expense of approximately \$0.9 million and \$1.7 million, respectively, for these subsidiaries.

**Net Realized Gains/Losses**

During the three months ended June 30, 2014, we had \$692.3 million of sales, repayments or exits of investments resulting in \$47.4 million of net realized losses. These sales, repayments or exits included \$64.5 million of investments sold to IHAM or certain vehicles managed by IHAM. No realized gains or losses were recognized on these transactions. Net realized losses of \$47.4 million on investments were comprised of \$4.6 million of gross realized gains and \$52.0 million of gross realized losses.

The net realized losses on investments during the three months ended June 30, 2014 consisted of the following:

(in millions)	<b>Net Realized Gains (Losses)</b>	
<b>Portfolio Company</b>		
Dialysis Newco, Inc.	\$	1.7
Geotrace Technologies, Inc.		(2.9)
CitiPostal Inc.		(20.2)
MVL Group, Inc.		(27.7)
Other, net		1.7
Total, net	\$	(47.4)

During the three months ended June 30, 2014, we also recognized net realized losses on foreign currency transactions of \$1.1 million.

During the three months ended June 30, 2013, we had \$400.4 million of sales, repayments or exits of investments resulting in \$8.6 million of net realized gains. These sales, repayments or exits included \$35.0 million of investments sold to IHAM and certain vehicles managed by IHAM. A net realized gain of \$0.1 million was recorded on the transactions with IHAM. Net realized gains of \$8.6 million on investments were comprised of \$9.6 million of gross realized gains and \$1.0 million of gross realized losses.

## Edgar Filing: ARES CAPITAL CORP - Form 10-Q

The net realized gains on investments during the three months ended June 30, 2013 consisted of the following:

(in millions)		Net Realized Gains (Losses)
<b>Portfolio Company</b>		
Performance Food Group, Inc. and Wellspring Distribution Corp.	\$	4.1
Senior Secured Loan Fund LLC		2.5
BenefitMall Holdings Inc.		2.0
Promo Works, LLC		(1.0)
Other, net		1.0
Total	\$	8.6

During the six months ended June 30, 2014, the Company had \$1,360.2 million of sales, repayments or exits of investments resulting in \$35.5 million of net realized losses. These sales, repayments or exits included \$64.5 million of investments sold to IHAM or certain vehicles managed by IHAM. No realized gains or losses were recognized on these transactions. Net realized losses of \$35.5 million on investments were comprised of \$16.7 million of gross realized gains and \$52.2 million of gross realized losses.

Table of Contents

The net realized losses on investments during the six months ended June 30, 2014 consisted of the following:

(in millions) Portfolio Company	Net Realized Gains (Losses)
JHP Group Holdings, Inc.	\$ 1.9
Dialysis Newco, Inc.	1.7
Orion Foods, LLC	1.6
La Paloma Generating Company, LLC	1.6
Magnacare Holdings, Inc.	1.3
Imperial Capital Group LLC	1.3
Stag-Parkway, Inc.	1.2
Eberle Design, Inc.	1.1
Geotrace Technologies, Inc.	(2.9)
CitiPostal Inc.	(20.2)
MVL Group, Inc.	(27.7)
Other, net	3.6
Total	\$ (35.5)

During the six months ended June 30, 2014, we purchased \$0.4 million aggregate principal amount of the 2047 Notes (as defined below) and as a result of these transactions, we recognized realized losses of \$0.1 million. During the six months ended June 30, 2014, we also recognized net realized loss on foreign currency transactions of \$0.9 million.

During the six months ended June 30, 2013, the Company had \$636.1 million of sales, repayments or exits of investments resulting in \$20.3 million of net realized gains. These sales, repayments or exits included \$35.0 million of investments sold to IHAM or certain vehicles managed by IHAM. A net realized gain of \$0.1 million was recorded on these transactions. Net realized gains on investments were comprised of \$21.3 million of gross realized gains and \$1.0 million of gross realized losses.

The net realized gains on investments during the six months ended June 30, 2013 consisted of the following:

(in millions) Portfolio Company	Net Realized Gains (Losses)
Performant Financial Corporation	\$ 6.7
Performance Food Group, Inc. and Wellspring Distribution Corp	4.1
Senior Secured Loan Fund LLC	3.6
BenefitMall Holdings Inc.	2.0
Promo Works, LLC	(1.0)
Other, net	4.9
Total	\$ 20.3

**Net Unrealized Gains/Losses**

## Edgar Filing: ARES CAPITAL CORP - Form 10-Q

We value our portfolio investments quarterly and the changes in value are recorded as unrealized gains or losses. For the three and six months ended June 30, 2014 and 2013, net unrealized gains and losses for our portfolio were comprised of the following:

(in millions)	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Unrealized appreciation	\$ 85.9	\$ 62.6	\$ 119.6	\$ 79.4
Unrealized depreciation	(33.4)	(28.9)	(69.4)	(65.8)
Net unrealized (appreciation) depreciation reversal related to net realized gains or losses(1)	47.1	(2.4)	42.0	(12.8)
Total net unrealized gains	\$ 99.6	\$ 31.3	\$ 92.2	\$ 0.8

---

(1) The net unrealized (appreciation) depreciation reversal related to net realized gains or losses represents the unrealized appreciation or depreciation recorded on the related asset at the end of the prior period.



Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Table of Contents

The changes in net unrealized appreciation during the three months ended June 30, 2014 consisted of the following:

(in millions) Portfolio Company	Net Unrealized Appreciation (Depreciation)
Insight Pharmaceuticals Corporation	\$ 17.0
10th Street, LLC	8.6
The Dwyer Group	8.1
Imperial Capital Private Opportunities, LP	7.0
Service King Paint & Body, LLC	4.4
American Broadband Communications, LLC	3.2
Apple & Eve, LLC	2.9
Senior Secured Loan Fund LLC	2.6
VSS-Tranzact Holdings, LLC	2.5
Dynamic India Fund IV, LLC	2.2
Cast & Crew Payroll, LLC	2.0
R3 Education, Inc.	(2.1)
Community Education Centers, Inc.	(2.4)
Ivy Hill Asset Management, L.P.	(2.7)
The Step2 Company, LLC	(3.5)
Orion Foods, LLC	(3.6)
ADF Capital, Inc.	(7.7)
Other, net	14.0
Total	\$ 52.5

During the three months ended June 30, 2014, we also recognized net unrealized losses on foreign currency transactions of \$0.3 million.

The changes in net unrealized appreciation during the three months ended June 30, 2013 consisted of the following:

(in millions) Portfolio Company	Net Unrealized Appreciation (Depreciation)
Ivy Hill Asset Management, L.P.	\$ 7.0
10th Street, LLC	6.8
Financial Pacific Company	6.8
Component Hardware Group, Inc.	5.6
Orion Foods, LLC	4.3
Senior Secured Loan Fund LLC	3.0
Imperial Capital Private Opportunities, L.P.	2.9
American Broadband Communications, LLC	2.2
The Step2 Company, LLC	(2.2)
Campus Management Corp	(3.4)
Competitor Group, Inc.	(4.1)
Universal Lubricants, LLC	(6.4)
Other, net	11.2
Total	\$ 33.7

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

The changes in net unrealized appreciation during the six months ended June 30, 2014 consisted of the following:

Table of Contents

(in millions) Portfolio Company	Net Unrealized Appreciation (Depreciation)
Insight Pharmaceuticals Corporation	\$ 24.0
The Dwyer Group	10.1
10th Street, LLC	8.5
Imperial Capital Private Opportunities, LP	7.5
VSS-Tranzact Holdings, LLC	5.9
Service King Paint & Body, LLC	4.5
Campus Management Corp.	4.3
Senior Secured Loan Fund LLC	3.9
Apple & Eve, LLC	3.5
Cast & Crew Payroll, LLC	3.3
The Thymes, LLC	3.0
Competitor Group, Inc.	2.9
Ciena Capital LLC	2.8
American Broadband Communications, LLC	2.6
R3 Education, Inc.	(2.3)
Community Education Centers, Inc.	(4.3)
OTG Management, LLC	(5.4)
ADF Capital, Inc.	(7.3)
The Step2 Company, LLC	(15.2)
Ivy Hill Asset Management, L.P.	(18.1)
Other, net	16.0
Total, net	\$ 50.2

During the six months ended June 30, 2014, we also recognized net unrealized losses on foreign currency transactions of \$0.3 million.

The changes in net unrealized appreciation during the six months ended June 30, 2013 consisted of the following:

(in millions) Portfolio Company	Net Unrealized Appreciation (Depreciation)
Financial Pacific Company	\$ 7.1
10th Street, LLC	6.8
Component Hardware Group, Inc	6.8
Matrixx Initiatives, Inc.	5.2
Imperial Capital Private Opportunities, L.P.	4.7
American Broadband Communications, LLC	4.3
Orion Foods, LLC	3.8
Senior Secured Loan Fund LLC	3.3
AWTP, LLC	3.1
Apple & Eve, LLC	2.4
The Step2 Company, LLC	(3.4)
ADF Restaurant Group, LLC	(3.4)
Citipostal, Inc.	(4.0)
Competitor Group, Inc.	(4.1)
Campus Management Corp.	(4.5)
Ciena Capital LLC	(5.9)
Universal Lubricants, LLC	(12.7)
Ivy Hill Asset Management, L.P.	(19.4)

Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Other		23.5
Total	\$	13.6

Table of Contents**FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES**

Our liquidity and capital resources are generated primarily from the net proceeds of public offerings of equity and debt securities, advances from the Revolving Credit Facility, the Revolving Funding Facility and the SMBC Funding Facility (each as defined below and together, the Facilities ), net proceeds from the issuance of other securities, including convertible unsecured notes, as well as cash flows from operations.

As of June 30, 2014, we had \$223.2 million in cash and cash equivalents and \$3.4 billion in total aggregate principal amount of debt outstanding (\$3.4 billion at carrying value). Subject to leverage and borrowing base restrictions, we had approximately \$1.8 billion available for additional borrowings under the Facilities as of June 30, 2014.

We may from time to time seek to retire or repurchase our common stock through cash purchases, as well as retire, cancel or purchase our outstanding debt through cash purchases and/or exchanges, in open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual and regulatory restrictions and other factors. The amounts involved may be material. In addition, we may from time to time enter into additional debt facilities, increase the size of existing facilities or issue additional debt securities, including unsecured debt and/or debt securities convertible into common stock. Any such incurrence or issuance would be subject to prevailing market conditions, our liquidity requirements, contractual and regulatory restrictions and other factors. In accordance with the Investment Company Act, with certain limited exceptions, we are only allowed to borrow amounts such that our asset coverage, calculated pursuant to the Investment Company Act, is at least 200% after such borrowing. As of June 30, 2014, our asset coverage was 247%.

**Equity Issuances**

As of June 30, 2014 and December 31, 2013, our total equity market capitalization was \$5.3 billion. There were no sales of our equity securities for the six months ended June 30, 2014. The following table summarizes the total shares issued and proceeds received in public offerings of our common stock net of underwriting discounts and offering costs for the six months ended June 30, 2013:

(in millions, except per share data)	Shares issued	Offering price per share	Proceeds net of underwriting and offering costs
April 2013 public offering	19.1	\$ 17.43 <sup>(1)</sup>	\$ 333.2
Total for the six months ended June 30, 2013	19.1	\$ 17.43	\$ 333.2

(1) The shares were sold to the underwriters for a price of \$17.43 per share, which the underwriters were then permitted to sell at variable prices.

