GREUBEL WILLIAM P
Form 4
February 01, 2018

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL
OMB Number: 3235-0287
Expires: January 31, 2005
Estimated average burden hours per response... 0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
GREUBEL WILLIAM P
(Last) (First) (Middle)
A. O. SMITH CORPORATION, 11270 WEST PARK PLACE
(Street)
MILWAUKEE, WI 53224
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
SMITH A O CORP [AOS]

3. Date of Earliest Transaction (Month/Day/Year)
02/01/2018

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	02/01/2018		S		17,856	D	$ 66.5 (1)	0	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
								Date Exercisable	Expiration Date	Title	Amount or Number of Shares		
				Code	V	(A)	(D)						

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
GREUBEL WILLIAM P A. O. SMITH CORPORATION 11270 WEST PARK PLACE MILWAUKEE, WI 53224	X			

Signatures

James F. Stern, Attorney-in-Fact for William P. Greubel	02/01/2018
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The price in Column 4 is a weighted average price. The prices actually received ranged from $66.50 to $66.61. The reporting person has provided to the issuer, and will provide to any security holder of the issuer, or the SEC staff, upon request, information regarding the number of shares sold at each price within the range for all transactions reported on this Form 4 utilizing an average weighted price.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. 12.53 % 12.79 % 11.68 % 11.95% 11.25 % 12.36 %

Weighted Average Yield of Debt and Income Producing Equity Securities at Amortized Cost(7):

11.70 % 11.73 % 11.64 % 11.63% 11.40 % 12.25 %

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(1)

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

(2)

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

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(3)

The information presented for the period June 23, 2004 (inception) through December 31, 2004 includes $140.8 million of the assets purchased from Royal Bank of Canada and excludes $9.7 million of publicly traded fixed income securities.

(4)

The information presented for the period June 23, 2004 (inception) through December 31, 2004 excludes $9.7 million of publicly traded fixed income securities.

(5)

Total return based on market value for the nine months ended September 30, 2009 equals the increase of the ending market value at September 30, 2009 of $11.02 per share over the ending market value at December 31, 2008 of $6.33 per share, plus the declared dividends of $1.12 per share for the nine months ended September 30, 2009, divided by the market value at December 31, 2008. Total return based on market value for the year ended December 31, 2008 equals the decrease of the ending market value at December 31, 2008 of $6.33 per share over the ending market value at December 31, 2007 of $14.63 per share, plus the declared dividends of $1.68 per share for the year ended December 31, 2008, divided by the market value at December 31, 2007. Total return based on market value for the year ended December 31, 2007 equals the decrease of the ending market value at December 31, 2007 of $14.63 per share over the ending market value at December 31, 2006 of $19.11 per share, plus the declared dividends of $1.66 per share for the year ended December 31, 2007, divided by the market value at December 31, 2006. Total return based on market value for the year ended December 31, 2006 equals the increase of the ending market value at December 31, 2006 of $19.11 per share over the ending market value at December 31, 2005 of $16.07 per share, plus the declared dividends of $1.64 per share for the year ended December 31, 2006, divided by the market value at December 31, 2005. Total return based on market value for the year ended December 31, 2005 equals the decrease of the ending market value at December 31, 2005 of $16.07 per share over the ending market value at December 31, 2004 of $19.43 per share, plus the declared dividends of $1.30 per share for the year ended December 31, 2005, divided by the market value at December 31, 2004. Total return based on market value for the period June 23, 2004 (inception) through December 31, 2004 equals the increase of the ending market value at December 31, 2004 of $19.43 per share over the offering price of $15.00 per share, plus the declared dividend of $0.30 per share (includes return of capital of $0.01 per share) for holders of record on December 27, 2004, divided by the offering price. Total return based on market value is not annualized. Ares Capital's shares fluctuate in value. Ares Capital's performance changes over time and currently may be different than that shown. Past performance is no guarantee of future results.

(6)

Total return based on net asset value for the nine months ended September 30, 2009 equals the change in net asset value during the period (adjusted for share issuances) plus the declared dividends of $1.12 per share for the nine months ended September 30, 2009, divided by the beginning net asset value. Total return based on net asset value for the year ended December 31, 2008 equals the change in net asset value during the period (adjusted for share issuances) plus the declared dividends of $1.68 per share for the year ended December 31, 2008, divided by the beginning net asset value. Total return based on net asset value for the year ended December 31, 2007 equals the change in net asset value during the period (adjusted for share issuances) plus the declared dividends of $1.66 per share for the year ended December 31, 2007, divided by the beginning net asset value. Total return based on net asset value for the year ended December 31, 2006 equals the change in net asset value during the period (adjusted for share issuances) plus the declared dividends of $1.64 per share for the year ended December 31, 2006, divided by the beginning net asset value. Total return based on net asset value for the year ended December 31, 2005 equals the change in net asset value during the period (adjusted for share issuances) plus the declared dividends of $1.30 per share for the year ended December 31, 2005, divided by the beginning net asset value. Total return based on net asset value for the period June 23, 2004 (inception) through December 31, 2004 equals the change in net asset value during the period plus the declared dividend of $0.30 per share (includes return of capital of $0.01 per share) for holders of record on December 27, 2004, divided by the beginning net asset value. Total return based on net asset value is not annualized. Ares Capital's performance changes over time and currently may be different than that shown. Past performance is no guarantee of future results.

(7)

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

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

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

	2008			
	Q4	Q3	Q2	Q1
Total Investment Income	$ 62,723	$ 62,067	$ 63,464	$ 52,207
Net investment income before net realized and unrealized gain (losses) and incentive compensation	$ 40,173	$ 41,025	$ 45,076	$ 32,466
Incentive compensation	$ 8,035	$ 8,205	$ 9,015	$ 6,493
Net investment income before net realized and unrealized gain (losses)	$ 32,138	$ 32,820	$ 36,061	$ 25,973
Net realized and unrealized gains (losses)	$ (142,638)	$ (74,213)	$ (32,789)	$ (16,807)
Net increase (decrease) in stockholders' equity resulting from operations	$ (110,500)	$ (41,393)	$ 3,272	$ 9,166
Basic and diluted earnings per common share	$ (1.14)	$ (0.43)	$ 0.04	$ 0.13
Net asset value per share as of the end of the quarter	$ 11.27	$ 12.83	$ 13.67	$ 15.17

	2007			
	Q4	Q3	Q2	Q1
Total Investment Income	$ 53,828	$ 47,931	$ 47,399	$ 39,715
Net investment income before net realized and unrealized gain (losses) and incentive compensation	$ 33,677	$ 29,875	$ 31,220	$ 23,699
Incentive compensation	$ 6,573	$ 5,966	$ 6,229	$ 4,755
Net investment income before net realized and unrealized gain (losses)	$ 27,104	$ 23,909	$ 24,991	$ 18,944
Net realized and unrealized gains (losses)	$ (16,353)	$ (984)	$ 8,576	$ 4,645
Net increase (decrease) in stockholders' equity resulting from operations	$ 10,752	$ 22,924	$ 33,567	$ 23,589
Basic and diluted earnings per common share	$ 0.15	$ 0.32	$ 0.48	$ 0.44
Net asset value per share as of the end of the quarter	$ 15.47	$ 15.74	$ 15.84	$ 15.34

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UNAUDITED SELECTED PRO FORMA CONSOLIDATED FINANCIAL DATA

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

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

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

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

	As of September 30, 2009
Total Assets	$ 3,920,293
Total Debt	$ 1,531,114
Total Stockholders' Equity	$ 2,236,979

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UNAUDITED PRO FORMA PER SHARE DATA

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

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

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

(1) The cash dividends declared per share represent the actual dividends declared per share for the period presented. The pro forma combined dividends declared is the dividends per share as declared by Ares Capital.

(2) The pro forma combined net asset value per share is computed by dividing the pro forma combined net assets as of September 30, 2009 by the pro forma combined number of shares outstanding.

(3) The Allied Capital equivalent pro forma per share amount is calculated by multiplying the combined pro forma share amounts by the common stock exchange ratio of 0.325.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- Ares Capital, Allied Capital or, following the merger and subsequent combination, the combined company's, or their portfolio companies', future business, operations, operating results or prospects;
- the return or impact of current and future investments;
- the impact of a protracted decline in the liquidity of credit markets;
- the impact of fluctuations in interest rates;
- the valuation of investments in portfolio companies, particularly those having no liquid trading market;
- Ares Capital's, Allied Capital's or, following the merger and subsequent combination, the combined company's ability to recover unrealized losses;
- market conditions and Ares Capital's, Allied Capital's or, following the merger and subsequent combination, the combined company's ability to access alternative debt markets and additional debt and equity capital;
- contractual arrangements and relationships with third parties;
- the general economy and its impact on the industries in which Ares Capital, Allied Capital or, following the merger and subsequent combination, the combined company invests;
- the financial condition of and ability of current and prospective portfolio companies to achieve their objectives;
- expected financings and investments;
- the adequacy of cash resources and working capital;
- the timing, form and amount of any dividend distributions;
- the timing of cash flows, if any, from the operations of portfolio companies;
- the ability of Ares Capital's and, following the merger and subsequent combination, the combined company's investment adviser to locate suitable investments and to monitor and administer investments;

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

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

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

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

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

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

The forward-looking statements included in this document have been based on information available to Ares Capital and Allied Capital on the date of this document, as appropriate, and neither Ares Capital nor Allied Capital assumes any obligation to update any such forward-looking statements. Although neither Ares Capital nor Allied Capital undertakes any obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that Ares Capital or Allied Capital may make directly to you or through reports that they have filed or in the future may file with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

The forward-looking statements in this document are excluded from the safe harbor protection provided by Section 27A of the Securities Act and Section 21E of the Exchange Act.

THE SPECIAL MEETING OF ALLIED CAPITAL

Date, Time and Place of the Allied Capital Special Meeting

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

Purpose of the Allied Capital Special Meeting

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

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

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

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

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

Record Date

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

Quorum and Adjournments

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

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

Vote Required

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

Explanation of Responses:

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Merger Proposal

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

Adjournment Proposal

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

Voting of Management

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

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

Voting of Proxies

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

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

Revocability of Proxies

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

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

Solicitation of Proxies

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

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

Dissenters' Rights

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

Principal Accountants of Allied Capital

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

Stockholders Who Hold Their Shares in a Brokerage Account

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

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

THE SPECIAL MEETING OF ARES CAPITAL

Date, Time and Place of the Ares Capital Special Meeting

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

Purpose of the Ares Capital Special Meeting

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

- a proposal to approve the issuance of the shares of Ares Capital common stock to be issued pursuant to the merger agreement; and
- a proposal to approve the adjournment of the Ares Capital special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the Ares Capital special meeting to approve the foregoing proposal.

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

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

Record Date

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

Quorum and Adjournments

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

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

Vote Required

Each share of Ares Capital common stock has one vote.

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Proposal to Issue Shares.

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

Adjournment Proposal.

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

Voting of Management

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

Voting of Proxies

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

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

Revocability of Proxies

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

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

Solicitation of Proxies

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

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

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

Dissenters' Rights

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

Principal Accountants of Ares Capital

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

Stockholders Who Hold Their Shares in a Brokerage Account

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

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UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

See accompanying notes to pro forma condensed consolidated financial statements.

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

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

*

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

See accompanying notes to pro forma condensed consolidated financial statements.

Explanation of Responses:

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

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

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

See accompanying notes to pro forma condensed consolidated financial statements.

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Ares Capital Corporation and Subsidiaries

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

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

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

See accompanying notes to pro forma condensed consolidated financial statements.

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

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

See accompanying notes to pro forma condensed consolidated financial statements.

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

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

See accompanying notes to pro forma condensed consolidated financial statements.

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

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

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

Heartland Dental Care, Inc.	Dental services	Senior subordinated note (14.3%, due 8/13)(2)	32,717	32,717			32,717	32,717
Insight Pharmaceuticals Corporation(4)	OTC drug products manufacturer	Senior subordinated note (15.0%, due 9/12)(2)			54,100	52,098	54,100	52,098
		Common stock (155,000 shares)			40,413	10,419	40,413	10,419
Magnacare Holdings, Inc., Magnacare Administrative Services, LLC, and Magnacare, LLC	Healthcare professional provider	Senior subordinated note (14.8%, due 12/12)(2)	3,241	4,646			3,241	4,646

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Company	Description	Investment	Ares Capital Cost	Ares Capital Fair Value	Allied Capital Cost	Allied Capital Fair Value	Pro Forma Ares Capital Cost	Pro Forma Ares Capital Fair Value
MPBP Holdings, Inc., Cohr Holdings, Inc., and MPBP Acquisition Co., Inc.	Healthcare equipment services	Senior secured loan (due 1/14)	512	489			512	489
		Junior secured loan (6.5%, due 1/14)	32,000	8,000			32,000	8,000
		Common stock (50,000 shares)	5,000				5,000	
MWD Acquisition Sub, Inc.	Dental services	Junior secured loan (6.5%, due 5/12)	5,000	4,350			5,000	4,350
OnCURE Medical Corp.	Radiation oncology care provider	Senior secured loan (3.8%, due 8/09)	3,076	2,707			3,076	2,707
		Senior subordinated note (12.5%, due 8/13)(2)	32,542	29,288			32,542	29,288
		Common stock (857,143 shares)	3,000	3,000			3,000	3,000
Passport Health Communications, Inc., Passport Holding Corp, and Prism Holding Corp.	Healthcare technology provider	Senior secured loan (10.5%, due 5/14)	24,471	23,981			24,471	23,981
		Series A preferred stock (1,594,457 shares)	9,900	9,900			9,900	9,900
		Common stock (16,106 shares)	100	100			100	100
PG Mergersub, Inc.	Provider of patient surveys, management reports and national databases for the integrated healthcare delivery system	Senior subordinated note (12.5%, due 3/16)	3,935	3,920			3,935	3,920
		Preferred stock (333 shares)	333	334			333	334
		Common stock (16,667 shares)	167	167			167	167
Reed Group, Ltd.	Medical disability management services provider	Senior secured loan (6.4%, due 12/13)			11,929	9,530	11,929	9,530
		Senior subordinated loan (15.8%, due 12/13)(2)			19,013	14,924	19,013	14,924
		Common equity			1,800		1,800	
Regency Healthcare Group, LLC(5)	Hospice provider	Preferred member interest			1,302	1,841	1,302	1,841
The Schumacher Group of Delaware, Inc.	Outsourced physician service provider	Senior subordinated note (12.1%, due 7/12)(2)	36,138	36,138			36,138	36,138
Soteria Imaging Services, LLC(5)	Outpatient medical imaging provider	Junior secured loan (11.3%, due 11/10)			4,204	4,154	4,204	4,154
		Preferred member interest			1,881	1,283	1,881	1,283
Triad Laboratory Alliance, LLC	Laboratory services	Senior secured loan (8.5%, due 12/11)	4,116	4,282			4,116	4,282
		Senior subordinated note (13.8%, due 12/12)(2)	15,534	15,068			15,534	15,068
VOTC Acquisition Corp.			17,329	17,329			17,329	17,329

	Radiation oncology care provider	Senior secured loan (13.0%, due 7/12)(2)						
		Series E preferred shares (3,888,222 shares)	8,748	3,800			8,748	3,800
Total			475,316	417,696	145,252	121,085	620,568	538,781

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Company	Description	Investment	Ares Capital Cost	Ares Capital Fair Value	Allied Capital Cost	Allied Capital Fair Value	Pro Forma Ares Capital Cost	Pro Forma Ares Capital Fair Value
Services Other								
3SI Security Systems, Inc.	Cash protection systems provider	Senior subordinated note (16.0%, due 8/13)(3)			20,443	14,865	20,443	14,865
		Subordinated loan (18.0%, due 8/13)(2)(3)			9,030		9,030	
American Residential Services, LLC	Plumbing, heating and air-conditioning services	Junior secured loan (12.0%, due 4/15)(2)	20,505	19,685			20,505	19,685
Avborne, Inc.(4)	Maintenance, repair and overhaul service provider	Preferred stock (12,500 shares)				904		904
		Common stock (27,500 shares)						
Avborne Heavy Maintenance, Inc.(4)	Maintenance, repair and overhaul service provider	Common stock (2,750 shares)						
Aviation Properties Corporation(4)	Aviation services	Common stock (100 shares)			93		93	
Coverall North America, Inc.(4)	Commercial janitorial service provider	Senior secured loan (12.0%, due 7/11)			31,565	31,565	31,565	31,565
		Senior subordinated note (15.0%, due 7/11)(2)			5,553	5,553	5,553	5,553
		Common stock (763,333 shares)			14,362	21,261	14,362	21,261
Diversified Collection Services, Inc.	Collections services	Senior secured loan (9.50%, due 8/11)	12,983	14,714			12,983	14,714
		Senior secured loan (13.8%, due 2/11)	1,931	1,931			1,931	1,931
		Senior secured loan (13.8%, due 8/11)	7,492	7,492			7,492	7,492
		Preferred stock (14,927 shares)	169	264			169	264
		Common stock (592,820 shares)	295	286	734	920	1,029	1,206
Driven Brands, Inc.(5)(6)	Automotive aftermarket service provider	Subordinated notes (15.0%, due 7/15)			42,840	41,538	42,840	41,538
		Subordinated loan (18.0%, due 7/15)(2)			46,637	44,860	46,637	44,860
		Common stock (3,772,098 shares)			9,516	2,500	9,516	2,500
Freedom Financial Network, LLC	Debt relief consulting services	Senior subordinated note (13.5%, due 2/14)			5,953	6,000	5,953	6,000
GCA Services Group, Inc.	Custodial services	Senior secured loan (12.0%, due 12/11)	37,788	37,889			37,788	37,889
Growing Family, Inc. and GFH Holdings, LLC	Photography services	Senior secured revolving loan (10.5%, due 8/11)(2)(3)	1,513	454			1,513	454
		Senior secured loan (13.0%, due 8/11)(2)(3)	11,188	3,356			11,188	3,356
		Senior secured loan (11.3%, due 8/11)(3)	372	111			372	111

		Senior secured loan (15.5%, due 8/11)(2)(3)	3,722	1,117	3,722	1,117
		Common stock (552,430 shares)	872		872	
NPA Acquisition, LLC	Powersport vehicle auction operator	Junior secured loan (7.0%, due 2/13)	12,000	12,000	12,000	12,000
		Common units (1,709 shares)	1,000	2,300	1,000	2,300

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Company	Description	Investment	Ares Capital Cost	Ares Capital Fair Value	Allied Capital Cost	Allied Capital Fair Value	Pro Forma Ares Capital Cost	Pro Forma Ares Capital Fair Value
Tradesmen International, Inc.	Construction labor support	Junior secured loan (12.0%, due 12/12)			39,793	18,347	39,793	18,347
Trover Solutions, Inc.	Healthcare collections services	Junior subordinated loan (12.0%, due 11/12)(2)			56,510	52,568	56,510	52,568
United Road Towing, Inc.	Towing company	Junior secured loan (11.8%, due 1/14)			18,988	18,792	18,988	18,792
Web Services Company, LLC	Laundry service and equipment provider	Senior secured loan (5.3%, due 8/14)	4,582	4,802			4,582	4,802
		Senior subordinated loan (14.0%, due 8/16)(2)	43,743	41,556			43,743	41,556
Total			160,155	147,957	302,017	259,673	462,172	407,630
Consumer Products Non-Durable								
Augusta Sportswear Group, Inc.(6)	Team apparel manufacturer	Common stock (2,500 shares)			2,500	1,523	2,500	1,523
Bushnell, Inc.	Sports optics manufacturer	Junior secured loan (6.8%, due 2/14)			40,161	30,204	40,161	30,204
CR Holding, Inc.(4)(6)	Cleaning products manufacturer	Senior subordinated note (16.6%, due 2/13)(2)(3)			40,510	10,271	40,510	10,271
		Common stock (32,090,696 shares)			28,744		28,744	
Gilchrist & Soames, Inc.	Personal care manufacturer	Senior subordinated loan (13.4%, due 10/13)			25,186	23,101	25,186	23,101
The Homax Group, Inc.(6)	Home improvement products manufacturer	Senior secured loan (6.2%, due 10/12)(2)			9,997	9,059	9,997	9,059
		Senior secured revolver (8.0% due 10/12)(2)			75	109	75	109
		Senior subordinated note (14.5%, due 4/14)(2)			13,619	4,945	13,619	4,945
		Preferred stock (76 shares)			76		76	
		Common stock (24 shares)			5		5	
		Warrants			954		954	
Innovative Brands, LLC	Consumer products and personal care manufacturer	Senior secured loan (15.5%, due 9/11)	17,421	17,421			17,421	17,421
Making Memories Wholesale, Inc.(4)	Scrapbooking branded products manufacturer	Senior secured loan (10.0%, due 8/14)	7,869	9,875			7,869	9,875
		Senior secured loan (15.0%, due 8/14)(2)	4,070	3,025			4,070	3,025
		Common stock (100 shares)						
Progressive International Corporation(5)(6)	Kitchenware manufacturer	Preferred stock (500 shares)			500	5,847	500	5,847
		Common stock (197 shares)			13	153	13	153
		Warrants						

Shoes for Crews, LLC	Safety footwear and slip-related mat manufacturer	Senior secured loan (5.5%, due 7/10)	304	302			304	302
The Step2 Company, LLC	Toy manufacturer	Senior secured loan (11.0%, due 4/12)(2)			94,396	89,550	94,396	89,550
		Equity interests			2,156	1,528	2,156	1,528

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Company	Description	Investment	Ares Capital Cost	Ares Capital Fair Value	Allied Capital Cost	Allied Capital Fair Value	Pro Forma Ares Capital Cost	Pro Forma Ares Capital Fair Value
The Thymes, LLC(4)	Cosmetic products manufacturer	Preferred stock (8.0%, 6,283 shares)(2)	6,283	5,654			6,283	5,654
		Common stock (5,400 shares)						
Wear Me Apparel, LLC(5)(6)	Clothing manufacturer	Senior subordinated note (17.5%, due 4/13)(2)(3)	24,110	18,083	127,316	71,345	151,426	89,428
		Subordinated note (9.0%, due 4/14)(3)			11,243		11,243	
		Common stock (10,086 shares)	10,000		39,549		49,549	
Woodstream Corporation(6)	Pest control, wildlife caring and control products manufacturer	Senior subordinated note (12.0%, due 2/15)			89,678	74,221	89,678	74,221
		Common stock (6,960 shares)			6,961	2,000	6,961	2,000
Total			70,057	54,360	533,639	323,856	603,696	378,216
Restaurants and Food Services								
ADF Capital, Inc. and ADF Restaurant Group, LLC	Restaurant owner and operator	Senior secured revolving loan (6.5%, due 11/13)	3,418	3,418			3,418	3,418
		Senior secured loan (12.5%, due 11/12)(2)	34,691	34,684			34,691	34,684
		Promissory note (12.0%, due 11/16)(2)	13,093	13,795			13,093	13,795
		Warrants to purchase 0.61 shares		4,370				4,370
Encanto Restaurants, Inc.	Restaurant owner and operator	Junior secured loan (11.0%, due 8/13)(2)	25,438	24,166			25,438	24,166
Hot Light Brands, Inc.(4)	Restaurant owner and operator	Senior secured loan (9.0%, due 2/11)(3)			30,572	10,471	30,572	10,471
		Common stock (93,500 shares)			5,151		5,151	
Hot Stuff Foods, LLC(4)	Convenience food service retailer	Senior secured loan (3.7%, due 2/11)			610	610	610	610
		Senior secured loan (3.7%, due 2/12)			44,700	44,807	44,700	44,807
		Junior secured loan (7.2% due 8/12)(3)			31,237	34,900	31,237	34,900
		Senior subordinated note (15.0%, due 2/13)(2)(3)			31,401	14,901	31,401	14,901
		Subordinated note (16.0%, due 2/13)(2)(3)			20,749		20,749	
		Common stock (1,147,453 shares)			56,187		56,187	
Huddle House, Inc.(4)	Restaurant owner and operator	Senior subordinated note (15.0%, due 12/15)(2)			19,494	19,494	19,494	19,494
		Common stock (358,428 shares)			36,348	7,651	36,348	7,651
OTG Management, Inc.	Airport restaurant operator	Junior secured loan (20.5%, due 6/13)(2)	15,884	15,884			15,884	15,884
		Warrants to purchase 89,000 shares		750				750
S.B. Restaurant Company					38,184	33,606	38,184	33,606

Restaurant owner and operator	Senior secured loan (9.8%, due 4/11)		
	Preferred stock (46,690 shares)	117	117
	Warrants	534	534

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Vistar Corporation and Wellspring Distribution Corporation	Food service distributor	Senior subordinated note (13.5%, due 5/15)	73,625	69,944			73,625	69,944
		Class A non-voting common stock (1,366,120 shares)	7,500	3,253			7,500	3,253
Total			173,649	170,264	315,284	166,440	488,933	336,704
Beverage, Food and Tobacco								
3091779 Nova Scotia Inc.	Baked goods manufacturer	Junior secured loan (14.0%, due 11/12)(2)	15,047	11,278			15,047	11,278
		Senior secured revolving loan (8.0%, due 11/12)	6,757	7,127			6,757	7,127
		Warrants to purchase 57,545 shares						
Apple & Eve, LLC and US Juice Partners, LLC(5)	Juice manufacturer	Senior secured loan (14.5%, due 10/13)	36,086	35,726			36,086	35,726
		Senior units (50,000 units)	5,000	3,500			5,000	3,500
Best Brands Corporation	Baked goods manufacturer	Senior secured loan (7.5%, due 12/12)(2)	10,966	13,135			10,966	13,135
		Senior secured loan (7.5%, due 6/13)(2)	7,462	8,759			7,462	8,759
		Junior secured loan (16.0%, due 6/13)(2)	48,397	49,036			48,397	49,036
Border Foods, Inc.(4)	Green chile and jalapeno products manufacturer	Senior secured loan (12.9%, due 3/12)			29,495	34,876	29,495	34,876
		Preferred stock (100,000 shares)			12,721	16,585	12,721	16,585
		Common stock (260,467 shares)			3,847		3,847	
Bumble Bee Foods, LLC and BB Co-Invest LP	Canned seafood manufacturer	Senior subordinated loan (16.3%, due 11/18)(2)	30,756	30,756			30,756	30,756
		Common stock (4,000 shares)	4,000	5,700			4,000	5,700
Charter Baking Company, Inc.	Baked goods manufacturer	Senior subordinated note (13.0%, due 2/13)(2)	5,874	5,874			5,874	5,874
		Preferred stock (6,258 shares)	2,500	1,725			2,500	1,725
Distant Lands Trading Co.	Coffee manufacturer	Senior secured revolving loan (6.3%, due 11/11)			6,781	6,358	6,781	6,358
		Senior secured loan (11.0%, due 11/11)			43,499	41,967	43,499	41,967
		Common stock (3,451 shares)			3,451	1,147	3,451	1,147
Farley's & Sathers Candy Company, Inc.(6)	Confections manufacturer	Junior secured loan (8.3%, due 3/11)			2,496	2,492	2,496	2,492
Ideal Snacks Corporation	Snacks manufacturer	Senior secured loan (8.5%, due 6/11)			1,084	1,068	1,084	1,068
Total			172,845	172,616	103,374	104,493	276,219	277,109
Education								

Campus Management Corp. and Campus Management Acquisition Corp.(5)	Education software developer	Senior secured loan (16.0%, due 8/13)(2)	33,774	33,774	33,774	33,774
		Senior secured loan (13.0%, due 8/13)(2)	9,028	9,028	9,028	9,028
		Preferred stock (8.0%, 493,147 shares)(2)	8,952	12,800	8,952	12,800

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Company	Description	Investment	Ares Capital Cost	Ares Capital Fair Value	Allied Capital Cost	Allied Capital Fair Value	Pro Forma Ares Capital Cost	Pro Forma Ares Capital Fair Value
Community Education Centers, Inc.	Offender re-entry and in-prison treatment services provider	Senior subordinated loan (19.5%, due 11/13)(2)			36,602	36,501	36,602	36,501
eInstruction Corporation	Developer, manufacturer and retailer of educational products	Junior secured loan (7.8%, due 7/14)			16,938	15,471	16,938	15,471
		Subordinated loan (16.0%, due 1/15)(2)			19,013	17,237	19,013	17,237
		Common stock (2,406 shares)			2,500	750	2,500	750
ELC Acquisition Corporation	Developer, manufacturer and retailer of educational products	Senior secured loan (3.5%, due 11/12)	162	154			162	154
		Junior secured loan (7.3%, due 11/13)	8,333	7,917			8,333	7,917
Instituto de Banca y Comercio, Inc. Leeds IV Advisors, Inc.	Private school operator	Senior secured revolving loan (6.5%, due 3/14)	1,232	1,232			1,232	1,232
		Senior secured loan (8.5%, due 3/14)	11,730	11,730			11,730	11,730
		Senior subordinated loan (16.0%, due 6/14)(2)	30,644	30,644			30,644	30,644
		Preferred stock (306,388 shares)	1,456	3,479			1,456	3,479
		Common stock (354,863 shares)	89	4,029			89	4,029
Lakeland Finance, LLC	Private school operator	Senior secured note (11.5%, due 12/12)	33,000	33,000			33,000	33,000
R3 Education, Inc.(5)	Medical school operator	Senior secured revolving loan (6.3%, due 12/12)	1,186	1,162			1,186	1,162
		Senior secured loan (6.3%, due 12/12)	21,388	20,960			21,388	20,960
		Member interest	15,800	17,185			15,800	17,185
		Preferred stock (8,800 shares)	2,200	2,200			2,200	2,200
Total			178,974	189,294	75,053	69,959	254,027	259,253
Manufacturing								
Arrow Group Industries, Inc.	Residential and outdoor shed manufacturer	Senior secured loan (5.3%, due 4/10)	5,653	5,223			5,653	5,223
Broadcast Electronics, Inc.(6)	Radio manufacturer	Senior secured loan (8.8%, due 11/11)(2)(3)			4,847	340	4,847	340
		Preferred stock (2,044 shares)						
Component Hardware Group, Inc.	Commercial equipment manufacturer	Senior subordinated note (13.5%, due 1/13)(2)			18,876	16,587	18,876	16,587
Emerald Performance Materials, LLC	Polymers and performance materials	Senior secured loan (8.3%, due 5/11)	9,554	9,172			9,554	9,172

manufacturer							
	Senior secured loan (8.5%, due 5/11)	156	150			156	150
	Senior secured loan (10.0%, due 5/11)	1,604	1,508			1,604	1,508
	Senior secured loan (16.0%, due 5/11)(2)	4,900	4,704			4,900	4,704

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Company	Description	Investment	Ares Capital Cost	Ares Capital Fair Value	Allied Capital Cost	Allied Capital Fair Value	Pro Forma Ares Capital Cost	Pro Forma Ares Capital Fair Value
Jakel, Inc.(4)	Electric motor manufacturer	Senior subordinated loan (15.5%, due 3/08)(2)(3)			748	374	748	374
NetShape Technologies, Inc.	Metal precision engineered components manufacturer	Senior secured loan (4.0%, due 2/13)			875	368	875	368
Penn Detroit Diesel Allison, LLC(4)	Diesel engine manufacturer	Member interest			20,081	13,870	20,081	13,870
Postle Aluminum Company, LLC(5)	Aluminum distribution provider	Senior secured loan (6.0%, due 10/12)(2)(3)			34,876	15,308	34,876	15,308
		Senior subordinated loan (3.0%, due 10/12)(2)(3)			23,868		23,868	
		Member interest			2,174		2,174	
Qualitor, Inc.	Automotive aftermarket components supplier	Senior secured loan (6.0%, due 12/11)	1,743	1,656			1,743	1,656
		Junior secured loan (9.0%, due 6/12)	5,000	4,750			5,000	4,750
Reflexite Corporation(4)	Developer and manufacturer of high-visibility reflective products	Senior subordinated loan (18.0%, due 2/15)(2)	16,557	16,557			16,557	16,557
		Common stock (1,821,860 shares)	27,435	24,898			27,435	24,898
Saw Mill PCG Partners LLC	Precision components manufacturer	Common units (1,000 units)	1,000				1,000	
Service Champ, Inc.(4)(6)	Automotive aftermarket components supplier	Senior subordinated loan (15.5%, due 4/12)(2)			27,515	27,515	27,515	27,515
		Common stock (55,112 shares)			11,785	28,321	11,785	28,321
Stag-Parkway, Inc.(4)	Automotive aftermarket components supplier	Junior subordinated loan (10.0%, due 7/12)			19,000	19,000	19,000	19,000
		Common stock (25,000 shares)			32,686	7,359	32,686	7,359
STS Operating, Inc.	Hydraulic systems equipment and supplies provider	Senior subordinated note (11.0%, due 1/13)			30,313	27,305	30,313	27,305
Tappan Wire & Cable Inc.	Specialty wire and cable manufacturer	Senior secured loan (15.0%, due 8/14)(3)			22,248	4,515	22,248	4,515
		Common stock (12,940 shares)			2,043		2,043	
		Warrant						
TransAmerican Auto Parts, LLC	Automotive aftermarket parts retailer and supplier	Senior subordinated note (18.3%, due 11/12)(2)(3)			24,409		24,409	

		Preferred member interest			923		923	
		Common member interest			110		110	
Universal Trailer Corporation(5)	Livestock and specialty trailer manufacturer	Common stock (74,920 shares)	7,930				7,930	
Total			81,532	68,618	277,377	160,862	358,909	229,480

See accompanying notes to pro forma condensed consolidated financial statements.

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Company	Description	Investment	Ares Capital Cost	Ares Capital Fair Value	Allied Capital Cost	Allied Capital Fair Value	Pro Forma Ares Capital Cost	Pro Forma Ares Capital Fair Value
Retail								
Apogee Retail, LLC	For-profit thrift retailer	Senior secured loan (5.5%, due 3/12)	4,840	4,356			4,840	4,356
		Senior secured loan (16.0%, due 11/12)(2)	11,296	11,296			11,296	11,296
		Senior secured loan (5.5%, due 3/12)	38,438	34,595			38,438	34,595
Dufry AG	Retail newsstand operator	Common stock (39,056 shares)	3,000	2,200			3,000	2,200
Savers, Inc. and SAI Acquisition Corp.	For-profit thrift retailer	Senior subordinated note (12.0%, due 8/14)(2)	28,280	27,715			28,280	27,715
		Common stock (1,170,182 shares)	4,500	5,840			4,500	5,840
Things Remembered, Inc. and TRM Holdings Corporation	Personalized gift retailer	Senior secured loan (6.5%, due 9/12)(2)	40,211	28,148			40,211	28,148
		Preferred stock (800 shares)	200				200	
		Common stock (80 shares)	1,800				1,800	
		Warrants to purchase 858 common shares						
		Warrants to purchase 73 preferred shares						
Total			132,565	114,150			132,565	114,150
Consumer Products Durable								
Carlisle Wide Plank Floors, Inc.	Hardwood floor manufacturer	Senior secured loan (12.0%, due 6/11)			1,637	1,533	1,637	1,533
		Common stock (345,056 shares)			345		345	
Direct Buy Holdings, Inc. and Direct Buy Investors, LP(5)	Membership based buying club franchisor and operator	Senior secured loan (6.8%, due 11/12)	2,199	1,710			2,199	1,710
		Senior subordinated note (16.0%, due 5/13)(2)			76,139	60,287	76,139	60,287
		Limited partnership interest			8,000		8,000	
		Limited partnership interest	10,000	2,500			10,000	2,500
Havco Wood Products LLC	Laminated oak and fiber-reinforced composite flooring manufacturer for trailers	Member interest			910		910	
Total			12,199	4,210	87,031	61,820	99,230	66,030
Computers and Electronics								
Network Hardware Resale, Inc.	Networking equipment resale provider	Senior secured loan (12.8%, due 12/11)(2)			16,382	16,330	16,382	16,330
		Convertible subordinated loan (9.8%, due 12/15)(2)			16,000	16,000	16,000	16,000
RedPrairie Corporation	Software manufacturer	Junior secured loan (7.0%, due 1/13)	15,300	14,535			15,300	14,535

TZ Merger Sub, Inc.	Computers and electronics	Senior secured loan (7.5%, due 7/15)	4,726	4,830			4,726	4,830
X-rite, Incorporated	Artwork software manufacturer	Junior secured loan (14.4%, due 7/13)	10,906	10,906			10,906	10,906
Total			30,932	30,271	32,382	32,330	63,314	62,601

See accompanying notes to pro forma condensed consolidated financial statements.