See Recent Developments as well as Note 15 to our consolidated financial statements for the three and six months ended June 30, 2014 for more information regarding an equity offering completed subsequent to June 30, 2014.

**Debt Capital Activities**

Our debt obligations consisted of the following as of June 30, 2014 and December 31, 2013:

(in millions)	June 30, 2014			December 31, 2013		
	Total Aggregate Principal Amount Available/ Outstanding(1)	Principal Amount	Carrying Value	Total Aggregate Principal Amount Available/ Outstanding(1)	Principal Amount	Carrying Value
Revolving Credit Facility	\$ 1,250.0(2)	\$	\$	\$ 1,060.0	\$	\$
Revolving Funding Facility	540.0(3)	395.0	395.0	620.0	185.0	185.0
SMBC Funding Facility	400.0			400.0		
February 2016 Convertible Notes	575.0	575.0	560.6(4)	575.0	575.0	556.5(4)
June 2016 Convertible Notes	230.0	230.0	223.4(4)	230.0	230.0	221.8(4)
2017 Convertible Notes	162.5	162.5	159.7(4)	162.5	162.5	159.2(4)
2018 Convertible Notes	270.0	270.0	264.7(4)	270.0	270.0	264.1(4)
2019 Convertible Notes	300.0	300.0	295.7(4)	300.0	300.0	295.3(4)
2018 Notes	750.0	750.0	750.8(5)	600.0	600.0	596.7(5)
February 2022 Notes	143.8	143.8	143.8	143.8	143.8	143.8
October 2022 Notes	182.5	182.5	182.5	182.5	182.5	182.5
2040 Notes	200.0	200.0	200.0	200.0	200.0	200.0
2047 Notes	229.5	229.5	181.2(6)	230.0	230.0	181.4(6)
	\$ 5,233.3	\$ 3,438.3	\$ 3,357.4	\$ 4,973.8	\$ 3,078.8	\$ 2,986.3

Table of Contents

---

- (1) Subject to borrowing base and leverage restrictions. Represents the total aggregate amount committed or outstanding, as applicable, under such instrument.
- (2) Provides for a feature that allows us, under certain circumstances, to increase the size of the Revolving Credit Facility to a maximum of \$1,755.0 million.
- (3) Provides for a feature that allows us and our consolidated subsidiary, Ares Capital CP Funding LLC ( Ares Capital CP ), under certain circumstances, to increase the size of the Revolving Funding Facility to a maximum of \$865.0 million.
- (4) Represents the aggregate principal amount outstanding of the Convertible Unsecured Notes less the unaccreted discount initially recorded upon issuance of the Convertible Unsecured Notes. The total unaccreted discount for the February 2016 Convertible Notes, the June 2016 Convertible Notes, the 2017 Convertible Notes, the 2018 Convertible Notes and the 2019 Convertible Notes was \$14.4 million, \$6.6 million, \$2.8 million, \$5.3 million and \$4.3 million, respectively, as of June 30, 2014. The total unaccreted discount for the February 2016 Convertible Notes, the June 2016 Convertible Notes, the 2017 Convertible Notes, the 2018 Convertible Notes and the 2019 Convertible Notes was \$18.5 million, \$8.2 million, \$3.3 million, \$5.9 million and \$4.7 million, respectively, as of December 31, 2013.
- (5) Represents the aggregate principal amount outstanding less the unaccreted discount initially recorded upon issuance of the 2018 Notes. The total unamortized premium for the 2018 Notes was \$0.8 million as of June 30, 2014. The total unaccreted discount for the 2018 Notes was \$3.3 million as of December 31, 2013.
- (6) Represents the aggregate principal amount outstanding less the unaccreted purchased discount. The total unaccreted purchased discount for the 2047 Notes was \$48.4 million and \$48.6 million as of June 30, 2014 and December 31, 2013, respectively.

The weighted average stated interest rate and weighted average maturity, both on aggregate principal amount, of all our debt outstanding as of June 30, 2014 were 5.1% and 7.2 years, respectively, and as of December 31, 2013 were 5.3% and 7.9 years, respectively.

The ratio of total principal amount of debt outstanding to stockholders' equity as of June 30, 2014 was 0.70:1.00 compared to 0.63:1.00 as of December 31, 2013. The ratio of total carrying value of debt outstanding to stockholders' equity as of June 30, 2014 was 0.68:1.00 compared to 0.61:1.00 as of December 31, 2013.

***Revolving Credit Facility***

## Edgar Filing: ARES CAPITAL CORP - Form 10-Q

We are party to a senior secured revolving credit facility (as amended and restated, the Revolving Credit Facility ), which allows us to borrow up to \$1,250 million at any one time outstanding. The end of the revolving period and the stated maturity date for the Revolving Credit Facility are May 4, 2018 and May 4, 2019, respectively. The Revolving Credit Facility also provides for a feature that allowed us, under certain circumstances, to increase the size of the facility to a maximum of \$1,755 million. The interest rate charged on the Revolving Credit Facility is based on LIBOR plus an applicable spread of 2.00% or a base rate (as defined in the agreements governing the Revolving Credit Facility) plus an applicable spread of 1.00%. Additionally, we are required to pay a commitment fee of 0.375% per annum on any unused portion of the Revolving Credit Facility. As of June 30, 2014, there were no amounts outstanding under the Revolving Credit Facility and we were in compliance in all material respects with the terms of the Revolving Credit Facility.

### *Revolving Funding Facility*

Our consolidated subsidiary, Ares Capital CP, is party to a revolving funding facility (as amended, the Revolving Funding Facility ), which allows Ares Capital CP to borrow up to \$540 million at any one time outstanding. The Revolving Funding Facility is



Table of Contents

secured by all of the assets held by, and the membership interest in, Ares Capital CP. The end of the reinvestment period and the stated maturity date for the Revolving Funding Facility is May 14, 2017 and May 14, 2019, respectively. The Revolving Funding Facility also provides for a feature that allowed, under certain circumstances, for an increase in the size of the facility to a maximum of \$865 million. The interest rate charged on the Revolving Funding Facility is one month LIBOR plus an applicable spread ranging from 2.25% to 2.50% over LIBOR and ranging from 1.25% to 1.50% over base rate (as defined in the agreements governing the Revolving Funding Facility) in each case, determined monthly based on the composition of the borrowing base relative to outstanding borrowings under the facility. Additionally, Ares Capital CP is required to pay a commitment fee of between 0.50% and 1.50% per annum depending on the size of the unused portion of the Revolving Funding Facility. As of June 30, 2014, the principal amount outstanding under the Revolving Funding Facility was \$395.0 million and we and Ares Capital CP were in compliance in all material respects with the terms of the Revolving Funding Facility.

***SMBC Funding Facility***

Our consolidated subsidiary, Ares Capital JB Funding LLC ( ACJB ), is party to a revolving funding facility (as amended, the SMBC Funding Facility ), which allows ACJB to borrow up to \$400 million at any one time outstanding. The SMBC Funding Facility is secured by all of the assets held by ACJB. The end of the reinvestment period and the stated maturity date for the SMBC Funding Facility are September 14, 2016 and September 14, 2021, respectively. The reinvestment period and the stated maturity date are both subject to two one-year extensions by mutual agreement. The interest rate charged on the SMBC Funding Facility is based on one month LIBOR plus an applicable spread of 2.00% or a base rate (as defined in the agreements governing the SMBC Funding Facility) plus an applicable spread of 1.00%. Additionally, ACJB is required to pay a commitment fee of between 0.35% and 0.875% per annum depending on the size of the unused portion of the SMBC Funding Facility. As of June 30, 2014, there were no amounts outstanding under the SMBC Funding Facility and we and ACJB were in compliance in all material respects with the terms of the SMBC Funding Facility.

***Convertible Unsecured Notes***

In January 2011, we issued \$575 million aggregate principal amount of unsecured convertible notes that mature on February 1, 2016 (the February 2016 Convertible Notes ), unless previously converted or repurchased in accordance with their terms. In March 2011, we issued \$230 million aggregate principal amount of unsecured convertible notes that mature on June 1, 2016 (the June 2016 Convertible Notes ), unless previously converted or repurchased in accordance with their terms. In March 2012, we issued \$162.5 million aggregate principal amount of unsecured convertible notes that mature on March 15, 2017 (the 2017 Convertible Notes ), unless previously converted or repurchased in accordance with their terms. In the fourth quarter of 2012, we issued \$270.0 million aggregate principal amount of unsecured convertible notes that mature on January 15, 2018 (the 2018 Convertible Notes ), unless previously converted or repurchased in accordance with their terms. In July 2013, we issued \$300.0 million aggregate principal amount of unsecured convertible notes that mature on January 15, 2019 (the 2019 Convertible Notes ) and together with the February 2016 Convertible Notes, the June 2016 Convertible Notes, the 2017 Convertible Notes and the 2018 Convertible Notes, the Convertible Unsecured Notes ), unless previously converted or repurchased in accordance with their terms. We do not have the right to redeem the Convertible Unsecured Notes prior to maturity. The February 2016 Convertible Notes, the June 2016 Convertible Notes, the 2017 Convertible Notes, the 2018 Convertible Notes and the 2019 Convertible Notes bear interest at a rate of 5.750%, 5.125% , 4.875% , 4.750% and 4.375%, respectively, per year, payable semi-annually.

In certain circumstances, the Convertible Unsecured Notes will be convertible into cash, shares of our common stock or a combination of cash and shares of our common stock, at our election, at their respective conversion rates (listed below as of June 30, 2014) subject to customary anti-dilution adjustments and the requirements of their respective indenture (the Convertible Unsecured Notes Indentures ). Prior to the close of business on the business day immediately preceding their respective conversion date (listed below), holders may convert their Convertible Unsecured Notes only under certain circumstances set forth in the respective Convertible Unsecured Notes Indenture. On or after their respective conversion dates until the close of business on the scheduled trading day immediately preceding their respective maturity date, holders may

## Edgar Filing: ARES CAPITAL CORP - Form 10-Q

convert their Convertible Unsecured Notes at any time. In addition, if we engage in certain corporate events as described in their respective Convertible Unsecured Notes Indenture, holders of the Convertible Unsecured Notes may require us to repurchase for cash all or part of the Convertible Unsecured Notes at a repurchase price equal to 100% of the principal amount of the Convertible Unsecured Notes to be repurchased, plus accrued and unpaid interest through, but excluding, the required repurchase date.

Certain key terms related to the convertible features for each of the Convertible Unsecured Notes as of June 30, 2014) are listed below.