Explanation of Responses:

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			Ares Capital		Allied Capital		Pro Forma Ares Capital	
Company	**Description**	**Investment**	**Cost**	**Fair Value**	**Cost**	**Fair Value**	**Cost**	**Fair Value**
Printing, Publishing and Media								
Canon Communications LLC	Print publications services	Junior secured loan (13.8%, due 11/11)(2)	24,032	20,435			24,032	20,435
Courtside Acquisition Corp.	Community newspaper publisher	Senior subordinated loan (17.0%, due 6/14)(2)(3)	34,295				34,295	
EarthColor, Inc.	Printing management services	Subordinated note (15.0%, due 11/13)(2)(3)			123,385		123,385	
		Common stock (63,438 shares)			63,438		63,438	
		Warrants						
LVCG Holdings LLC(4)	Commercial printer	Member interest	6,600	1,980			6,600	1,980
National Print Group, Inc.	Printing management services	Senior secured revolving loan (9.0%, due 3/12)	1,826	1,114			1,826	1,114
		Senior secured revolving loan (8.3%, due 3/12)	272	166			272	166
		Senior secured loan (16.0%, due 3/12)(2)	8,016	4,928			8,016	4,928
		Preferred stock (9,344 shares)	2,000				2,000	
The Teaching Company, LLC and The Teaching Company Holdings, Inc.	Education publications	Senior secured loan (10.5%, due 9/12)	28,000	28,000			28,000	28,000
		Preferred stock (29,969 shares)	2,997	3,873			2,997	3,873
		Common stock (15,393 shares)	3	4			3	4
Total			108,041	60,500	186,823		294,864	60,500
Aerospace & Defense								
AP Global Holdings, Inc.	Safety and security equipment manufacturer	Senior secured loan (4.8%, due 10/13)	7,671	7,110			7,671	7,110
ILC Industries, Inc.	Industrial products provider	Junior secured loan (11.5%, due 8/12)	12,000	12,000			12,000	12,000
Thermal Solutions LLC and TSI Group, Inc.	Thermal management and electronics packaging manufacturer	Senior secured loan (4.0%, due 3/11)	572	549			572	549
		Senior secured loan (4.5%, due 3/12)	2,740	2,494			2,740	2,494
		Senior subordinated notes (14.0%, due 3/13)(2)	2,730	2,593			2,730	2,593
		Senior subordinated notes (14.3%, due 9/12)(2)	5,544	5,267			5,544	5,267
		Preferred stock (71,552 shares)	716	716			716	716
		Common stock (1,460,246 shares)	15	15			15	15
Wyle Laboratories, Inc. and Wyle Holdings, Inc.	Provider of specialized engineering, scientific and	Junior secured loan (15.0%, due 7/14)	28,000	28,000			28,000	28,000

technical services					
	Junior preferred stock (10.0%, 14,655 shares)(2)	1,816	1,455	1,816	1,455
	Senior preferred stock (8.0%, 775 shares)(2)	96	77	96	77
	Common stock (151,439)	188	148	188	148
Total		62,088	60,424	62,088	60,424

See accompanying notes to pro forma condensed consolidated financial statements.

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Company	Description	Investment	Ares Capital Cost	Ares Capital Fair Value	Allied Capital Cost	Allied Capital Fair Value	Pro Forma Ares Capital Cost	Pro Forma Ares Capital Fair Value
Telecommunications								
American Broadband Communications, LLC and American Broadband Holding Co.	Broadband communication services	Senior subordinated loan (18.0%, due 11/14)(2)	42,584	42,584			42,584	42,584
		Warrants to purchase 170 shares						
Startec Equity, LLC(4)	Communication services	Member interest			211		211	
Total Telecommunications			42,584	42,584	211		42,795	42,584
Oil and Gas								
Geotrace Technologies, Inc.	Reservoir processing, development services, and data management services	Warrants			2,027	2,300	2,027	2,300
IAT Equity, LLC and Affiliates d/b/a Industrial Air Tool(4)	Industrial products distributor	Senior subordinated note (9.0%, due 6/14)			6,000	6,000	6,000	6,000
		Member interest			7,500	9,948	7,500	9,948
UL Holding Co., LLC	Petroleum product manufacturer	Senior secured loan (9.3%, due 12/12)	10,945	10,726			10,945	10,726
		Senior secured loan (14.0%, due 12/12)	6,965	6,825			6,965	6,825
		Senior secured loan (9.4%, due 12/12)	2,985	2,925			2,985	2,925
		Common units (100,000 units)	500	500			500	500
Total			21,395	20,976	15,527	18,248	36,922	39,224
Environmental Services								
AWTP, LLC	Water treatment services	Junior secured loan (11.5%, due 12/12)(3)	13,682	6,841			13,682	6,841
Mactec, Inc.	Engineering and environmental services	Class B-4 stock (16 shares)						
		Class C stock (5,556 shares)		150				150
Oahu Waste Services, Inc.	Waste management services	Stock appreciation rights			206	406	206	406
Sigma International Group, Inc.	Water treatment parts manufacturer	Junior secured loan (15.0%, due 10/13)	17,500	12,250			17,500	12,250
Universal Environmental Services, LLC(5)	Hydrocarbon recycling and related waste management services and products	Preferred member interest			1,599		1,599	
Waste Pro USA, Inc.			12,263	13,263			12,263	13,263

	Waste management services	Class A common stock (611,614.80 shares)						
Wastequip, Inc.(5)	Waste management equipment manufacturer	Senior subordinated loan (12.0%, due 2/15)(2)	13,030	3,936			13,030	3,936
		Common stock (13,889 shares)	1,389				1,389	
Total			57,864	36,440	1,805	406	59,669	36,846

See accompanying notes to pro forma condensed consolidated financial statements.

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			Ares Capital		Allied Capital		Pro Forma Ares Capital	
Company	**Description**	**Investment**	**Cost**	**Fair Value**	**Cost**	**Fair Value**	**Cost**	**Fair Value**
Cargo Transport								
The Kenan Advantage Group, Inc.	Fuel transportation provider	Senior subordinated note (13.0%, due 12/13)(2)	25,899	25,381			25,899	25,381
		Senior secured loan (3.0%, due 12/11)	2,407	2,238			2,407	2,238
		Preferred stock (10,984 shares)	1,098	1,459			1,098	1,459
		Common stock (30,575 shares)	31	41			31	41
Total			29,435	29,119			29,435	29,119
Health Clubs								
Athletic Club Holdings, Inc.	Premier health club operator	Senior secured loan (4.8%, due 10/13)	26,741	23,532			26,741	23,532
		Senior secured loan (7.8%, due 10/13)	4	4			4	4
		Senior secured loan (6.8%, due 10/13)	5	4			5	4
Total			26,750	23,540			26,750	23,540
Buildings and Real Estate								
10th Street, LLC(5)	Document storage and management services	Senior subordinated note (13.0%, due 11/14)(2)			22,004	22,100	22,004	22,100
		Member interest			422	485	422	485
		Option			25	25	25	25
Total					22,451	22,610	22,451	22,610
Containers Packaging								
Industrial Container Services, LLC(5)	Industrial container manufacturer reconditioner and servicer	Senior secured loan (4.3%, due 9/11)	14,104	13,400			14,104	13,400
		Common stock (1,800,000 shares)	1,800	8,550			1,800	8,550
Total			15,904	21,950			15,904	21,950
Grocery								
Planet Organic Health Corp.	Organic grocery store operator	Junior secured loan (13.0%, due 7/14)	11,099	10,554			11,099	10,554
		Senior subordinated loan (17.0%, due 7/12)(2)	12,288	9,873			12,288	9,873
Total			23,387	20,427			23,387	20,427
Hotels, Motels, Inns & Gaming								
Crescent Equity Corporation(4)	Hospitality management services	Senior secured loan (10.0%, due 6/10)			433	433	433	433
					2,106		2,106	

	Subordinated notes (11.0%, due 9/11)(3)				
	Subordinated notes (11.0%, due 1/12)(3)	7,189	997	7,189	997
	Subordinated notes (11.0%, due 9/12)(3)	10,769	1,464	10,769	1,464
	Subordinated notes (11.0%, due 6/17)(3)	12,048	1,742	12,048	1,742
	Common stock (174 shares)	82,730		82,730	
Total		115,275	4,636	115,275	4,636

See accompanying notes to pro forma condensed consolidated financial statements.

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Company	Description	Investment	Ares Capital Cost	Ares Capital Fair Value	Allied Capital Cost	Allied Capital Fair Value	Pro Forma Ares Capital Cost	Pro Forma Ares Capital Fair Value
Housing Building Materials								
HB&G Building Products	Synthetic and wood product manufacturer	Senior subordinated loan (19.0%, due 3/11)(2)(3)	8,984	448			8,984	448
		Common stock (2,743 shares)	753				753	
		Warrants to purchase 4,464 shares	653				653	
Total			10,390	448			10,390	448
Commercial Real Estate Finance								
Commercial Mortgage Loans	3 loans	Up to 6.99%			32,143	31,006	32,143	31,006
	2 loans	7.00% - 8.99%			1,876	1,864	1,876	1,864
	1 loan	9.00% - 10.99%			6,476	6,476	6,476	6,476
	1 loan	11.00% - 12.99%			10,479	6,319	10,479	6,319
	2 loans	15.00% and above			3,970	4,848	3,970	4,848
Real Estate Owned					5,937	6,179	5,937	6,179
Real Estate Equity Interests					13,185	11,831	13,185	11,831
Total					74,066	68,523	74,066	68,523
Other								
Other Companies		Other debt investments			(151)	(151)	(151)	(151)
		Other equity investments			41	8	41	8
Total					(110)	(143)	(110)	(143)
Pro Forma Adjustments:								
Actual Sales of Allied Capital Investments subsequent to September 30, 2009(6)					(703,373)	(504,630)	(703,373)	(504,630)
Estimated Purchase Price Allocation Adjustment(1)								(258,326)
Total Investments			$2,245,137	$1,967,724	$3,564,961	$2,006,564	$5,810,098	$3,715,962

(1) Upon consumation of the merger and in accordance with ASC 805-10 (previously SFAS No. 141(r)), *Business Combinations*, Ares Capital will be required to allocate the purchase price of Allied Capital's assets based on Ares Capital's estimate of fair value and record such fair value as the cost basis and initial fair value of each such investment in Ares Capital's financial statements. In this regard, Ares Capital's management determined that the aggregate adjustment to Allied Capital's investments approximates $258.3 million. As a result, such adjustment has been reflected in a single line item entitled "Estimated Purchase Price Allocation Adjustment." However, a final determination of the fair value of Allied Capital's investments will be made after the merger is completed and, as a result, the actual amount of this adjustment may vary from the preliminary amount set forth herein. Thus, the information set forth in the columns reflect historical amounts and have not been individually adjusted to reflect the Estimated Purchase Price Allocation Adjustment.

(2) Has a payment-in-kind (PIK) interest feature.

(3)

Loan is on non-accrual status at September 30, 2009.

(4)

As defined in the Investment Company Act, the combined company "Controls" this portfolio company because it owns 25% or more of its outstanding voting securities and/or the combined company has the power to exercise control over the management or policies of the portfolio company.

(5)

As defined in the Investment Company Act, the combined company is an "Affiliated Person" to this portfolio company because it owns 5% or more of its outstanding voting securities and/or the combined company has the power to exercise control over the management or policies of the portfolio company (including through a management agreement).

(6)

Allied Capital's investment was fully or partially sold subsequent to September 30, 2009. Total net realized losses on these sales were $190 million and the related reversal of net unrealized depreciation was $199 million. Allied Capital's $165 million investment in the Senior Secured Loan Fund LLC (formerly known as the Unitranche Fund LLC), or the "SL Fund," was sold to Ares Capital subsequent to September 30, 2009. Additionally, a portion of Allied Capital's investment in Woodstream Corporation was sold to Ares Capital and portions of Allied Capital's investments in Service Champ, Inc. and Driven Brands Inc. were sold to Ares Capital and Ivy Hill Middle Market Credit Fund, Ltd., or "Ivy Hill I," subsequent to September 30, 2009. Allied Capital's $33 million investment in the Allied Capital Senior Debt Fund, L.P., or the "SD Fund," was sold to IHAM, a portfolio company of Ares Capital, subsequent to September 30, 2009. The SD Fund is now referred to as "Ivy Hill SDF."

See accompanying notes to pro forma condensed consolidated financial statements.

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Ares Capital Corporation and Subsidiaries
Notes to Pro Forma Condensed Consolidated Financial Statements
Unaudited
(In thousands, except share and per share data unless otherwise stated)

1. BASIS OF PRO FORMA PRESENTATION

The unaudited pro forma condensed consolidated financial information related to the merger is included as of and for the nine months ended September 30, 2009 and for the year ended December 31, 2008. On October 26, 2009, Ares Capital and Allied Capital entered into the merger agreement. For the purposes of the pro forma condensed consolidated financial statements, the purchase price is currently estimated at approximately $724 million, which is based upon a price of $12.42 per share (last closing price as of February 1, 2010) of Ares Capital common stock and an implied value per share of Allied Capital common stock of $4.04. The pro forma adjustments included herein reflect the conversion of Allied Capital common stock into Ares Capital common stock using an exchange ratio of 0.325 of a share of Ares Capital common stock for each of the approximately 179.4 million shares of Allied Capital common stock outstanding as of September 30, 2009.

The merger will be accounted for as an acquisition of Allied Capital by Ares Capital in accordance with the acquisition method of accounting as detailed in ASC 805-10 (previously SFAS No. 141(R)), *Business Combinations*. The acquisition method of accounting requires an acquirer to recognize the assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree based on their fair values as of the date of acquisition. As described in more detail in ASC 805-10, goodwill, if any, will be recognized as of the acquisition date, for the excess of the consideration transferred over the fair value of identifiable net assets acquired. If the total acquisition date fair value of the identifiable net assets acquired exceeds the fair value of the consideration transferred, the excess will be recognized as a gain. In connection with the merger and subsequent combination, the estimated fair value of the net assets to be acquired is currently anticipated to exceed the purchase price, and based on Ares Capital's preliminary purchase price allocation, a gain of approximately $307 million is currently expected to be recorded by Ares Capital in the period the merger and subsequent combination are completed.

Under the Investment Company Act rules, the regulations pursuant to Article 6 of Regulation S-X and the American Institute of Certified Public Accountants' Audit and Accounting Guide for Investment Companies, Ares Capital is precluded from consolidating any entity other than another investment company or an operating company that provides substantially all of its services and benefits to Ares Capital. Ares Capital's financial statements include its accounts and the accounts of all its consolidated subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

In determining the value of the assets to be acquired, Ares Capital uses ASC 820-10 (previously SFAS No. 157), *Fair Value Measurements*, which expands the application of fair value accounting. ASC 820-10 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosure of fair value measurements. ASC 820-10 determines fair value to be the price that would be received for an investment in a current sale, which assumes an orderly transaction between market participants on the measurement date. ASC 820-10 requires Ares Capital to assume that the portfolio investment is sold in a principal market to market participants, or in the absence of a principal market, the most advantageous market, which may be a hypothetical market. Market participants are defined as buyers and sellers in the principal or most advantageous market that are independent, knowledgeable, and willing and able to transact. In accordance with ASC 820-10, Ares Capital has considered its principal market as the market in which Ares Capital exits its portfolio investments with the greatest volume and level of activity. ASC 820-10 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques

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are observable or unobservable. In accordance with ASC 820-10, these inputs are summarized in the three broad levels listed below:

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

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

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

In addition to using the above inputs in investment valuations, Ares Capital continues to employ the relevant provisions of its valuation policy, which policy is consistent with ASC 820-10. Consistent with Ares Capital's valuation policy, the source of inputs, including any markets in which Ares Capital's investments are trading (or any markets in which securities with similar attributes are trading), are evaluated in determining fair value. Ares Capital's valuation policy considers the fact that because there is not a readily available market value for most of the investments in Ares Capital's portfolio, the fair value of its investments must typically be determined using unobservable inputs.

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

The following table presents fair value measurements of investments for the pro forma combined company as of September 30, 2009:

	Fair Value Measurements Using			
	Total	**Level 1**	**Level 2**	**Level 3**
Investments	$ 3,715,962	$	$ 27,904	$ 3,688,058

The following tables present changes in investments that use Level 3 inputs between the actual September 30, 2009 amounts and those presented for the pro forma combined company as of September 30, 2009:

	Ares Capital	**Allied Capital**	**Pro Forma Adjustments**	**Pro Forma Ares Capital Combined**
Actual balance as of September 30, 2009	$ 1,939,820	$ 2,511,194	$	$ 4,451,014
Estimated purchase price allocation adjustment			(258,326)	(258,326)
Actual sales of Allied Capital investments subsequent to September 30, 2009		(504,630)		(504,630)
Net transfers in and/or out of Level 3				
Pro Forma Balance as of September 30, 2009	$ 1,939,820	$ 2,006,564	$ (258,326)	$ 3,688,058

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As of September 30, 2009, the net unrealized loss on the investments that use Level 3 inputs for the pro forma combined company was $1.6 billion.

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

Certain other transactions that affect the purchase price that occurred subsequent to September 30, 2009 have been adjusted for in the unaudited pro forma condensed consolidated balance sheet. These primarily include sales of investments and receivables of $523 million for Allied Capital as well as the related paydown of $260.7 million of debt of Allied Capital.

The unaudited pro forma condensed consolidated financial information includes preliminary estimated purchase price allocation adjustments to record the assets and liabilities of Allied Capital at their respective estimated fair values and represents Ares Capital's management's estimates based on available information. The pro forma adjustments included herein may be revised as additional information becomes available and as additional analyses are performed. The final allocation of the purchase price will be determined after the merger and subsequent combination are completed and after completion of a final analysis to determine the estimated fair values of Allied Capital's assets and liabilities. Accordingly, the final purchase accounting adjustments and integration charges may be materially different from the pro forma adjustments presented in this document. Increases or decreases in the estimated fair values of the net assets, commitments, and other items of Allied Capital as compared to the information shown in this document may change the amount of the purchase price allocated to goodwill or recognized as income in accordance with ASC 805-10.

Ares Capital has elected to be treated as a RIC under subchapter M of the Code and operates in a manner so as to qualify for the tax treatment applicable to RICs. In order to qualify as a RIC, among other things, Ares Capital is required to timely distribute to its stockholders generally at least 90% of its investment company taxable income, as defined by the Code, for each year. The unaudited pro forma condensed consolidated financial information reflects that Ares Capital has made and intends to continue to make the requisite distributions to its stockholders, which will generally relieve Ares Capital from U.S. federal income taxes.

The unaudited pro forma condensed consolidated financial information presented in this document is for illustrative purposes only and does not necessarily indicate the results of operations or the combined financial position that would have resulted had the merger and subsequent combination been completed at the beginning of the applicable period presented, nor the impact of expense efficiencies, asset dispositions, share repurchases and other factors. The unaudited pro forma condensed consolidated financial information is not indicative of the results of operations in future periods or the future financial position of the combined company.

2. PRELIMINARY PURCHASE ACCOUNTING ALLOCATIONS

The unaudited pro forma condensed consolidated financial information for the merger and subsequent combination includes the unaudited pro forma condensed consolidated balance sheet as of September 30, 2009 assuming the merger and subsequent combination were completed on September 30, 2009. The unaudited pro forma condensed consolidated income statements for the nine months ended September 30, 2009 and for the year ended December 31, 2008 were prepared assuming the merger and subsequent combination were completed on January 1, 2008.

The unaudited pro forma condensed consolidated financial information reflects the issuance of approximately 58.3 million shares of Ares Capital common stock in connection with the merger but does not reflect (1) the issuance of 21 million shares of common stock on February 1, 2010 (or the issuance of an additional approximately 2 million shares of common stock on February 10, 2010 to cover the underwriters' exercise of the over-allotment option) pursuant to Ares Capital's public add-on

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equity offering, or the "February Add-on Offering," or (2) Ares Capital's dividend paid and the distribution of shares in connection with its dividend reinvestment plan on December 31, 2009. The February Add-on Offering was completed at a price of $12.75 per share less an underwriting discount totaling approximately $0.6375 per share. Total proceeds received from the February Add-on Offering, net of underwriters' discount and offering costs, were approximately $277 million. The Pro Forma Ares Capital Combined net assets per share as of September 30, 2009 would have been $13.18 if the February Add-on Offering were reflected.

The merger and subsequent combination will be accounted for using the purchase method of accounting; accordingly, Ares Capital's cost to acquire Allied Capital will be allocated to the assets and liabilities of Allied Capital at their respective fair values estimated by Ares Capital as of the acquisition date. The amount of the total acquisition date fair value of the identifiable net assets acquired that exceeds the total purchase price, if any, will be recognized as a gain. Accordingly, the pro forma purchase price has been allocated to the assets acquired and the liabilities assumed based on Ares Capital's currently estimated fair values as summarized in the following table:

Common stock issued	$	723,994
Payment of "in-the-money" Allied Capital stock options		30,340(1)
Total purchase price	$	754,334
Assets acquired:		
Investments	$	1,748,238
Cash and cash equivalents		30,341
Other assets		123,239
Total assets acquired		1,901,818
Debt and other liabilities assumed		(840,824)
Net assets acquired		1,060,994
Gain on acquisition of Allied Capital		(306,660)
	$	754,334

(1) Holders of any "in-the-money" Allied Capital stock options have the right to either receive cash or stock. For the purposes of the pro forma condensed consolidated financial statements, it is assumed that the options will be paid in cash. The amount does not include the effect of options for 588,336 shares of Allied Capital common stock that have been exercised since September 30, 2009.

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3. PRELIMINARY PRO FORMA ADJUSTMENTS

The preliminary pro forma purchase accounting allocation included in the unaudited pro forma condensed consolidated financial information is as follows:

A.

To reflect Allied Capital's September 30, 2009 balance sheet, updated for estimated changes subsequent to September 30, 2009:

	Allied Capital Actual September 30, 2009	Pro Forma Adjustments(1)	Adjusted Allied Capital September 30, 2009
Investments	$ 2,511,194	$ (504,630)	$ 2,006,564
Cash and cash equivalents	153,416	269,477	422,893
Other assets	175,606	(24,204)	151,402
Total assets	$ 2,840,216	$ (259,357)	$ 2,580,859
Debt	$ 1,593,867	$ (248,404)	1,345,463
Other liabilities	45,084		45,084
Total liabilities	1,638,951	(248,404)	1,390,547
Net assets	1,201,265	(10,953)	1,190,312
Total liabilities and net assets	$ 2,840,216	$ (259,357)	$ 2,580,859

(1)

Primarily the result of sales of certain investments and receivables for Allied Capital subsequent to September 30, 2009 and the use of a portion of the proceeds by Allied Capital to repay outstanding borrowings. Included within the $504.6 million of sales of investments is the sale of the investment in the SL Fund, on October 30, 2009, from Allied Capital to Ares Capital for approximately $165 million. Additionally, a portion of Allied Capital's investment in Woodstream Corporation was sold to Ares Capital and portions of Allied Capital's investments in Service Champ, Inc. and Driven Brands Inc. were sold to Ares Capital and Ivy Hill I subsequent to September 30, 2009. Also included is the sale of Allied Capital's investment in the SD Fund to IHAM, a portfolio company of Ares Capital, on December 29, 2009 for approximately $33 million.

B.

To reflect the acquisition of Allied Capital by the issuance of approximately 58.3 million shares of Ares Capital common stock. Below reflects the allocation of the purchase price on the basis of

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Ares Capital's current estimate of the fair value of assets to be acquired and liabilities to be assumed:

Components of purchase price:

	Adjusted Allied Capital September 30, 2009	Pro Forma Adjustments	Pro Forma
Common stock issued	$ 723,994	$	$ 723,994
Payment of "in-the-money" Allied Capital stock options(4)	30,340		30,340
Total purchase price	$ 754,334		$ 754,334
Assets acquired:			
Investments	$ 2,006,564	$ (258,326)(1)	$ 1,748,238
Cash and cash equivalents	422,893	(392,552)(2)(3)	30,341
Other assets	151,402	(28,163)(1)	123,239
Total assets acquired	2,580,859	(679,041)	1,901,818
Debt and other liabilities assumed	(1,390,547)	549,723(1)(2)(3)	(840,824)
Net assets acquired	1,190,312	(129,318)(1)(2)	1,060,994
Gain on acquisition of Allied Capital	(435,978)	129,318	(306,660)
Total	$ 754,334	$	$ 754,334

(1) Primarily to reflect the allocation of purchase price to Allied Capital's assets and liabilities based on Ares Capital's current estimates of fair value. There is no single approach for determining fair value in good faith. As a result, determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment while employing a consistently applied valuation process. See "Management's Discussion and Analysis of Financial Condition and Results of Allied Capital Results of Operations." There were also adjustments made of $225.9 million and $28.0 million to Allied Capital's debt and other assets, respectively, to mark them to fair value. Allied Capital's debt is currently carried at amortized cost. The adjustment to other assets was primarily an adjustment to Allied Capital's capitalized debt costs, which are included in other assets and are also currently carried at amortized cost.

(2) In addition to the net effect of the fair value adjustments to Allied Capital's assets and liabilities, the net assets of Allied Capital were decreased for various transaction costs expected to be incurred by Allied Capital related to the merger of approximately $49.7 million, including $32.5 million of other liabilities expected to be paid within the 12 months following the merger.

(3) Excess available cash of $375.3 million from the Allied Capital transaction is assumed to be used to paydown certain outstanding Allied Capital debt, which net of original issue discount recorded on the debt will reduce debt by $356.3 million.

(4)

Holders of any "in-the-money" Allied Capital stock options have the right to either receive cash or stock. For the purposes of the pro forma condensed consolidated financial statements it is assumed that the options will be paid in cash. The amount does not include the effect of options for 588,336 shares of Allied Capital common stock that have been exercised since September 30, 2009.

C.

The net assets of the pro forma combined company were decreased for various transaction costs expected to be incurred by Ares Capital related to the merger of approximately $16.3 million as

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well as the assumed cash payment of $30 million of the "in-the-money" Allied Capital stock options.

D.

The purchase price of certain investments in debt securities being acquired from Allied Capital is estimated by Ares Capital to be less than the expected recovery value of such investments. In accordance with GAAP, subsequent to the effective time, Ares Capital will record the accretion to the expected recovery value in interest income over the remaining term of the investment. Interest income has not been adjusted to reflect the accretion to the expected recovery value for the periods presented. The accretion for the first 12 months after the effective time is estimated to be approximately $30 million. However, there can be no assurance that such accretion will be more or less than such estimate.

E.

The fair value of the outstanding debt assumed from Allied Capital is estimated by Ares Capital to be below the face amount of such debt. In accordance with GAAP, subsequent to the effective time, Ares Capital will record accretion to the face amount in interest expense over the remaining term of the debt. Interest expense has not been adjusted to reflect the accretion to the face value for the periods presented. The accretion for the first 12 months after the effective time is estimated to be approximately $57 million. However, there can be no assurance that such accretion will be more or less than such estimate.

F.

Base management fees were computed based on 1.5% of average total assets other than cash and cash equivalents but including assets purchased with borrowed funds per Ares Capital's investment advisory and management agreement with Ares Capital Management.

G.

Incentive management fees were recomputed based on the formula in Ares Capital's investment advisory and management agreement with Ares Capital Management.

H.

Adjustments to other expenses were made to reflect compensation costs for Allied Capital's employees that would have been covered by the base management fees paid to Ares Capital Management and therefore not incurred by Ares Capital. Additionally, all stock option costs were excluded as such costs would not exist at Ares Capital as there is no stock option plan maintained by Ares Capital. Payments of stock option costs to employees would have been similarly incurred by Ares Capital in the form of incentive management fees paid to Ares Capital Management. Lastly, any actual costs incurred related to the merger and subsequent combination, primarily various transaction costs, were also excluded.

I.

Total shares outstanding as of September 30, 2009 have been adjusted to reflect the following:

Ares Capital shares outstanding as of September 30, 2009	109,592,728
Estimated shares issued in connection with the merger reflected as outstanding for the periods presented	58,292,577
Ares Capital adjusted shares outstanding as of September 30, 2009	167,885,305*

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*

Does not reflect 22,957,993 shares issued in the February Add-on Offering.

Weighted average shares for the nine months ended September 30, 2009 and the year ended December 31, 2008 have been adjusted to reflect the following:

	For the Nine Months Ended September 30, 2009	For the Year Ended December 31, 2008
Ares Capital weighted average shares outstanding	99,066,652	89,666,243
Estimated shares issued in connection with the merger reflected as outstanding for the periods presented	58,292,577	58,292,577
Ares Capital adjusted weighted average shares outstanding	157,359,229	147,958,820

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CAPITALIZATION

The following table sets forth (1) Ares Capital's and Allied Capital's actual capitalization at September 30, 2009 and (2) Ares Capital's capitalization as adjusted to reflect the effects of the merger. You should read this table together with Ares Capital's and Allied Capital's balance sheets and the pro forma financial information included elsewhere in this document.

	As of September 30, 2009 (unaudited, dollar amounts in thousands except per share data)		
	Actual Ares Capital	Actual Allied Capital	As Adjusted for the Merger
Cash and cash equivalents	$ 61,469(1)	$ 62,737	$ 45,204
Debt			
Total Debt	$ 767,871	$ 1,593,867	$ 1,531,113
Stockholders' Equity			
Ares Capital Common stock, par value $.001 per share, 200,000,000 common shares authorized, 109,592,728 common shares issued and outstanding, actual; 300,000,000 common shares authorized, 167,885,305 common shares issued and outstanding, as adjusted(1); Allied Capital common stock, $0.0001 par value, 400,000,000 shares authorized; 179,361,775 shares issued and outstanding(2)	$ 110	$ 18	$ 168
Capital in excess of par value	1,505,031	3,037,718	2,519,361
Accumulated undistributed net investment loss	(2,436)		(2,436)
Accumulated net realized gain (loss) on investments, foreign currency transactions and extinguishment of debt	(2,397)	47,826	(2,397)
Notes receivable from sale of common stock		(680)	
Net unrealized loss on investments and foreign currency transactions	(277,717)	(1,883,617)	(277,717)
Total stockholders' equity	1,222,591	1,201,265	2,236,979
Total capitalization	$ 1,990,462	$ 2,795,132	$ 3,768,092

(1) Does not include the effects of the February Add-on Offering or Ares Capital's dividend paid and the distribution of shares in connection with its dividend reinvestment plan on December 31, 2009. The February Add-on Offering was completed at a price of $12.75 per share less an underwriting discount totaling approximately $0.6375 per share. Total proceeds received from the February Add-on Offering, net of underwriters' discount and offering costs, were approximately $277 million.

(2) This amount does not include the effect of options for 588,336 shares of Allied Capital common stock that have been exercised since September 30, 2009.

THE MERGER

The discussion in this document, which includes the material terms of the merger and the principal terms of the merger agreement, is subject to, and is qualified in its entirety by reference to, the merger agreement, a copy of which is attached as Annex A to this document and is incorporated herein by reference in its entirety.

General Description of the Merger

Pursuant to the merger agreement, at the effective time, Merger Sub will merge with and into Allied Capital, with Allied Capital as the surviving entity in such merger, and Merger Sub will cease to exist as a separate corporation following such merger. Immediately thereafter, in the combination, Allied Capital will merge with and into Ares Capital, with Ares Capital as the surviving entity in such merger, and Allied Capital will cease to exist as a separate corporation following such merger.

In the merger, each outstanding share of Allied Capital common stock outstanding immediately prior to the effective time will be converted into the right to receive 0.325 shares of common stock of Ares Capital, subject to the payment of cash instead of fractional shares of Ares Capital common stock.

Except in certain limited circumstances described below under "Description of the Merger Agreement," the exchange ratio will not be adjusted, including for any dividends declared by Ares Capital.

If the subsequent combination is consummated, all the assets and liabilities of Allied Capital and Merger Sub immediately before the merger will become, directly or indirectly, the assets and liabilities of Ares Capital, as the surviving entity, immediately after the subsequent combination, and Allied Capital's subsidiaries will become subsidiaries of Ares Capital after the subsequent combination.

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

Background of the Merger

Allied Capital's management and Allied Capital's board of directors regularly review and consider potential strategic options for Allied Capital in light of its performance, its business needs and the challenges and opportunities presented by the economic and industry environment. As part of this process, members of Allied Capital's management have met informally from time to time with management of other financial institutions and business development companies, or BDCs, regarding industry trends and strategic considerations.

During 2008, the United States and global economies experienced a severe economic recession. A series of unexpected and unprecedented events occurred in rapid succession in the financial services industry that caused uncertainty and stress in the financial markets. These events included the acquisition of Bear Stearns by JPMorgan Chase & Co., the conservatorship of Fannie Mae and Freddie Mac, the bankruptcy of Lehman Brothers Holdings, the acquisition of Merrill Lynch by Bank of America and growing concerns about the viability of American International Group, or "AIG," which later culminated in a transaction in which the Federal Reserve acquired most of AIG's equity. Major financial indices declined precipitously, worldwide credit availability became scarce and financial institutions generally became capital and liquidity constrained and struggled to restructure their businesses.

During this period, Allied Capital experienced a lack of access to the equity capital markets. Beginning in June 2008, Allied Capital's common stock began trading at a price below the net asset value per share of its common stock. Because the Investment Company Act prohibits a BDC from selling shares of its common stock at a price below its net asset value per share without the approval of its stockholders, Allied Capital was unable to conduct an offering of its common stock off its effective shelf registration statement. Although Allied Capital sought stockholder approval to issue shares of its common stock below net asset value per share at its 2008 annual meeting of stockholders, Allied Capital was unable to obtain stockholder approval, despite multiple adjournments to try to obtain the required vote. As a result, Allied Capital has not been able to access the equity capital markets since June 2008.

In the summer of 2008, Allied Capital began to explore a variety of strategic alternatives, including continuing its existing business on a stand-alone basis with its existing structure, converting to an operating company, agreeing to a large investment by a strategic investor or entering into a business combination with a financial services firm. These strategic alternatives were presented to Allied Capital's board of directors and Allied Capital's board of directors determined not to pursue any of them due to certain structural and financing issues.

During the second half of 2008, many BDCs began experiencing significant fluctuations in the fair value of their portfolio company investments and a related decline in their net asset values, causing several BDCs to encounter challenges maintaining their asset coverage thresholds under the covenants set forth in their borrowing arrangements as well as the asset coverage threshold required by the Investment Company Act. As a result, many in the BDC industry were forced to reduce or eliminate dividend payments, which led to a significant decline in the market price of a majority of BDCs.

Beginning in the second half of 2008, Allied Capital experienced a significant reduction in its net worth primarily resulting from net unrealized depreciation on its portfolio, which reflected then existing market conditions and performance of certain portfolio companies. At the time, like many other financial firms, Allied Capital's business focus changed from growing its portfolio to harvesting capital from its portfolio to repay its indebtedness and de-lever its balance sheet. As a result, its investing activities were sharply reduced. In addition to the effect on investment origination activity during this period, Allied Capital also consolidated its investment execution activities to its Washington, DC headquarters and its office in New York City in an effort to improve operating efficiencies, reducing its headcount by approximately 50 employees.

At a board meeting held on October 23, 2008, Allied Capital's management informed Allied Capital's board of directors that management had been approached by another financial services firm, or "Company X," regarding a potential business combination. Allied Capital's board of directors discussed the merits of such a business combination and authorized management to continue to pursue the opportunity. Allied Capital's board of directors hired Sullivan & Cromwell LLP to advise the board of directors on its duties and responsibilities in connection with the potential business combination. Allied Capital's board of directors received financial advice from BofA Merrill Lynch and assistance with due diligence from its various advisors in connection with the potential business combination. Allied Capital and Company X each conducted diligence on each other and began negotiating the terms of a merger agreement. On October 24, 2008 and November 4, 2008, Allied Capital's board of directors met to discuss the potential business combination. On November 8, 2008, Allied Capital and Company X determined not to proceed with the transaction.

Following the discontinuation of merger discussions with Company X, Allied Capital experienced increases in its net unrealized depreciation related to the fair value of its portfolio investments, which led to a sharp decline in its net asset value. This in turn caused Allied Capital to be at risk of not complying with certain financial covenants included in its private notes and its bank facility. As a result of an anticipated reduction in its net worth, on December 30, 2008, Allied Capital entered into amendments relating to its private notes and its bank facility.

Subsequent to these amendments, Allied Capital determined that its asset coverage ratio as of December 31, 2008 would be less than the 200% required under its bank facility and its private notes.

This, in turn, triggered events of default under these instruments and, in early 2009, Allied Capital re-opened discussions with its bank facility lenders and private noteholders to seek relief under certain terms of both its bank facility and its private notes. Allied Capital also engaged a financial advisor in connection with the restructuring of Allied Capital's debt.

The existence of events of default under its bank facility and its private notes restricted Allied Capital from borrowing or obtaining letters of credit under its bank facility and from making dividends or other distributions to its stockholders. In addition, pursuant to the Investment Company Act, Allied Capital was not permitted to issue indebtedness unless immediately after such issuance it had asset coverage of all outstanding indebtedness of at least 200%. Allied Capital's asset coverage ratio has been below 200% since December 31, 2008.

As a result of the events of default under both its bank facility and its private notes, Allied Capital disclosed in its annual report on Form 10-K for the year ended December 31, 2008 (which was filed with the SEC on March 2, 2009) that there was substantial doubt with respect to its ability to continue as a going concern. Specifically, as noted by Allied Capital's independent registered public accounting firm, these events of default provided the respective lenders and noteholders the right to declare immediately due and payable unpaid amounts approximating $1.1 billion at December 31, 2008. Because Allied Capital did not have available cash resources to satisfy all of the obligations under its bank facility and its private notes if the lenders and the noteholders accelerated these obligations, Allied Capital's independent registered public accounting firm believed these factors raised substantial doubt about Allied Capital's ability to continue as a going concern.

Allied Capital continued to pursue a comprehensive restructuring of its private notes and bank facility and focused on reducing costs and streamlining its organization; building liquidity through selected asset sales; retaining capital by limiting new investment activity and suspending dividend payments; and working with portfolio companies to help them position for growth when the economy recovered.

During this period, Allied Capital again began to explore strategic alternatives, including continuing its existing business on a stand-alone basis with its existing structure, converting to an operating company, agreeing to a large investment by a strategic investor or entering into a business combination with a financial services firm.

In early 2009, Ares Capital was evaluating several candidates for a potential business combination. In March 2009, Ares Capital made an unsolicited oral inquiry to Allied Capital seeking to assess whether Allied Capital would be interested in engaging in a variety of potential transactions (including a business combination) with Ares Capital.

On April 1, 2009, Ares Capital followed up on its initial inquiry by requesting an in-person meeting with representatives of management of Allied Capital.

At a meeting of Ares Capital's board of directors on April 3, 2009, representatives of Ares Capital's management updated Ares Capital's board of directors about two candidates for a potential business combination, one of which was Allied Capital.

On April 13, 2009, representatives of Ares Capital's management and a member of its board of directors had an introductory meeting in person with representatives of Allied Capital's management some of whom are also members of its board of directors.

On May 4, 2009, Ares Capital's board of directors held its annual meeting where, among other things, representatives of management provided it with an update of certain potential strategic transactions, including a potential transaction with Allied Capital.