Table of Contents

	February 2016 Convertible Notes	June 2016 Convertible Notes	2017 Convertible Notes	2018 Convertible Notes	2019 Convertible Notes
Conversion premium	17.5%	17.5%	17.5%	17.5%	15.0%
Closing stock price at issuance	\$ 16.28	\$ 16.20	\$ 16.46	\$ 16.91	\$ 17.53
Closing stock price date	January 19, 2011	March 22, 2011	March 8, 2012	October 3, 2012	July 15, 2013
Conversion price (1)	\$ 18.59	\$ 18.50	\$ 19.03	\$ 19.70	\$ 20.05
Conversion rate (shares per one thousand dollar principal amount)(1)	53.7871	54.0527	52.5380	50.7591	49.8854
Conversion dates	August 15, 2015	December 15, 2015	September 15, 2016	July 15, 2017	July 15, 2018

(1) Represents conversion price and conversion rate, as applicable, as of June 30, 2014, taking into account certain de minimis adjustments that will be made on the conversion date.

*Unsecured Notes*

*2018 Notes*

In November 2013, we issued \$600.0 million in aggregate principal amount of unsecured notes, which bear interest at a rate of 4.875% per year and mature on November 30, 2018 (the 2018 Notes). The 2018 Notes require payment of interest semi-annually, and all principal is due upon maturity. These notes are redeemable in whole or in part at any time at our option at a redemption price equal to par plus a make whole premium, as determined pursuant to the indenture governing the 2018 Notes, and any accrued and unpaid interest.

In January 2014, we issued an additional \$150.0 million aggregate principal amount of the 2018 Notes at a premium of 102.7% of their principal amount.

*February 2022 Notes*

In February 2012, we issued \$143.8 million in aggregate principal amount of unsecured notes, which bear interest at a rate of 7.00% per year and mature on February 15, 2022 (the February 2022 Notes). The February 2022 Notes require payment of interest quarterly, and all principal is due upon maturity. These notes are redeemable in whole or in part at any time or from time to time at our option on or after February 15, 2015, at a par redemption price of \$25.00 per security plus accrued and unpaid interest.

*October 2022 Notes*

## Edgar Filing: ARES CAPITAL CORP - Form 10-Q

In September 2012 and October 2012, we issued \$182.5 million in aggregate principal amount of unsecured notes, which bear interest at a rate of 5.875% per year and mature on October 1, 2022 (the "October 2022 Notes"). The October 2022 Notes require payment of interest quarterly and all principal is due upon maturity. These notes are redeemable in whole or in part at any time or from time to time at our option on or after October 1, 2015, at a par redemption price of \$25.00 per security plus accrued and unpaid interest.

### *2040 Notes*

In October 2010, we issued \$200.0 million in aggregate principal amount of unsecured notes which bear interest at a rate of 7.75% and mature on October 15, 2040 (the "2040 Notes"). The 2040 Notes require payment of interest quarterly, and all principal is due upon maturity. These notes are redeemable in whole or in part at any time or from time to time at our option on or after October 15, 2015, at a par redemption price of \$25.00 per security plus accrued and unpaid interest.

### *2047 Notes*

As part of the Allied Acquisition, we assumed \$230.0 million aggregate principal amount of unsecured notes which bear interest at a rate of 6.875% and mature on April 15, 2047 (the "2047 Notes" and together with the 2018 Notes, the February 2022 Notes, the October 2022 Notes and the 2040 Notes, the "Unsecured Notes"). The 2047 Notes require payment of interest quarterly, and all principal is due upon maturity. These notes are redeemable in whole or in part at any time or from time to time at our option, at a par redemption price of \$25.00 per security plus accrued and unpaid interest.

As of June 30, 2014 we were in compliance in all material respects with the terms of the Convertible Unsecured Notes Indentures and the indentures governing the Unsecured Notes.

Table of Contents

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

See Note 5 to our consolidated financial statements for the three and six months ended June 30, 2014 for more detail on our debt obligations.

**OFF BALANCE SHEET ARRANGEMENTS**

We have various commitments to fund investments in our portfolio, as described below.

As of June 30, 2014 and December 31, 2013, we had the following commitments to fund various revolving and delayed draw senior secured and subordinated loans, including commitments to fund which are at (or substantially at) our discretion:

(in millions)	As of	
	June 30, 2014	December 31, 2013
Total revolving and delayed draw commitments	\$ 897.3	\$ 834.5
Less: funded commitments	(131.0)	(87.1)
Total unfunded commitments	766.3	747.4
Less: commitments substantially at discretion of ours	(6.0)	(16.0)
Less: unavailable commitments due to borrowing base or other covenant restrictions	(1.7)	(1.7)
Total net adjusted unfunded revolving and delayed draw commitments	\$ 758.6	\$ 729.7

Included within the total revolving and delayed draw commitments as of June 30, 2014 were commitments to issue up to \$41.9 million in letters of credit through a financial intermediary on behalf of certain portfolio companies. As of June 30, 2014, we had \$18.1 million in letters of credit issued and outstanding under these commitments on behalf of the portfolio companies. In addition to these letters of credit included as a part of the total revolving and delayed draw commitments to portfolio companies, as of June 30, 2014 we also had \$5.3 million of letters of credit issued and outstanding on behalf of other portfolio companies. For all these letters of credit issued and outstanding, we would be required to make payments to third parties if the portfolio companies were to default on their related payment obligations. None of these letters of credit issued and outstanding are recorded as a liability on our balance sheet as such letters of credit are considered in the valuation of the investments in the portfolio company. Of these letters of credit, \$5.9 million expire in 2014 and \$17.5 million expire in 2015.

We also have commitments to co-invest in the SSLP for our portion of the SSLP's commitments to fund delayed draw investments to certain portfolio companies of the SSLP. See Senior Secured Loan Program above and Note 4 to our consolidated financial statements for the three and six months ended June 30, 2014 for more information.

## Edgar Filing: ARES CAPITAL CORP - Form 10-Q

As of June 30, 2014 and December 31, 2013, we were party to subscription agreements to fund equity investments in private equity investment partnerships as follows:

(in millions)	As of	
	June 30, 2014	December 31, 2013
Total private equity commitments	\$ 109.5	\$ 59.5
Less: funded private equity commitments	(15.0)	(11.9)
Total unfunded private equity commitments	94.5	47.6
Less: private equity commitments substantially at discretion of ours	(91.1)	(43.2)
Total net adjusted unfunded private equity commitments	\$ 3.4	\$ 4.4

Table of Contents

In the ordinary course of business, we may sell certain of our investments to third party purchasers. In particular, in connection with the sale of certain controlled portfolio company equity investments (as well as certain other sales), we have, and may continue to do so in the future, agreed to indemnify such purchasers for future liabilities arising from the investments and the related sale transaction. Such indemnification provisions have given rise to liabilities in the past and may do so in the future.

As of June 30, 2014, one of our portfolio companies, Ciena Capital LLC ( Ciena ), had one non-recourse securitization Small Business Administration ( SBA ) loan warehouse facility, which has reached its maturity date but remains outstanding. Ciena is working with the providers of the SBA loan warehouse facility with regard to the repayment of that facility. Allied Capital had previously issued a performance guaranty (which we succeeded to as a result of the Allied Acquisition) whereby we must indemnify the warehouse providers for any damages, losses, liabilities and related costs and expenses that they may incur as a result of Ciena 's failure to perform any of its obligations as loan originator, loan seller or loan servicer under the warehouse facility. As of June 30, 2014, there were no known issues or claims with respect to this performance guaranty.

**RECENT DEVELOPMENTS**

In July 2014, we completed a public equity offering (the July 2014 Offering ) pursuant to which we sold 15,525,000 shares of common stock (including 2,025,000 shares pursuant to the exercise in full by the underwriters of their option to purchase additional shares) at a price of \$16.63 per share to the participating underwriters. Total proceeds from the July 2014 Offering, net of estimated offering expenses payable by us, were approximately \$257.7 million. We used the net proceeds of the July 2014 Offering to repay certain outstanding indebtedness under our debt facilities and for general corporate purposes, which included investing in portfolio companies in accordance with our investment objective.

On July 30, 2014, our board of directors appointed (i) Michael J. Arougheti and current Chairman Bennett Rosenthal to serve as Co-Chairmen of our board of directors, (ii) R. Kipp deVeer as our Chief Executive Officer to replace Mr. Arougheti, who most recently served as our Chief Executive Officer, and (iii) Mitchell S. Goldstein and Michael L. Smith as our Co-Presidents to replace Mr. deVeer, who most recently served as our President.

From July 1, 2014 through July 31, 2014, we made new investment commitments of \$492 million, of which \$451 million were funded. Of these new commitments, 54% were in first lien senior secured loans, 43% were in second lien senior secured loans, 2% were investments in subordinated certificates of the SSLP to make co-investments with GE in first lien senior secured loans through the SSLP and 1% were in other equity securities. Of the \$492 million of new investment commitments, 97% were floating rate, 2% were fixed rate and 1% were non-interest bearing. The weighted average yield of debt and other income producing securities funded during the period at amortized cost was 8.1%. We may seek to syndicate a portion of these new investment commitments, although there can be no assurance that we will be able to do so.

From July 1, 2014 through July 31, 2014, we exited \$102 million of investment commitments. Of these investment commitments, 44% were second lien senior secured loans, 28% were first lien senior secured loans, 17% were investments in subordinated certificates of the SSLP, 6% were preferred equity securities and 5% were other equity securities. Of the \$102 million of exited investment commitments, 80% were floating rate, 11% were non-interest bearing, 8% were fixed rate and 1% were on non-accrual status. The weighted average yield of debt and other income producing securities exited or repaid during the period at amortized cost was 10.0%. On the \$102 million of investment commitments exited from July 1, 2014 through July 31, 2014, we recognized total net realized gains of approximately \$5 million.

In addition, as of July 31, 2014, we had an investment backlog and pipeline of approximately \$390 million and \$500 million, respectively. Investment backlog includes transactions approved by our investment adviser's investment committee and/or for which a formal mandate, letter of intent or a signed commitment have been issued, and therefore we believe are likely to close. Investment pipeline includes transactions where due diligence and analysis are in process, but no formal mandate, letter of intent or signed commitment have been issued. The consummation of any of the investments in this backlog and pipeline depends upon, among other things, one or more of the following: satisfactory completion of our due diligence investigation of the prospective portfolio company, our acceptance of the terms and structure of such investment and the execution and delivery of satisfactory transaction documentation. In addition, we may syndicate a portion of these investments and certain of these investments may result in the repayment of existing investments. We cannot assure you that we will make any of these investments or that we will syndicate any portion of these investments.

## **CRITICAL ACCOUNTING POLICIES**

### ***Basis of Presentation***

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles ( GAAP ), and include the accounts of ours and our consolidated subsidiaries. The consolidated financial statements reflect all adjustments and reclassifications that, in the opinion of management, are necessary for the



Table of Contents

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.

Interim financial statements are prepared in accordance with GAAP for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Articles 6 or 10 of Regulation S-X. In the opinion of management, all adjustments, consisting solely of normal recurring accruals considered necessary for the fair presentation of financial statements for the interim period presented, have been included. The current period's results of operations will not necessarily be indicative of results that ultimately may be achieved for the fiscal year ending December 31, 2014.

***Cash and Cash Equivalents***

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

***Concentration of Credit Risk***

We place our cash and cash equivalents with financial institutions and, at times, cash held in money market accounts may exceed the Federal Deposit Insurance Corporation insured limit.