In June 2009, Ares Capital engaged J.P. Morgan as a financial advisor in connection with the potential transaction.

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On July 1, 2009, Ares Capital and Allied Capital entered into a confidentiality agreement and representatives of Ares Capital's management and a member of its board of directors met in person and telephonically with representatives of Allied Capital's management, some of whom are also members of its board of directors. In early July, Allied Capital and Ares Capital began conducting formal due diligence on each other.

On July 24, 2009, at a meeting of Allied Capital's board of directors, BofA Merrill Lynch made a presentation to Allied Capital's board of directors regarding an analysis of the strategic alternatives available to Allied Capital, including a business combination with Ares Capital. Allied Capital's board of directors discussed the risks and the potential benefits of such a business combination, including comparing those risks and potential benefits against Allied Capital's prospects as a stand-alone business.

During the meeting, representatives of management discussed the impact of the current market conditions on Allied Capital and its inability to access the capital markets and obtain additional liquidity. Allied Capital's board of directors discussed in detail other ways in which the current market conditions had an impact on Allied Capital's business, including management's projections, origination activity, cost of borrowings, level of expenses, ability to pay dividends and potential for future growth. After discussing at length with representatives of management Allied Capital's business and the potential business combination with Ares Capital, Allied Capital's board of directors determined that it was in the best interests of Allied Capital and its stockholders to explore the possibility of a potential business combination with Ares Capital. In making such determination, Allied Capital's board of directors also authorized management to continue to explore other strategic alternatives discussed with Allied Capital's board of directors.

After receiving the authorization of Allied Capital's board of directors to explore the possibility of a potential business combination with Ares Capital, Allied Capital created and populated an electronic data room to facilitate due diligence activities and obtained access to Ares Capital's electronic data room, which was populated by Ares Capital after receiving a similar authorization from Ares Capital's board of directors.

On July 25, 2009, Allied Capital and Ares Capital began conducting additional due diligence with respect to each other after electronic data rooms had been created and populated. Ares Capital's investment adviser's investment committee continued its review of Allied Capital's material investments. At this time, BofA Merrill Lynch began providing financial analyses to representatives of Allied Capital's management and board of directors in connection with the potential business combination with Ares Capital.

Throughout July and August 2009, representatives of Allied Capital's management also continued to provide regular updates to its board regarding the finalization and documentation of a comprehensive debt restructuring following the agreement in principle reached with its lenders and private noteholders in July 2009.

On July 27, 2009, Allied Capital's board of directors met to discuss the potential business combination with Ares Capital and the exclusivity period requested by Ares Capital. During this meeting, Allied Capital's board of directors formally engaged Sullivan & Cromwell to act as its legal counsel in connection with the potential business combination. Sullivan & Cromwell discussed the duration of the exclusivity period proposed by Ares Capital and Allied Capital's management's desire for a shorter exclusivity period. Allied Capital's board of directors discussed the duration of the exclusivity period and Sullivan & Cromwell explained to Allied Capital's board of directors its duties and obligations under Maryland law. Allied Capital also engaged Sutherland Asbill & Brennan LLP in connection with a possible transaction. Sutherland has represented Ares Capital on unrelated matters from time to time.

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At this meeting, Allied Capital's board of directors approved an exclusivity period expiring on August 10, 2009, instead of the August 17, 2009 date proposed by Ares Capital. At this meeting, Allied Capital's board of directors also discussed obtaining a fairness opinion from an independent financial advisor other than BofA Merrill Lynch due to BofA Merrill Lynch's role as a lender to both Allied Capital and Ares Capital. Representatives of Allied Capital's management also provided Allied Capital's board of directors with an update on its ongoing due diligence of Ares Capital and its discussions with Ares Capital and its legal advisors regarding the structure of the transaction.

On July 28, 2009, Ares Capital's board of directors met with representatives of management, Ares Capital Management, Proskauer Rose LLP, Venable LLP, Willkie Farr & Gallagher LLP and J.P. Morgan to discuss the potential business combination with Allied Capital. Ares Capital's board reviewed presentations prepared by management and by J.P. Morgan, and was advised by Venable of directors' duties under Maryland law in their consideration of the proposed transactions and other matters of Maryland law. During this meeting, Ares Capital's board formally determined that it was advisable to further explore a transaction with Allied Capital and formally engaged Proskauer as corporate counsel, Venable as Maryland counsel and Willkie as special regulatory counsel to Ares Capital in connection with the proposed transaction. Ares Capital's board also approved and ratified the engagement of J.P. Morgan as financial advisor to Ares Capital for the transaction and approved the execution of an exclusivity agreement whereby Allied Capital would agree to an exclusivity period through August 10, 2009.

On July 31, 2009, Allied Capital's board of directors met again to discuss the status of the potential business combination with Ares Capital. Representatives of Allied Capital's management provided Allied Capital's board of directors with an update on its ongoing due diligence of Ares Capital and its discussions with Ares Capital and its legal advisors regarding the structure of the transaction. Representatives of Allied Capital's management also informed Allied Capital's board of directors that Allied Capital entered into an exclusivity agreement with Ares Capital on July 30, 2009 with an exclusivity period continuing until August 10, 2009. At this time Allied Capital's board of directors delegated authority for Allied Capital to formally engage financial advisors and negotiate the fees to be paid to the financial advisors to a special committee of Allied Capital's board of directors, or the "Allied Capital Investment Bank Committee."

Thereafter, the Allied Capital Investment Bank Committee approved the selection of both BofA Merrill Lynch and Sandler O'Neill to act as its financial advisors in connection with the potential business combination with Ares Capital.

On July 31, 2009 and August 1, 2009, representatives of Allied Capital's management met in person with the management team of Ares Capital and representatives of Ares Capital Management to conduct additional due diligence and to discuss operational and administrative considerations associated with a combined entity.

On August 2, 2009 Ares Capital and Proskauer presented the first draft of a merger agreement to Allied Capital and its legal counsel and Allied Capital and its legal counsel responded with comments on the terms that day.

On August 3, 2009, Ares Capital's board of directors held its regular quarterly meeting where, among other things, representatives of management provided it with an update of the potential transaction with Allied Capital.

On August 4, 2009, Allied Capital and its legal counsel sent a revised draft of the merger agreement to Ares Capital and its legal counsel. Allied Capital and Ares Capital and their respective legal counsel began negotiating the terms of the merger agreement on August 5, 2009.

On August 5, 2009, representatives of Ares Capital's management and a member of its board of directors met with representatives of Allied Capital's management who are also members of its board of directors to discuss open issues on the merger agreement.

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On August 5, 2009, Allied Capital's board of directors met again to discuss the status of the potential business combination with Ares Capital and certain related legal, financial, business and regulatory matters. At this meeting, representatives of Allied Capital's management and Allied Capital's board of directors' legal and financial advisors updated Allied Capital's board of directors on the status of discussions with Ares Capital regarding the structure of the transaction, the terms of the merger agreement and certain ongoing diligence matters. Sullivan & Cromwell again discussed the legal framework for Allied Capital's board of directors' consideration of the potential business combination with Ares Capital under Maryland law, including the duties and responsibilities of the directors.

Sutherland discussed the legal considerations relevant to the potential business combination as a result of Allied Capital's status as a BDC regulated under the Investment Company Act. BofA Merrill Lynch discussed its preliminary analyses of the combined company and provided an overview of the business due diligence conducted to date on Ares Capital. Sutherland then provided Allied Capital's board of directors with an overview of the legal due diligence conducted to date on Ares Capital. Following the presentations, Allied Capital's board of directors unanimously directed management and Allied Capital's board of directors' legal and financial advisors to continue moving forward in an effort to arrive at a negotiated transaction.

On August 6, 2009, representatives of Ares Capital's management, a member of its board of directors and its legal and financial advisors met in person with representatives of Allied Capital's management who are also members of its board of directors and Allied Capital's board of directors' legal and financial advisors.

On August 7, 2009, representatives of Ares Capital's management and a member of its board of directors met with representatives of Allied Capital's management, some of whom are also members of Allied Capital's board of directors.

On August 7, 2009, Ares Capital's board of directors met with representatives of management, Ares Capital Management and Ares Capital's legal and financial advisors in a special meeting where management advised the board that after conducting significant due diligence and making progress on the merger agreement, the parties had determined not to proceed with a transaction largely due to the lack of clarity at that time surrounding the specific terms of Allied Capital's pending restructuring of its private notes and Ares Capital's view of Allied Capital's stock price.

On August 7, 2009, Allied Capital's board of directors met again to discuss the status of the potential business combination with Ares Capital. Representatives of Allied Capital's management informed the board of directors that, after conducting significant due diligence and making progress with respect to the negotiation of the merger agreement, Allied Capital and Ares Capital determined not to proceed with the transaction. However, Allied Capital's board of directors discussed the merits of having an independent member of Allied Capital's board of directors meet with representatives of Allied Capital's private noteholders along with a representative from Ares Capital to assess the impact of any potential business combination on the terms of the restructuring.

On August 11, 2009, an independent member of Allied Capital's board of directors and two representatives from Ares Capital met with the legal and financial advisors to Allied Capital's private noteholders. Ivy Hill Middle Market Credit Fund II, Ltd., or "Ivy Hill II," an unconsolidated debt fund managed by a wholly owned portfolio company of Ares Capital, held at the time approximately $38.5 million in aggregate principal amount of such private notes and approximately $10 million in aggregate principal amount of Allied Capital's public notes. Negotiations on a proposed transaction with Ares Capital did not recommence after this meeting and Allied Capital continued to focus on completing the restructuring of its private notes and bank facility independent of any potential business combination with Ares Capital.

On August 28, 2009, Allied Capital completed a comprehensive restructuring of its private notes and its bank facility. In connection with such restructuring, Allied Capital granted the holders of its private notes and the lenders of its bank facility a pari-passu blanket lien on a substantial portion of its assets, including a substantial portion of the assets of Allied Capital's consolidated subsidiaries. The financial covenants applicable to its private notes and the bank facility were modified as part of such restructuring. The private notes and bank facility impose certain limitations on Allied Capital's ability to incur additional indebtedness, including precluding Allied Capital from incurring additional indebtedness unless its asset coverage of all outstanding indebtedness is at least 200%. Allied Capital incurred various closing fees and other transaction expenses of approximately $146 million to restructure its private notes and its bank facility. In addition, Allied Capital incurred advisory and other fees of approximately $26 million in connection with the restructuring. The restructuring significantly increased Allied Capital's cost of capital. As a result, Allied Capital expected that its profitability would be substantially reduced and it would not be able to pay a cash dividend for an extended period of time. The increased costs would cause Allied Capital to continue to sell assets to generate liquidity to de-lever and to further reduce operating costs.

Representatives of Allied Capital's management and board of directors continued reviewing various scenarios to further de-lever the balance sheet, to reduce the cost of capital and to prepare for future potential growth. Beginning in September, representatives of Allied Capital's management received several calls from representatives of Ares Capital's management to revisit its interest in a potential business combination with Allied Capital. Also during this time, Allied Capital considered the sale of its asset management business and initiated efforts to further reduce administrative expenses by further reducing headcount.

Allied Capital determined that, in connection with its efforts to de-lever its balance sheet, it would request bids for its asset management platform, whether in a series of separate transactions or in one single transaction, including Allied Capital's interest in the SL Fund, including its outstanding rights and obligations to provide management services with respect to the SL Fund, the SD Fund, Knightsbridge CLO 2007-1 Limited and Knightsbridge CLO 2008-1 Limited, or the "Knightsbridge Funds," and Emporia Preferred Funding I, Ltd., Emporia Preferred Funding II, Ltd. and Emporia Preferred Funding III, Ltd., or the "Emporia Funds." Allied Capital requested bids from a variety of market participants, including Ares Capital. Ares Capital submitted a bid and, on September 11, 2009, Allied Capital and Ares Capital entered into a non-binding letter of intent for Ares Capital to purchase Allied Capital's interests in the SL Fund, the SD Fund, the Knightsbridge Funds and the Emporia Funds.

On September 18, 2009, Ares Capital's board of directors met with representatives of management, Ares Capital Management, Proskauer and J.P. Morgan in a special meeting where, among other things, representatives of management advised the board of the possibility of again pursuing a transaction with Allied Capital.

Following this meeting, J.P. Morgan contacted BofA Merrill Lynch about initiating discussions concerning the price of a potential business combination between Allied Capital and Ares Capital. At Ares Capital's request, on September 30, 2009, representatives of Allied Capital's management who are also members of Allied Capital's board of directors and representatives of Ares Capital's management and board of directors attended a dinner meeting to discuss Ares Capital's interest in pursuing a potential business combination with Allied Capital following the successful restructuring of Allied Capital's debt agreements. At the conclusion of the dinner, the representatives of Allied Capital requested that Ares Capital provide the general terms on which Ares Capital would pursue a business combination with Allied Capital to present to and discuss with Allied Capital's board of directors.

On October 1, 2009, Ares Capital delivered a non-binding letter to Allied Capital in which Ares Capital outlined certain terms of a potential business combination between the two companies. The

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letter outlined certain aspects regarding a potential business combination between Allied Capital and Ares Capital, including the following:

1. *Consideration* Ares Capital proposed that Allied Capital's stockholders would receive 0.30 shares of Ares Capital common stock for each share of Allied Capital common stock owned by Allied Capital's stockholders. The letter indicated that this consideration would allow Allied Capital's stockholders to own approximately 33% of the combined company.

2. *Capital structure* Ares Capital noted that it had significant balance sheet strength and flexibility, as well as demonstrated access to both the private and public capital markets. Ares Capital indicated that it anticipated it would have sufficient liquidity to de-lever the combined company's balance sheet at closing. In addition, Ares Capital informed Allied Capital that it had received indications from its lenders that they would provide additional credit to Ares Capital in support of a potential business combination with Allied Capital.

3. *Fee waiver* Ares Capital indicated that Ares Capital Management had expressed a willingness, if deemed necessary, to waive (subject to regulatory requirements) a portion of its management and/or incentive fee for a period of time following the closing of the business combination in order to help ensure consistent cash flow for the combined company and to support the maintenance of Ares Capital's current dividend level.

4. *Management and governance* Ares Capital's existing external management structure would continue in place in connection with any possible business combination. Ares Capital also indicated it was prepared to discuss with its board of directors expanding the size of Ares Capital's board of directors by one seat and submitting the name of a current member of Allied Capital's board of directors as a proposed nominee to fill the vacancy. The letter also stated that any change in control payments which certain of Allied Capital's officers were entitled to receive pursuant to employment agreements or retention agreements between Allied Capital and these officers would be discussed.

5. *Timing and process* Ares Capital indicated that it was prepared to move quickly to finalize a business combination. Given the extensive business and legal due diligence undertaken earlier in the year, Ares Capital expected to be in a position to complete its due diligence and negotiate a mutually acceptable merger agreement within one week.

Following receipt of this letter, representatives of Allied Capital's management began analyzing such terms from a financial point of view.

On October 6, 2009, Allied Capital's board of directors met to discuss the new terms of a potential business combination with Ares Capital as set forth in Ares Capital's letter. Among other things, Allied Capital's board of directors noted that Ares Capital Management, if deemed necessary, had expressed a willingness to waive a portion of its management and/or incentive fee for a period of time following the closing of the business combination in order to help ensure consistent cash flow for the combined company and to support the maintenance of Ares Capital's current dividend level. Allied Capital's board of directors requested that management continue to analyze the terms of the proposed business combination and re-engage BofA Merrill Lynch, Sullivan & Cromwell and Sutherland.

On October 6, 2009, Ares Capital's board of directors met with representatives of management, Ares Capital Management, and Ares Capital's legal and financial advisors to discuss a potential business combination with Allied Capital.

On October 8, 2009, Allied Capital's board of directors met again to continue to discuss the new terms of the potential business combination with Ares Capital and the structure of the transaction. Sullivan & Cromwell discussed the legal framework for the board's consideration of the potential business combination with Ares Capital under Maryland law, including the duties and responsibilities of the directors. Allied Capital's board of directors discussed engaging an additional financial advisor to assist with the financial analyses and due diligence that was required to consider the new terms of the potential business combination with Ares Capital. The board delegated the authority to the Allied Capital Investment Bank Committee to finalize the engagement of both financial advisors and to negotiate fees to be paid to them.

Following this meeting, Allied Capital and Ares Capital provided updated diligence materials to each other.

On October 13, 2009, Ares Capital's board of directors met with representatives of management, Ares Capital Management and Ares Capital's legal and financial advisors to discuss a potential business combination with Allied Capital.

On October 15, 2009, Allied Capital's board of directors met to continue to discuss the new proposal. Representatives of Allied Capital's management team and Allied Capital's board of directors' legal and financial advisors updated Allied Capital's board of directors on ongoing diligence matters. During the meeting, BofA Merrill Lynch made a presentation to Allied Capital's board of directors during which it analyzed several stand-alone scenarios prepared by representatives of Allied Capital's management and two pro forma combination scenarios prepared by Ares Capital's management.

During the meeting, BofA Merrill Lynch explained each scenario to Allied Capital's board of directors and reviewed the assumptions and risks associated with each scenario along with key financial projections. Allied Capital's board of directors discussed the potential for a combination of Allied Capital and Ares Capital to create a leading provider of capital to middle-market companies across the United States. Allied Capital's board of directors discussed the potential benefits of a business combination with Ares Capital for its stockholders, including: (1) a more liquid stock, with a broader institutional stockholder base, at an implied premium of 4.5% to Allied Capital's recent closing of $3.13 (based on the closing stock prices of Allied Capital and Ares Capital on October 14, 2009); (2) resumption of dividend payments following the closing of the merger; (3) the ability of the pro-forma combined company to immediately de-lever its balance sheet; (4) the ability of the pro-forma combined company to provide liquidity to the existing portfolio; (5) a reduction in pressure to sell assets to retire Allied Capital's costly debt with stringent amortization requirements; (6) the ability of the pro-forma combined company to generate new asset management fund raising opportunities; and (7) the fact that Allied Capital's stockholders would be stockholders of Ares Capital following a business combination and would stand to participate in the future growth of Ares Capital.

Allied Capital's board of directors also discussed the ability of Ares Capital to raise accretive equity capital near or above its net asset value per share, noting Ares Capital's equity offering in August 2009 that was below Ares Capital's then net asset value per share and Ares Capital's then trading price, which was nearing Ares Capital's net asset value per share, and Ares Capital's access to attractively priced debt capital, noting Ares Capital's investment grade status. In addition, in considering the Ares Capital transaction, Allied Capital's board of directors discussed whether it was the appropriate time to engage in such a transaction and whether Allied Capital should pursue other alternatives simultaneously. At the conclusion of the meeting, Allied Capital's board of directors authorized Allied Capital's management to continue to pursue a potential business combination with Ares Capital. In doing so, Allied Capital's board of directors emphasized the importance of increasing the exchange ratio and negotiating a merger agreement with terms customary for public companies to provide Allied Capital with certainty of price and closing and customary deal protection provisions, and authorized Allied Capital's management and Allied Capital's board of directors' legal and financial advisors to continue with their diligence efforts.

Following the October 15, 2009 meeting, representatives of Allied Capital's management and BofA Merrill Lynch continued to negotiate with representatives of Ares Capital's management and J.P. Morgan to increase the exchange ratio. On October 17, 2009, Ares Capital and Proskauer provided a revised draft of the merger agreement to Allied Capital and its legal counsel. Ares Capital continued its due diligence on Allied Capital, including by having Ares Capital Management's investment committee refresh its review of Allied Capital's material investments.

On October 19, 2009, Allied Capital's board of directors met again to discuss the status of the potential business combination with Ares Capital and the then current draft of the merger agreement. Representatives of Allied Capital's management informed Allied Capital's board of directors that both parties were continuing due diligence and financial analyses of the potential business combination. Although progress was made with respect to certain terms in the draft of the merger agreement, representatives of Allied Capital's management stated that there were still significant unresolved issues and Allied Capital could not agree to a potential business combination with Ares Capital at that time. Sullivan & Cromwell discussed with Allied Capital's board of directors various provisions of the draft merger agreement provided by Ares Capital and Proskauer. After discussions with Sullivan & Cromwell, Allied Capital's board concluded that the current draft of the merger agreement did not contain certain provisions that Allied Capital's board of directors deemed important. Allied Capital's board of directors requested that its legal and financial advisors and Allied Capital's management continue to negotiate the terms of the merger agreement.

On October 21, 2009, Allied Capital's board of directors held another meeting attended by the entire board as well as representatives of Sullivan & Cromwell. At this meeting, Allied Capital's board of directors reviewed and discussed, with the assistance of its legal counsel, the merger agreement. Sullivan & Cromwell informed Allied Capital's board of directors that progress had been made in negotiating various provisions in the merger agreement. Allied Capital's board of directors noted that the latest draft of the merger agreement satisfied most of the factors it deemed to be important and requested that Allied Capital's management, assisted by Allied Capital's board of directors' legal and financial advisors, continue to negotiate the terms of the merger agreement.

On October 22, 2009, Ares Capital's board of directors met with representatives of management, Ares Capital Management and Ares Capital's legal and financial advisors to discuss the status of the potential business combination with Allied Capital.

On October 23, 2009, Allied Capital's board of directors attended a regularly scheduled quarterly board meeting during which representatives of Allied Capital's management provided Allied Capital's board of directors with an update regarding the status of the merger agreement negotiations with Ares Capital. During this meeting, Allied Capital's board of directors discussed the exchange ratio as well as certain change-in-control payments contemplated by the employment agreements and retention agreements of certain executive officers of Allied Capital that would be fully or partially triggered if the merger was consummated.

On October 24 and October 25, 2009, representatives of Ares Capital's management, a member of its board of directors and its legal and financial advisors met in person with representatives of Allied Capital's management some of whom are also members of its board of directors and Allied Capital's board of directors' legal and financial advisors to negotiate the remaining open terms in the merger agreement. During this time, the parties agreed to increase the exchange ratio to 0.325 shares of Ares Capital common stock for each share of Allied Capital common stock, which represents a 27.3% premium to the closing price of Allied Capital common stock on October 23, 2009.

On October 25, 2009, Allied Capital's board of directors held a meeting attended by the entire board, as well as representatives of Allied Capital's management and representatives of Allied Capital's board of directors' legal and financial advisors, to consider the merger agreement and the structure of the merger and receive an update on ongoing diligence efforts. Representatives of legal advisors discussed the terms of the merger agreement. Following a discussion of the merger agreement, Allied Capital's board of directors requested that its financial advisors discuss their financial analyses of Ares Capital and the exchange ratio for the merger. BofA Merrill Lynch presented an overview of the business due diligence conducted on Ares Capital and the terms of the merger agreement. Representatives of legal advisors also made a presentation to Allied Capital's board of directors on the legal due diligence that they had conducted on Ares Capital, updating Allied Capital's board of directors on additional legal due diligence conducted since a previous presentation to Allied Capital's board of directors in July 2009.

Following further discussion during which representatives of BofA Merrill Lynch reviewed its financial analyses of the exchange ratio and responded to questions from members of Allied Capital's board of directors regarding its financial analyses, BofA Merrill Lynch, at the request of Allied Capital's board of directors, rendered its oral opinion, which was confirmed by delivery of a written opinion dated October 25, 2009, to the effect that, as of that date and based on and subject to various assumptions and limitations described in its opinion, the exchange ratio provided for in the merger agreement was fair, from a financial point of view, to the holders of Allied Capital common stock.

Thereafter, Sandler O'Neill reviewed its financial analyses of the exchange ratio and responded to questions from members of Allied Capital's board of directors regarding its financial analyses and whether such analyses differed in any material respect from the analyses provided by BofA Merrill Lynch. At the request of Allied Capital's board of directors, Sandler O'Neill rendered its oral opinion, subsequently confirmed by delivery of a written opinion, dated October 25, 2009, to the effect that, as of the date and based on and subject to various assumptions and limitations described in its written opinion, the exchange ratio provided for in the merger agreement was fair, from a financial point of view, to the holders of Allied Capital common stock.

On the evening of October 25, 2009, Allied Capital's board of directors, after taking into consideration all of the information presented during board meetings with respect to the transaction and the current meeting, unanimously declared the merger agreement and the merger advisable and in the best interests of Allied Capital and its stockholders, approved and adopted the merger agreement and authorized Allied Capital's Chief Executive Officer to sign the merger agreement.

On the evening of October 25, 2009, Ares Capital's board of directors held a meeting attended by the entire board, as well as representatives of management, Ares Capital Management, and Ares Capital's legal, financial and other advisors, to consider the merger agreement and the merger. Ares Capital's board considered several written and oral presentations prepared by representatives of management, its investment adviser and the other advisors with respect to, among other things, due diligence, director duties, the merger and the merger agreement. Representatives of J.P. Morgan reviewed its financial analyses of the exchange ratio and the merger. After discussion, J.P. Morgan, at the request of Ares Capital's board of directors, rendered its oral opinion, which was confirmed by delivery of a written opinion dated October 26, 2009, to the effect that, as of that date, and based upon and subject to the factors, assumptions, qualifications and limitations set forth therein, the exchange ratio in the merger was fair, from a financial point of view, to Ares Capital.

On the evening of October 25, 2009, Ares Capital's board of directors, after taking into consideration all of the information presented during board meetings held with respect to the transaction, declared the merger agreement and the transactions contemplated thereby advisable and in the best interests of Ares Capital and its stockholders, unanimously approved and adopted the merger agreement and the transactions contemplated thereby and authorized the officers of Ares Capital to sign the merger agreement and seek stockholder approval necessary to issue shares of Ares Capital common stock in connection with the merger.

Ares Capital's board of directors also separately approved its purchase of Allied Capital's interests in the SL Fund at the meeting on October 25, 2009.

On October 26, 2009, representatives of Ares Capital's management, a member of its board of directors and its investment adviser and legal and financial advisors met in person with representatives of Allied Capital's management some of whom are also members of its board of directors and Allied Capital's board of directors' legal and financial advisors to finalize and execute the merger agreement.

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On October 26, 2009, Allied Capital, Ares Capital and Merger Sub executed the merger agreement and Ares Capital and Allied Capital issued a press release publicly announcing the transaction.

In a separate transaction, on October 30, 2009, Allied Capital sold its interests in the SL Fund to Ares Capital for $165 million in cash.

On November 5, 2009, Ares Capital and Allied Capital held a joint conference call discussing the merger.

On December 29, 2009, Allied Capital sold its investment, including the provision of management services, in the SD Fund to IHAM, a portfolio company of Ares Capital.

On January 22, 2010, Allied Capital sold a portion of its investment in Woodstream Corporation to Ares Capital.

On January 28, 2010, Allied Capital sold portions of its investments in Service Champ, Inc. and Driven Brands Inc. to Ares Capital and Ivy Hill I.

For a discussion of the unsolicited offer from Prospect Capital, see "The Unsolicited Offer from Prospect Capital" below.

Reasons for the Merger

Allied Capital

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

The following discussion of the information and factors considered by Allied Capital's board of directors, including its independent directors, is not intended to be exhaustive, but includes the material factors considered by Allied Capital's board of directors in evaluating the merger.

Resumption of Dividend Payments. The receipt of shares of Ares Capital common stock in exchange for shares of Allied Capital common stock will likely permit Allied Capital's stockholders to receive dividend payments again by taking advantage of Ares Capital's dividend, which has been consistently paid on a quarterly basis since April 2006 in an amount of at least $0.35 per share. Furthermore, Allied Capital's board of directors considered the fact that Ares Capital's investment adviser had committed to defer up to $15 million in base management and incentive fees for each of the first two years following the merger if certain earnings targets are not met to help ensure consistent cash flows for the combined company and support the maintenance of Ares Capital's current dividend payments.

Improved Access to Debt Capital Markets on More Favorable Terms. It was anticipated that the combined company would be able to access debt capital with lower interest rates and longer maturities than was available to Allied Capital on a stand alone basis. Ares Capital currently has an investment grade rating of "BBB" from both Standard & Poor's and Fitch Ratings.

Improved Ability to Access the Equity Capital Markets. Ares Capital was recently able to access the equity capital markets even at a price below its net asset value per share in August 2009 for net proceeds of $109.1 million. Ares Capital's trading price at the time of the merger agreement was approaching Ares Capital's net asset value per share. In general, Allied Capital's board of directors believes that Allied Capital's stockholders will benefit from ownership in the combined company which will possess a stronger balance sheet and improved access to capital.

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Lack of Liquidity/Flexibility. Since Allied Capital's operational flexibility is constrained under its private debt agreements, Allied Capital has limited liquidity, which has required and would require it to continue to sell assets in order to de-lever its balance sheet. Such sales of income producing assets could further reduce Allied Capital's earnings and future dividend potential. The merger would reduce the pressure to sell assets to retire costly debt with stringent amortization requirements in an effort to de-lever the Allied Capital balance sheet.

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

Thorough Review of Strategic Alternatives. Allied Capital engaged in a thorough review of the strategic alternatives reasonably believed to be available to Allied Capital, including, among other alternatives, to continue as a stand-alone entity, recapitalize the company and partner with a strategic investor and assessed the difficulties associated with pursuing each strategic alternative. In reaching the determination to proceed with Ares Capital, Allied Capital's board considered, with the assistance and advice of BofA Merrill Lynch and Sandler O'Neill and outside counsel, whether it would be appropriate to run a process soliciting other potential buyers or merger partners. Based on the prior exploration of alternatives, Allied Capital's board and its advisors were cognizant of the limited universe of capable, interested buyers for Allied Capital. Allied Capital's board concluded that the risks and uncertainties associated with such a process outweighed the potential benefits and would have likely resulted in Ares Capital being unwilling to proceed with its proposal. In rendering its advice, Allied Capital's advisors at BofA Merrill Lynch noted that at the request of Allied Capital they had contacted several parties deemed most likely to be interested in and capable of acquiring Allied Capital, but none of the parties demonstrated serious interest in pursuing an acquisition. Allied Capital's board also considered that under the merger agreement Allied Capital had the ability to accept a "Superior Proposal" from a third party.

Strategic and Business Considerations. Because Allied Capital's stockholders will be stockholders of Ares Capital following the merger and subsequent combination, Allied Capital stockholders stand to participate in the future growth of Ares Capital. Ares Capital is an established company with a strong capital position and performance history. In addition, the larger equity market capitalization of the combined company should assist it with earnings stability and raising capital in the public equity and debt markets.

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

Opinion of Its Financial Advisors. The financial analyses reviewed and discussed with Allied Capital's board of directors by representatives of BofA Merrill Lynch and Sandler O'Neill, as well as the oral opinions of BofA Merrill Lynch and Sandler O'Neill rendered to Allied Capital's board of directors on October 25, 2009 (which were subsequently confirmed in writing by delivery of written opinions dated the same date) with respect to the fairness, from a financial point of view and as of the date of the opinions, of the exchange ratio to the holders of Allied Capital common stock. See " Opinion of Allied Capital's Financial Advisors" below.

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Tax Free Treatment of Merger. The merger and subsequent combination are expected to be treated as a "reorganization" under Section 368(a) of the Code. Holders of Allied Capital common stock are not expected to recognize any gain or loss for U.S. federal income tax purposes on the exchange of shares of Allied Capital common stock for shares of Ares Capital common stock in the merger, except with respect to cash received instead of fractional shares of Ares Capital common stock. See "Certain Material U.S. Federal Income Tax Consequences of the Merger."

Allied Capital's board of directors also considered:

its understanding of Allied Capital's and Ares Capital's respective businesses, portfolio companies, operations, financial condition, earnings, risk and prospects, taking into account the results of Allied Capital's business and legal due diligence review of Ares Capital's operations, its portfolio companies and other corporate and financial matters conducted over an extended period of time by Allied Capital's management and Allied Capital's board of directors' legal and financial advisors;

the current and historical market prices and trading information with respect to the common stock of Allied Capital and Ares Capital;

the values and prospects of the portfolio company investments held by Allied Capital and Ares Capital;

the financial terms of the merger, including the exchange ratio;

the fact that Allied Capital's stockholders are not being cashed out and will continue as stockholders in the combined operations of Allied Capital and Ares Capital;

its understanding of the current and prospective environments in which Allied Capital and Ares Capital operate, including industry, economic and market conditions, the competitive environment and the likely impact of these factors on Allied Capital and Ares Capital in light of, and in the absence of, the merger; and

the financial strength of Ares Capital.

Allied Capital's board of directors considered the following potential risks relating to the merger:

Market Price. There is uncertainty regarding how the merger will affect the market price of Ares Capital common stock before the completion of the merger, which, in turn, may affect the value of the merger consideration to be paid to Allied Capital's stockholders. The market value of the per share merger consideration could decrease prior to the effective time if the market price of Ares Capital common stock decreases.

Net Asset Value. The net asset value per share of Allied Capital common stock, as of September 30, 2009, was $6.70, an amount higher than the implied market value of the merger consideration.

Ability of Ares Capital to Obtain Consents or Additional Credit from Lenders. Ares Capital will need to negotiate with its lenders as well as certain of Allied Capital's lenders to obtain their consent to the merger and Ares Capital will need to obtain rating agency confirmation with respect to its CLO Notes. There can be no assurance that Ares Capital will be successful in its negotiations with these lenders and/or that it will be able to obtain such rating agency confirmation.

Maintenance of Ares Capital's Current Dividend Payments. Since its inception, Ares Capital has paid dividends or distributions on a quarterly basis to its stockholders out of assets legally available therefor. The ability of Ares Capital to maintain its dividend payments at current levels

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depends on Ares Capital's achievement of investment results that will allow Ares Capital to make a specified level of cash dividends or year-to-year increases in cash dividends. There is no assurance that Ares Capital will be able to maintain its dividend or distribution payments at the current level.

Restrictions on Ability to Solicit Alternative Offers. The non-solicitation provisions contained in the merger agreement prohibit Allied Capital from soliciting alternative offers from third parties and permit Allied Capital to consider alternative proposals from third parties only in certain limited circumstances. While these limitations ensure that only someone who is committed to making a superior proposal will attempt to re-open the evaluation process, these limitations may discourage third parties from making superior offers to acquire Allied Capital because of the increased price that such third party would have to pay and because Allied Capital would be required to pay Ares Capital a termination fee of $30 million upon terminating the merger agreement in connection with a superior proposal.

Combined Company May Not Succeed. Certain of Allied Capital's stockholders may view the combined company as a different and less desirable investment vehicle for their capital and sales of shares by such stockholders could depress the share price of Ares Capital common stock following closing of the merger. In addition, there can be no assurance that the combined company will succeed.

Special Termination Event Related to Ciena Capital LLC. The merger agreement provides that if, prior to the closing of the merger, Ares Capital's board of directors determines in its reasonable good faith judgment that there is a reasonable likelihood that the liabilities for any monetary net losses related to Ciena exceed $66^2/_3$% of the fair value of Ciena as of September 30, 2009 (as such fair value is determined by Allied Capital's board of directors), then, subject to certain procedural requirements, Ares Capital or Allied Capital will be permitted to terminate the merger agreement without an obligation to pay a termination fee.

This discussion of the information and factors that Allied Capital's board of directors considered in making its decision is not intended to be exhaustive but includes the material factors considered by Allied Capital's board of directors. In view of the wide variety of factors considered in connection with its evaluation of the merger and the complexity of those matters, Allied Capital's board of directors did not find it useful to, and did not attempt to, quantify, rank or otherwise assign relative weights to these factors. In addition, the individual members of Allied Capital's board of directors may have given different weights to different factors.

Allied Capital's board of directors relied on the experience of BofA Merrill Lynch and Sandler O'Neill, as its financial advisors, for analyses of the financial terms of the merger and for their respective opinions as to the fairness, from a financial point of view, of the exchange ratio to the holders of Allied Capital common stock. In addition, Allied Capital's board of directors relied on its legal advisors for legal analysis in connection with the merger transaction.

Following the merger and subsequent combination, Allied Capital will cease to exist as a separate entity and will deregister all reserved shares under its stock option plan as well as unsold common stock under its shelf registration statement. Its shares of common stock will no longer trade on the NYSE or NASDAQ and it will withdraw its election to be treated as a BDC under Section 54(c) of the Investment Company Act.

Allied Capital's board of directors believes that the merger is advisable and in the best interests of Allied Capital and its stockholders and, therefore, unanimously approved the merger and the merger agreement.

Ares Capital

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

The following discussion of the information and factors considered by Ares Capital's board of directors, including its independent directors, is not intended to be exhaustive, but includes the material factors considered by Ares Capital's board of directors in evaluating the merger.

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

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

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

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

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

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

Change of Control Payments. As an inducement for Ares Capital and Merger Sub to enter into the merger agreement, certain Allied Capital key executives agreed to waive, contingent on the closing of the merger, a portion of the change-of-control payments that otherwise might be due to them under their respective employment or retention agreements. For more information regarding the payments and benefits to be paid to them in connection with the merger, see " Interests of Certain Persons Related to Allied Capital in the Merger" below.

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

Opinion of Its Financial Advisor. The financial analyses reviewed and discussed with Ares Capital's board of directors by representatives of J.P. Morgan, as well as the oral opinion of J.P. Morgan rendered to Ares Capital's board of directors on October 25, 2009, which opinion

Explanation of Responses:

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was confirmed by delivery of a written opinion dated October 26, 2009, to the effect that, as of that date, and based upon and subject to the factors, assumptions, qualifications and limitations set forth therein, the exchange ratio in the merger was fair, from a financial point of view, to Ares Capital. See "   Opinion of Ares Capital's Financial Advisor" below.

Ares Capital's board of directors also considered the following additional material factors relating to the merger:

its understanding of Ares Capital's and Allied Capital's respective businesses, portfolio companies, operations, financial condition, earnings, risks and prospects, taking into account the results of Ares Capital's business and legal due diligence review of Allied Capital's operations, its portfolio companies and other corporate and financial matters conducted by Ares Capital's management and its legal advisors and financial advisor;

the values and prospects of the portfolio company investments held by Allied Capital and Ares Capital;

the fact that valuations of private investments and private companies are inherently uncertain, may fluctuate over short periods of time and may be based on estimates and, as a result, Ares Capital's estimates of the fair value of Allied Capital's portfolio companies may differ materially from the values that Ares Capital may ultimately realize and the fair value of Allied Capital's investment portfolio may be significantly less than the fair value assigned to it by Ares Capital;

its understanding of the current and prospective environments in which Ares Capital and Allied Capital operate, including industry, economic and market conditions, the competitive environment and the likely impact of these factors on Ares Capital and Allied Capital in light of, and in the absence of, the merger;

the review by Ares Capital's board of directors with its advisors of the structure of the merger and the financial and other terms of the merger and the expectation that the merger and the subsequent combination will be treated as a "reorganization" under Section 368(a) of the Code and will generally be tax free;

the need for Ares Capital to negotiate with its lenders as well as certain of Allied Capital's lenders to obtain their consent and the need to obtain rating agency confirmation with respect to the CLO Notes;

the fact that the implied market value of the per share merger consideration could increase prior to the effective time if the market price of Ares Capital common stock increases;

the historical and current market prices of Ares Capital common stock and Allied Capital common stock;

the potential opportunities for cost savings and synergies as a result of the merger and subsequent combination, together with the risks associated with achieving such cost savings and synergies;

the likelihood of a successful integration of Allied Capital's business and operations with those of Ares Capital and of successful operation of the combined company despite the challenges of such integration;

the large size of the transaction relative to Ares Capital's market capitalization and the fact that the exchange ratio represented a premium of approximately 27.3% based on the closing prices of Ares Capital common stock and Allied Capital common stock on October 23, 2009 (which was the last full trading day before public announcement of the merger) and that Allied Capital stockholders would own approximately 35% of the combined company following completion of the merger; and

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the need to obtain Ares Capital stockholder and Allied Capital stockholder approvals in order to complete the merger.

Ares Capital's board of directors was also aware that pursuant to its existing investment advisory and management agreement with Ares Capital Management, Ares Capital Management has financial interests in the merger that are different from, and/or in addition to, the interests of Ares Capital's stockholders. For example, Ares Capital Management's management fee is based on a percentage of Ares Capital's total assets. Because total assets under management will increase as a result of the merger, the dollar amount of Ares Capital Management's management fee will increase as a result of the merger. In addition, the incentive fee payable by Ares Capital to Ares Capital Management may be positively impacted as a result of the merger. For more information regarding Ares Capital Management's interests in the merger pursuant to the investment advisory and management agreement, see "Management of Ares Capital Investment Advisory and Management Agreement."

This discussion of the information and factors that Ares Capital's board of directors considered in making its decision is not intended to be exhaustive, but includes the material factors considered by Ares Capital's board of directors. In view of the wide variety of factors considered in connection with its evaluation of the merger and the complexity of those matters, Ares Capital's board of directors did not find it useful to, and did not attempt to, quantify, rank or otherwise assign relative weights to these factors. In addition, the individual members of Ares Capital's board of directors may have given different weights to different factors.

Ares Capital's board of directors relied on the experience of J.P. Morgan, as its financial advisor, for analyses of the financial terms of the merger and for its opinion as to the fairness, from a financial point of view, of the exchange ratio to Ares Capital. In addition, Ares Capital's board of directors relied on its legal advisors for legal analysis in connection with the merger transaction.

Ares Capital's board of directors considered all of these factors and others as a whole and, on balance, concluded that they supported a favorable determination to enter into the merger agreement.

Recommendation of the Board of Directors of Allied Capital

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

Recommendation of the Board of Directors of Ares Capital

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

Opinion of Allied Capital's Financial Advisors

BofA Merrill Lynch

Allied Capital has retained BofA Merrill Lynch to act as Allied Capital's financial advisor in connection with the merger. BofA Merrill Lynch is an internationally recognized investment banking

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firm which is regularly engaged in the valuation of businesses and securities in connection with mergers and acquisitions, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes. Allied Capital selected BofA Merrill Lynch to act as Allied Capital's financial advisor in connection with the merger on the basis of BofA Merrill Lynch's experience in transactions similar to the merger, its reputation in the investment community and its familiarity with Allied Capital and its business.

On October 25, 2009, at a meeting of Allied Capital's board of directors held to evaluate the merger, BofA Merrill Lynch delivered to Allied Capital's board of directors an oral opinion, which was confirmed by delivery of a written opinion dated October 25, 2009, to the effect that, as of the date of the opinion and based on and subject to various assumptions and limitations described in its opinion, the exchange ratio provided for in the merger agreement was fair, from a financial point of view, to the holders of Allied Capital common stock.

A description of BofA Merrill Lynch's process in rendering its written opinion to Allied Capital's board of directors is attached as *Annex B-1* to this document and is incorporated by reference herein in its entirety. The full text of BofA Merrill Lynch's written opinion to Allied Capital's board of directors, which describes, among other things, the assumptions made, procedures followed, factors considered and limitations on the review undertaken, is attached as *Annex B-2* to this document and is incorporated by reference herein in its entirety. The summary of BofA Merrill Lynch's opinion in *Annex B-1* is qualified in its entirety by reference to the full text of the opinion. BofA Merrill Lynch delivered its opinion to Allied Capital's board of directors for the benefit and use of Allied Capital's board of directors in connection with and for purposes of its evaluation of the exchange ratio from a financial point of view. BofA Merrill Lynch's opinion does not address any other aspect of the merger and does not constitute a recommendation to any stockholder as to how to vote or act in connection with the proposed merger.

Sandler O'Neill

By letter dated August 3, 2009, Allied Capital retained Sandler O'Neill to render a fairness opinion in connection with a possible business combination with Ares Capital. Sandler O'Neill is a nationally recognized investment banking firm whose principal business specialty is financial institutions. Sandler O'Neill as part of its investment banking business, is regularly engaged in the valuation of financial institutions and their securities in connection with mergers and acquisitions and other corporate transactions.

At the October 25, 2009 meeting at which Allied Capital's board considered and approved the merger agreement, Sandler O'Neill delivered to the board its oral opinion, subsequently confirmed in writing that, as of such date, the exchange ratio was fair to Allied Capital's stockholders from a financial point of view. A description of Sandler O'Neill's process in rendering its written opinion to Allied Capital's board of directors is attached as *Annex C-1* to this document and is incorporated by reference herein in its entirety. The full text of Sandler O'Neill's opinion is attached as *Annex C-2* to this document. The opinion outlines the procedures followed, assumptions made, matters considered and qualifications and limitations on the review undertaken by Sandler O'Neill in rendering its opinion. The description of the opinion set forth in *Annex C-1* is qualified in its entirety by reference to the full text of the opinion in *Annex C-2*. Allied Capital stockholders are urged to read the entire opinion carefully in connection with their consideration of the proposed merger.

Opinion of Ares Capital's Financial Advisor

Pursuant to an engagement letter, dated June 3, 2009, which was subsequently amended and restated as of October 23, 2009, Ares Capital retained J.P. Morgan as its financial advisor in connection with the merger.

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At the meeting of the board of directors of Ares Capital on October 25, 2009, J.P. Morgan rendered its oral opinion to the board of directors of Ares Capital that, as of such date and based upon and subject to the factors and assumptions set forth in its opinion, the exchange ratio in the merger was fair, from a financial point of view, to Ares Capital. J.P. Morgan has confirmed its October 25, 2009 oral opinion by delivering its written opinion to the board of directors of Ares Capital, dated October 26, 2009, that, as of such date, the exchange ratio in the merger was fair, from a financial point of view, to Ares Capital. No limitations were imposed by Ares Capital's board of directors upon J.P. Morgan with respect to the investigations made or procedures followed by it in rendering its opinions.

A description of J.P. Morgan's process in rendering its written opinion to Ares Capital's board of directors is attached as *Annex D-1* to this document and is incorporated by reference herein in its entirety. The full text of the written opinion of J.P. Morgan, dated October 26, 2009, which sets forth the assumptions made, matters considered and limits on the review undertaken, is attached as *Annex D-2* to this document and is incorporated herein by reference in its entirety. Ares Capital's stockholders are urged to read the opinion in its entirety. J.P. Morgan's written opinion is addressed to the board of directors of Ares Capital, is directed only to the exchange ratio in the merger and does not constitute a recommendation to any stockholder of Ares Capital as to how such stockholder should vote at the Ares Capital special meeting. The summary of the opinion of J.P. Morgan set forth in *Annex D-1* to this document is qualified in its entirety by reference to the full text of such opinion.

The Unsolicited Offer from Prospect Capital

On January 14, 2010, Allied Capital received an unsolicited non-binding offer from Prospect Capital to acquire all of the issued and outstanding shares of Allied Capital in a stock-for-stock merger. On January 19, 2010, Allied Capital's board of directors unanimously rejected the offer after determining that such offer did not constitute a Superior Proposal.

The unsolicited non-binding offer contained a proposed share exchange ratio of 0.385 Prospect Capital shares for each Allied Capital share which, based on the closing prices of Prospect Capital and Ares Capital as of January 19, 2010, without consideration of other relevant factors, implied a small premium to the value of the exchange ratio provided for in the merger. However, Allied Capital's board of directors determined that the transaction contemplated by the unsolicited non-binding offer presented significant risks relating to, among other things, the ability for the combined company to maintain dividend payments post-closing and to access the capital markets on favorable terms to provide for future growth of the business and certainty of closing. In addition, the unsolicited non-binding offer was subject to significant contingencies, including, among other things, performance of due diligence by Prospect Capital and Allied Capital and negotiation of binding documentation. Allied Capital's board of directors' unanimous decision to reject the unsolicited non-binding offer was made after careful consideration thereof in consultation with Allied Capital's management and external financial and legal advisors.

On the same date, Allied Capital's board of directors also unanimously reaffirmed its recommendation that Allied Capital's stockholders vote in favor of the merger and the merger agreement for the reasons that it initially approved the merger, including, among other things, the resumption of dividend payments for Allied Capital's stockholders, the combined company's improved access to the debt capital markets on more favorable terms, the combined company's improved access to the equity capital markets, the combined company's increased liquidity and flexibility to provide for future growth of the business, the combined company's increased portfolio diversity, the size and scope of Ares Capital's investment manager and closing certainty for Allied Capital's stockholders.

On January 26, 2010, Prospect Capital renewed its unsolicited non-binding proposal and increased its proposed share exchange ratio from 0.385 Prospect Capital shares for each Allied Capital share to 0.40

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Prospect Capital shares for each Allied Capital share. On February 3, the board of directors of Allied Capital delivered the following letter to Prospect Capital:

February 3, 2010

Prospect Capital Corporation
10 East 40th Street
New York, NY 10016
Attention: Mr. M. Grier Eliasek, President and Chief Operating Officer

Dear Mr. Eliasek:

The Board of Directors of Allied Capital Corporation ("Allied" or "ALD"), together with its external legal and financial advisors, has carefully reviewed and analyzed the revised proposal submitted by Prospect Capital Corporation ("Prospect" or "PSEC") set forth in your letter of January 26, 2010. **As a result of this review, Allied's Board of Directors has unanimously concluded that this revised offer does not constitute, and is not reasonably likely to result in, a "Superior Proposal" as defined under our merger agreement with Ares Capital Corporation ("Ares" or "ARCC"). Allied's Board of Directors has unanimously reaffirmed its recommendation that Allied shareholders vote for the transaction with Ares announced on October 26, 2009.**

Before we review the reasons for this conclusion, we believe it is constructive to provide some additional important background to address references in Prospect's Preliminary Proxy Statement dated January 29, 2010 relating to Prospect's expressions of interest in pursuing a merger transaction with Allied.

Prospect's assertion that we have engaged in "stonewalling over the last nine months" over your "numerous expressions of serious interest in acquiring Allied" is false. Although we held some informal discussions and met with representatives from Prospect in April 2009, we were unable to advance those discussions because Prospect was unwilling to provide basic information that we requested. During our discussions, Prospect made claims to have access to a significant amount of third party capital. While we were intrigued by these references, Prospect was unwilling to disclose any details, including the identity of the mysterious capital source, nor was Prospect willing to provide any information regarding the financial outline of a potential transaction. Further, it was not clear to Allied whether Prospect was acting at the time as a principal in a potential transaction, or as an agent for the unidentified source of capital. Given this vagueness as to with whom we were dealing, or what such a transaction might involve, we were unable to even negotiate a confidentiality agreement. In any event, Allied ultimately determined that the clear priority at that time was to generate shareholder value through a successful restructuring of Allied's debt, and that it was not in the interests of Allied shareholders for our Board or management teams to spend more time on Prospect's undeveloped proposition. At no time during these discussions did Prospect make an offer to acquire Allied.

We would also like to clarify that Prospect approached a Managing Director on the Capital Markets desk of Allied, not our Chairman or Chief Executive Officer, in September 2009 regarding the acquisition of certain assets, not an acquisition of Allied.

The Board of Allied was surprised to receive Prospect's initial unsolicited letter of January 14, 2010 offering to acquire Allied. For reasons we will elaborate on throughout this letter, while we believe Prospect may view the acquisition of Allied as a partial solution to the significant gap in Prospect's earnings relative to its current dividend levels, we believe that the markets' growing perception of this gap, and the risk that an acquisition of Allied does not close that gap, could result in a subsequent dividend reduction. Any such reduction would be expected to place significant and immediate downward pressure on Prospect's stock price, eliminating the premium which your revised offer claims to provide and materially increasing the risk to Allied shareholders of a failed transaction.

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Despite the numerous concerns, outlined below, that Allied's Board has regarding an acquisition of Allied with Prospect stock, the Board asked its financial advisors to meet with Prospect's financial advisors and management team to discuss, among other items, the financial assumptions of your revised offer, with a specific focus on the stability and safety of Prospect's dividend. We learned that Prospect has yet to engage any financial advisors, a fact we find troubling given the transformative nature of this transaction for Prospect involving, among others, the issuance of more Prospect shares than are currently outstanding, and the need for Prospect shareholder approval. Following the discussions our advisers held with Prospect's management and such advisors' analysis of the information received, we believe that Prospect does not have the ability to generate sufficient cash earnings to support current dividend levels, and the non-cash earnings it relies upon require numerous assumptions that (i) may not happen, and (ii) if they were to happen, would also provide incremental value to Allied shareholders in the Ares transaction. This consideration, along with the others described in this letter, we would reject an acquisition of Allied for Prospect stock even if we did not have a pending agreement with Ares.

Allied's Board reached its conclusion on Prospect's revised offer for the following reasons, among others:

1. **We believe Prospect's unsolicited offer does NOT provide Allied shareholders "Superior Value" as compared to the Ares transaction**. While Prospect's revised offer purports to provide a premium to the Ares transaction based on the closing market prices of both Prospect and Ares stock as of January 25, 2010, upon its careful review the Allied Board believes there is substantial risk that this premium would vanish if the market believed that Prospect would be successful in completing a transaction with Allied. It is indicative that upon announcement of the revised offer, Prospect stock fell 5.1% during the course of the day's trading. We believe there will be continued erosion in the purported premium as the market comprehends the risks involved in such a transaction due primarily to Prospect's limited balance sheet strength and inferior platform. This erosion could ultimately result in a discount to the Ares offer.

2. **We believe a merger with Allied would put Prospect's dividend at risk, resulting in a near term dividend cut, which would reduce Prospect's stock price and imply a lower value for Allied's shareholders.** Prospect claims that Allied's shareholders would receive higher dividends in a transaction with Prospect than under the Ares transaction. We believe this claim is false, in particular given Prospect's inability to earn sufficient net investment income during the three months ended September 30, 2009 to cover its own dividend and its significant issuance of shares through the course of 2009. In addition, as the proceeds of Prospect's numerous equity raises have been applied towards the repayment of outstanding indebtedness (both Prospect's and the debt assumed through the acquisition of Patriot Capital Funding, Inc. ("Patriot")) rather than towards new investments, we believe this puts in serious doubt Prospect's ability to maintain its current dividend level. We believe Prospect's actions in continuing to increase quarterly dividend payments to shareholders without supporting earnings generation, particularly in a period during which significant equity capital was raised and the credit quality of Prospect's portfolio declined, have contributed further to Prospect's challenges in generating sufficient earnings to support the current dividend rate.

   During the three months ended September 30, 2009, Prospect earned net investment income of $12.3 million, and paid dividends to shareholders of $19.5 million. During the same quarterly period, Patriot earned $1.1 million in net investment income, providing pro forma net investment income of $13.4 million. Using pro forma shares outstanding for Prospect/Patriot of 63.3 million shares, the combined organization appears to earn approximately $0.21 per share in net investment income, against a quarterly dividend of $0.40875, representing approximately 51% coverage through net investment income.

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In Prospect's revised proposal, Prospect would be issuing approximately 71.8 million shares to Allied shareholders. On a pro forma basis, a combined Prospect/Allied would have an estimated 135.1 million outstanding shares (63.3 million current Prospect shares plus 71.8 million shares to be issued to Allied shareholders), and require a quarterly dividend payment at current levels of $0.40875 per share aggregating approximately $55.2 million. During the three months ended September 30, 2009, Allied generated $9.6 million in net investment income. Together, the combined Prospect/Patriot/Allied organization earned approximately $23.0 million in net investment income, representing approximately 42% coverage through net investment income.

We do not see, based on the combined earnings of the proposed Allied/Prospect (including Patriot) organization, how a sustained dividend at current levels is possible. We further believe, based on the information Prospect provided to us, that Prospect's ability to close the gap between earnings and dividends relies upon the non-cash accretion of purchase price discount as a significant contributor to net investment income, combined with an assumption of early repayment of existing loans to generate liquidity. The acquisition of Allied is important to Prospect because of Prospect's existing dividend shortfall, yet fails to provide dividend stability to Allied shareholders. Indeed, rather than the higher dividends Prospect suggests, we believe a significant reduction in the dividend will be required. According to Greg Mason and Troy Ward from Stifel Nicholas, writing in a research report dated January 27, 2010, *"We still have a difficult time seeing how PSEC is able to cover its current dividend rate of $1.64."* Given that dividend yield is one of the key valuation metrics for business development companies such as Prospect, Allied and Ares, a significant reduction in Prospect's dividend would reduce Prospect's stock price, resulting in lower value for Allied shareholders.

By contrast, in addition to a lower base management fee (1.5% for Ares compared to 2.0% for Prospect), Ares has committed to take significant steps to preserve the combined cash dividend. For example, Ares has agreed to defer up to $15 million in base management and incentive fees for each of the first two years following the merger if certain earnings targets are not met to help support consistent cash flows and the combined Allied/Ares' dividend payments. Based on Prospect's recent results, it is unclear that Prospect has the ability to maintain its current dividend on a stand-alone basis, much less to pay a higher dividend than a combined Allied/Ares. We believe the future value of the dividend to Allied shareholders is far more secure under the Ares transaction.

3. **We believe Prospect lacks the managerial expertise to run the combined company.** Prospect's claim that it has the management depth, capital resources and experience to undertake an acquisition of Allied is not substantiated by the facts. Prospect's acquisition of Patriot, with an investment portfolio totaling $257 million as of September 30, 2009, only closed in December 2009 and is unlikely to be fully integrated by now. Further, this acquisition says little about Prospect's capacity to integrate Allied's $2.2 billion in assets (as of September 30, 2009, adjusted for subsequent changes). According to Prospect's website, Prospect's senior management and professional team consist of 26 people, including those individuals retained from Patriot. In acquiring Allied, Prospect would be facing an investment portfolio almost three times larger than Prospect's existing portfolio and one that is substantially more complex. Prospect would need many of the over 100 existing Allied employees. This would create complex and risky integration issues, including whether Prospect would be able to retain key employees. Given Prospect's actions to date, it would appear that there is a significant cultural divide between the two organizations, making a successful integration more difficult and uncertain. We believe that as investors analyze a potential combination of Allied and Prospect and factor in the weakness in Prospect's managerial skills, there would be immediate downwards pressure on Prospect's stock.

4. **There is no assurance that any agreement with Prospect could be reached or closed**. Prospect waited almost three months to make a proposal subsequent to the announcement of a transaction

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with Ares. Although Prospect's offer purports to represent a premium, Prospect's offer is preliminary and conditioned upon due diligence, and would be subject to the approval of Prospect's and Allied's shareholders. Even if Allied were to enter into negotiations with Prospect, the likelihood that a transaction with Prospect would be negotiated on the terms proposed and obtain the necessary consents and shareholder votes remains highly uncertain. Allied and Ares are moving expeditiously towards the shareholder meeting and receiving required third party consents. Allied believes the Ares transaction is on target for a closing in the first quarter of 2010. Pursuing an inferior offer with a low likelihood of ever reaching agreement or closing is clearly not in the best interests of Allied shareholders.

5.

We believe Prospect has limited liquidity to operate the combined business. Based on Prospect's SEC filings, Prospect's current available borrowings consist of a $250 million revolving credit facility lead arranged by Rabobank Nederland. Although the total facility size is $250 million, Prospect has received commitments totaling only $210 million, despite this facility being announced in June 2009. The facility is scheduled to enter into a period of amortization in June 2010, which would preclude Prospect from borrowing any further funds on the facility, and must be fully repaid by June 2011. Given the current state of the credit markets, we believe it may be difficult for Prospect to have access to adequate debt funding after expiration of this facility. This would (i) jeopardize the ability of Prospect to continue meeting current dividend levels, (ii) further reduce prospects for growth, and (iii) present a material risk to Allied shareholders who would become shareholders of Prospect/Allied.

By contrast, Ares has commitments from and long-standing relationships with many major banks, including JPMorgan Chase Bank N.A., Bank of America, N.A., SunTrust Bank, Bank of Montreal, UBS Loan Finance LLC, Deutsche Bank AG, Morgan Stanley Bank, N.A., City National Bank, NA and Branch Banking and Trust Company. These financial institutions participated in a new three-year revolving credit facility with Ares announced on January 25, 2010, which expanded the size of total commitments from $525 million to $690 million. The new facility has a stated interest rate of Libor plus 300 basis points and continues to be free of a Libor floor. Prospect's current facility has a stated interest rate on drawn balances of Libor plus 400 basis points, with a Libor floor of 200 basis points, which indicates that lenders perceive Prospect to be a higher credit risk than Ares. With three-month Libor currently at approximately 25 basis points, the variation in the costs of Ares and Prospect's respective facilities creates a cost of capital differential of approximately 275 basis points in Ares' favor. In addition, Ares utilizes and has access to other forms of debt capital at lower costs than the revolving credit facility described above.

6.

We believe the Prospect management platform is inferior to the Ares management platform, providing weaker long term growth opportunities for Allied's shareholders. Allied's Board has no confidence in Prospect's ability to manage the assets in Allied's portfolio. Ares has more than 250 professionals in offices in Los Angeles, New York, Chicago, Atlanta, London, Paris, Frankfurt and Stockholm. Ares Management LLC is a global alternative asset manager with over $33 billion in committed capital under management across a range of business segments, including private equity, private debt and capital markets, has deep relationships with significant investors around the world, and has numerous lending partners both at Ares and at the advisor's parent. Ares has demonstrated investment expertise that enables Allied to have confidence in Ares as managers of the combined Allied/Ares portfolio. On the other hand, we believe Prospect's advisor manages total assets of only $760 million, with a senior management and professional team of only 26. To quote Greg Mason and Troy Ward again, from their January 27, 2010 research report, *"We still believe that over the next several years ARCC has better scale and breadth and is more likely to optimize the assets and liabilities of ALD's balance sheet better than PSEC."*

7.

We believe the acquisition of Patriot Capital further weakens Prospect's platform, making Prospect a less attractive merger partner. We believe Prospect's acquisition of Patriot lessens

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Prospect's attractiveness as a merger partner for Allied. Patriot's investment portfolio consisted of smaller companies relative to Prospect's portfolio, and at the time the acquisition was announced, loans and equity investments from six of Patriot's 33 portfolio companies were on non-accrual status, yet Prospect agreed to pay a 105.1% premium for Patriot's equity. Further, Prospect agreed to use existing cash resources, raised throughout 2009 in dilutive equity raises, to repay $110.5 million of debt to Patriot's lenders.

8. **Prospect has a track record of highly dilutive equity capital raises which we do not believe provides responsible growth to shareholders.** Prospect raised equity six times in 2009 at significant discounts to Prospect's net asset value per share ("NAV"). The average size of Prospect's equity transactions in 2009 was $34.3 million at a weighted average price to NAV multiple of 0.67x. By contrast, on January 27, 2010, Ares announced that it had raised approximately $267.8 million in equity at a price to NAV multiple of 1.14x. Since its initial public offering, Ares has raised equity 10 times, for average gross proceeds of $164.3 million and a weighted average price to NAV multiple of 1.03x. Allied believes that Ares' track record in equity-capital raising is far more disciplined and shareholder friendly, and that Ares represents a responsible growth partner for existing Allied shareholders who wish to participate in the potential of a combined Allied/Ares.

9. **We believe, by combining with Prospect, Allied shareholders would be inheriting a much riskier portfolio.** As part of Allied's discussions with Ares prior to the signing of a merger agreement, Allied spent a significant amount of time analyzing Ares' portfolio. As of September 30, 2009, approximately 5.3% of Ares' investment portfolio based on cost, and 1.7% based on fair value, was on non-accrual status. Allied has not had the opportunity to diligence Prospect's portfolio, however, based on public information as of September 30, 2009, approximately 18.6% of Prospect's investment portfolio based on cost, and 6.8% based on fair value, was on non-accrual status. Furthermore, Prospect's investment portfolio exhibits significantly less diversity from an industry perspective given its concentration in the oil and gas sectors.

Allied has explored a variety of strategic alternatives, including continuing its existing business on a stand-alone basis with its existing structure, converting to an operating company, agreeing to a large investment by a strategic investor or entering into a business combination with another financial services firm. Allied entered into the merger agreement with Ares because it provided a number of important benefits to Allied shareholders that would not otherwise be achievable in the near term. Those benefits include, among other things:

- The resumption of dividend payments for Allied's shareholders;
- The combined company's improved access to the debt capital markets on more favorable terms;
- The combined company's improved access to the equity capital markets;
- The combined company's increased liquidity and flexibility to provide for future growth of the business;
- The combined company's increased portfolio diversity;
- The size and scope of Ares' investment manager; and
- Closing certainty for Allied's stockholders.

We do not believe Prospect's offer measures up on any of these bases.

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For all of the foregoing reasons, Allied's Board of Directors has unanimously determined that the revised offer from Prospect does not constitute, and is not reasonably likely to result in, a Superior Proposal and we remain strongly committed to the Ares transaction.

Very truly yours,

THE BOARD OF DIRECTORS
ALLIED CAPITAL CORPORATION

On February 9, 2010, Prospect Capital issued a third unsolicited non-binding proposal and increased its proposed share exchange ratio from 0.40 Prospect Capital shares for each Allied Capital share to 0.4416 Prospect Capital shares for each Allied Capital share. On February 11, 2010, the board of directors of Allied Capital delivered the following letter to Prospect Capital:

February 11, 2010

Prospect Capital Corporation
10 East 40th Street
New York, NY 10016
Attention: Mr. John F. Barry III, Chairman and Chief Executive Officer

Dear Mr. Barry:

The Board of Directors of Allied Capital Corporation ("Allied"), together with its external legal and financial advisors, has carefully reviewed and analyzed the revised proposal submitted by Prospect Capital Corporation ("Prospect") set forth in your letter of February 9, 2010. **As a result of this review, Allied's Board of Directors has unanimously concluded that this revised offer does not constitute, and is not reasonably likely to result in, a "Superior Proposal" as defined under our merger agreement with Ares Capital Corporation ("Ares"**). **Allied's Board of Directors has unanimously reaffirmed its recommendation that Allied shareholders vote for the transaction with Ares (the "Ares Merger") that was announced on October 26, 2009.**

We entered into the Ares Merger after careful consideration of the best interests of Allied's shareholders.

Contrary to the assertions Prospect has made, we would like to assure you that we take very seriously our fiduciary obligations and that we have carefully considered and analyzed each of the three offers you have made to us over the past several weeks. The Allied Board of Directors consists of a majority of independent directors and is advised by two nationally recognized law firms and two investment banking firms, including Sandler O'Neill + Partners L.P., a firm which has no relationship with Ares.

In considering the Ares transaction, the Allied Board carefully considered whether it was the appropriate time to engage in such a transaction and whether Allied should pursue other alternatives simultaneously. As our proxy statement makes clear, both in 2008 and in early 2009, Allied explored a variety of strategic alternatives and held various discussions regarding potential transactions. Following Allied's debt restructuring in late August 2009 (during which time Allied had terminated discussions with Ares), Ares was the only party that pursued an acquisition of Allied. We did not, and do not, view a call by a Prospect Managing Director to someone on Allied's Capital Markets desk regarding the acquisition of certain assets as expressing an interest in acquiring Allied.

In reaching the determination to proceed with Ares, the Allied Board considered, with the assistance and advice of its two investment banking firms and outside counsel, whether it would be appropriate to run a process soliciting other potential buyers or merger partners. Based on the prior exploration of alternatives, the Allied Board and its advisors were cognizant of the limited universe of capable, interested buyers for Allied. The Board concluded that the risks and uncertainties associated with such a process outweighed the potential benefits and would have likely resulted in Ares being unwilling to proceed with its proposal. In rendering its advice, our advisors at BofA Merrill Lynch noted that at the request of Allied they had contacted several parties deemed most likely to be interested in and capable of acquiring Allied, but none of the parties demonstrated serious interest in pursuing an acquisition.

The merger agreement we entered into with Ares permits us to negotiate with a party who puts forth a Superior Proposal, and the fact that you have made three offers indicates that the terms of the merger agreement have not deterred you from making a proposal. However, we have been unable to find your offer to be, or be reasonably likely to result in, a Superior Proposal. Casting aspersions on the good faith of the Allied Board and its financial advisors in this process does not add value to your offer, which is what we are called upon to consider and which we have done. Both of our investment banking firms delivered fairness opinions to us with respect to the Ares Merger and both continue to provide analysis and advice with respect to the initial offer and revised offers you have submitted.

In Prospect's most recent letter you ask why we are rushing to close the Ares Merger. The answer is a simple one: we believe that the Ares Merger is in the best interests of our shareholders for the many reasons we have given.

The consideration to our shareholders remains superior in the Ares Merger.

In Prospect's revised offer, Allied shareholders would be receiving two components of value: the shares of your stock and the ongoing dividend stream. While Prospect's revised offer does provide a nominally higher initial premium (assuming Prospect stock price does not deteriorate further), for a variety of reasons we remain very concerned and sensitive to the likelihood that this premium will be significantly reduced or even disappear. These reasons include:

(i) The higher than what we believe to be an appropriate level of execution risk, in particular given Prospect would be acquiring a much larger, more complex organization and the lack of requisite management depth to appropriately manage the combined assets;

(ii) Prospect's lack of proven access to additional debt of any form, combined with a poor track record of raising equity through highly dilutive equity capital transactions;

(iii) The high likelihood of a near term reduction in Prospect's dividend, and the anticipated negative impact to Prospect' stock price as a result; and

(iv) The weak credit quality of the Prospect portfolio, especially following the acquisition of Patriot Capital Funding Ltd ("Patriot"). In this regard, we note that based on public information as of December 31, 2009, approximately 12.8% of Prospect's investment portfolio based on cost, and 5.6% based on fair value, representing a total of 17 portfolio investments, were on non-accrual status. Your portfolio is clearly performing more poorly than the Ares portfolio.

The second component of the consideration for our shareholders is their share of dividends from the combined company. We note that again with your most recent offer, you fail to provide any financial analysis to support your claims that the combined Allied/Prospect can pay higher dividends to our shareholders than the combined Allied/Ares. Prospect's revised offer letter discusses past dividend history, but does not acknowledge the difficulty of maintaining dividends at the same level following a period of dilutive equity issuances, particularly when you appear to rely so heavily on non-cash items such as the accretion of purchase discount in order to generate net investment income, and that a significant portion of your 2009 dividends represented a return of capital. Unlike the commitment Allied was able to receive from Ares, Prospect has not offered a reduction in management fees as a way to ensure stability of future dividends to our shareholders.

Based upon a review of Prospect's Form 10-Q as of December 31, 2009, our analysis of your fourth quarter 2009 financial information revealed the following.

During the three-month period ended December 31, 2009, Prospect earned approximately $0.29 per share in net investment income, compared to a quarterly dividend declared of $0.40875, representing a coverage ratio of approximately 72%. By way of contrast, the coverage ratio from the corresponding period one year earlier, prior to Prospect entering into a series of highly dilutive equity raises, was approximately 100%. We note further our earnings calculation uses weighted average shares outstanding for the quarter, while the dividend rate is applied against the actual shares outstanding. A period in which additional shares are issued creates an additional burden in terms of cash dividends required to be paid to shareholders. Using quarter end share count for Prospect and applying that against net investment income results in a per share calculation of less than $0.27 for the quarter ended December 31, 2009, or a coverage ratio relative to the dividend of approximately 65%.

The quality of the earnings reported by Prospect has declined materially over the past year, which we are very concerned is a sign of what is to come. In the quarter ended December 31, 2008, accretion of original issue discount on investments represented $0.4 million or 3% of net investment income. For the quarter ended December 31, 2009 accretion of original issue discount a non-cash item represented $6.2 million or 36% of net investment income. While this non-cash item appears to close the gap between net investment income and dividends, except in the instance where an asset is sold, the income does not generate cash with which to pay shareholders the dividend each quarter. Moreover, accretion of discounts does not represent a sustainable earnings stream, and ceases once the particular asset is sold.

Under Prospect's latest revised proposal, Prospect would be issuing approximately 79.2 million shares to Allied shareholders (surrendering 56% of the combined company). On a pro forma basis, a combined Prospect/Allied would have an estimated 142.6 million outstanding shares and require a quarterly dividend payment at current levels of $0.40875 per share aggregating approximately $58.3 million. With adjusted net investment income (excluding the non-cash accretion of original issue discount on investments of $6.2 million and the one time gain related to the acquisition of Patriot of $5.7 million) for the most recent quarter at Prospect merely $5.1 million, a significant earnings gap arises and appears unlikely to be addressed, even with Allied's cash earnings added, without a dividend reduction. How the current dividend stream can be supported given the lack of earnings power that Prospect brings to the table is a serious flaw in your proposal that we can not overlook. You have not provided any financial analysis or reassurance to the contrary and therefore we must conclude that our analysis is accurate. We note that on each occasion that Prospect has increased its offer to acquire Allied, it has materially increased the risk that Prospect will not be able to maintain its dividend. This is our primary consideration in determining that your revised offer does not provide superior value to our shareholders.

The Ares Merger presents lower execution risk.

In addition to our viewing future dividends much safer under the Ares Merger, we also again want to point out the far higher likelihood of closing the Ares Merger. Prospect's offer remains preliminary and subject to due diligence, negotiation of a mutually satisfactory merger agreement, receipt of lender consents and receipt of approval from both Allied and Prospect shareholders. We have significant reservations about the likelihood of a transaction with you closing on the terms you have proposed in your revised offer and you have taken no steps to provide any reassurance to the contrary in your most recent letter. We also note that you still have yet to retain a financial advisor to assist you with this significant and potentially transformational transaction, which continues to cause us concern regarding your ability to execute this transaction as proposed.

***

In your recent letter, you state that this is your "best and final" offer. We have once again analyzed in detail this best and final offer and have unanimously concluded that the revised offer from Prospect

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does not constitute, and is not reasonably likely to result in, a Superior Proposal. We understand Prospect's belief that your offer is superior is based in no small part on your optimism you are optimistic that you will receive early prepayments of indebtedness, you are optimistic that you will be able to redeploy those funds in more favorable investments, you are optimistic that your borrowing capacity will increase and be on better terms, which will enable you to buy portfolios on favorable terms, which will allow you to maintain your dividend, and so on. As fiduciaries to the Allied shareholders, we cannot jettison an existing transaction that we believe is in our shareholders' best interests for an outcome that depends on so many variable factors playing out favorably. We remain strongly committed to the Ares transaction. Thus, we respectfully request that you terminate your proxy solicitation.

Very truly yours,

THE BOARD OF DIRECTORS
ALLIED CAPITAL CORPORATION

The Allied Capital board did not find it useful, and did not attempt, to quantify, rank or otherwise assign relative weights to the factors set forth in the letter. In addition, except as noted above, the Allied Capital board did not undertake to make any specific determination as to whether any particular factor or any aspect of any particular factor was favorable or unfavorable to the Allied Capital board's ultimate determination. Rather, the Allied Capital board conducted an overall analysis of the factors described above, including thorough discussions with, and questioning of, Allied Capital's management and its financial and legal advisors. In considering the factors described above, individual members of Allied Capital's board may have given different weight to different factors.

The Allied Capital board has unanimously concluded that Prospect Capital's proposal does not constitute, and is not reasonably likely to result in, a Superior Proposal. Accordingly, Allied Capital recommends that you do not give your proxy to Prospect Capital. Allied Capital's board also unanimously reaffirmed its recommendation that Allied Capital's stockholders vote in favor of the merger and the merger agreement.

Interests of Certain Persons Related to Allied Capital in the Merger

In considering the recommendation of Allied Capital's board of directors to approve the merger and the merger agreement, Allied Capital's stockholders should be aware that certain persons related to Allied Capital have interests in the merger that are different from, and/or in addition to, the interests of Allied Capital's stockholders generally.

Allied Capital's compensation and benefits programs, including the employment and retention agreements it has entered into with certain employees, are designed to align the compensation paid to its executive officers with the achievement of certain corporate and executive performance objectives and to enable Allied Capital to retain key officers who contribute to Allied Capital's operations, especially during a period of transition such as during the pendency of a merger.

Allied Capital's board of directors was aware of these potential conflicts of interest and considered them, among other matters, in evaluating and negotiating the merger and the merger agreement and in reaching its decisions to approve the merger and the merger agreement and to recommend that Allied Capital stockholders vote in favor of approving the merger and the merger agreement.