***Investments***

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

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

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

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

Table of Contents

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

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

- Our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals responsible for the portfolio investment in conjunction with our portfolio management team.
- Preliminary valuations are reviewed and discussed with our investment adviser's management and investment professionals, and then valuation recommendations are presented to our board of directors.
- The audit committee of our board of directors reviews these valuations, as well as the input of third parties, including independent third-party valuation firms, who review a minimum of 50% of our portfolio at fair value.
- Our board of directors discusses valuations and ultimately determines the fair value of each investment in our portfolio without a readily available market quotation in good faith based on, among other things, the input of our investment adviser, audit committee and, where applicable, independent third-party valuation firms.

***Interest and Dividend Income Recognition***

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

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

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

***Payment-in-Kind Interest***

We have loans in our portfolio that contain payment-in-kind ( PIK ) provisions. The PIK interest, computed at the contractual rate specified in each loan agreement, is added to the principal balance of the loan and recorded as interest income. To maintain our status as a RIC, this non-cash source of income must be paid out to stockholders in the form of dividends even though we have not yet collected the cash.

***Capital Structuring Service Fees and Other Income***

Our investment adviser seeks to provide assistance to our portfolio companies in connection with our investments and in return we may receive fees for capital structuring services. These fees are generally only available to us as a result of our 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 our investment adviser provides vary by investment, but generally include reviewing existing credit facilities, arranging bank financing, arranging equity financing, structuring financing from multiple lenders, structuring financing from multiple equity investors, restructuring existing loans, raising equity and debt capital, and providing general financial advice, which concludes upon closing of the investment. Any services of the above nature subsequent to the closing would generally generate a separate fee payable to us. In certain instances where we are invited to participate as a co-lender in a transaction and do not provide significant services in connection with the investment, a portion of loan fees paid to us in such situations will be deferred and amortized over the estimated life of the loan. We 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.

Table of Contents

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

***Foreign Currency Translation***

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

- (1) Fair value of investment securities, other assets and liabilities at the exchange rates prevailing at the end of the period.
- (2) Purchases and sales of investment securities, income and expenses at the exchange rates prevailing on the respective dates of such transactions, income or expenses.

Results of operations based on changes in foreign exchange rates are separately disclosed in the statement of operations. Foreign security and currency translations may involve certain considerations and risks not typically associated with investing in U.S. companies and U.S. government securities. These risks include, but are not limited to, currency fluctuations 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***

We do not utilize hedge accounting and instead mark our derivatives to market in the consolidated statement of operations.

***Equity Offering Expenses***

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

***Debt Issuance Costs***

## Edgar Filing: ARES CAPITAL CORP - Form 10-Q

Debt issuance costs are amortized over the life of the related debt instrument using the straight line method or the effective yield method, depending on the type of debt instrument.

### *Income Taxes*

We have elected to be treated as a RIC under the Code and operate in a manner so as to qualify for the tax treatment applicable to RICs. To qualify as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements and timely distribute to our stockholders at least 90% of our investment company taxable income, as defined by the Code, for each year. We, among other things, have made and intend to continue to make the requisite distributions to our stockholders, which will generally relieve us from U.S. federal corporate-level income taxes.

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

Certain of our consolidated subsidiaries are subject to U.S. federal and state corporate-level income taxes.

### *Dividends to Common Stockholders*

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

We have adopted a dividend reinvestment plan that provides for reinvestment of any distributions we declare in cash on behalf of our stockholders, unless a stockholder elects to receive cash. As a result, if our board of directors authorizes, and we declare,

Table of Contents

a cash dividend, then our stockholders who have not opted out of our dividend reinvestment plan will have their cash dividends automatically reinvested in additional shares of our common stock, rather than receiving the cash dividend. We intend to use primarily newly issued shares to implement the dividend reinvestment plan (so long as we are trading at a premium to net asset value). If our shares are trading at a significant enough discount to net asset value and we are otherwise permitted under applicable law to purchase such shares, we intend to purchase shares in the open market in connection with our obligations under our dividend reinvestment plan. However, we reserve the right to issue new shares of our common stock in connection with our obligations under the dividend reinvestment plan even if our shares are trading below net asset value.

*Use of Estimates in the Preparation of Financial Statements*

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

*New Accounting Pronouncements*

In May 2014, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2014-09, Revenue from Contracts with Customers (Topic 606). The guidance in this ASU supersedes the revenue recognition requirements in Topic 605, Revenue Recognition. Under the new guidance, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in ASU No. 2014-09 are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. We are currently evaluating the impact of adopting this ASU on our consolidated financial statements.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

We are subject to financial market risks, including changes in interest rates and the valuations of our investment portfolio.

*Interest Rate Risk*

Interest rate sensitivity refers to the change in our earnings that may result from changes in the level of interest rates. Because we fund a portion of our investments with borrowings, our net investment income is affected by the difference between the rate at which we invest and the rate at which we borrow. As a result, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income.

## Edgar Filing: ARES CAPITAL CORP - Form 10-Q

As of June 30, 2014, 81% of the investments at fair value in our portfolio bore interest at variable rates, 9% bore interest at fixed rates, 9% were non-interest earning and 1% were on non-accrual status. Additionally, for the variable rate investments, 67% of these investments contained interest rate floors (representing 54% of total investments at fair value). The Facilities all bear interest at variable rates with no interest rate floors, while the Unsecured Notes and the Convertible Unsecured Notes bear interest at fixed rates.

We regularly measure our exposure to interest rate risk. We assess interest rate risk and manage our interest rate exposure on an ongoing basis by comparing our interest rate sensitive assets to our interest rate sensitive liabilities. Based on that review, we determine whether or not any hedging transactions are necessary to mitigate exposure to changes in interest rates.