Treatment of Stock Options

Allied Capital's directors and officers (including Allied Capital's named executive officers as of December 31, 2009, the "NEOs") have received from time to time grants of stock options to purchase Allied Capital common stock under the Allied Capital Amended Stock Option Plan, or the "Stock

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Option Plan." Stock options granted to directors vest immediately. Under the terms of the Stock Option Plan, all outstanding unvested stock options to purchase Allied Capital common stock will become fully vested and exercisable upon completion of the merger.

As of January 15, 2010, there were 21,908,523 Allied Capital stock options outstanding under the Stock Option Plan, 12,643,557 of which were vested and 9,264,966 of which were unvested. The NEOs and directors as a group held 7,495,004 Allied Capital stock options of which 3,555,000 Allied Capital stock options were "in-the-money" with a weighted average exercise price of $1.0266 per Allied Capital common share.

Prior to the closing date and contingent upon the merger occurring, Allied Capital's board of directors will cause all outstanding unvested and unexercisable options to purchase shares of Allied Capital common stock issued pursuant to the Stock Option Plan to become fully vested and exercisable. At least three business days prior to the effective time, such option holders will have the opportunity to exercise some or all of their outstanding stock options to purchase shares of Allied Capital common stock, contingent on the closing of the merger. The shares of Allied Capital common stock acquired upon such exercise will be converted at the effective time into the right to receive the merger consideration.

At the effective time, each Allied Capital stock option, whether vested or unvested, that has not been exercised will be cancelled and if the exercise price of such option is less than the product of (1) the average closing price per share of Ares Capital common stock for the five consecutive trading days immediately preceding the closing, or the "Ares Capital average closing price," *multiplied by* (2) the exchange ratio of 0.325 (such amount, the "option closing amount"), then the holder of such option will have the right to receive, at their election:

- a lump sum cash amount equal to the product of (1) the excess of the option closing amount over the exercise price per share for such option *multiplied* by (2) the total number of shares of Allied Capital common stock subject to such option, less applicable withholdings; or

- a number of shares of Ares Capital common stock equal to (1) the product of (a) the total number of shares of Allied Capital common stock subject to such option *multiplied by* (b) the excess of the option closing amount over the exercise price per share for such option, less applicable withholdings, *divided* by (2) the Ares Capital average closing price.

Holders electing to receive shares of Ares Capital common stock will receive cash (without interest) instead of fractional shares in an amount equal to the product of (1) such fractional share *multiplied* by (2) the Ares Capital average closing price.

Any holder who fails to make such election will be deemed to have made an election to receive shares of Ares Capital common stock. Any previously unpaid dividends or other distributions payable on Ares Capital common stock acquired upon exercise of an Allied Capital stock option or in settlement of an Allied Capital stock option, with a record date after the effective time, will be paid to such option holders.

Pursuant to the merger agreement, Allied Capital will terminate the Stock Option Plan as of the effective time.

For information regarding the stock option awards outstanding for each of Allied Capital's NEOs for the fiscal year ended December 31, 2009, see "Management of Allied Capital Executive Compensation Outstanding Equity Awards at Fiscal Year-End."

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Employment Agreements and Retention Agreements

Each NEO is party to either an employment agreement or a retention agreement with Allied Capital that provides for certain severance payments and benefits if the NEO's employment terminates under certain circumstances, including termination of the NEO by Allied Capital without cause (as defined in each employment agreement or retention agreement) and termination by the NEO for good reason (as defined in each employment agreement or retention agreement), including in the event of a change in control.

The completion of the merger will constitute a change in control. As a result of the merger, each of the NEOs will be terminated from Allied Capital without "cause." As a result, payments will be made to each NEO in connection with the merger.

Each NEO would be required to enter into an agreement with Allied Capital that provides for a general release of all legal claims that are or may be held by each such NEO against Allied Capital to receive any severance payments and benefits pursuant to each employment or retention agreement.

Employment Agreements

Allied Capital has employment agreements with the following NEOs: Mr. Scheurer, Mr. William Walton and Ms. Penni Roll. See "Management of Allied Capital Executive Compensation Employment Agreements."

Mr. Scheurer

Allied Capital entered into an employment agreement effective May 5, 2009 with Mr. Scheurer. The agreement provides that if Mr. Scheurer's service as Chief Executive Officer is terminated by Allied Capital without cause, by Mr. Scheurer for good reason (which would include the merger) or due to Mr. Scheurer's death or disability, he will be entitled to severance pay equal to (1) three times (one times in the event of Mr. Scheurer's death or disability) the average of his base and bonus compensation for the preceding three fiscal years, plus (2) a lump-sum severance amount, plus (3) a cash payment to assist in paying for certain post-termination health and welfare benefits. Severance payments will generally be paid in a lump-sum on the first business day after the six-month period following the termination date and are conditioned on Mr. Scheurer signing a general release of claims.

Mr. Walton and Ms. Roll

Allied Capital initially entered into employment agreements in 2004 with Mr. Walton and Ms. Roll, each of which has since been amended. Mr. Walton's and Ms. Roll's agreements provide that if their employment is terminated by Allied Capital without cause, by Mr. Walton or Ms. Roll for good reason (which includes any termination within 24 months after the occurrence of a change in control, such as the merger), due to Mr. Walton's or Ms. Roll's death or disability or as a result of the failure to renew the agreement, Mr. Walton and Ms. Roll, as the case may be, will be entitled to severance pay equal to (1) three times (one times in the event of death or disability) the average of base and bonus compensation for the preceding three fiscal years, plus (2) a lump-sum severance amount, plus (3) a cash payment to assist in paying for certain post-termination health and welfare benefits. Severance payments will generally be paid in a lump-sum on the first business day after the six-month period following the termination date and are conditioned on Mr. Walton or Ms. Roll, as the case may be, signing a general release of claims.

Retention Agreements

Allied Capital has retention agreements with the following NEOs: Ms. Joan Sweeney and Mr. Daniel Russell.

Ms. Sweeney

Allied Capital entered into a retention agreement effective May 13, 2009 with Ms. Sweeney. The agreement has a three-year term and provides that if Ms. Sweeney's service as Managing Director and Senior Advisor to the Chief Executive Officer is terminated by Allied Capital without cause, by Ms. Sweeney for good reason (which includes the occurrence of a change in control, such as the merger) or due to Ms. Sweeney's death or disability, she (or, in the case of her death, her estate) will be entitled to severance pay equal to the sum of her total base compensation and any special retention bonus that she would have received if her employment had continued from the termination date through May 13, 2012, plus an additional cash amount for the first full month after the termination date and for every following month through the last month of the term of the agreement.

The retention agreement also provides that Ms. Sweeney is entitled to additional payments under other circumstances: (1) if there is a change in control of Allied Capital (as defined in the retention agreement) before May 13, 2011, the second anniversary of the effective date of the retention agreement, and Ms. Sweeney terminates her employment for good reason as a result of the change in control or if Ms. Sweeney's employment has previously been terminated by Allied Capital without cause or by Ms. Sweeney for good reason, she will receive a lump-sum payment of $2 million; and (2) if, before May 13, 2011, the second anniversary of the effective date of the retention agreement, Ms. Sweeney's employment is terminated by Allied Capital without cause or by Ms. Sweeney for a good reason other than good reason due to a change in control and Ms. Sweeney also ceases to be a member of the board of directors other than due to her resignation, death or disability, she will receive a lump-sum payment of $1 million. The total amount payable pursuant to (1) and (2) above will not exceed $2 million.

Between May 13, 2011 and May 13, 2012, if there has not been a change in control that would entitle Ms. Sweeney to a payment pursuant to item (1) in the preceding paragraph, the retention agreement provides for the following payments: (A) if there is a change in control on or after the second anniversary but before the third anniversary of the effective date of the retention agreement and Ms. Sweeney terminates her employment for good reason as a result of the change in control or her employment has previously been terminated by Allied Capital without cause or by Ms. Sweeney for good reason, she will receive a lump-sum payment of $1 million; and (B) if on or after the second anniversary of the effective date of the retention agreement but before the end of the term of her employment, Ms. Sweeney's employment is terminated by Allied Capital without cause or by Ms. Sweeney for a good reason other than good reason due to a change in control and Ms. Sweeney also ceases to be a member of the board of directors other than due to her resignation, death or disability, she will receive a lump-sum payment of $500,000. The total amount payable pursuant to items (A) and (B) will not exceed $1 million.

The severance payments will generally be paid in a lump-sum within seven business days following the end of the six-month period after the termination date and any additional payments will generally be paid on the later of seven days following the end of the six-month period after the termination date or 30 days following the change in control. All payments are conditioned on Ms. Sweeney's execution of a general release of claims.

Mr. Russell

Allied Capital entered into retention agreements on March 3, 2009 with 17 officers, including Mr. Russell, which expire on December 31, 2011. These agreements provide that, in the event of a termination of the officer's employment by Allied Capital or its successor, other than for cause, or a termination of employment by the officer for good reason, in each case, within 90 days before or 18 months following a change of control of Allied Capital (including the merger), the officer will receive a retention award to be paid in a lump sum on the first business day after the six-month period following their separation from service. Allied Capital would also be required to pay for health care

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continuation coverage until the earlier of 12 months after the separation from service or the officer becoming employed by a new employer.

Potential Payments Under Employment and Retention Agreements

The following tables quantify the potential payments and benefits upon termination of employment with Allied Capital for each NEO, assuming the NEO's employment terminated on March 31, 2010. Due to the number of factors that affect these calculations, including the price of Allied Capital common stock, any actual amounts paid or distributed may be different.

In addition to the potential payments set forth in the tables below, Allied Capital may be required to pay up to $12,875,000 plus health care continuation coverage for up to 12 months to certain of its officers, other than its NEOs, pursuant to the terms of the retention agreements entered into on March 3, 2009 and discussed above.

In connection with the negotiations with respect to the merger, it was determined that amounts to be paid by Allied Capital to certain employees, including its NEOs, under the terms of the employment and retention agreements, would not exceed $30.3 million in the aggregate. As a result, certain executive officers, including certain NEOs, agreed to reduce the amount of the payments that otherwise might have been payable under the terms of the employment and retention agreements by an aggregate of $4,591,139, of which $3,172,000 has been waived by Mr. Walton. The amounts shown in the tables below reflect these reductions in respect of the NEOs. In addition, it is expected that certain officers with retention agreements will be employed by Ares Capital or one of its affiliates following the completion of the merger. As a result, payments may not be made immediately or at all under certain retention agreements. If payments were made under all outstanding retention agreements, the aggregate amount to be paid to employees with employment or retention agreements, including NEOs, would be cash payments of $35,353,111 and health care continuation coverage for up to 12 months for the employees with retention agreements.

William L. Walton		
Cash Payments	$	6,500,000
Accelerated Vesting of Option Awards	$	1,728,000
Continued Benefits	$	
Total	$	8,228,000

John M. Scheurer		
Cash Payments	$	4,999,999
Accelerated Vesting of Option Awards	$	1,728,000
Continued Benefits	$	
Total	$	6,727,999

Penni F. Roll		
Cash Payments	$	4,091,950
Accelerated Vesting of Option Awards	$	767,998
Continued Benefits	$	
Total	$	4,859,948

Joan M. Sweeney		
Cash Payments	$	5,486,162
Accelerated Vesting of Option Awards	$	326,666
Continued Benefits	$	
Total	$	5,812,828

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Daniel L. Russell

Cash Payments	$	1,400,000
Accelerated Vesting of Option Awards	$	1,535,999
Continued Benefits	$	21,183
Total	$	2,957,182

The foregoing estimates are based on a number of assumptions. Accelerated vesting of option awards is calculated based on the closing price of $3.61 of Allied Capital common stock on December 31, 2009. Facts and circumstances at the time of any change in control transaction or any termination thereafter, as well as changes in the applicable officer's compensation history preceding such a transaction and/or a qualifying termination thereafter, could materially impact the amounts to be paid.

Additional Severance Payments to Allied Capital Employees

The merger agreement provides for certain additional severance payments to be made to Allied Capital's non-executive officer employees who do not have severance payments under the employment agreements or the retention agreements discussed above and who are employed by Allied Capital on the closing date of the merger and: (1) who are not offered employment with Ares Capital or one of its affiliates; or (2) who are offered employment with Ares Capital or one of its affiliates but whose employment is terminated without cause within the 12-month period following the closing date. The severance payable, which will vary based upon the employee's years of service and seniority, will range from a minimum of six weeks for employees below the level of vice president to a maximum of 32 weeks for managing directors, for a total cost that is currently estimated not to exceed $ 2.2 million. Any severance and benefit payments will be made in a single lump sum and are conditioned upon the signing of a waiver and release of claims.

Indemnification and Insurance

Following the effective time, Ares Capital will, to the fullest extent permitted under applicable law, indemnify, defend and hold harmless and advance expenses to the present and former directors and officers of Allied Capital or any of its consolidated subsidiaries, and any such person presently or formerly serving at the request of Allied Capital or any of its consolidated subsidiaries as a director, officer, employee, trustee or fiduciary of any other person or entity or under or with respect to any employee benefit plan, against all costs or expenses (including reasonable attorneys' fees), judgments, fines, losses, claims, damages, penalties, amounts paid in settlement or other liabilities incurred in connection with any proceeding or claim arising out of actions or omissions occurring at or prior to the effective time, including the merger.

In addition, at the effective time, Ares Capital will automatically, fully, unconditionally and irrevocably assume and agree to perform and discharge all of the obligations of Allied Capital under each indemnification agreement between Allied Capital and certain of its current and former directors and officers and any other similar agreements.

The merger agreement requires Ares Capital to maintain for a period of six years following the effective time a directors' and officers' liability insurance policy covering the present and former officers and directors of Allied Capital or any of its consolidated subsidiaries, containing identical or better coverage and amounts and terms and conditions no less advantageous as that coverage currently provided by Allied Capital's current policies, except that Ares Capital is not required to expend more than 200% of the current amount expended by Allied Capital for its policies for a twelve-month period. If Ares Capital is unable to maintain or obtain such a policy, Ares Capital must use its reasonable best efforts to obtain as much comparable insurance as is available for 200% of Allied Capital's current premium for a twelve-month period. Ares Capital may fulfill its obligation to maintain a directors' and officers' liability insurance policy covering the present and former officers and directors of Allied

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Capital by purchasing a directors' and officers' insurance policy or a "tail" policy under Allied Capital's current directors' and officers' liability insurance policy provided that such policy: (1) has an effective term of six years from the effective time; (2) covers those individuals who are covered by Allied Capital's current policy and for actions and omissions occurring on or prior to the effective time; and (3) contains terms with respect to coverage and amounts that are identical or better than those contained in Allied Capital's current policy. If Allied Capital elects to purchase such a tail policy, then Ares Capital's obligations will be deemed to have been satisfied.

Ares Capital Board Position

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

Future Employment and Benefits

On or prior to the closing date, Ares Capital or its affiliates may, but are not under any obligation to, make an offer of employment, effective as of the effective time or thereafter, or hire any of the employees, officers, directors or consultants of Allied Capital who are actively employed with Allied Capital immediately prior to the effective time. Ares Capital or its affiliates shall determine, in its or their discretion, the terms and conditions of employment to be offered to any such individuals and are under no obligation to employ any such individuals for any particular period of time. Except as otherwise directed by Ares Capital, Allied Capital will cause the employment or services of all employees, officers, directors or consultants of Allied Capital and its consolidated subsidiaries to be terminated immediately prior to the effective time. As of January 22, 2010, Ares Capital's investment adviser has hired three former Allied Capital employees, including Robert D. Long, a named executive officer of Allied Capital in 2009.

Any employee benefit plans in which any employees, officers, directors or consultants of Allied Capital who continue employment with Ares Capital or one of its controlled affiliates are eligible to participate will take into account, for purposes of eligibility, vesting and benefit accrual thereunder, service by such individuals with Allied Capital and its affiliates as if such service were with Ares Capital or its controlled affiliates, to the same extent such service was credited under a comparable Allied Capital employee benefit plan (other than for purposes of benefit accruals under defined benefit pension plans). In addition, for any Allied Capital employee, officer, director or consultant who continues employment with Ares Capital or one of its controlled affiliates, Ares Capital has agreed to, or to cause its controlled affiliate to: (1) waive any preexisting condition limitations otherwise applicable to such individual and their eligible dependents under any benefit plan of Ares Capital or its controlled affiliates that provides health or medical benefits in which such individual may be eligible to participate following the closing, (2) honor any deductible, co-payment and out-of-pocket maximums incurred by any such individual and their eligible dependents under the health plans in which they participated immediately prior to the closing and (3) waive any waiting period limitation or evidence of insurability requirement that would otherwise be applicable to any individual and their eligible dependents on or after the closing. See "Description of the Merger Agreement Additional Covenants Pending Completion of the Merger."

Not later than 10 business days prior to and contingent on the effective time, Allied Capital will terminate all of the employee benefit plans maintained by it or any of its consolidated subsidiaries subject to the requirements of Sections 401(a) and 409A of the Code, unless Ares Capital provides notice to Allied Capital at least 10 business days before the effective time that such plan or agreement should not be terminated or to the extent there is an obligation to make a payment under any employment or retention agreement or pursuant to the merger agreement. Payments in respect of any such terminated benefit plans will be made at the effective time to the extent permitted by Sections 401(a) and 409A of the Code. To the extent payment at the effective time is not permitted by Sections 401(a) and 409A of the Code, Allied Capital will vest payments and benefits under its employee benefit plans and payments and benefits under employment or retention agreements for employees who will not continue to be employed by Ares Capital or its controlled affiliates. Notwithstanding the foregoing, Allied Capital will not be required to terminate: (1) any obligation it has to make payments under any employment or retention agreements or payments otherwise provided for in the merger agreement; or (2) any employee benefit plan identified by Ares Capital at least 10 business days prior to the closing.

To the extent permitted by Section 409A of the Code, Allied Capital intends to establish and fund a rabbi trust or similar funding arrangement for any payments in respect of terminated employee benefit plans or employment or retention agreements not made at the closing, which payments will be distributed at the earliest time permitted in accordance with the terms of such underlying Allied Capital employee benefit plans and the requirements of Section 409A of the Code. The rabbi trust will provide that, upon satisfaction of all amounts, the remainder will revert to Ares Capital.

With respect to health benefits, the merger agreement also provides that Ares Capital or its controlled affiliates, to the extent possible, will continue, or cause to be continued for the duration of the applicable COBRA continuation period, the level of health and medical benefits of the employees, officers, directors and consultants of Allied Capital and its consolidated subsidiaries; provided, that if it is not possible for Ares Capital or its controlled affiliates to continue the Allied Capital health plans as a result of their termination, Ares Capital or its controlled affiliate shall either (1) use commercially reasonable efforts to obtain replacement arrangements that replicate the Allied Capital health plans or (2) cause such benefits to be provided pursuant to the health and medical benefit arrangements of a controlled affiliate that most closely approximate the benefits provided pursuant to the Allied Capital health plans.

At or prior to the effective time, Allied Capital will take all necessary action to cause the account balances or accrued benefits of its employees, officers, directors and consultants under the Allied Capital 401(k) Plan to be fully vested and non-forfeitable as of, and contingent on, the closing date.

Interests of Ares Capital's Investment Adviser in the Merger

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

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

Litigation Relating to the Merger

Allied Capital and Ares Capital are aware that a number of lawsuits have been filed by stockholders of Allied Capital challenging the merger. The suits are filed either as putative stockholder class actions, stockholder derivative actions or both. All of the actions assert similar claims against the members of Allied Capital's board of directors alleging that the merger agreement is the product of a flawed sales process and that Allied Capital's directors breached their fiduciary duties by agreeing to a structure that was not designed to maximize the value of Allied Capital's stockholders and by failing to adequately value and obtain fair consideration for Allied Capital's shares. They also claim that Ares Capital (and, in several cases, Merger Sub, and, in several other cases, Allied Capital) aided and abetted the directors' alleged breaches of fiduciary duties. All of the actions demand, among other things, a preliminary and permanent injunction enjoining the merger and rescinding the transaction or any part thereof that may be implemented.

Regulatory Approvals Required for the Merger

Completion of the merger is subject to prior receipt of all approvals and consents required to be obtained from applicable governmental and regulatory authorities to complete the merger. Ares Capital and Allied Capital have agreed to cooperate and use all reasonable best efforts to obtain all permits, consents, approvals and authorizations from any governmental or regulatory authority necessary to consummate the transactions contemplated by the merger agreement as promptly as practicable.

There can be no assurance that such regulatory approvals will be obtained, that such approvals will be received on a timely basis or that such approvals will not impose conditions or requirements that, individually or in the aggregate, would or could reasonably be expected to have a material adverse effect on the financial condition, results of operations, assets or business of Ares Capital following completion of the merger.

Each of Ares Capital and Allied Capital filed notifications of the merger under the provisions of the HSR Act with the Antitrust Division of the United States Department of Justice and the United States Federal Trade Commission on November 16, 2009. Early termination of the HSR waiting period was granted to each of Ares Capital and Allied Capital on December 1, 2009.

Ares Capital and Allied Capital are not aware of any governmental approvals or compliance with applicable laws and regulations that are required for the merger to become effective other than filings with NASDAQ regarding the listing of additional shares and filings with the SEC regarding this document. Ares Capital and Allied Capital intend to seek any other approvals required to complete the merger. There can be no assurance, however, that any such approvals will be obtained.

Third Party Consents Required for the Merger

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

There can be no assurance that any confirmations, approvals or consents will be obtained or that any refinancings will be completed on a timely basis or at all or that any confirmations, approvals, consents or refinanced debt facilities will not impose conditions or requirements that, individually or in the aggregate, would or could reasonably be expected to have a material adverse effect on the financial condition, results of operations, assets or business of the combined company following the merger.

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

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

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

On January 29, 2010, Allied Capital entered into the Credit Agreement pursuant to which Allied Capital obtained the Term Loan. The proceeds of the Term Loan were used to refinance Allied Capital's private notes and bank facility. In connection with entering into the Term Loan, Allied Capital used the proceeds from the Term Loan and cash on hand from asset sales and repayments to repay its private notes and bank facility in full. On January 29, 2010, after giving effect to the refinancing and the full repayment of the private notes and bank facility, Allied Capital had total outstanding debt of $995.5 million and cash and investments in money market and other securities of approximately $128 million. The Term Loan matures on February 28, 2011 and is subject to certain mandatory prepayments prior to maturity, including repayments related to asset dispositions. The Term Loan generally becomes due and payable upon a change of control or merger; except that, in certain circumstances, the Term Loan may be assumed by Ares Capital in connection with the consummation of the merger. Borrowings under the Term Loan will bear interest based on LIBOR or a base rate and the Term Loan will initially bear interest at a rate per annum of 4.74%. In addition to the interest paid on the Term Loan, Allied Capital incurred other fees and costs associated with the repayment and refinancing and will also incur additional exit fees, which increase over the term of the loan, as the Term Loan is repaid. Consistent with the terms of the private notes and bank facility, Allied Capital has granted the Term Loan lenders a blanket lien on a substantial portion of its assets.

Ares Capital and Allied Capital are not aware of any approvals, confirmations or consents with respect to the existing debt of Ares Capital or Allied Capital that are required for the merger to become effective other than those described above. Ares Capital and Allied Capital intend to seek any other approval, confirmation or consent required to complete the merger. There can be no assurance, however, that any such approvals, confirmations or consents will be obtained.

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

Public Trading Markets

Ares Capital common stock trades on NASDAQ under the symbol "ARCC." Allied Capital common stock trades on the NYSE and NASDAQ under the symbol "ALD." Allied Capital has public unsecured notes that trade on the NYSE under the symbol "AFC." Upon completion of the merger and subsequent combination, Allied Capital common stock will be delisted from the NYSE and

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NASDAQ and thereafter will be deregistered under the Exchange Act. The Ares Capital common stock issuable in the merger will be listed on NASDAQ.

Board of Directors and Management of the Combined Company Following Completion of the Merger

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

Information about the current Ares Capital directors and executive officers can be found in "Management of Ares Capital."

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DESCRIPTION OF THE MERGER AGREEMENT

The following summary, which includes the material terms of the merger agreement, is qualified by reference to the complete text of the merger agreement, which is attached as *Annex A* to this document and is incorporated by reference in this document.

Structure of the Merger

Subject to the terms and conditions of the merger agreement, the transactions contemplated by the merger agreement will be accomplished in two steps. In the first step, Merger Sub will merge with and into Allied Capital and the separate corporate existence of Merger Sub will cease. Immediately thereafter, in the subsequent combination, Allied Capital will merge with and into Ares Capital and the separate corporate existence of Allied Capital will cease. Ares Capital will be the surviving entity of the subsequent combination and Ares Capital will succeed to and assume all the rights and obligations of Allied Capital and will continue its existence as a corporation under Maryland state law.

Closing; Completion of the Proposed Merger

The completion of the merger will occur three business days after the satisfaction or waiver of the conditions set forth in the merger agreement or at another time as may be agreed to in writing by Ares Capital and Allied Capital. If the merger and the merger agreement is approved at the Allied Capital special meeting and the issuance of the shares of Ares Capital common stock to be issued pursuant to the merger agreement is approved at the Ares Capital special meeting, and other conditions to the merger are satisfied or waived, Ares Capital and Allied Capital expect to complete the merger by the end of the first quarter of 2010.

Merger Consideration

If the merger is consummated, each share of Allied Capital common stock outstanding immediately prior to the effective time will be converted into the right to receive 0.325 of a share of Ares Capital common stock, subject to the payment of cash instead of fractional shares. If the number of shares of Ares Capital common stock have themselves been increased, decreased, changed into or exchanged for a different number or kind of shares or securities as a result of any reclassification, recapitalization, stock split, reverse stock split, split-up, combination or exchange of shares, or if a stock dividend (other than as a result of shares delivered pursuant to Ares Capital's dividend reinvestment plan) or dividend payable in any other securities is declared with a record date prior to the effective time, or if any other similar event occurs, the exchange ratio will be appropriately adjusted to provide to the holders of the Allied Capital common stock and Allied Capital common stock options the same economic effect as contemplated by the merger agreement prior to such event. Holders of shares of Allied Capital common stock will not receive any fractional shares of Ares Capital common stock in the merger. Instead, each Allied Capital stockholder will be paid an amount in cash, without interest, equal to the product of (1) such fractional share *multiplied* by (2) $3.47.

Dividends and Distributions

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

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Treatment of Allied Capital Stock Options

Prior to the closing date and contingent upon the merger occurring, Allied Capital's board of directors will cause all outstanding unvested and unexercisable options to purchase shares of Allied Capital common stock issued pursuant to the Stock Option Plan to become fully vested and exercisable. At least three business days prior to the effective time, such option holders will have the opportunity to exercise some or all of their outstanding stock options to purchase shares of Allied Capital common stock, contingent on the closing of the merger. The shares of Allied Capital common stock acquired upon such exercise will be converted at the effective time into the right to receive the merger consideration.

At the effective time, each Allied Capital stock option, whether vested or unvested, that has not been exercised will be cancelled and if the exercise price of such option is less than the product of (1) the average closing price per share of Ares Capital common stock for the five consecutive trading days immediately preceding the closing, or the "Ares Capital average closing price," *multiplied* by (2) the exchange ratio of 0.325 (such amount, the "option closing amount"), then the holder of such option will have the right to receive, at their election:

- a lump sum cash amount equal to the product of (1) the excess of the option closing amount over the exercise price per share for such option *multiplied* by (2) the total number of shares of Allied Capital common stock subject to such option, less applicable withholdings; or

- a number of shares of Ares Capital common stock equal to (1) the product of (a) the total number of shares of Allied Capital common stock subject to such option *multiplied* by (b) the excess of the option closing amount over the exercise price per share for such option, less applicable withholdings, *divided* by (2) the Ares Capital average closing price.

Holders electing to receive shares of Ares Capital common stock will receive cash (without interest) instead of fractional shares in an amount equal to the product of (1) such fractional share *multiplied* by (2) the Ares Capital average closing price.

Any holder that fails to make such election will be deemed to have made an election to receive shares of Ares Capital common stock. Any previously unpaid dividends or other distributions payable on Ares Capital common stock acquired upon such exercise, with a record date after the effective time, will be paid to such option holders.

Pursuant to the merger agreement, Allied Capital will terminate the Stock Option Plan as of the effective time.

Conversion of Shares; Exchange of Shares

At the effective time, the shares of Allied Capital common stock existing prior to the merger will no longer be outstanding and will automatically be cancelled and cease to exist and each certificate previously representing any such shares will thereafter represent only the right to receive the merger consideration and, without interest, cash instead of fractional shares and any previously unpaid dividends or other distributions payable with respect to the shares of Ares Capital common stock exchangeable for such certificate and with a record date after the effective time.

After the effective time, no further registration of transfers on the stock transfer books of Allied Capital, other than to settle transfers that occurred prior to the effective time, will occur. If, after the effective time, certificates representing shares of Allied Capital common stock are presented for transfer to the exchange agent, they will be cancelled and exchanged for the merger consideration and, without interest, any cash instead of fractional shares of Ares Capital common stock and any previously unpaid dividends or distributions on Ares Capital common stock with a record date after the effective time, all in accordance with the merger agreement.

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Letter of Transmittal

As soon as reasonably practicable after the effective time, but in any event within five business days, the exchange agent will mail to each record holder of Allied Capital common stock immediately prior to the effective time who held their shares in certificated form a letter of transmittal and instructions for use in surrendering their certificate(s) in exchange for the merger consideration and, without interest, cash instead of fractional shares and any previously unpaid dividends or other distributions payable with respect to the shares of Ares Capital common stock exchangeable for such certificate(s) and with a record date after the effective time. Delivery will only be effected, and risk of loss and title to certificate(s) will only pass, upon delivery of certificate(s) (or affidavits of loss in lieu of such certificate(s)) to the exchange agent in the manner set forth in such letter of transmittal and instructions.

Holders of Allied Capital common stock should not submit their Allied Capital stock certificates for exchange until they receive the letter of transmittal and instructions from the exchange agent.

If a certificate for Allied Capital common stock has been lost, stolen or destroyed, upon the making of an affidavit by such holder and, if reasonably required by Ares Capital or the exchange agent, the posting of a bond in such amount as Ares Capital may determine is reasonably necessary as indemnity, the exchange agent will issue the merger consideration and, without interest, cash instead of fractional shares and any previously unpaid dividends or other distributions payable with respect to the shares of Ares Capital common stock exchangeable for such certificate and with a record date after the effective time.

Former Allied Capital stockholders who held their shares in uncertificated form will receive a confirmation as to the Ares Capital common stock issued in exchange for such Allied Capital common stock and cash instead of fractional shares without any action on the part of such holders.

Shares of Ares Capital common stock will be issued in book entry (i.e., uncertificated) form only. No physical certificates will be issued in connection with the merger. In lieu of physical certificates, the exchange agent will send to each person who has surrendered Allied Capital stock certificates, together with a properly completed transmittal letter, a confirmation containing the information required under Maryland law regarding the Ares Capital common stock issued to such person, including the name of the issuer (Ares Capital) and the number of shares of Ares Capital common stock issued.

Withholding

Ares Capital or the exchange agent will be entitled to deduct and withhold from any amounts payable to any Allied Capital stockholder such amounts as it determines in good faith are required to be deducted and withheld with respect to the making of such payment under applicable tax laws. If the exchange agent withholds any amounts, these amounts will be treated as having been paid to the stockholders from whom they were withheld.

Representations and Warranties

The merger agreement contains customary representations and warranties of Allied Capital and Ares Capital relating to their respective businesses. With the exception of certain representations that must be true and correct in all or virtually all respects, or in all material respects, no representation or warranty will be deemed untrue, and neither party will be deemed to have breached a representation or warranty, as a consequence of the existence of any fact, event or circumstance unless such fact, circumstance or event, individually or when taken together with all other facts, events or circumstances inconsistent with any representation made by such party (without considering "materiality" or "material adverse effect" qualifications), has had or is reasonably likely to have a material adverse effect on (1) the business, operations, condition (financial or otherwise) or results of operations of such party

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and its consolidated subsidiaries, taken as a whole, or (2) the ability of such party to timely consummate the merger and the other transactions contemplated by the merger agreement.

In determining whether a material adverse effect has occurred or is reasonably likely to occur, the parties will disregard (A) any effects resulting, directly or indirectly, from (1) changes in general economic, social or political conditions or the securities, credit or financial markets in general, (2) general changes or developments in the industries in which such party and its consolidated subsidiaries operate, including general changes in law across such industries or geographic areas, except, in the case of (1) and (2), to the extent such changes or developments would reasonably be expected to have a materially disproportionate adverse impact on such party and its consolidated subsidiaries, taken as a whole, relative to other participants in the industries and in the geographic markets in which such party conducts its businesses, after taking into account the size of such party relative to such other participants, (3) the announcement of the merger agreement or the transactions contemplated thereby or the identities of the parties to the merger agreement, (4) any actions or omissions of a party taken with the prior written consent of the other party or any actions taken by the parties mutually or (B) any failure to meet internal projections for any period or any decline in the price of shares of the parties' common stock.

The representations and warranties in the merger agreement do not survive the completion of the merger.

The merger agreement contains customary representations and warranties by each of Ares Capital and Allied Capital, subject to specified exceptions and qualifications, relating to, among other things:

- corporate organization, including incorporation and qualification;
- its consolidated subsidiaries;
- capitalization;
- power and authority to execute, deliver and perform its obligations under the merger agreement;
- the absence of violations of (1) organizational documents, (2) material laws or orders or (3) material permits, contracts or other obligations;
- stockholder vote requirement;
- required government filings and consents;
- financial reports and regulatory documents;
- financial statements, internal controls and disclosure controls and procedures;
- broker's fees payable in connection with the merger;
- absence of certain changes and actions since September 30, 2009;

compliance with applicable law;

regulatory investigations and orders;

the receipt of financial advisors' opinions;

the accuracy and completeness of information supplied for inclusion in this document and other governmental filings in connection with the transactions contemplated by the merger agreement;

tax matters;

absence of certain litigation, orders or investigations;

employment and labor matters, including with respect to any employee benefit plans;

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- material contracts and certain other types of contracts;
- insurance coverage;
- title to investment assets;
- intellectual property matters;
- environmental matters; and
- owned and leased properties.

Allied Capital has also made certain representations and warranties to Ares Capital regarding the inapplicability of state takeover laws and absence of appraisal rights and certain of its controlled portfolio companies.

Ares Capital has also made certain representations and warranties to Allied Capital regarding its investment adviser and its administrator.

The representations and warranties described above and included in the merger agreement were made by each of Allied Capital and Ares Capital to the other. These representations and warranties were made as of specific dates, may be subject to important qualifications and limitations agreed to by Allied Capital and Ares Capital in connection with negotiating the terms of the merger agreement and may have been included in the merger agreement for the purpose of allocating risk between Allied Capital and Ares Capital rather than to establish matters as facts. The merger agreement is described in, and included as *Annex A* to, this document only to provide you with information regarding its terms and conditions and not to provide any other factual information regarding Allied Capital, Ares Capital or their respective businesses. Accordingly, the representations and warranties and other provisions of the merger agreement should not be read alone, but instead should be read only in conjunction with the information provided elsewhere in this document.

Conduct of Business Pending Completion of the Merger

Each of Allied Capital and Ares Capital has undertaken customary covenants that place restrictions on it and its consolidated subsidiaries until completion of the merger. In general, each of Allied Capital and Ares Capital has agreed that before the completion of the merger, except as contemplated by the merger agreement and subject to certain agreed upon exceptions, it will, and will cause its consolidated subsidiaries to:

- conduct its business in the ordinary course of business consistent with past practice;
- use reasonable best efforts to preserve intact its business organization, listing exchange status and advantageous business relationships; and
- use reasonable best efforts to maintain in effect all required material permits.

In addition, before the completion of the merger, Allied Capital has agreed that, subject to applicable law and certain agreed upon exceptions and except as expressly contemplated by the merger agreement, without the prior written consent of Ares Capital, it will not, and will not permit its consolidated subsidiaries to, among other things, directly or indirectly:

- issue, sell, grant or otherwise permit to become outstanding, or dispose of or encumber or authorize the creation of, or amend the terms of: (1) any shares of its capital stock; (2) any voting debt or other voting securities; (3) any securities convertible into or exercisable or exchangeable for, or any other rights to acquire, any such shares or other securities; or (4) any "phantom" stock, "phantom" stock rights, stock appreciation rights or stock-based performance units;

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(1) make, declare or pay any dividend or distribution on or in respect of any shares of its capital stock or the capital stock of any of its consolidated subsidiaries (in whatever form); (2) adjust, split, combine, reclassify or take similar action with respect to any of its capital stock or issue any other securities in respect of shares of its capital stock; or (3) purchase, redeem or otherwise acquire, any shares of its capital stock or the capital stock of any of its consolidated subsidiaries or any other securities;

sell, lease, mortgage, encumber or otherwise dispose of any of its assets or properties, except as set forth in the disclosure schedule to the merger agreement and except in the ordinary course of business and in an aggregate amount not to exceed $500,000 or encumbrances required to secure certain outstanding debt pursuant to the terms of such debt as in effect on the date of the merger agreement;

acquire (other than by way of foreclosures or acquisitions of control in a fiduciary or similar capacity or in satisfaction of debts previously contracted in good faith, in each case, in the ordinary course of business) all or any portion of the assets, business, deposits or properties of any other person or entity or make any other investments, except in a transaction conducted in the ordinary course of business and in an amount that individually or together with other such transactions does not exceed $500,000;

amend its organizational documents;

implement any change in its tax or financial accounting principles, practices or methods, except as required by law, GAAP or regulatory requirements;

except as required under applicable law or the terms of any employee benefit plan, (1) increase the compensation or benefits of any current or former employee, officer, director or consultant; (2) pay any current or former employee, officer, director or consultant any amount or increase any rights not required by any current plan, program or agreement unless in connection with ordinary course payroll and expense reimbursement policies and procedures as in effect on the date of the merger agreement; (3) adopt, amend or terminate any stock option plan or other employee benefit plan or agreement or employment agreement with or for the benefit of any employee, officer, director or consultant; (4) accelerate the vesting of any stock-based compensation or other long-term incentive compensation under any employee benefit plan; (5) cause the funding of any rabbi trust or similar arrangement or take any action to fund or secure the payment of compensation or benefits under any employee benefit plan; or (6) enter into any employment, consulting, indemnification, severance or termination contract with any employee, officer, director or consultant (other than immaterial at will employment arrangements);

take (or knowingly fail to take) any action that would, or would reasonably be expected to, prevent the merger from qualifying as a "reorganization" under Section 368(a) of the Code;

incur any indebtedness for borrowed money, or guarantee any such indebtedness of another person or entity, issue or sell any debt securities or warrants or other rights to acquire any of its debt securities or the debt securities of any consolidated subsidiary, enter into any "keep well" or other agreement to maintain any financial statement condition of another person or entity or enter into any arrangement having the economic effect of any of the foregoing, except for draw downs with respect to existing credit facilities in the ordinary course of business;

make any loans, advances or investments in any other person or entity;

make or agree to make any expenditure in the aggregate in excess of $100,000;

file or amend any tax return other than in the ordinary course of business; make, change or revoke any tax election or settle or compromise any material tax liability or refund;

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- take (or knowingly fail to take) any action that is reasonably likely to cause Allied Capital REIT, Inc. to fail to qualify as a "real estate investment trust" under the Code;

- enter into any new line of business;

- terminate, enter into, modify or renew certain material contracts other than in the ordinary course of business consistent with past practice in a manner materially adverse to Allied Capital or its consolidated subsidiaries, as applicable;

- settle certain material claims and proceedings;

- pay, discharge or satisfy any indebtedness for borrowed money other than as required pursuant to the terms of certain outstanding debt as in effect on the date of the merger agreement; cancel any material indebtedness or waive or amend any claims or rights of substantial value (other than in accordance with ordinary course restructurings of portfolio companies in an aggregate amount not to exceed $1 million) or waive any material benefits of, or agree to modify in any material manner, any confidentiality (other than in the ordinary course of business) or standstill or similar agreements;

- merge or consolidate Allied Capital or any of its subsidiaries with any entity or adopt a plan of liquidation, dissolution, restructuring, recapitalization or other reorganization; or

- agree to take, make any commitment to take or adopt any resolutions of its board of directors in support of any of the foregoing actions.

In addition, before the completion of the merger, Ares Capital has agreed, subject to applicable law and certain agreed upon exceptions and except as expressly contemplated by the merger agreement, it will not, and will not permit its consolidated subsidiaries to, among other things, directly or indirectly:

- issue, sell, grant, dispose of or encumber any shares of its capital stock, other than (1) shares in an aggregate amount not to exceed $150 million aggregate value on or before March 31, 2010 and at a price no less than 80% of net asset value, (2) after March 31, 2010, shares in an aggregate amount not to exceed $400 million aggregate value (including any value represented by shares issued under (1) above prior to March 31, 2010) and at a price no less than 90% of net asset value, (3) shares at a price per share greater than the net asset value per share of Ares Capital common stock or (4) shares of its capital stock other than common stock;

- make, declare, pay or set aside any dividend or distribution on or in respect of, any shares of its capital stock or the capital stock of any of its consolidated subsidiaries (in whatever form), other than in the ordinary course of business;

- amend its organizational documents (other than to increase the number of shares of authorized Ares Capital common stock) in any manner that would reasonably be expected to be adverse to holders of Allied Capital common stock;

- take (or knowingly fail to take) any action that would, or would reasonably be expected to, prevent the merger or subsequent combination from qualifying as a "reorganization" under Section 368(a) of the Code; or

- agree to take, make any commitment to take or adopt any resolutions of its board of directors in support of any of the foregoing actions.

The merger agreement also contains covenants relating to the preparation of this document and the holding of the special meetings of Allied Capital and Ares Capital stockholders, access to information of the other company and obtaining certain managed fund consents, rating agency confirmations, approvals, notices and filings. Allied Capital and Ares Capital have also agreed to use their reasonable best efforts to promptly prepare all necessary documentation to effect all notices and filings and to obtain as promptly as practicable all third party and governmental permits, consents, approvals and authorizations necessary or advisable to consummate the transactions contemplated by the merger agreement. Allied Capital has also agreed to use its reasonable best efforts to modify an order issued by the SEC granting an exemption from Section 12(d)(3) of the Investment Company Act (Application No. 812-13561) so that it would apply to Ares Capital as its successor.

In addition, Allied Capital and Ares Capital have each agreed that they will, and will cause their respective representatives to, reasonably cooperate (to the extent commercially reasonable) in connection with obtaining certain financing consents, any restructuring of any outstanding debt of Allied Capital, Ares Capital or their respective consolidated subsidiaries or, in the circumstance where the financing consents cannot be obtained, obtaining any replacement, amended, modified or alternative financing. Neither Allied Capital nor Ares Capital is required to make payments or provide other consideration for the repayment, restructuring or amendment of terms of indebtedness in connection with the merger in order to obtain the financing consents, other than customary consent fees required in connection with the change of control.

Ares Capital has also agreed to use reasonable best efforts to cause the Ares Capital common stock to be issued in the merger to be approved for listing on NASDAQ.

Additional Covenants

Reasonable Best Efforts of Allied Capital and Ares Capital to Obtain Required Stockholder Votes

Allied Capital has agreed to take all actions necessary to hold a meeting of its common stockholders as promptly as practicable (but in no event give notice later than 10 business days) following the date on which the SEC declares the registration statement, of which this document forms a part, effective for the purpose of obtaining common stockholder approval of the merger and the merger agreement. Subject to the following sentence, Allied Capital will use its reasonable best efforts to obtain such stockholder approval. Allied Capital's board of directors may withdraw, qualify or modify its recommendation that its common stockholders approve the merger and the merger agreement only if it determines, in good faith, after consultation with reputable outside legal counsel and financial advisors experienced in such matters, that such recommendation would be a breach of the duties of the directors under applicable law. As discussed below, additional requirements apply to any change in recommendation with respect to certain acquisition proposals. The board of directors of Allied Capital has unanimously approved the merger and the merger agreement and adopted resolutions directing that the merger and the merger agreement be submitted to Allied Capital stockholders for their consideration.

Ares Capital has agreed to take all actions necessary to hold a meeting of its common stockholders as promptly as practicable (but in no event give notice later than 10 business days) following the date on which the SEC declares the registration statement, of which this document forms a part, effective for the purpose of obtaining common stockholder approval of the issuance of Ares Capital common stock in connection with the merger. Subject to the following sentence, Ares Capital will use its reasonable best efforts to obtain such stockholder approval. Ares Capital's board of directors may withdraw, qualify or modify its recommendation that its common stockholders approve the issuance of Ares Capital common stock in connection with the merger only if it determines, in good faith, after consultation with reputable outside legal counsel and financial advisors experienced in such matters, that such recommendation would be a breach of the duties of the directors under applicable law. The board of directors of Ares Capital has unanimously approved the issuance of Ares Capital common stock in connection with the merger and adopted resolutions directing that such matters be submitted to Ares Capital stockholders for their consideration.

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Employee Matters

On or prior to the closing date, Ares Capital or its affiliates may, but are not under any obligation to, make an offer of employment, effective as of the effective time or thereafter, or hire any of the employees, officers, directors or consultants of Allied Capital who are actively employed with Allied Capital immediately prior to the effective time. Ares Capital or its controlled affiliates shall determine, in its or their discretion, the terms and conditions of employment to be offered to any such individuals and are under no obligation to employ any such individuals and for any particular period of time. Except as otherwise directed by Ares Capital, Allied Capital will cause the employment or services of all employees, officers, directors or consultants of Allied Capital and its consolidated subsidiaries to be terminated immediately prior to the effective time.

Any Ares Capital employee benefit plans in which any employees, officers, directors or consultants of Allied Capital who continue employment with Ares Capital or one of its controlled affiliates are eligible to participate will take into account for purposes of eligibility, vesting and benefit accrual thereunder, service by such individuals with Allied Capital and its affiliates as if such service were with Ares Capital or its controlled affiliates, to the same extent such service was credited under a comparable Allied Capital employee benefit plan. In addition, for any Allied Capital employee, officer, director or consultant who continues employment with Ares Capital or one of its controlled affiliates after the effective time, Ares Capital has agreed to, or to cause its controlled affiliate to: (1) waive any preexisting condition, waiting period or evidence of insurability limitations for any employee benefit plans of Ares Capital or its controlled affiliate in which such persons are eligible to participate and (2) honor any deductible, co-payment and out-of-pocket maximums incurred by such persons (or their eligible dependents) under the health plans in which they participated immediately prior to the effective time.

Not later than 10 business days prior to and contingent on the effective time, Allied Capital will terminate all of the employee benefit plans maintained by it or any of its consolidated subsidiaries subject to the requirements of Sections 401(a) and 409A of the Code. Payments in respect of any such terminated benefit plans will be made at the effective time to the extent permitted by Sections 401(a) and 409A of the Code. To the extent payment at the effective time is not permitted by Sections 401(a) and 409A of the Code, Allied Capital will vest payments and benefits under its employee benefit plans and payments and benefits under employment or retention agreements for employees who will not continue to be employed by Ares Capital or its controlled affiliates. These payments are described in more detail in the section of this document entitled "The Merger Interests of Certain Persons Related to Allied Capital in the Merger." Notwithstanding the foregoing, Allied Capital will not be required to terminate (1) any obligation it has to make payments under any employment or retention agreements or payments otherwise provided for in the merger agreement or (2) any employee benefit plan identified by Ares Capital at least 10 business days prior to the closing.

To the extent permitted by Section 409A of the Code, Allied Capital intends to establish and fund a rabbi trust or similar funding arrangement for any payments in respect of terminated employee benefit plans or employment or retention agreements not made at closing, which payments will be distributed at the earliest time permitted in accordance with the terms of such underlying employee benefit plans and the requirements of Section 409A of the Code. The rabbi trust will provide that, upon satisfaction of all amounts, the remainder will revert to Ares Capital.

At or prior to the effective time, Allied Capital will take all necessary action to cause the account balances or accrued benefits of its employees, officers, directors and consultants under the Allied Capital 401(k) Plan to be fully vested and non-forfeitable as of, and contingent on, the closing date.

With respect to health benefits, Ares Capital or its controlled affiliates, to the extent possible, will continue, or cause to be continued for the duration of the applicable COBRA continuation period, the level of health and medical benefits of the employees, officers, directors and consultants of Allied Capital and Allied Capital's consolidated subsidiaries; provided, that if it is not possible for Ares

Capital or its controlled affiliates to continue the Allied Capital health plans as a result of their termination, Ares Capital or its controlled affiliate shall either (1) use commercially reasonable efforts to obtain replacement arrangements that replicate the Allied Capital health plans or (2) cause such benefits to be provided pursuant to the health and medical benefit arrangements of a controlled affiliate that most closely approximate the benefits provided pursuant to the Allied Capital health plans.

Ares Capital or Allied Capital may be required to make severance payments to employees of Allied Capital upon a change of control in accordance with certain existing employment and retention agreements. The merger agreement provides that these payments will not exceed $30.3 million in the aggregate. These payments are described in more detail in the section of this document entitled "The Merger Interests of Certain Persons Related to Allied Capital in the Merger."

In addition, Allied Capital is permitted to pay certain retention bonuses or annual bonuses and other miscellaneous transaction-related compensation. These payments are described in more detail in the section of this document entitled "The Merger Interests of Certain Persons Related to Allied Capital in the Merger."

Indemnification; Directors' and Officers' Insurance

Following the effective time, Ares Capital will, to the fullest extent permitted under applicable law, indemnify, defend and hold harmless and advance expenses to the present and former directors and officers of Allied Capital or any of its consolidated subsidiaries, and any such person presently or formerly serving at the request of Allied Capital or any of its consolidated subsidiaries as a director, officer, employee, trustee or fiduciary of any other person or entity or under or with respect to any employee benefit plan, against all costs or expenses (including reasonable attorneys' fees), judgments, fines, losses, claims, damages, penalties, amounts paid in settlement or other liabilities incurred in connection with any proceeding or claim arising out of actions or omissions occurring at or prior to the effective time, including the merger.

The merger agreement requires Ares Capital to maintain for a period of six years following the effective time a directors' and officers' liability insurance policy covering the present and former officers and directors of Allied Capital or any of its consolidated subsidiaries, containing identical or better coverage and amounts and terms and conditions no less advantageous as that coverage currently provided by Allied Capital's current policies, except that Ares Capital is not required to expend more than 200% of the current amount expended by Allied Capital for its policies for a twelve-month period. If Ares Capital is unable to maintain or obtain such a policy, Ares Capital must use its reasonable best efforts to obtain as much comparable insurance as is available for 200% of Allied Capital's current premium for a twelve-month period. Ares Capital may fulfill its obligation to maintain a directors' and officers' liability insurance policy covering the present and former officers and directors of Allied Capital by purchasing a directors' and officers' insurance policy or a "tail" policy under Allied Capital's current directors' and officers' liability insurance policy provided that such policy: (1) has an effective term of six years from the effective time; (2) covers those individuals who are covered by Allied Capital's current policy and for actions and omissions occurring on or prior to the effective time; and (3) contains terms with respect to coverage and amounts that are identical or better than those contained in Allied Capital's current policy. If Allied Capital elects to purchase such a tail policy, then Ares Capital's obligations will be deemed to have been satisfied.

No Solicitation by Allied Capital

Allied Capital has agreed that it, its affiliates, consolidated subsidiaries and its and each of their respective officers, directors, trustees, managers, employees, consultants, financial advisors, attorneys, accountants and other advisors, representatives and agents, collectively, "Representatives," will immediately cease and cause to be terminated immediately any discussions or negotiations with any parties that may be ongoing with respect to, or that are intended to or could reasonably be expected to

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lead to, a "Takeover Proposal" (as defined below). In addition, Allied Capital has agreed that, except as provided below, it and its affiliates, consolidated subsidiaries and its and their respective Representatives will not, (1) directly or indirectly solicit, initiate, induce, knowingly encourage or take any other action with the intent to solicit, initiate, induce or encourage (including by way of furnishing or disclosing information) any inquiries or the making or submission or implementation of any Takeover Proposal, (2) enter into any agreement, arrangement, discussions or understanding with respect to any Takeover Proposal or requiring it to abandon, terminate or fail to consummate, or that is intended to or would reasonably be expected to result in the failure to consummate the merger, (3) initiate or participate in any negotiations or discussions regarding, or furnish or disclose to any person or entity any information with respect to, any Takeover Proposal or take any other action to facilitate or in furtherance of any inquiries or the making of any Takeover Proposal or (4) grant any approval pursuant to any takeover statute to any person, entity or transaction or waiver or release under any standstill or any similar agreement with respect to equity securities of Allied Capital.

Allied Capital has agreed to advise Ares Capital in writing of any request for information or any Takeover Proposal and the terms and conditions of such request or Takeover Proposal and keep Ares Capital informed on the status of any such request or Takeover Proposal and any and all discussions or negotiations with respect thereto.

For purposes of the merger agreement, the term "Takeover Proposal" means any inquiry, proposal, discussions, negotiations or offer from any person or entity relating to any direct or indirect acquisition, including any merger, consolidation, tender offer, exchange offer, stock acquisition, asset acquisition, binding share exchange, business combination, recapitalization, liquidation, dissolution, joint venture or similar transaction, of (1) assets or businesses that constitute or represent 20% or more of the total assets, net revenue or net income of Allied Capital and its consolidated subsidiaries, taken as a whole, or (2) 20% or more of the outstanding shares of capital stock of, or other equity or voting interests in, Allied Capital or in any of its consolidated subsidiaries directly or indirectly holding, individually or taken together, the assets or businesses referred to in (1) above, in each case other than the merger.

If on or after the date of the merger agreement and at any time prior to the Allied Capital special meeting, (1) Allied Capital receives a bona fide unsolicited Takeover Proposal; (2) the board of directors of Allied Capital has determined in good faith, after consultation with reputable outside legal counsel and financial advisors experienced in such matters, that failure to consider such Takeover Proposal would be a breach of their duties under applicable law and such Takeover Proposal constitutes or is reasonably likely to result in a "Superior Proposal" (as defined below); and (3) Allied Capital gives Ares Capital at least two business days prior written notice of the identity of the person or entity making such Takeover Proposal, the terms and conditions of such Takeover Proposal and Allied Capital's intention to furnish information to, or participate in discussions or negotiations with, the person or entity making such Takeover Proposal, then Allied Capital may:

- engage in negotiations or discussions with, and provide requested information to, such person or entity if Allied Capital (1) receives from such person or entity an executed confidentiality agreement with terms (including standstill) no less favorable to Allied Capital than those in its confidentiality agreement with Ares Capital and (2) provides Ares Capital a copy of all such information that has not previously been delivered to Ares Capital simultaneously with delivery to such person or entity; and

- subject to fulfilling the requirements listed in the next paragraph, adopt, approve or recommend, or publicly propose to adopt, approve or recommend, including entering into an agreement, a Takeover Proposal.

Upon any determination that a Takeover Proposal constitutes a Superior Proposal, Allied Capital must provide Ares Capital a written notice advising it that the board of directors of Allied Capital has received a Superior Proposal, specifying in reasonable detail the material terms and conditions of such Superior Proposal and identifying the person or entity making such Superior Proposal. Allied Capital must cooperate and negotiate in good faith with Ares Capital for five days to make such adjustments to the terms and conditions of the merger agreement as would enable Allied Capital to proceed with its recommendation of the merger. If Ares Capital does not make an offer that the board of directors of Allied Capital determines in its reasonable good faith judgment (after consultation with reputable outside legal counsel and financial advisors experienced in such matters) to be as favorable to the Allied Capital common stockholders, Allied Capital may terminate the merger agreement if it pays Ares Capital a $30 million termination fee.

For purposes of the merger agreement, the term "Superior Proposal" means a bona fide written Takeover Proposal that was not knowingly solicited in violation of the merger agreement, made by a third party to purchase 80% of the outstanding equity securities of Allied Capital or at least 80% of the assets of Allied Capital on a consolidated basis (1) on terms that the Allied Capital board of directors determines in good faith (based on the written opinion, with only customary qualifications, of Allied Capital's independent financial advisor) to be superior for the stockholders of Allied Capital, taken as a group, from a financial point of view as compared to the merger (after giving effect to the payment of the $30 million reverse termination fee and any alternative proposed by Ares Capital), (2) that is reasonably likely to be consummated in a timely manner and (3) in respect of which any required financing has been determined in good faith by the Allied Capital board of directors (including a majority that are not "interested persons" as defined in the Investment Company Act) to be reasonably likely to be obtained, as evidenced by a written commitment of a reputable financing source.

Ares Capital's Recommendations

If on or after the date of the merger agreement and at any time prior to the Ares Capital special meeting, the board of directors of Ares Capital has determined in good faith, after consultation with reputable outside legal counsel and financial advisors experienced in such matters, that the recommendation to Ares Capital stockholders of the approval of the issuance of Ares Capital common stock in connection with the merger would be a breach of their fiduciary duties under applicable law, Ares Capital may withdraw, qualify or modify their recommendation.

Conditions to the Merger

Conditions to Each Party's Obligations to Effect the Merger

The obligations of Allied Capital and Ares Capital to complete the merger are subject to the satisfaction or, where permissible, waiver of the following conditions:

- the approvals of Allied Capital and Ares Capital stockholders are obtained at their respective special meetings;
- the shares of Ares Capital stock to be issued in the merger have been authorized for listing on NASDAQ;
- the registration statement, of which this document forms a part, has become effective and no stop order suspending its effectiveness has been issued and no proceedings for that purpose have been initiated by the SEC;
- no order or law preventing or making illegal the consummation of the merger or any of the other transactions contemplated by the merger agreement is in effect; and
- all regulatory approvals required to consummate the merger and the other transactions contemplated by the merger agreement and all statutory waiting periods required by applicable law have expired.

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Conditions to the Obligations of Ares Capital to Effect the Merger

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

the representations and warranties of Allied Capital are true and correct as of the date of the merger agreement and the closing date, without regard to any "material adverse effect" or other "materiality" qualifications (except to the extent any such representation and warranty expressly speaks as of an earlier date, in which case such representation and warranty shall be true and correct as of such earlier date), provided that this condition will be deemed satisfied even if any representations and warranties of Allied Capital (other than capitalization, which must be true and correct except to a *de minimis* extent or except in any way that reasonably is not adverse to Ares Capital and power and authority and absence of conflicts with organizational documents, which must be true and correct in all material respects) are not so true and correct unless the failure of such representations and warranties to be so true and correct, individually or in the aggregate, has had or is reasonably expected to have a material adverse effect with respect to Allied Capital and its consolidated subsidiaries, taken as a whole;

Allied Capital has performed in all material respects all obligations required to be performed by it under the merger agreement at or prior to the effective time;

Ares Capital has received a certificate signed on behalf of Allied Capital by its Chief Executive Officer or Chief Financial Officer that the above conditions have been satisfied;

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

Ares Capital has received the written opinion of Proskauer Rose LLP (or, alternatively, of Allied Capital's counsel) substantially to the effect that, on the basis of facts, representations and assumptions set forth in such opinion that are consistent with the state of facts existing at the closing date, the merger and subsequent combination will be treated as a "reorganization" within the meaning of Section 368(a) of the Code;

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

rating agency confirmations and consents in respect of certain outstanding debt of Allied Capital and Ares Capital have been obtained and remain in full force and effect; and

the absence of certain bankruptcy and insolvency related events with respect to Allied Capital and its consolidated subsidiaries (other than Ciena).

Conditions to the Obligations of Allied Capital to Effect the Merger

The obligation of Allied Capital to complete the merger is subject to the satisfaction or, where permissible, waiver of the following conditions:

the representations and warranties of Ares Capital and Merger Sub are true and correct as of the date of the merger agreement and the closing date, without regard to any "material adverse effect" or other "materiality" qualifications (except to the extent any such representation and warranty expressly speaks as of an earlier date, in which case such representation and warranty shall be true and correct as of such earlier date), provided that this condition will be deemed satisfied even if any representations and warranties of Ares Capital or Merger Sub (other than capitalization, which must be true and correct except to a *de minimis* extent or except in any way that reasonably is not adverse to Allied Capital and power and authority and absence of conflicts

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with organizational documents, which must be true and correct in all material respects) are not so true and correct unless the failure of such representations and warranties to be so true and correct, individually or in the aggregate, has had or is reasonably expected to have a material adverse effect with respect to Ares Capital and its consolidated subsidiaries, taken as a whole;

Ares Capital and Merger Sub have performed in all material respects all obligations required to be performed by them under the merger agreement at or prior to the effective time;

Allied Capital has received a certificate signed on behalf of Ares Capital and Merger Sub by Ares Capital's Chief Executive Officer or Chief Financial Officer that the above conditions have been satisfied;

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

Allied Capital has received the written opinion of Sullivan & Cromwell LLP (or, alternatively, of Ares Capital's counsel) substantially to the effect that, on the basis of facts, representations and assumptions set forth in such opinion that are consistent with the state of facts existing at the closing date, the merger and subsequent combination will be treated as a "reorganization" within the meaning of Section 368(a) of the Code; and

the absence of certain bankruptcy and insolvency related events with respect to Ares Capital and its consolidated subsidiaries.

Termination of the Merger Agreement

Right to Terminate

The merger agreement may be terminated at any time prior to the effective time, whether before or after the approvals of the Ares Capital and Allied Capital stockholders sought by this document, as follows:

by mutual consent of Ares Capital and Allied Capital as authorized by their respective boards of directors; or

by either Ares Capital or Allied Capital if:

(1)
any governmental entity that must grant regulatory approval of the merger has denied such approval and such denial has become final and non-appealable or a governmental entity of competent jurisdiction issues a final and nonappealable order or promulgates any law permanently enjoining or otherwise prohibiting or making illegal the consummation of the transactions contemplated by the merger agreement;

(2)
the merger is not completed on or before June 30, 2010;

(3)
the stockholders of Allied Capital have failed to approve any of the matters for which their approval is being sought at a duly held meeting or at any adjournment or postponement thereof at which such matters have been voted upon;

(4)

the stockholders of Ares Capital have failed to approve any of the matters for which their approval is being sought at a duly held meeting or at any adjournment or postponement thereof at which such matters have been voted upon; or

(5)

upon receiving new and material information relating to certain claims and proceedings concerning Ciena, Ares Capital's board of directors determines in its reasonable good faith judgment that there is a reasonable likelihood that the liabilities for any monetary net losses related to Ciena exceeds $66^2/_3$% of the fair value of Ciena as of September 30, 2009 as such fair value is determined by Allied Capital's board of directors and Ares

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Capital promptly notifies Allied Capital in writing of such determination within 15 business days of receiving such new and material information relating to Ciena. During a period of five business days following the delivery of this notice to Allied Capital, either party may terminate by providing written notice to the other party without incurring a termination fee.

If the merger agreement is terminated by:

Ares Capital or Allied Capital pursuant to paragraph (3) above, then Allied Capital will be required to pay to Ares Capital a $15 million termination fee;

Ares Capital or Allied Capital pursuant to paragraph (4) above, then Ares Capital will be required to pay to Allied Capital a $30 million reverse termination fee; or

Ares Capital pursuant to paragraph (2) above (as a result of the failure of the financing consents condition to be satisfied) or by Ares Capital or Allied Capital pursuant to paragraph (2) above (if each of the conditions to closing other than the financing consents condition have been satisfied or waived as of such date), then Ares Capital will be required to pay to Allied Capital a $30 million reverse termination fee.

Neither Allied Capital nor Ares Capital has the right to terminate the merger agreement if it has breached in any material respect its obligations in any manner that has proximately contributed to the occurrence of the failure of a condition to the consummation of the merger.

In addition, Allied Capital may terminate the merger agreement at any time prior to the effective time, if:

(1) Ares Capital or Merger Sub have breached any of their covenants or representations or warranties and such breach, either individually or in the aggregate, would result in the failure of Allied Capital's conditions to consummate the merger to be satisfied and is not cured within 15 business days following written notice to Ares Capital or cannot be cured within such time period (provided that Allied Capital is not then in material breach of the merger agreement so as to cause any of Ares Capital's conditions not to be satisfied);

(2) prior to obtaining approval of Ares Capital stockholders at the Ares Capital special meeting, (a) the board of directors of Ares Capital withdraws, modifies, qualifies or takes any other action inconsistent with its recommendation, (b) Ares Capital fails to include in the registration statement the recommendation of its board of directors or (c) Ares Capital fails to take a vote of its stockholders prior to June 30, 2010;

(3) prior to obtaining approval of Allied Capital stockholders at the Allied Capital special meeting, (a) Allied Capital is not in material breach of any of the terms of the merger agreement, (b) in accordance with the procedures described above, the Allied Capital board of directors authorizes Allied Capital to enter into, or Allied Capital enters into, any agreement or contract with respect to a Superior Proposal and (c) prior to such termination Allied Capital pays to Ares Capital in immediately available funds a $30 million termination fee;

(4) Ares Capital breaches, in any material respect, any of its obligations relating to holding the Ares Capital special meeting and obtaining the approval of its stockholders with respect to the matters to be voted on at such meeting.

Ares Capital will be required to pay Allied Capital a $30 million reverse termination fee if Allied Capital terminates the merger agreement pursuant to paragraphs (1) (solely to the extent that Ares Capital has committed a willful breach), (2) or (4) above.

Ares Capital may also terminate the merger agreement at any time prior to the effective time, if:

(1) Allied Capital has breached any of its covenants or representations or warranties and such breach, either individually or in the aggregate, would result in the failure of Ares Capital's

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conditions to consummate the merger to be satisfied and is not cured within 15 business days following written notice to Allied Capital or cannot be cured within such time period (provided that Ares Capital is not then in material breach of the merger agreement so as to cause any of Allied Capital's conditions not to be satisfied);

(2) prior to obtaining approval of Allied Capital stockholders at the Allied Capital special meeting, (a) the board of directors of Allied Capital withdraws, modifies, qualifies or takes any other action inconsistent with its recommendation or Allied Capital adopts, approves or recommends a Takeover Proposal, (b) Allied Capital fails to include in the registration statement the recommendation of its board of directors, (c) a tender or exchange offer relating to any shares of Allied Capital common stock has been commenced and Allied Capital has not sent to its stockholders, within 10 business days after its commencement, a statement by its board of directors recommending rejection of such tender or exchange offer, (d) a Takeover Proposal is publicly announced and Allied Capital fails to issue, within 10 business days after such Takeover Proposal is announced, a press release that reaffirms the recommendation of its board of directors or (e) Allied Capital fails to take a vote of its stockholders prior to June 30, 2010; or

(3) Allied Capital breaches, in any material respect, any of its obligations relating to holding the Allied Capital special meeting and obtaining the approval of its stockholders with respect to the matters to be voted on at such meeting or the "non-solicitation" provisions described above.

Allied Capital will be required to pay Ares Capital a $30 million termination fee if Ares Capital terminates the merger agreement pursuant to paragraphs (1) (solely to the extent that Allied Capital has committed a willful breach), (2) or (3) above.

Effect of Termination

If the merger agreement is terminated, it will become void and have no effect and there will be no liability on the part of Ares Capital, Allied Capital or their respective affiliates or consolidated subsidiaries or any of their respective directors or officers, except that (1) Ares Capital and Allied Capital will remain liable to each other for any damages incurred arising out of a breach of the merger agreement and (2) designated provisions of the merger agreement will survive the termination, including, but not limited to, the termination fee provisions and confidentiality agreement between Ares Capital and Allied Capital.

Expenses and Fees

In general, each of Ares Capital and Allied Capital will be responsible for all expenses incurred by it in connection with the negotiation and completion of the transactions contemplated by the merger agreement whether or not the merger is consummated. However, the costs and expenses of printing and mailing the registration statement (of which this document forms a part) and all filing and other fees paid to the SEC in connection with the merger and all filing and other fees in connection with any filing under the HSR Act will be borne equally by Ares Capital and Allied Capital.

Amendment, Waiver and Extension of the Merger Agreement

Subject to applicable law, the parties may amend the merger agreement by written agreement by action taken or authorized by their respective boards of directors. At any time prior to the completion of the merger, each of Ares Capital and Allied Capital, to the extent legally allowed, may waive in whole or in part any conditions to that party's obligation to complete the merger.

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ACCOUNTING TREATMENT

The merger will be accounted for as an acquisition of Allied Capital by Ares Capital in accordance with the acquisition method of accounting as detailed in ASC 805-10 (previously SFAS No. 141(R)), *Business Combinations*. The acquisition method of accounting requires an acquirer to recognize the assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree based on their fair values as of the date of acquisition. As described in more detail in ASC 805-10, goodwill, if any, will be recognized as of the acquisition date, for the excess of the fair value of the consideration transferred over the fair value of identifiable net assets acquired. If the total acquisition date fair value of the identifiable net assets acquired exceeds the fair value of the consideration transferred, the excess will be recognized as a gain. In connection with the merger and subsequent combination, the current estimated fair value of the net assets to be acquired is currently anticipated to exceed the purchase price, and based on Ares Capital's preliminary purchase price allocation, a gain of approximately $307 million is currently expected to be recorded by Ares Capital in the period the merger and subsequent combination are completed.

The final allocation of the purchase price will be determined after the merger and subsequent combination are completed and after completion of a final analysis to determine the estimated fair values of Allied Capital's assets and liabilities. Accordingly, the final purchase accounting adjustments and integration charges may be materially different from the pro forma adjustments presented in this document. Increases or decreases in the estimated fair values of the net assets, commitments, and other items of Allied Capital as compared to the information shown in this document may change the amount of the purchase price allocated to goodwill or recognized as income in accordance with ASC 805-10.

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CERTAIN MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER

The following discussion summarizes certain material U.S. federal income tax consequences of the merger, including an investment in Ares Capital common stock, that are applicable to you as an Allied Capital stockholder. It is based on the Code, applicable U.S. Treasury regulations, judicial authority and administrative rulings and practice, all as of the date of this document and all of which are subject to change, including changes with retroactive effect. The discussion below does not address any state, local or foreign tax consequences of the merger. Your tax treatment may vary depending upon your particular situation. You also may be subject to special rules not discussed below if you are a certain kind of Allied Capital stockholder, including, but not limited to: an insurance company; a tax-exempt organization; a financial institution or broker-dealer; a person who is neither a citizen nor resident of the United States or entity that is not organized under the laws of the United States or a political subdivision thereof; a holder of Allied Capital common stock as part of a hedge, straddle or conversion transaction; a person or entity that does not hold Allied Capital common stock as a capital asset at the time of the merger; an entity taxable as a partnership for U.S. federal income tax purposes (or a holder of interests in such a partnership); a trader in securities that elects to use a mark-to-market method of accounting for securities holdings; a person liable for alternative minimum tax; or a stockholder whose functional currency is not the U.S. dollar.

Ares Capital has not requested and will not request an advance ruling from the Internal Revenue Service, or the "IRS," as to the U.S. federal income tax consequences of the merger or any related transactions. The IRS could adopt positions contrary to those discussed below and such positions could be sustained. You are urged to consult with your own tax advisors and financial planners as to the particular tax consequences of the merger to you, including the applicability and effect of any state, local or foreign laws and the effect of possible changes in applicable tax laws.

Tax Consequences if the Merger Qualifies as a Reorganization

The obligation of Ares Capital to consummate the merger is contingent upon its receipt of an opinion from Proskauer Rose LLP, counsel to Ares Capital, or alternatively from counsel to Allied Capital, and the obligation of Allied Capital to consummate the merger is contingent upon its receipt of an opinion from Sullivan & Cromwell LLP, special counsel to Allied Capital, or alternatively from counsel to Ares Capital, generally to the effect that the merger and subsequent combination will qualify as a "reorganization," within the meaning of Section 368(a) of the Code, with respect to Ares Capital and Allied Capital. If the merger qualifies as a reorganization, then generally for U.S. federal income tax purposes:

- no gain or loss will be recognized by Ares Capital upon receipt of Allied Capital's assets in exchange for Ares Capital common stock and the assumption by Ares Capital of the liabilities of Allied Capital;

- Ares Capital's tax basis in the assets of Allied Capital transferred to Ares Capital in the merger will be the same as Allied Capital's tax basis in the assets immediately prior to the transfer;

- Ares Capital's holding periods for the assets of Allied Capital will include the periods during which such assets were held by Allied Capital;

- no gain or loss will be recognized by Allied Capital upon the transfer of Allied Capital's assets to Ares Capital in exchange for Ares Capital common stock and the assumption by Ares Capital of the liabilities of Allied Capital or upon the deemed distribution of Ares Capital common stock by Allied Capital to its stockholders;

- no gain or loss will be recognized by Allied Capital's stockholders upon the exchange of their Allied Capital common stock for Ares Capital common stock, except with respect to cash received instead of a fractional share interest as discussed below;

- the tax basis of Ares Capital common stock an Allied Capital stockholder receives in connection with the merger will be the same as the tax basis of his, her or its Allied Capital common stock

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exchanged therefor, reduced by any tax basis that is properly allocable to any fractional share interest of Ares Capital common stock that is redeemed for cash, as discussed below;

an Allied Capital stockholder's holding period for his, her or its Ares Capital common stock will include the period for which he, she or it held the Allied Capital common stock exchanged therefor; and

Ares Capital will succeed to, and take into account the items of Allied Capital described in Section 381(c) of the Code, subject to the conditions and limitations specified in the Code and the U.S. Treasury regulations thereunder.

The tax opinions described above will be based on then-existing law, will be subject to certain assumptions, qualifications and exclusions and will be based in part on the truth and accuracy of certain representations by Ares Capital and Allied Capital.

Cash Instead of a Fractional Share

If an Allied Capital stockholder receives cash instead of a fractional share of Ares Capital common stock, he, she or it will be treated as having received the fractional share of Ares Capital common stock pursuant to the merger and then as having sold that fractional share of Ares Capital common stock for cash. As a result, each such Allied Capital stockholder generally will recognize gain or loss equal to the difference between the amount of cash received and the tax basis in his, her or its fractional share of Ares Capital common stock. This gain or loss generally will be a capital gain or loss and will be long-term capital gain or loss if, as of the effective time, the holding period for the shares (including the holding period of Allied Capital common stock surrendered therefor) is greater than one year. The deductibility of capital losses is subject to limitations. U.S. federal backup withholding tax may be imposed on any cash received instead of a fractional share interest.

Utilization of Loss Carryforwards and Unrealized Losses

U.S. federal income tax law permits RICs, such as Ares Capital and Allied Capital, to carry forward net capital losses for a period of up to eight taxable years. Ares Capital and Allied Capital are presently entitled to significant capital loss carryforwards for U.S. federal income tax purposes, as further detailed below. The merger will cause the tax year of Allied Capital to close, resulting in an earlier expiration of capital loss carryforwards than would otherwise occur.

In addition, the merger is expected to result in a limitation on the ability of Ares Capital to use capital loss carryforwards of Allied Capital and, potentially, to use unrealized capital losses inherent in the tax basis of the assets acquired, once realized. These limitations, imposed by Section 382 of the Code, generally are imposed on an annual basis. Losses in excess of the limitation may be carried forward, subject to the overall eight-year limitation. The Section 382 limitation as to Allied Capital generally will equal the product of the fair market value of Allied Capital's equity immediately prior to the merger and the "long-term tax-exempt rate," published by the IRS, in effect at such time. As of February 2010, the long-term tax-exempt rate is 4.14%. However, no assurance can be given as to what long-term tax-exempt rate will be in effect at the time of the merger.