While hedging activities may mitigate our exposure to adverse fluctuations in interest rates, certain hedging transactions that we may enter into in the future, such as interest rate swap agreements, may also limit our ability to participate in the benefits of lower interest rates with respect to our portfolio investments. In addition, there can be no assurance that we will be able to effectively hedge our interest rate risk.

Based on our June 30, 2014, balance sheet, the following table shows the annual impact on net income of base rate changes in interest rates (considering interest rate floors for variable rate instruments) assuming no changes in our investment and borrowing structure:



Table of Contents

(in millions) Basis Point Change	Interest Income	Interest Expense	Net Income (1)
Up 300 basis points	\$ 112.8	\$ 11.9	\$ 100.9
Up 200 basis points	\$ 50.0	\$ 7.9	\$ 42.1
Up 100 basis points	\$ (11.5)	\$ 4.0	\$ (15.5)
Down 100 basis points	\$ 6.8	\$ (0.6)	\$ 7.4
Down 200 basis points	\$ 6.8	\$ (0.6)	\$ 7.4
Down 300 basis points	\$ 6.8	\$ (0.6)	\$ 7.4

(1) Excludes the impact of income based fees. See Note 3 to our consolidated financial statements for the three and six months ended June 30, 2014 for more information on the income based fees.

Based on our December 31, 2013 balance sheet, the following table shows the annual impact on net income of base rate changes in interest rates (considering interest rate floors for variable rate instruments) assuming no changes in our investment and borrowing structure:

(in millions) Basis Point Change	Interest Income	Interest Expense	Net Income (1)
Up 300 basis points	\$ 98.2	\$ 5.6	\$ 92.6
Up 200 basis points	\$ 38.7	\$ 3.7	\$ 35.0
Up 100 basis points	\$ (19.0)	\$ 1.9	\$ (20.9)
Down 100 basis points	\$ 6.3	\$ (0.3)	\$ 6.6
Down 200 basis points	\$ 6.3	\$ (0.3)	\$ 6.6
Down 300 basis points	\$ 6.3	\$ (0.3)	\$ 6.6

(1) Excludes the impact of income based fees. See Note 3 to our consolidated financial statements for the three and six months ended June 30, 2014 for more information on the income based fees.

**Item 4. Controls and Procedures.**

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15 of the Securities Exchange Act of 1934). Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that our current disclosure controls and procedures are effective in timely alerting them of material information relating to the Company that is required to be disclosed by us in the reports it files or submits under the Securities Exchange Act of 1934.

There have been no changes in the Company's internal control over financial reporting during the three and six months ended June 30, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings.**

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

On May 20, 2013, we were named as one of several defendants in an action filed in the United States District Court for the Eastern District of Pennsylvania (the Pennsylvania Court ) by the bankruptcy trustee of DSI Renal Holdings LLC and two related companies. On March 17, 2014 the action was transferred to the United States District Court for the District of Delaware pursuant to a motion filed by the defendants and granted by the Pennsylvania Court. On May 6, 2014, the United States District Court for the District of Delaware referred the action to the United States Bankruptcy Court for the District of Delaware. The complaint in the action alleges, among other things, that each of the named defendants participated in a purported fraudulent transfer involving the restructuring of a subsidiary of DSI Renal Holdings LLC. Among other things, the complaint seeks, jointly and severally from all defendants, (1) damages of approximately \$425 million, of which the complaint states our individual share is approximately \$117 million, and (2) punitive damages. We are currently unable to assess with any certainty whether we may have any exposure in this action. We believe the plaintiff's claims are without merit and intend to vigorously defend ourselves in this action.

Table of Contents

**Item 1A. Risk Factors.**

In addition to the other information set forth in this report, you should carefully consider the risk factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, which could materially affect our business, financial condition and/or operating results. The risks described in our Annual Report on Form 10-K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

We did not sell any equity securities during the period covered in this report that were not registered under the Securities Act of 1933.

We did not repurchase any shares of our common stock during the period covered in this report.

**Item 3. Defaults Upon Senior Securities.**

Not applicable.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

EXHIBIT INDEX

Number	Description
3.1	Articles of Amendment and Restatement, as amended(1)
3.2	Second Amended and Restated Bylaws, as amended(2)
10.1	Omnibus Amendment, dated as of May 14, 2014, among Ares Capital CP Funding LLC, Ares Capital CP Funding Holdings LLC, Ares Capital Corporation, Wells Fargo Bank, National Association, as swingline lender and as a lender, Wells Fargo Securities, LLC, as agent, and U.S. Bank National Association, as trustee, bank and collateral custodian (amending the Loan and Servicing Agreement, dated as of January 22, 2010, the Amended and Restated Purchase and Sale Agreement, dated as of January 22, 2010, and the Second Tier Purchase and Sale Agreement, dated as of January 22, 2010)(3)
31.1	Certification by Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification by Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certification by Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*

---

\* Filed herewith

(1) Incorporated by reference to Exhibit 3.1 to the Company's Form 10-Q (File No. 814-00663) for the quarter ended September 30, 2012, filed on November 5, 2012.

(2) Incorporated by reference to Exhibit 3.2 to the Company's Form 10-Q (File No. 814-00663) for the quarter ended June 30, 2010, filed on August 5, 2010.

(3) Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 814-00663), filed on May 15, 2014.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**ARES CAPITAL CORPORATION**

Dated: August 5, 2014

By

/s/ R. Kipp deVeer  
R. Kipp deVeer  
Chief Executive Officer

Dated: August 5, 2014

By

/s/ Penni F. Roll  
Penni F. Roll  
Chief Financial Officer

---