As of September 30, 2009, for U.S. federal income tax purposes, Allied Capital had no capital loss carryforwards and net unrealized losses of approximately $1.6 billion. These figures are likely to change by the date of the merger, and do not reflect the impact of the merger, including, in particular, the application of the loss limitation rules discussed herein. Under Section 384 of the Code, Ares Capital will also be prohibited from using Allied Capital's capital loss carryforwards and unrealized losses (once realized) against the unrealized gains in Ares Capital's portfolio at the time of the merger, if any, to the extent such gains are realized within five years following the merger, if either Ares Capital or Allied Capital has a net unrealized built in gain at the time of the merger. While the ability of Ares Capital to absorb Allied Capital's losses in the future depends upon a variety of factors that cannot be known in advance, because capital loss carryforwards generally expire eight taxable years following realization, including the short taxable year resulting from the merger, substantially all of Allied Capital's losses may become permanently unavailable to Ares Capital. Even if Ares Capital is able to utilize capital loss carryforwards or unrealized losses of Allied Capital, the tax benefit resulting from those losses will be shared by both Allied Capital and Ares Capital stockholders following the merger. Therefore, an Allied Capital stockholder may pay more taxes, or pay taxes sooner, than such stockholder otherwise would have paid if the merger did not occur.

In general, the limitation under Section 382 of the Code will apply to capital loss carryforwards and unrealized losses of Allied Capital if its stockholders will hold less than 50% of the outstanding shares of Ares Capital immediately following the merger. Accordingly, it is expected that the limitation will apply to such losses of Allied Capital.

Allied Capital stockholders may benefit from any capital loss carryforwards and unrealized capital losses of Ares Capital. It is expected that Ares Capital's ability to use its own capital loss carryforwards and unrealized losses, once realized, will be subject to the annual limitation under Section 382 of the Code as a result of the merger as well, such that losses in excess of the limitation cannot be used in the taxable year and must be carried forward. The limitation generally will equal the product of the fair market value of Ares Capital's equity immediately prior to the merger and the long-term tax-exempt rate in effect at such time. As of September 30, 2009, for U.S. federal income tax purposes, Ares Capital had capital loss carryforwards of approximately $4.2 million and net unrealized losses of approximately $277.7 million. These figures are likely to change by the date of the merger, and do not reflect the impact of the merger, including, in particular, the application of the loss limitation rules described herein. Under Section 384 of the Code, Ares Capital will also be prohibited from using its capital loss carryforwards and unrealized losses (once realized) against the unrealized gains in Allied Capital's portfolio at the time of the merger, if any, to the extent such gains are realized within five years following the merger, if either Ares Capital or Allied Capital has a net unrealized built in gain at the time of the merger. While the ability of Ares Capital to absorb its losses in the future depends upon a variety of factors that cannot be known in advance, because capital loss carryforwards generally expire eight taxable years following realization, substantially all of its losses may become permanently unavailable to Ares Capital. Even if Ares Capital is able to utilize its capital loss carryforwards or unrealized losses, the tax benefit resulting from those losses will be shared by both Allied Capital and Ares Capital stockholders following the merger. Therefore, an Ares Capital stockholder may pay more taxes, or pay taxes sooner, than such stockholder otherwise would have paid if the merger did not occur.

Further, in addition to the other limitations on the use of losses, under Section 381 of the Code, for the taxable year of the merger, only that percentage of Ares Capital's capital gain net income for such taxable year (excluding capital loss carryforwards), if any, equal to the percentage of its year that remains following the merger can be reduced by Allied Capital's capital loss carryforwards (as otherwise limited under Sections 382 and 384 of the Code, as described above).

A RIC cannot carryforward or carryback any net operating losses for U.S. federal income tax purposes. Accordingly, Ares Capital cannot use any net operating losses inherited from Allied Capital in the merger.

Status as a Regulated Investment Company

Both Allied Capital and Ares Capital believe they have qualified, and expect to continue to qualify, as RICs. Accordingly, both believe that they have been, and expect to continue to be, relieved of U.S. federal income tax liability to the extent that they have made or make distributions of their taxable income and gains to their stockholders.

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Distribution of Income and Gains

Allied Capital's taxable year will end as a result of the merger. Allied Capital is generally required to declare to its stockholders of record one or more distributions of all of its previously undistributed net investment income and net realized capital gain, including capital gain realized on any securities disposed of in connection with the merger, in order to maintain Allied Capital's treatment as a RIC until the merger and to eliminate any U.S. federal income tax on its taxable income. However, it is not expected that Allied Capital will have any such undistributed income or gain and therefore it is not expected that Allied Capital would be required to declare any such dividends.

Moreover, if Ares Capital has net investment income or net realized capital gain, but has not distributed such income or gain prior to the merger and you acquire shares of Ares Capital in the merger, a portion of your subsequent distributions from Ares Capital would, in effect, be a taxable return of part of your investment. Similarly, if you acquire Ares Capital common stock in the merger when it holds appreciated securities, you will receive a taxable return of part of your investment if and when Ares Capital sells the appreciated securities and distributes the realized gain. Ares Capital has built up, or has the potential to build up, high levels of unrealized appreciation.

U.S. Federal Income Taxation of an Investment in Ares Capital Common Stock

The following discussion summarizes the U.S. federal income taxation of an investment in Ares Capital common stock. This discussion is not intended as a substitute for careful tax planning. You should consult your tax advisor about your specific tax situation.

Qualification as a Regulated Investment Company. As a BDC, Ares Capital has elected to be treated as a RIC. As a RIC, Ares Capital generally will not pay corporate-level U.S. federal income taxes on any ordinary income or capital gains that Ares Capital distributes to its stockholders as dividends. To qualify as a RIC, Ares Capital must, among other things, meet certain income source and asset diversification requirements (as described below). In addition, Ares Capital must distribute to its stockholders, for each taxable year, generally, an amount equal to at least 90% of Ares Capital's "investment company taxable income," as defined by the Code, or the "Annual Distribution Requirement." See "Risk Factors Risks Relating to Ares Capital Ares Capital may be subject to certain corporate-level taxes regardless of whether Ares Capital continues to qualify as a RIC."

Taxation as a RIC. If Ares Capital:

- qualifies as a RIC; and

- satisfies the Annual Distribution Requirement;

then it will not be subject to U.S. federal income tax on the portion of its investment company taxable income and net capital gain (generally, net long-term capital gain in excess of net short-term capital loss) Ares Capital distributes (or is deemed to distribute) to its stockholders. Ares Capital will be subject to U.S. federal income tax at the regular corporate rates on any income or capital gain not distributed (or deemed distributed) to its stockholders.

Ares Capital will be subject to a 4% nondeductible U.S. federal excise tax on certain undistributed income unless it distributes in a timely manner an amount at least equal to the sum of (1) 98% of its ordinary income for each calendar year, (2) 98% of its capital gain net income for the one-year period ending October 31 in that calendar year and (3) any income recognized, but not distributed, in preceding years, collectively the "Excise Tax Avoidance Requirement." Ares Capital has paid in the past, and can be expected to pay in the future, such excise tax on a portion of its income.

To qualify as a RIC for U.S. federal income tax purposes, Ares Capital generally must, among other things:

- qualify to be treated as a BDC at all times during each taxable year;

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derive in each taxable year at least 90% of its gross income from (a) dividends, interest, payments with respect to certain securities loans, gains from the sale of stock or other securities or other income derived with respect to its business of investing in such stock or securities or (b) net income derived from an interest in a "qualified publicly traded partnership," or a "QPTP," and, collectively, the "90% Income Test"; and

diversify its holdings so that at the end of each quarter of the taxable year:

at least 50% of the value of its assets consists of cash, cash equivalents, U.S. Government securities, securities of other RICs and other securities that, with respect to any issuer, do not represent more than 5% of the value of its assets or more than 10% of the outstanding voting securities of the issuer; and

no more than 25% of the value of its assets is invested in the securities, other than U.S. Government securities or securities of other RICs, of (1) one issuer, (2) two or more issuers that are controlled, as determined under applicable tax rules, by Ares Capital and that are engaged in the same or similar or related trades or businesses or (3) securities of one or more QPTPs, collectively, the "Diversification Tests."

Ares Capital may be required to recognize taxable income in circumstances in which it does not receive cash, such as income from hedging or foreign currency transactions. For example, if Ares Capital holds debt obligations that are treated under applicable tax rules as having original issue discount (such as debt instruments with payment-in-kind interest or, in certain cases, increasing interest rates or issued with warrants), it must include in income each year a portion of the original issue discount that accrues over the life of the obligation, regardless of whether cash representing such income is received by it in the same taxable year. Because any original issue discount or other amounts accrued will be included in Ares Capital's investment company taxable income for the year of accrual, it may be required to make a distribution to its stockholders in order to satisfy the Annual Distribution Requirement and the Excise Tax Avoidance Requirement, even though it will not have received any corresponding cash amount.

Furthermore, a portfolio company in which Ares Capital invests may face financial difficulty that requires Ares Capital to work-out, modify or otherwise restructure its investment in the portfolio company. Any such restructuring may result in unusable capital losses and future non-cash income. Any such restructuring may also result in Ares Capital's recognition of a substantial amount of non-qualifying income for purposes of the 90% Income Test, such as cancellation of indebtedness income in connection with the work-out of a leveraged investment (which, while not free from doubt, may be treated as non-qualifying income) or the receipt of other non-qualifying income.

In addition, certain of Ares Capital's investment practices may be subject to special and complex U.S. federal income tax provisions that may, among other things, (1) disallow, suspend or otherwise limit the allowance of certain losses or deductions, (2) convert lower taxed long-term capital gain into higher taxed short-term capital gain or ordinary income, (3) convert an ordinary loss or a deduction into a capital loss (the deductibility of which is more limited), (4) adversely affect the time as to when a purchase or sale of stock or securities is deemed to occur and (5) adversely alter the characterization of certain complex financial transactions. Ares Capital will monitor its transactions and may make certain tax elections in order to mitigate the effect of these provisions.

Gain or loss recognized by Ares Capital from warrants it acquires as well as any loss attributable to the lapse of such warrants generally will be treated as capital gain or loss. Such gain or loss generally will be long-term or short-term, depending on how long Ares Capital has held a particular warrant.

Ares Capital's investment in non-U.S. securities may be subject to non-U.S. income, withholding and other taxes. In that case, Ares Capital's yield on those securities would be decreased. Stockholders will generally not be entitled to claim a credit or deduction with respect to non-U.S. taxes paid by Ares Capital.

If Ares Capital purchases shares in a "passive foreign investment company," or a "PFIC," it may be subject to U.S. federal income tax on a portion of any "excess distribution" or gain from the disposition of such shares even if such income is distributed as a taxable dividend by Ares Capital to its stockholders. Additional charges in the nature of interest may be imposed on Ares Capital in respect of deferred taxes arising from such distributions or gains. If Ares Capital invests in a PFIC and elects to treat the PFIC as a "qualified electing fund" under the Code, or a "QEF," in lieu of the foregoing requirements, it will be required to include in income each year a portion of the ordinary earnings and net capital gain of the QEF, even if such income is not distributed to it. Alternatively, Ares Capital can elect to mark-to-market at the end of each taxable year its shares in a PFIC; in this case, it will recognize as ordinary income any increase in the value of such shares and as ordinary loss any decrease in such value to the extent it does not exceed prior increases included in income. Under either election, Ares Capital may be required to recognize in a year income in excess of its distributions from PFICs and its proceeds from dispositions of PFIC stock during that year, and such income will nevertheless be subject to the Annual Distribution Requirement and will be taken into account for purposes of the 4% excise tax.

Under Section 988 of the Code, gains or losses attributable to fluctuations in exchange rates between the time Ares Capital accrues income, expenses or other liabilities denominated in a foreign currency and the time it actually collects such income or pay such expenses or liabilities are generally treated as ordinary income or loss. Similarly, gains or losses on foreign currency forward contracts and the disposition of debt denominated in a foreign currency, to the extent attributable to fluctuations in exchange rates between the acquisition and disposition dates, are also treated as ordinary income or loss.

If Ares Capital borrows money, it may be prevented by loan covenants from declaring and paying dividends in certain circumstances. Limits on Ares Capital's payment of dividends may prevent it from meeting the Annual Distribution Requirement, and may, therefore, jeopardize its qualification for taxation as a RIC or subject Ares Capital to the 4% excise tax.

Even if Ares Capital is authorized to borrow funds and to sell assets in order to satisfy distribution requirements, under the Investment Company Act, it is not permitted to make distributions to its stockholders while its debt obligations and senior securities are outstanding unless certain "asset coverage" tests are met. This may also jeopardize its qualification for taxation as a RIC or subject Ares Capital to the 4% excise tax.

Moreover, Ares Capital's ability to dispose of assets to meet Ares Capital's distribution requirements may be limited by (1) the illiquid nature of its portfolio and (2) other requirements relating to its status as a RIC, including the Diversification Tests. If Ares Capital disposes of assets to meet the Annual Distribution Requirement, the Diversification Tests or the Excise Tax Avoidance Requirement, it may make such dispositions at times that, from an investment standpoint, are not advantageous.

Some of the income and fees that Ares Capital recognizes, such as management fees or income recognized in a work-out or restructuring of a portfolio investment, may not satisfy the 90% Income Test. In order to ensure that such income and fees do not disqualify Ares Capital as a RIC for a failure to satisfy the 90% Income Test, Ares Capital may be required to recognize such income and fees through one or more entities treated as U.S. corporations for U.S. federal income tax purposes. While Ares Capital would expect that recognizing such income through such corporations will assist it in satisfying the 90% Income Test, no assurance can be given that this structure will be respected for U.S. federal income tax purposes, which could result in Ares Capital's disqualification as a RIC. Even if the structure is respected, such corporations will be required to pay U.S. corporate income tax on their earnings, which ultimately will reduce the yield on such income and fees.

If Ares Capital fails to satisfy the Annual Distribution Requirement or fails to qualify as a RIC in any taxable year, it will be subject to tax in that year on all of its taxable income, regardless of whether it makes any distributions to its stockholders. In that case, all of Ares Capital's income will be subject to corporate-level U.S. federal income tax, reducing the amount available to be distributed to its stockholders.

In contrast, assuming Ares Capital qualifies as a RIC, its corporate-level U.S. federal income tax should be substantially reduced or eliminated. See "Risk Factors Risks Relating to Ares Capital Ares Capital may be subject to certain corporate-level taxes regardless of whether Ares Capital continues to qualify as a RIC."

The remainder of this discussion assumes that Ares Capital qualifies as a RIC and has satisfied the Annual Distribution Requirement.

Taxation of U.S. Stockholders

Whether an investment in shares of Ares Capital common stock is appropriate for a U.S. stockholder will depend upon that person's particular circumstances. An investment in shares of Ares Capital common stock by a U.S. stockholder may have adverse tax consequences. The following summary generally describes certain U.S. federal income tax consequences of an investment in shares of Ares Capital common stock by taxable U.S. stockholders and not by U.S. stockholders that are generally exempt from U.S. federal income taxation. U.S. stockholders of Allied Capital should consult their own tax advisors before approving the merger and the merger agreement.

Distributions by Ares Capital generally are taxable to U.S. stockholders as ordinary income or long-term capital gain. Distributions of Ares Capital's "investment company taxable income" (which is, generally, its ordinary income excluding net capital gain) will be taxable as ordinary income to U.S. stockholders to the extent of its current and accumulated earnings and profits, whether paid in cash or reinvested in additional shares of Ares Capital common stock. Distributions of Ares Capital's net capital gain (which is generally its net long-term capital gain in excess of net short-term capital loss) properly designated by it as "capital gain dividends" will be taxable to a U.S. stockholder as long-term capital gain, at a maximum rate of 15% (for taxable years beginning before January 1, 2011) in the case of individuals, trusts or estates. This is true regardless of the U.S. stockholder's holding period for his, her or its stock and regardless of whether the dividend is paid in cash or reinvested in additional shares of Ares Capital common stock. Distributions in excess of Ares Capital's earnings and profits first will reduce a U.S. stockholder's adjusted tax basis in such stockholder's stock and, after the adjusted basis is reduced to zero, will constitute capital gain to such U.S. stockholder. Ares Capital has made distributions in excess of its earnings and profits and expects to continue to do so in the future.

Ares Capital's ordinary income dividends, but not capital gain dividends, paid to corporate U.S. stockholders may, if certain conditions are met, qualify for the 70% dividends-received deduction to the extent that Ares Capital has received certain dividends from certain corporations during the taxable year. Ares Capital expects only a small portion of its dividends to qualify for this deduction.

For taxable years beginning before January 1, 2011, to the extent distributions paid by Ares Capital to U.S. stockholders that are individuals, trusts or estates are attributable to dividends from certain U.S. corporations and qualified foreign corporations and, appropriately designated, such distributions generally will be treated as "qualified dividend income." Accordingly, such distributions would be eligible for a maximum tax rate of 15% on net capital gain, provided that certain holding period requirements are met. In this regard, it is anticipated that only a small portion of distributions paid by Ares Capital will be eligible for qualification as qualified dividend income.

Although Ares Capital currently intends to distribute its net capital gain, if any, at least annually, it may in the future decide to retain some or all of its net capital gain, but designate the retained amount as a "deemed distribution." In that case, among other consequences, Ares Capital will pay tax on the retained amount, each U.S. stockholder will be required to include his, her or its share of the deemed distribution in income as if it had been actually distributed to the U.S. stockholder and the U.S. stockholder will be entitled to claim a credit equal to his, her or its allocable share of the tax paid thereon by Ares Capital. The amount of the deemed distribution net of such tax will be added to the U.S. stockholder's tax basis for his, her or its stock.

Since Ares Capital expects to pay tax on any retained net capital gain at its regular corporate tax rate, and since that rate is in excess of the maximum rate currently payable by individuals on net capital gain, the amount of tax that individual stockholders will be treated as having paid and for which they will receive a credit would exceed the tax they owe on the retained net capital gain. Such excess generally may be claimed as a credit against the U.S. stockholder's other U.S. federal income tax obligations or may be refunded to the extent it exceeds a stockholder's liability for U.S. federal income tax. A U.S. stockholder that is not subject to U.S. federal income tax or otherwise is not required to file a U.S. federal income tax return would be required to file a U.S. federal income tax return on the appropriate form in order to claim a refund for the taxes Ares Capital paid. In order to utilize the deemed distribution approach, Ares Capital must provide written notice to its stockholders prior to the expiration of 60 days after the close of the relevant taxable year. Ares Capital cannot treat any of its investment company taxable income as a "deemed distribution" under the procedures described above.

Ares Capital could be subject to the alternative minimum tax, or the "AMT," but any items that are treated differently for AMT purposes must be apportioned between Ares Capital and its stockholders and this may affect U.S. stockholders' AMT liabilities. Although regulations explaining the precise method of apportionment have not yet been issued, such items will generally be apportioned in the same proportion that dividends paid to each stockholder bear to Ares Capital's taxable income (determined without regard to the dividends paid deduction), unless a different method for a particular item is warranted under the circumstances.

For purposes of determining (1) whether the Annual Distribution Requirement is satisfied for any year and (2) the amount of dividends paid for that year, Ares Capital may, under certain circumstances, elect to treat a dividend that is paid during the following taxable year as if it had been paid during the taxable year in question. If Ares Capital makes such an election, the U.S. stockholder will still be treated as receiving the dividend in the taxable year in which the distribution is made. However, any dividend declared by Ares Capital in October, November or December of any calendar year, payable to stockholders of record on a specified date in such a month and actually paid during January of the following year, will be treated as if it had been received by its U.S. stockholders on December 31 of the year in which the dividend was declared.

Ares Capital has the ability to declare a large portion of a dividend in shares of its stock. As long as a portion of such dividend is paid in cash (which portion can be as low as 10% for Ares Capital's taxable years ending on or before December 31, 2011) and certain requirements are met, the entire distribution will be treated as a dividend for U.S. federal income tax purposes. As a result, stockholders will be taxed on 100% of the dividend in the same manner as a cash dividend, even though most of the dividend was paid in shares of Ares Capital stock. In general, any dividend on shares of Ares Capital preferred stock will be taxable as a dividend, regardless of whether any portion is paid in stock.

If an investor purchases shares of Ares Capital common stock shortly before the record date of a distribution, the price of the shares will include the value of the distribution and the investor will be subject to tax on the distribution even though it represents a return of his, her or its investment. Ares Capital has built-up or has the potential to build up large amounts of unrealized gain which, when realized and distributed, could have the effect of a taxable return of capital to stockholders.

A U.S. stockholder generally will recognize taxable gain or loss if the U.S. stockholder sells or otherwise disposes of his, her or its shares of Ares Capital common stock. The amount of gain or loss will be measured by the difference between such stockholder's adjusted tax basis in the stock sold and the amount of the proceeds received in exchange. Any gain arising from such sale or disposition generally will be treated as long-term capital gain or loss if the stockholder has held his, her or its shares for more than one year. Otherwise, it would be classified as short-term capital gain or loss. However, any capital loss arising from the sale or disposition of shares of Ares Capital common stock

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held for six months or less will be treated as long-term capital loss to the extent of the amount of capital gain dividends received, or undistributed capital gain deemed received, with respect to such shares. In addition, all or a portion of any loss recognized upon a disposition of shares of Ares Capital common stock may be disallowed if substantially identical stock or securities are purchased (whether through reinvestment of distributions or otherwise) within 30 days before or after the disposition.

For taxable years beginning before January 1, 2011, in general, U.S. stockholders that are individuals, trusts or estates are subject to a maximum U.S. federal income tax rate of 15% on their net capital gain (generally, the excess of net long-term capital gain over net short-term capital loss for a taxable year, including a long-term capital gain derived from an investment in Ares Capital common stock). Such rate is lower than the maximum rate on ordinary income currently payable by individuals. Corporate U.S. stockholders currently are subject to U.S. federal income tax on net capital gain at the maximum 35% rate that also applies to ordinary income. Non-corporate U.S. stockholders with net capital losses for a year (i.e., capital loss in excess of capital gain) generally may deduct up to $3,000 of such losses against their ordinary income each year; any net capital losses of a non-corporate U.S. stockholder in excess of $3,000 generally may be carried forward and used in subsequent years as provided in the Code. Corporate stockholders generally may not deduct any net capital losses for a year, but may carry back such losses for three years or carry forward such losses for five years.

Ares Capital will send to each of its U.S. stockholders, as promptly as possible after the end of each calendar year, a notice detailing, on a per share and per distribution basis, the amounts includible in such U.S. stockholder's taxable income for such year as ordinary income and as long-term capital gain. In addition, the U.S. federal tax status of each year's distributions generally will be reported to the IRS (including the amount of dividends, if any, eligible for the 15% maximum rate). Distributions may also be subject to additional state, local and foreign taxes depending on a U.S. stockholder's particular situation.

Ares Capital may be required to withhold U.S. federal income tax, or "backup withholding," currently at a rate of 28%, from all taxable distributions to any non-corporate U.S. stockholder (1) who fails to furnish Ares Capital with a correct taxpayer identification number or a certificate that such stockholder is exempt from backup withholding or (2) with respect to whom the IRS notifies Ares Capital that such stockholder has failed to properly report certain interest and dividend income to the IRS and to respond to notices to that effect. An individual's taxpayer identification number is his or her social security number. Any amount withheld under backup withholding is allowed as a credit against the U.S. stockholder's U.S. federal income tax liability and may entitle such stockholder to a refund, provided that proper information is timely provided to the IRS.

Under U.S. Treasury regulations, if a stockholder recognizes a loss with respect to shares of $2 million or more for a non-corporate stockholder or $10 million or more for a corporate stockholder in any single taxable year (or a greater loss over a combination of years), the stockholder must file with the IRS a disclosure statement on Form 8886. Direct stockholders of portfolio securities in many cases are excepted from this reporting requirement, but under current guidance, stockholders of a RIC are not excepted. Future guidance may extend the current exception from this reporting requirement to stockholders of most or all RICs. The fact that a loss is reportable under these regulations does not affect the legal determination of whether the taxpayer's treatment of the loss is proper. Significant monetary penalties apply to a failure to comply with this reporting requirement. States may also have a similar reporting requirement. Stockholders should consult their own tax advisors to determine the applicability of these regulations in light of their individual circumstances.

Taxation of Non-U.S. Stockholders

Whether an investment in shares of Ares Capital common stock is appropriate for a non-U.S. stockholder will depend upon that person's particular circumstances. For this purpose, a "non-U.S. stockholder" is a beneficial owner of Ares Capital common stock who is for U.S. federal income tax purposes a person other than: (1) a citizen or individual resident of the United States; (2) a

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corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or any state thereof or the District of Columbia; (3) a trust, if a court within the United States has primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions, or the trust has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person; or (4) an estate the income of which is subject to U.S. federal income taxation regardless of its source. An investment in shares of Ares Capital common stock by a non-U.S. stockholder may have adverse tax consequences and, accordingly, may not be appropriate for a non-U.S. stockholder. Non-U.S. stockholders of Allied Capital should consult their own tax advisors before approving the merger and the merger agreement.

Distributions of Ares Capital's "investment company taxable income" to non-U.S. stockholders will be subject to withholding of U.S. federal income tax at a 30% rate (or such lower rate as is provided by an applicable income tax treaty) to the extent of Ares Capital's current and accumulated earnings and profits unless an exception applies. If the distributions are effectively connected with a U.S. trade or business of the non-U.S. stockholder or, if an income tax treaty applies, are attributable to a permanent establishment in the United States of the non-U.S. stockholder, distributions will be subject to U.S. federal income tax at the rates applicable to U.S. persons. In that case, Ares Capital will not be required to withhold U.S. federal income tax if the non-U.S. stockholder complies with applicable certification and disclosure requirements. Special certification requirements apply to a non-U.S. stockholder that is a foreign trust and such entities are urged to consult their own tax advisors.

Actual or deemed distributions of Ares Capital's net capital gain (which is generally its net long-term capital gain in excess of net short-term capital loss) to a non-U.S. stockholder, and gains recognized by a non-U.S. stockholder upon the sale of Ares Capital common stock, will not be subject to withholding of U.S. federal income tax and generally will not be subject to U.S. federal income tax (1) unless the distributions or gains, as the case may be, are effectively connected with a U.S. trade or business of the non-U.S. stockholder and, if an income tax treaty applies, are attributable to a permanent establishment maintained by the non-U.S. stockholder in the United States or (2) the non-U.S. stockholder is an individual, has been present in the United States for 183 days or more during the taxable year and certain other conditions are satisfied.

If Ares Capital distributes its net capital gain in the form of deemed rather than actual distributions (which it may do in the future), a non-U.S. stockholder will be entitled to a U.S. federal income tax credit or tax refund equal to the non-U.S. stockholder's allocable share of the tax Ares Capital pays on the capital gain deemed to have been distributed. In order to obtain a refund, the non-U.S. stockholder must obtain a U.S. taxpayer identification number and file a U.S. federal income tax return even if the non-U.S. stockholder would not otherwise be required to obtain a U.S. taxpayer identification number or file a U.S. federal income tax return. For a corporate non-U.S. stockholder, distributions (both actual and deemed) and gains recognized upon the sale of Ares Capital stock that are effectively connected with a U.S. trade or business may, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate (or at a lower rate if provided for by an applicable income tax treaty).

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

A non-U.S. stockholder who is a non-resident alien individual, and who is otherwise subject to withholding of U.S. federal income tax, may be subject to information reporting and backup withholding of U.S. federal income tax on dividends unless the non-U.S. stockholder provides Ares

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Capital or the dividend paying agent with an IRS Form W-8BEN (or an acceptable substitute form) or otherwise meets documentary evidence requirements for establishing that it is a non-U.S. stockholder or otherwise establishes an exemption from backup withholding.

Failure to Qualify as a RIC

If Ares Capital were unable to qualify for treatment as a RIC, it would be subject to tax on all of its taxable income at regular corporate rates. Ares Capital would not be able to deduct distributions to stockholders nor would it be required to make them for tax purposes. Distributions would generally be taxable to Ares Capital stockholders as ordinary dividend income eligible for the 15% maximum rate (for taxable years beginning before January 1, 2011) to the extent of Ares Capital's current and accumulated earnings and profits. Subject to certain limitations under the Code, corporate U.S. stockholders would be eligible for the dividends-received deduction. Distributions in excess of Ares Capital's current and accumulated earnings and profits would be treated first as a return of capital to the extent of the stockholder's tax basis and any remaining distributions would be treated as a capital gain. If Ares Capital were to fail to meet the RIC requirements for more than two consecutive years and then to seek to requalify as a RIC, it would be required to recognize gain to the extent of any unrealized appreciation in its assets unless it made a special election to pay corporate-level tax on any such unrealized appreciation recognized during the succeeding 10-year period.

Possible Legislative or Other Actions Affecting Tax Considerations

Prospective investors should recognize that the present U.S. federal income tax treatment of an investment in Ares Capital may be modified by legislative, judicial or administrative action at any time, and that any such action may affect investments and commitments previously made. The rules dealing with U.S. federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Treasury Department, resulting in revisions of regulations and revised interpretations of established concepts as well as statutory changes. Revisions in U.S. federal tax laws and interpretations thereof could adversely affect the tax consequences of an investment in Ares Capital.

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MARKET PRICE, DIVIDEND AND DISTRIBUTION INFORMATION

Ares Capital common stock trades on NASDAQ under the symbol "ARCC" and Allied Capital common stock trades on the NYSE and NASDAQ under the symbol "ALD." Allied Capital and Ares Capital common stock have historically traded at prices both above and below their respective net asset values. It is not possible to predict whether the common stock of the combined company will trade at, above, or below net asset value following the merger. See "Risk Factors Risks Relating to Ares Capital Ares Capital's shares of common stock have recently traded at a discount from net asset value and may do so again in the future, which could limit Ares Capital's ability to raise additional equity capital" and "Risk Factors Risks Relating to Allied Capital Regulations governing Allied Capital's operation as a BDC affect its ability to raise, and the way in which Allied Capital raises, additional debt and equity capital."

The following table sets forth, for each fiscal quarter during the last two fiscal years and the current fiscal year, the net asset value per share of Allied Capital and Ares Capital common stock, the range of high and low closing sales prices of Allied Capital and Ares Capital common stock, the closing sales price as a percentage of net asset value and the dividends declared by Allied Capital and Ares Capital. On February 10, 2010, the last reported closing sales price of Allied Capital common stock on the NYSE was $3.92 per share, which represented a discount of approximately 41.49% to the net asset value per share reported by Allied Capital as of September 30, 2009. On February 10, 2010, the last reported closing sales price of Ares Capital common stock on NASDAQ was $11.85 per share, which represented a premium of approximately 6.18% to the net asset value per share reported by Ares Capital as of September 30, 2009.

Allied Capital

	Net Asset Value(1)	Closing Sales Price High	Closing Sales Price Low	High Sales Price to Net Asset Value(2)	Low Sales Price to Net Asset Value(2)	Cash Dividend/ Distribution Per Share(3)
Year ended December 31, 2008						
First quarter	$ 16.99	$ 23.26	$ 18.38	137%	108%	$ 0.65
Second quarter	$ 15.93	$ 21.52	$ 13.89	135%	87%	$ 0.65
Third quarter	$ 13.51	$ 15.97	$ 10.80	118%	80%	$ 0.65
Fourth quarter	$ 9.62	$ 10.00	$ 1.59	104%	17%	$ 0.65
Year ending December 31, 2009						
First quarter	$ 7.67	$ 4.80	$ 0.59	63%	8%	
Second quarter	$ 7.49	$ 4.02	$ 1.48	54%	20%	
Third quarter	$ 6.70	$ 4.05	$ 2.81	60%	42%	
Fourth quarter	*	$ 3.82	$ 2.73	*	*	
Year ending December 31, 2010						
First quarter (through February 10, 2010)	*	$ 4.50	$ 3.76	*	*	(4)

(1) Net asset value per share is determined as of the last day in the relevant quarter and therefore may not reflect the net asset value per share on the date of the high and low closing sales prices. The net asset values shown are based on outstanding shares at the end of the relevant quarter.

(2) Calculated as the respective high or low closing sales price divided by net asset value.

(3) Represents the dividend or distribution declared in the relevant quarter.

(4) As of the date hereof, Allied Capital is restricted in its ability to declare dividends. See "Management's Discussion and Analysis of Financial Condition and Results of Operations of Allied Capital Dividends and Distributions."

* Net asset value has not yet been calculated for this period.

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Allied Capital has not paid any quarterly dividends or distributions to holders of its common stock since the fourth quarter of fiscal year 2008. The decision to pay a dividend or distribution and, if so, how much is determined by its board of directors on a quarterly basis throughout the year. See "Management's Discussion and Analysis of Financial Condition and Results of Operations of Allied Capital Other Matters Dividends and Distributions." Allied Capital does not expect to declare dividends in 2009 or for an extended period of time.

Allied Capital maintains an "opt in" dividend reinvestment plan for Allied Capital's common stockholders. As a result, if Allied Capital's board of directors declares a dividend, then Allied Capital's stockholders will receive cash dividends unless they specifically "opt in" to the dividend reinvestment plan to reinvest their dividends and receive additional shares of common stock. See "Allied Capital Dividend Reinvestment Plan."

Ares Capital

	Net Asset Value(1)	Closing Sales Price High	Closing Sales Price Low	High Sales Price to Net Asset Value(2)	Low Sales Price to Net Asset Value(2)	Cash Dividend/ Distribution Per Share(3)
Year ended December 31, 2008						
First quarter	$ 15.17	$ 14.39	$ 12.14	94.9%	80.0%	$ 0.42
Second quarter	$ 13.67	$ 12.98	$ 10.08	95.0%	73.7%	$ 0.42
Third quarter	$ 12.83	$ 12.60	$ 9.30	98.2%	72.5%	$ 0.42
Fourth quarter	$ 11.27	$ 10.15	$ 3.77	90.1%	33.5%	$ 0.42
Year ending December 31, 2009						
First quarter	$ 11.20	$ 7.39	$ 3.21	66.0%	28.7%	$ 0.42
Second quarter	$ 11.21	$ 8.31	$ 4.53	74.1%	40.4%	$ 0.35
Third quarter	$ 11.16	$ 11.02	$ 7.04	98.7%	63.1%	$ 0.35
Fourth quarter	*	$ 12.71	$ 10.21	*	*	$ 0.35
Year ending December 31, 2010						
First quarter (through February 10, 2010)	*	$ 14.19	$ 11.75	*	*	(4)

(1) Net asset value per share is determined as of the last day in the relevant quarter and therefore may not reflect the net asset value per share on the date of the high and low closing sales prices. The net asset values shown are based on outstanding shares at the end of the relevant quarter.

(2) Calculated as the respective high or low closing sales price divided by net asset value.

(3) Represents the dividend or distribution declared in the relevant quarter.

(4) As of the date hereof, no dividend has been declared for this quarter.

* Net asset value has not yet been calculated for this period.

Ares Capital currently intends to distribute quarterly dividends or distributions to its stockholders. Ares Capital's quarterly dividends or distributions, if any, will be determined by its board of directors.

To maintain its RIC status, Ares Capital must timely distribute generally an amount equal to at least 90% of its investment company taxable income out of the assets legally available for distribution for each year. To avoid certain excise taxes imposed on RICs, Ares Capital is generally required to distribute during each calendar year an amount at least equal to the sum of (1) 98% of its ordinary income for the calendar year, plus (2) 98% of its capital gains in excess of capital losses for the one-year period ending on October 31 of the calendar year plus (3) any ordinary income and net capital gains for preceding years that were not distributed during such years. If this requirement is not

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met, Ares Capital will be required to pay a nondeductible excise tax equal to 4% of the amount by which 98% of the current year's taxable income exceeds the distribution for the year. The taxable income on which an excise tax is paid is generally carried forward and distributed to stockholders in the next tax year. Depending on the level of taxable income earned in a tax year, Ares Capital may choose to carry forward taxable income in excess of current year distributions into the next tax year and pay a 4% excise tax on such income, as required. Ares Capital's excise tax benefit for the nine months ended September 30, 2009 was approximately $30,000 and $100,000 for the year ended December 31, 2008. Ares Capital cannot assure you that it will achieve results that will permit the payment of any cash distributions.

Ares Capital maintains an "opt out" dividend reinvestment plan for its common stockholders. As a result, if Ares Capital declares a cash dividend, then stockholders' cash dividends will be automatically reinvested in additional shares of its common stock unless they specifically "opt out" of the dividend reinvestment plan so as to receive cash dividends. See "Ares Capital Dividend Reinvestment Plan."

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BUSINESS OF ARES CAPITAL

General

Ares Capital, a Maryland corporation, is a specialty finance company that is a closed-end, non-diversified management investment company. Ares Capital has elected to be regulated as a BDC under the Investment Company Act. Ares Capital was founded on April 16, 2004, was initially funded on June 23, 2004 and completed its initial public offering on October 8, 2004. Ares Capital's investment objective is to generate both current income and capital appreciation through debt and equity investments. Ares Capital invests primarily in U.S. middle-market companies, where Ares Capital believes the supply of primary capital is limited and the investment opportunities are most attractive. In this document, Ares Capital generally uses the term "middle-market" to refer to companies with annual EBITDA of between $10 million and $250 million. However, Ares Capital may from time to time invest in larger companies.

Ares Capital invests primarily in first and second lien senior loans and mezzanine debt, which in some cases includes an equity component like warrants. First and second lien senior loans generally are senior debt instruments that rank ahead of subordinated debt of a given portfolio company. These loans also have the benefit of security interests on the assets of the portfolio company, which may rank ahead of or be junior to other security interests. Mezzanine debt is subordinated to senior loans and is generally unsecured. Ares Capital's debt investments have ranged between $10 million and $100 million each, although the investment sizes may be more or less than the targeted range. Ares Capital's investment sizes are expected to grow with Ares Capital's capital availability. To a lesser extent, Ares Capital also makes equity investments. Each of Ares Capital's equity investments has generally been less than $20 million, but may grow with Ares Capital's capital availability and are usually made in conjunction with loans Ares Capital makes to these portfolio companies.

The proportion of these investments will change over time given Ares Capital's views on, among other things, the economic and credit environment Ares Capital is operating in. In connection with Ares Capital's investing activities, Ares Capital may make commitments with respect to indebtedness or securities of a potential portfolio company substantially in excess of its final investment. In such situations, while Ares Capital may initially agree to fund up to a certain dollar amount of an investment, Ares Capital may syndicate a portion of such amount to third parties prior to closing such investment, such that Ares Capital makes a smaller investment than what was reflected in its original commitment.

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

Ares Capital believes that its investment adviser, Ares Capital Management, is able to leverage Ares' current investment platform, resources and existing relationships with financial sponsors, financial institutions, hedge funds and other investment firms to provide Ares Capital with attractive investments. In addition to deal flow, the Ares investment platform assists Ares Capital's investment adviser in analyzing, structuring and monitoring investments. Ares has been in existence for more than 12 years and its senior principals have an average of over 20 years experience investing in senior loans, high yield bonds, mezzanine debt and private equity securities. Ares Capital has access to the Ares staff of approximately 110 investment professionals and to over 150 administrative professionals employed by Ares who provide assistance in accounting, legal, compliance, technology and investor relations.

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While Ares Capital's primary focus is to generate current income and capital appreciation through investments in first and second lien senior loans and mezzanine debt and, to a lesser extent, equity securities of eligible portfolio companies, Ares Capital also may invest up to 30% of Ares Capital's portfolio in opportunistic investments of non-eligible portfolio companies. Specifically, as part of this 30% basket and subject to compliance with applicable laws, Ares Capital may invest in debt of middle-market companies located outside of the United States, in investment funds that are operating pursuant to certain exceptions to the Investment Company Act, in advisers to similar investment funds and in debt and equity of public companies that do not meet the definition of eligible portfolio companies because their market capitalization of publicly traded equity securities exceeds the levels provided for in the Investment Company Act. Ares Capital expects that these public companies generally will have debt that may be non-investment grade. From time to time Ares Capital may also invest in high yield bonds, which, depending on the issuer, may or may not be included in the 30% basket.

In addition, Ares Capital's portfolio company, IHAM, manages three unconsolidated senior debt funds: Ivy Hill I, Ivy Hill II and Ivy Hill Senior Debt Fund, L.P. (formerly known as the SD Fund) and related vehicles, or "Ivy Hill SDF" and, together with Ivy Hill I and Ivy Hill II, the "Ivy Hill Funds." It also serves as the sub-advisor/sub-manager for four others: CoLTS 2005-1 Ltd., CoLTS 2005-2 Ltd. and CoLTS 2007-1 Ltd., or collectively, the "CoLTS Funds," and FirstLight Funding I, Ltd., or "FirstLight." As of December 31, 2009, IHAM had total committed capital under management of over $2.3 billion. Ares Capital and GE Commercial Finance Investment Advisory Services LLC also co-manage an unconsolidated senior debt fund, the SL Fund. Ares Capital acquired its interests in the SL Fund from Allied Capital on October 30, 2009.

Recent Developments

Unitranche Fund Acquisition

On October 30, 2009, Ares Capital completed its acquisition of Allied Capital's interests in the SL Fund for $165 million in cash. The SL Fund was formed in December 2007 to invest in "unitranche" loans of middle-market companies and has approximately $3.6 billion of committed capital, approximately $900 million in aggregate principal amount of which is currently funded. Of the $2.7 billion of unfunded committed capital, approximately $350 million would be funded by Ares Capital. Since Ares Capital's acquisition of Allied Capital's interest in the SL Fund, Ares Capital has made one investment in the SL Fund of $11.6 million. Ares Capital's investment entitles it to a coupon of LIBOR plus 8.0% and certain other sourcing and management fees. In addition, Ares Capital's investment also entitles it to a substantial portion of the excess cash flows from the underlying loan portfolio.

Ivy Hill SDF Acquisition

On December 29, 2009, Ares Capital made an incremental investment in IHAM to facilitate its acquisition of Allied Capital's management rights in respect of, and interests in, the SD Fund, (now referred to as Ivy Hill SDF), for approximately $33 million in cash. Ivy Hill SDF currently has approximately $294 million of committed capital invested primarily in first lien loans and to a lesser extent, second lien loans of middle-market companies. IHAM manages Ivy Hill SDF and receives fee income and potential equity distributions in respect of interests that it acquired in Ivy Hill SDF.

Public Add-on Equity Offering

Pursuant to the February Add-on Offering, on February 1, 2010, Ares Capital issued 21 million shares of common stock and issued an additional 1,957,993 shares of common stock on February 10, 2009 pursuant to the underwriters' over-allotment option. The February Add-on Offering was completed at a price of $12.75 per share, less an underwriting discount totaling approximately $0.6375

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per share. Total proceeds received from the February Add-on Offering, net of underwriters' discount and offering costs, were approximately $277 million.

Other Investment Activity

As of January 15, 2010, Ares Capital had made $381.8 million of investments (including $10 million of agreements to fund revolving credit facilities or delayed draw loans) since September 30, 2009. Of these investments, approximately 27% were made in first lien senior secured debt, 62% in senior subordinated debt and 11% in equity/other securities. Of these investments, 27% bear interest at floating rates with a weighted average stated rate of LIBOR plus 11% and 64% bear interest at fixed rates with a weighted average stated rate of 17%. As of January 15, 2010, Ares Capital had exited $423.9 million of investments and commitments (including $105 million of unfunded revolving credit facility commitments or delayed draw loans) since September 30, 2009. Of these investments, approximately 48% were first lien senior secured debt, 13% were second lien senior secured debt, 36% were senior subordinated debt and 2% were equity securities. Of these investments, 19% bear interest at floating rates with a weighted average stated rate of LIBOR plus 7% and 79% bear interest at fixed rates with a weighted average stated rate of 12%.

In addition, as of January 21, 2010, Ares Capital had an investment backlog and pipeline of $137.7 million and $214.9 million, respectively. Ares Capital expects to syndicate a portion of these investments and commitments to third parties. The consummation of any of the investments in this backlog and pipeline depends upon, among other things: satisfactory completion of Ares Capital's due diligence investigation of the prospective portfolio company, Ares Capital's acceptance of the terms and structure of such investment and the execution and delivery of satisfactory transaction documentation. Ares Capital cannot assure you that it will make any of these investments or that Ares Capital will syndicate any portion of its investments and commitments.

About Ares

Founded in 1997, Ares is a global alternative asset manager and SEC registered investment adviser with approximately $33 billion of total committed capital and over 250 employees as of December 31, 2009.

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

Ares is comprised of the following groups:

Private Debt Group. The Ares Private Debt Group manages the assets of Ares Capital and Ares' private debt middle-market financing business in Europe, or "Ares Capital Europe." The Private Debt Group focuses primarily on non-syndicated first and second lien senior loans and mezzanine debt, which in some cases may include an equity component. The Private Debt Group also makes equity investments in private middle-market companies, usually in conjunction with loans.

Capital Markets Group. The Ares Capital Markets Group manages a variety of funds and investment vehicles that managed approximately $18 billion of committed capital as of December 31, 2009, focusing primarily on syndicated senior secured loans, high yield bonds, distressed debt, other liquid fixed income investments and other publicly traded debt securities.

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Private Equity Group. The Ares Private Equity Group manages Ares Corporate Opportunities Fund L.P., Ares Corporate Opportunities Fund II, L.P. and Ares Corporate Opportunities Fund III, L.P., collectively, "ACOF," which has managed approximately $6 billion of committed capital as of December 31, 2009. ACOF generally makes private equity investments in companies substantially larger than the private equity investments anticipated to be made by Ares Capital. In particular, the Private Equity Group generally focuses on control-oriented equity investments in under-capitalized companies or companies with capital structure issues.

Ares' senior principals have been working together as a group for many years and have an average of over 20 years of experience in leveraged finance, private equity, distressed debt, investment banking and capital markets. They are backed by a large team of highly-disciplined professionals. Ares' rigorous investment approach is based upon an intensive, independent financial analysis, with a focus on preservation of capital, diversification and active portfolio management. These fundamentals underlie Ares' investment strategy and have resulted in large pension funds, banks, insurance companies, endowments and high net worth individuals investing in Ares' funds.

Ares Capital Management

Ares Capital Management, Ares Capital's investment adviser, is served by a dedicated origination and transaction development team of approximately 34 investment professionals led by the partners of Ares Capital Management, Michael Arougheti, Eric Beckman, Kipp deVeer, Mitchell Goldstein and Michael Smith. Ares Capital Management leverages off of Ares' entire investment platform and benefits from the significant capital markets, trading and research expertise of all of Ares' investment professionals. Ares funds currently hold over 700 investments in over 30 different industries. Ares Capital Management's investment committee has nine members, including the partners of Ares Capital Management and Senior Partners of Ares' Capital Markets Group and Private Equity Group. See "Management of Ares Capital Portfolio Managers."

Market Opportunity

Ares Capital believes there are opportunities for Ares Capital to invest in middle-market companies for the following reasons:

- Ares Capital believes that as of the date of this document, the recent dislocation in the credit markets has resulted in reduced competition, a widening of interest spreads, increasing fees and generally more conservative capital structures and deal terms. Although secondary loan prices have rebounded from historic lows, attractive opportunities to repurchase debt in the secondary market continue to exist in certain situations.

- Ares Capital believes that many senior lenders have, in recent years, de-emphasized their service and product offerings to middle-market businesses in favor of lending to large corporate clients and managing capital markets transactions. In addition, commercial and investment banks are severely limited in their ability to underwrite new financings as they seek to replenish their capital bases and reduce leverage, resulting in opportunities for alternative funding sources.

- Ares Capital believes there is increased demand among private middle-market companies for primary capital. Many middle-market firms have faced increased difficulty raising debt in the capital markets, as commercial and investment banks are capital-constrained and are largely unable to underwrite and syndicate bank loans and high yield securities, particularly for middle-market issuers.

- Ares Capital believes there is a large pool of uninvested private equity capital for middle-market companies. Ares Capital expects private equity firms will seek to leverage their investments by combining equity capital with senior secured loans and mezzanine debt from other sources.

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Ares Capital believes that as of the date of this document, the recent economic downturn has resulted (and will continue to result) in defaults and covenant breaches by middle-market companies, which will require new junior capital to shore up liquidity or provide new capital through restructuring.

A high volume of senior secured and high yield debt was originated in the calendar years 2004 through 2007 and will come due in the near term and, accordingly, Ares Capital believes that new financing opportunities will increase as many leveraged companies seek to refinance in the near term.

Competitive Advantages

Ares Capital believes that it has the following competitive advantages over other capital providers in middle-market companies:

Existing Investment Platform

As of December 31, 2009, Ares managed approximately $33 billion of committed capital in the related asset classes of syndicated loans, high yield bonds, mezzanine debt and private equity. Ares Capital believes its current investment platform provides a competitive advantage in terms of access to origination and marketing activities and diligence for Ares Capital. Specifically, the Ares platform provides Ares Capital an advantage through its deal flow generation and investment evaluation process. Ares Capital's asset management platform also provides additional market information, company knowledge and industry insight that benefits the investment and due diligence process. Ares' professionals maintain extensive financial sponsor and intermediary relationships, which provide valuable insight and access to transactions and information.

Seasoned Management Team

John Kissick, Antony Ressler, Bennett Rosenthal and David Sachs serve on Ares Capital Management's investment committee and have an average of over 20 years experience in leveraged finance, including substantial experience in investing in leveraged loans, high yield bonds, mezzanine debt, distressed debt and private equity securities. Ares Capital Management's investment professionals and members of its investment committee also have significant experience investing across market cycles. As a result of Ares' extensive investment experience and the history of its seasoned management team, Ares has developed a strong reputation across U.S. and European capital markets. Ares Capital believes that Ares' long history in the leveraged loan market and the extensive experience of the principals investing across market cycles provides Ares Capital Management with a competitive advantage in identifying, investing in, and managing a portfolio of investments in middle-market companies.

Experience and Focus on Middle-Market Companies

Ares has historically focused on investments in middle-market companies and Ares Capital benefits from this experience. In sourcing and analyzing deals, Ares Capital's investment adviser uses Ares' extensive network of relationships with intermediaries focused on middle-market companies, including management teams, members of the investment banking community, private equity groups and other investment firms with whom Ares has had long-term relationships. Ares Capital believes this network enables Ares Capital to attract well-positioned prospective portfolio company investments. Ares Capital's investment adviser works closely with the Ares investment professionals who oversee a portfolio of investments in over 700 companies and provide access to an extensive network of relationships and special insights into industry trends and the state of the capital markets.

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Disciplined Investment Philosophy

In making its investment decisions, Ares Capital's investment adviser has adopted Ares' long-standing, consistent credit-based investment approach that was developed over 18 years ago by its founders. Specifically, Ares Capital Management's investment philosophy, portfolio construction and portfolio management involve an assessment of the overall macroeconomic environment, financial markets and company-specific research and analysis. Ares Capital's investment approach emphasizes capital preservation, low volatility and minimization of downside risk. In addition to engaging in extensive due diligence from the perspective of a long-term investor, Ares Capital Management's approach seeks to reduce risk in investments by focusing on:

- businesses with strong franchises and sustainable competitive advantages;
- industries with positive long-term dynamics;
- cash flows that are dependable and predictable;
- management teams with demonstrated track records and economic incentives;
- rates of return commensurate with the perceived risks; and
- securities or investments that are structured with appropriate terms and covenants.

Extensive Industry Focus

Ares Capital concentrates its investing activities in industries with a history of predictable and dependable cash flows and in which the Ares investment professionals have had extensive investment experience. Ares investment professionals have developed long-term relationships with management teams and management consultants in these industries, and have accumulated substantial information concerning these industries and identified potential trends within these industries. The experience of Ares' investment professionals investing across these industries throughout various stages of the economic cycle provides Ares Capital's investment adviser with access to market insights and investment opportunities.

Flexible Transaction Structuring

Ares Capital is flexible in structuring investments, including the types of securities in which it invests and the terms associated with such investments. The principals of Ares have extensive experience in a wide variety of securities for leveraged companies with a diverse set of terms and conditions. Ares Capital believes this approach and experience enables Ares Capital's investment adviser to identify attractive investment opportunities throughout the economic cycle and across a company's capital structure so Ares Capital can make investments consistent with its stated investment objective and preserve principal while seeking appropriate risk adjusted returns. In addition, Ares Capital has the ability to provide "one stop" financing with the ability to invest capital across the balance sheet and hold larger investments than many of Ares Capital's competitors. The ability to underwrite, syndicate and hold larger investments (1) increases flexibility, (2) may increase net fee income and earnings through syndication, (3) broadens market relationships and deal flow and (4) allows Ares Capital to optimize its portfolio composition. Ares Capital believes that the ability to provide capital at every level provides a strong value proposition to middle-market borrowers and Ares Capital's senior debt capabilities provide superior deal origination and relative value analysis capabilities compared to traditional "mezzanine only" lenders.

Broad Origination Strategy

Ares Capital's investment adviser focuses on self-originating most of Ares Capital's investments, by identifying a broad array of investment opportunities across multiple channels. It also leverages off of

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the extensive relationships of the broader Ares platform, including the relationships with portfolio companies held by funds managed by IHAM, to identify investment opportunities. Ares Capital believes that this allows for asset selectivity and that there is a significant relationship between proprietary deal origination and credit performance. Ares Capital's focus on generating proprietary deal flow and lead investing also gives Ares Capital greater control over capital structure, deal terms, pricing and documentation and results in active portfolio management of investments. Moreover, by leading the investment process, Ares Capital's investment adviser is able to secure controlling positions in credit tranches providing additional control in investment outcomes. Ares Capital's investment adviser also has originated substantial proprietary deal flow from middle-market intermediaries, which often allows Ares Capital to act as the sole or principal source of institutional junior capital to the borrower.

Operating and Regulatory Structure

Ares Capital's investment activities are managed by Ares Capital Management and supervised by Ares Capital's board of directors, a majority of whom are independent of Ares and its affiliates. Ares Capital Management is an investment adviser that is registered under the Investment Advisers Act of 1940, or the "Advisers Act." Under Ares Capital's investment advisory and management agreement, Ares Capital has agreed to pay Ares Capital Management an annual base management fee based on Ares Capital's total assets, as defined under the Investment Company Act (other than cash and cash equivalents, but including assets purchased with borrowed funds), and an incentive fee based on Ares Capital's performance. See "Management of Ares Capital Investment Advisory and Management Agreement."

As a BDC, Ares Capital is required to comply with certain regulatory requirements. For example, Ares Capital is not generally permitted to invest in any portfolio company in which Ares or any of its affiliates currently has an investment (although Ares Capital may co-invest on a concurrent basis with funds managed by Ares, subject to compliance with existing regulatory guidance, applicable regulations and Ares Capital's allocation procedures). Some of these co-investments would only be permitted pursuant to an exemptive order from the SEC. Ares Capital has applied for an exemptive order from the SEC that would permit Ares Capital to co-invest with funds managed by Ares. Any such order will be subject to certain terms and conditions. There is no assurance that the application for exemptive relief will be granted by the SEC. Accordingly, Ares Capital cannot assure you that it will be permitted to co-invest with funds managed by Ares. See "Risk Factors Risks Relating to Ares Capital Ares Capital may not replicate Ares' historical success and Ares Capital's ability to enter into transactions with Ares and Ares Capital's other affiliates is restricted."

Also, while Ares Capital may borrow funds to make investments, Ares Capital's ability to use debt is limited in certain significant respects. As a BDC and a RIC, Ares Capital is dependent on its ability to raise capital through the issuance of its common stock. RICs generally must distribute substantially all of their earnings to stockholders as dividends in order to preserve their status as RICs and avoid corporate-level U.S. income tax, which prevents Ares Capital from using those earnings to support operations, which may include new investments (including investments into existing portfolio companies). Further, BDCs must meet a debt to equity ratio of less than 1:1 in order to incur debt or issue senior securities, which requires Ares Capital to finance its investments with at least as much equity as debt and senior securities in the aggregate. Ares Capital's credit facilities also require that Ares Capital maintains a debt to equity ratio of less than 1:1.

Investments

Ares Capital Portfolio

Ares Capital has built an investment portfolio of primarily first and second lien loans, mezzanine debt and to a lesser extent equity investments in private middle-market companies. Ares Capital's portfolio is well diversified by industry sector and its concentration to any single issuer is limited. Ares

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Capital's debt investments generally range between $10 million to $100 million on average, although the investment size may be more or less than this range and depending on capital availability. Each of Ares Capital's equity investments have generally been less than $20 million, but may grow with Ares Capital's capital availability and are usually made in conjunction with loans Ares Capital makes to these companies. In addition, the proportion of these investments will change over time given Ares Capital's views on, among other things, the economic and credit environment it is operating in. In connection with Ares Capital's investing activities, Ares Capital may make commitments with respect to indebtedness or securities of a potential portfolio company substantially in excess of its final investment. In such situations, while Ares Capital may initially agree to fund up to a certain dollar amount of an investment, Ares Capital may syndicate a portion of such amount to third parties prior to closing such investment, such that Ares Capital makes a smaller investment than what was reflected in Ares Capital's original commitment. In addition to originating investments, Ares Capital may also acquire investments in the secondary market.

Structurally, mezzanine debt usually ranks subordinate in priority of payment to senior loans and is often unsecured. However, mezzanine debt ranks senior to common and preferred equity in a borrowers' capital structure. Typically, mezzanine debt has elements of both debt and equity instruments, offering the fixed returns in the form of interest payments associated with senior loans, while providing lenders an opportunity to participate in the capital appreciation of a borrower, if any, through an equity interest. This equity interest typically takes the form of warrants. Due to its higher risk profile and often less restrictive covenants as compared to senior loans, mezzanine debt generally earns a higher return than senior secured debt. The warrants associated with mezzanine debt are typically detachable, which allows lenders to receive repayment of their principal on an agreed amortization schedule while retaining their equity interest in the borrower. Equity issued in connection with mezzanine debt also may include a "put" feature, which permits the holder to sell its equity interest back to the borrower at a price determined through an agreed formula.

In making an equity investment, in addition to considering the factors discussed below under " Investment Selection," Ares Capital also considers the anticipated timing of a liquidity event, such as a public offering, sale of the company or redemption of Ares Capital's equity securities.

Ares Capital's principal focus is investing in first and second lien senior loans and mezzanine debt and, to a lesser extent, equity capital, of middle-market companies in a variety of industries. Ares Capital generally targets companies that generate positive cash flows. Ares has a staff of approximately 110 investment professionals who specialize in specific industries. Ares Capital generally seeks to invest in companies from the industries in which its investment professionals have direct expertise. The following is a representative list of the industries in which Ares has invested:

- Aerospace and Defense
- Airlines
- Broadcasting/Cable
- Cargo Transport
- Chemicals
- Consumer Products
- Containers/Packaging
- Education
- Energy

Environmental Services

Farming and Agriculture

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- Financial
- Food and Beverage
- Gaming
- Health Care
- Homebuilding
- Lodging and Leisure
- Manufacturing
- Metals/Mining
- Paper and Forest Products
- Printing/Publishing/Media
- Retail
- Restaurants
- Supermarket and Drug
- Technology
- Utilities
- Wireless and Wireline Telecom

However, Ares Capital may invest in other industries if it is presented with attractive opportunities.

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The industrial and geographic compositions of Ares Capital's portfolio at fair value as of September 30, 2009 and December 31, 2008 were as follows:

Industry	As of September 30, 2009	As of December 31, 2008
Health Care	19.5%	20.2%
Education	9.6	11.1
Beverage/Food/Tobacco	8.7	7.8
Restaurants and Food Services	8.6	8.1
Other Services	7.5	7.4
Financial	7.5	7.0
Business Services	6.8	6.7
Retail	5.8	5.7
Manufacturing	4.6	3.8
Computers/Electronics	3.3	1.2
Printing/Publishing/Media	3.1	3.8
Aerospace and Defense	3.1	3.0
Consumer Products	3.0	3.0
Telecommunications	2.2	2.0
Environmental Services	1.9	4.1
Cargo Transport	1.5	1.4
Health Clubs	1.2	1.2
Containers/Packaging	1.1	1.4
Grocery	1.0	1.0
Homebuilding	0.0	0.1
Total	100.0%	100.0%

Geographic Region	September 30, 2009	December 31, 2008
Mid-Atlantic	22.5%	21.0%
Midwest	21.9	20.6
Southeast	20.6	22.2
West	18.2	18.3
International	13.1	14.1
Northeast	3.7	3.8
Total	100.0%	100.0%

In addition to such investments, Ares Capital may invest up to 30% of the portfolio in opportunistic investments of non-eligible portfolio companies. Specifically, as part of this 30% basket and subject to compliance with applicable laws, Ares Capital may invest in debt of middle-market companies located outside of the United States, in investment funds that are operating pursuant to certain exceptions to the Investment Company Act, in advisers to similar investment funds and in debt and equity of public companies that do not meet the definition of eligible portfolio companies because their market capitalization of publicly traded equity securities exceeds the levels provided for in the Investment Company Act. Ares Capital expects that these public companies generally will have debt that is non-investment grade. From time to time Ares Capital may also invest in high yield bonds, which, depending on the issuer, may or may not be included in the 30% basket.

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Managed Funds Portfolio

Ares Capital and GE Commercial Finance Investment Advisory Services LLC co-manage an unconsolidated senior debt fund, the SL Fund. The SL Fund primarily invests in "unitranche" loans of middle-market companies. The SL Fund was initially formed in December 2007 with approximately $3.6 billion of committed capital. Ares Capital acquired its interests in the SL Fund from Allied Capital on October 30, 2009.

Ares Capital's portfolio company, IHAM, manages an unconsolidated middle-market credit fund, Ivy Hill I, in exchange for a combined 0.50% management fee on the average total assets of Ivy Hill I. Ivy Hill I primarily invests in first and second lien bank debt of middle-market companies. Ivy Hill I was initially funded in November 2007 with $404.0 million of capital including a $56.0 million investment by Ares Capital consisting of $40.0 million of Class B notes and $16.0 million of subordinated notes.

Ivy Hill I purchased $18.0 million and $68.0 million of investments from Ares Capital for the nine months ended September 30, 2009 and year ended December 31, 2008, respectively.

On November 5, 2008, Ares Capital established a second unconsolidated middle-market credit fund, Ivy Hill II, which is also managed by IHAM in exchange for a combined 0.50% management fee on the average total assets of Ivy Hill II. Ivy Hill II primarily invests in second lien and subordinated bank debt of middle-market companies. Ivy Hill II was initially funded with $250.0 million of subordinated notes, and may grow over time with leverage. Ivy Hill II purchased $27.5 million and $7.5 million of investments from Ares Capital for the nine months ended September 30, 2009 and the year ended December 31, 2008, respectively. The Ivy Hill Funds may, from time to time, buy additional loans from Ares Capital or its subsidiaries or affiliates.

On December 29, 2009, Ares Capital made an incremental investment in IHAM to facilitate its acquisition of Allied Capital's management rights in respect of, and interests in, the SD Fund (now referred to as Ivy Hill SDF), for approximately $33 million in cash. Ivy Hill SDF currently has approximately $294 million of committed capital invested primarily in first lien loans and to a lesser extent, second lien loans of middle-market companies. IHAM manages Ivy Hill SDF and receives fee income and potential equity distributions in respect of interests that it acquired in Ivy Hill SDF.

IHAM also serves as the sub-adviser/sub-manager for four other funds: the CoLTS Funds and FirstLight. As of December 31, 2009, IHAM had total committed capital under management of over $2.3 billion.

IHAM is party to a services agreement with Ares Capital Management. Pursuant to such services agreement, Ares Capital Management provides IHAM with office facilities, equipment, clerical, bookkeeping and record keeping services, services of investment professionals and others to perform investment advisory, research and related services, services of, and oversight of, custodians, depositories, accountants, attorneys, underwriters and such other persons in any other capacity deemed to be necessary. IHAM reimburses Ares Capital Management for all of the costs associated with such services, including Ares Capital Management's allocable portion of overhead and the cost of its officers and respective staff in performing its obligations under such services agreement. The services agreement may be terminated by either party without penalty upon 60 days' written notice to the other party.

Investment Selection

Ares' investment philosophy was developed over the past 18 years and has remained consistent and relevant throughout a number of economic cycles. In managing Ares Capital, Ares Capital Management employs the same investment philosophy and portfolio management methodologies used by the investment professionals of Ares in Ares' private investment funds.

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Ares Capital Management's investment philosophy and portfolio management involve:

- an assessment of the overall macroeconomic environment and financial markets and how such assessment may impact industry and asset selection;
- company-specific research and analysis; and
- with respect to each individual company, an emphasis on capital preservation, low volatility and minimization of downside risk.

The foundation of Ares' investment philosophy is intensive credit investment analysis, a portfolio management discipline based on both market technicals and fundamental value-oriented research, and diversification strategy. Ares Capital Management follows a rigorous process based on:

- a comprehensive analysis of issuer creditworthiness, including a quantitative and qualitative assessment of the issuer's business;
- an evaluation of management and their economic incentives;
- an analysis of business strategy and industry trends; and
- an in-depth examination of capital structure, financial results and projections.

Ares Capital Management seeks to identify those issuers exhibiting superior fundamental risk-reward profiles and strong defensible business franchises while focusing on relative value of the security across the industry as well as for the specific issuer.

Intensive Due Diligence

The process through which Ares Capital Management makes an investment decision involves extensive research into the target company, its industry, its growth prospects and its ability to withstand adverse conditions. If the senior investment professional responsible for the transaction determines that an investment opportunity should be pursued, Ares Capital Management will engage in an intensive due diligence process. Approximately 30-40% of the investments initially reviewed proceed to this phase. Though each transaction will involve a somewhat different approach, the regular due diligence steps generally to be undertaken include:

- meeting with the target company's management to get an insider's view of the business, and to probe for potential weaknesses in business prospects;
- checking management's backgrounds and references;
- performing a detailed review of historical financial performance and the quality of earnings;
- visiting headquarters and company operations and meeting with top and middle level executives;

contacting customers and vendors to assess both business prospects and standard practices;

conducting a competitive analysis, and comparing the issuer to its main competitors on an operating, financial, market share and valuation basis;

researching the industry for historic growth trends and future prospects as well as to identify future exit alternatives (including Wall Street research, industry association literature and general news);

assessing asset value and the ability of physical infrastructure and information systems to handle anticipated growth; and

investigating legal risks and financial and accounting systems.

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Selective Investment Process

Ares Capital Management employs Ares' long-standing, consistent investment approach, which is focused on selectively narrowing investment opportunities through a process designed to identify the most attractive opportunities.

After an investment has been identified and diligence has been completed, a credit research and analysis report is prepared. This report will be reviewed by the senior investment professional in charge of the potential investment. If such senior and other investment professionals are in favor of the potential investment, then it is first presented to an underwriting committee, which is comprised of Mr. Arougheti and the partners of Ares Capital Management. If the underwriting committee approves of the potential investment it is then presented to the investment committee. However, the portfolio managers of Ares Capital Management are responsible for the day-to-day management of Ares Capital's portfolio.

After the investment is approved by the underwriting committee, a more extensive due diligence process is employed by the transaction team. Additional due diligence with respect to any investment may be conducted on Ares Capital's behalf by attorneys, independent accountants, and other third party consultants and research firms prior to the closing of the investment, as appropriate on a case by case basis. Approximately 7-10% of all investments initially reviewed by the underwriting committee will be presented to the investment committee. Approval of an investment for funding requires the consensus of the investment committee of Ares Capital Management, including a majority of the members of Ares serving on the investment committee.

Issuance of Formal Commitment

Once Ares Capital has determined that a prospective portfolio company is suitable for investment, Ares Capital works with the management of that company and its other capital providers, including senior, junior, and equity capital providers, to finalize the structure of the investment. Ares Capital negotiates among these parties to agree on how Ares Capital's investment is expected to perform relative to the other capital in the portfolio company's capital structure. Approximately 5% of the investments initially reviewed eventually result in the issuance of formal commitments.

Debt Investments

Ares Capital invests in portfolio companies primarily in the form of first and second lien senior loans and mezzanine debt. The first and second lien senior loans generally have terms of three to 10 years. Ares Capital generally obtains security interests in the assets of its portfolio companies that will serve as collateral in support of the repayment of the first and second lien senior loans. This collateral may take the form of first or second priority liens on the assets of a portfolio company.

Ares Capital structures its mezzanine investments primarily as unsecured, subordinated loans that provide for relatively high, fixed interest rates that provide Ares Capital with significant current interest income. The mezzanine debt investments generally have terms of up to 10 years. These loans typically have interest-only payments in the early years, with amortization of principal deferred to the later years of the mezzanine debt. In some cases, Ares Capital may enter into loans that, by their terms, convert into equity or additional debt or defer payments of interest (or at least cash interest) for the first few years after Ares Capital's investment. Also, in some cases Ares Capital's mezzanine debt will be collateralized by a subordinated lien on some or all of the assets of the borrower.

In some cases, Ares Capital's debt investments may provide for a portion of the interest payable to be payment-in-kind interest. To the extent interest is payment-in-kind, it will be payable through the increase of the principal amount of the loan by the amount of interest due on the then-outstanding aggregate principal amount of such loan.

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In the case of Ares Capital's first and second lien senior loans and mezzanine debt, Ares Capital tailors the terms of the investment to the facts and circumstances of the transaction and the prospective portfolio company, negotiating a structure that aims to protect its rights and manage its risk while creating incentives for the portfolio company to achieve its business plan and improve its profitability. For example, in addition to seeking a senior position in the capital structure of Ares Capital's portfolio companies, Ares Capital will seek, where appropriate, to limit the downside potential of its investments by:

- targeting a total return on its investments (including both interest and potential equity appreciation) that compensates Ares Capital for credit risk;

- incorporating "put" rights, call protection and LIBOR floors into the investment structure; and

- negotiating covenants in connection with Ares Capital's investments that afford Ares Capital's portfolio companies as much flexibility in managing their businesses as possible, consistent with preservation of Ares Capital's capital. Such restrictions may include affirmative and negative covenants, default penalties, lien protection, change of control provisions and board rights, including either observation or participation rights.

Ares Capital generally requires financial covenants and terms that require an issuer to reduce leverage, thereby enhancing credit quality. These methods include: (1) maintenance leverage covenants requiring a decreasing ratio of indebtedness to cash flow; (2) maintenance cash flow covenants requiring an increasing ratio of cash flow to the sum of interest expense and capital expenditures; and (3) indebtedness incurrence prohibitions, limiting a company's ability to take on additional indebtedness. In addition, by including limitations on asset sales and capital expenditures Ares Capital may be able to prevent a company from changing the nature of its business or capitalization without Ares Capital's consent.

Ares Capital's debt investments may include equity features, such as warrants or options to buy a minority interest in the portfolio company. Warrants Ares Capital receives with its debt investments may require only a nominal cost to exercise, and thus, as a portfolio company appreciates in value, Ares Capital may achieve additional investment return from this equity interest. Ares Capital may structure the warrants to provide provisions protecting its rights as a minority-interest holder, as well as puts, or rights to sell such securities back to the portfolio company, upon the occurrence of specified events. In many cases, Ares Capital also obtains registration rights in connection with these equity interests, which may include demand and "piggyback" registration rights.

Equity Investments

Ares Capital's equity investments may consist of preferred equity that is expected to pay dividends on a current basis or preferred equity that does not pay current dividends. Preferred equity generally has a preference over common equity as to dividends and distributions upon liquidation. In some cases, Ares Capital may acquire common equity. In general, Ares Capital's equity investments are not control-oriented investments and in many cases Ares Capital acquires equity securities as part of a group of private equity investors in which Ares Capital is not the lead investor. Each of Ares Capital's equity investments has generally been less than $20 million, but may grow with Ares Capital's capital availability and are usually made in conjunction with loans Ares Capital makes to these companies. In many cases, Ares Capital will also obtain registration rights in connection with these equity interests, which may include demand and "piggyback" registration rights.

On-Going Relationships With and Monitoring of Portfolio Companies

Ares Capital Management closely monitors each investment Ares Capital makes, maintains a regular dialogue with both the management team and other stakeholders and seeks specifically tailored financial reporting. In addition, senior investment professionals of Ares may take board seats or obtain

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board observation rights for Ares Capital's portfolio companies. As of September 30, 2009, of Ares Capital's 94 funded portfolio companies, Ares Capital was entitled to board seats or board observation rights on 41% of the operating companies in Ares Capital's portfolio or 58% of Ares Capital's total portfolio at fair value.

Ares Capital seeks to exert significant influence post-investment, in addition to covenants and other contractual rights and through board participation, when appropriate, by actively working with management on strategic initiatives. Ares Capital often introduces managers of companies in which Ares Capital has invested to other portfolio companies to capitalize on complementary business activities and best practices.

In addition to various risk management and monitoring tools, Ares Capital's investment adviser grades the credit status of all investments on a scale of 1 to 4 no less frequently than quarterly. This system is intended to reflect the performance of the portfolio company's business, the collateral coverage of the investment and other relevant factors. Under this system, investments with a grade of 4 involve the least amount of risk in Ares Capital's portfolio. This portfolio company is performing above expectations and the trends and risk factors are generally favorable, including a potential exit. Investments graded 3 involve a level of risk that is similar to the risk at the time of origination. This portfolio company is performing as expected and the risk factors are neutral to favorable. All new investments are initially assessed a grade of 3. Investments graded 2 involve a portfolio company performing below expectations and indicates that the investment risk has increased materially since origination. This portfolio company may be out of compliance with debt covenants, however, payments are generally not more than 120 days past due. For investments graded 2, Ares Capital's investment adviser increases procedures to monitor the portfolio company and will write down the fair value of the investment if it is deemed to be impaired. An investment grade of 1 indicates that the portfolio company is performing materially below expectations and that the investment risk has substantially increased since origination. Most or all of the debt covenants are out of compliance and payments are substantially delinquent. Investments graded 1 are not anticipated to be repaid in full. Ares Capital's investment adviser employs half-point increments to reflect underlying trends in portfolio company operating or financial performance, as well as the general outlook. As of September 30, 2009, the weighted average investment grade of the investments in Ares Capital's portfolio was 3.0 with 5.3% of total investments at amortized cost (or 1.7% at fair value) and seven loans were past due or on non-accrual status.

Managerial Assistance

As a BDC, Ares Capital offers, and must provide upon request, significant managerial assistance to certain of Ares Capital's portfolio companies. This assistance could involve, among other things, monitoring the operations of Ares Capital's portfolio companies, participating in board and management meetings, consulting with and advising officers of portfolio companies and providing other organizational and financial guidance. Ares Capital may receive fees for these services.

Competition

Ares Capital's primary competition to provide financing to middle-market companies include public and private funds, commercial and investment banks, commercial financing companies and private equity funds. Many of Ares Capital's competitors are substantially larger and have considerably greater financial and marketing resources than Ares Capital does. For example, some competitors may have access to funding sources that are not available to Ares Capital. In addition, some of Ares Capital's competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than Ares Capital. Furthermore, many of Ares Capital's competitors are not subject to the regulatory restrictions that the Investment Company Act imposes on Ares Capital as a BDC.

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Ares Capital uses the industry information of Ares' investment professionals to which it has access to assess investment risks and determine appropriate pricing for its investments in portfolio companies. In addition, Ares Capital believes that the relationships of the members of Ares Capital Management's investment committees and of the senior principals of Ares, enable Ares Capital to learn about, and compete effectively for, financing opportunities with attractive middle-market companies in the industries in which Ares Capital seeks to invest. The Ares' professionals' deep and long-standing direct sponsor relationships and the resulting proprietary transaction opportunities that these relationships often present, provide valuable insight and access to transactions and information. For additional information concerning the competitive risks Ares Capital faces, see "Risk Factors Risks Relating to Ares Capital Ares Capital operates in a highly competitive market for investment opportunities."

Market Conditions

Due to volatility in global markets, the availability of capital and access to capital markets has been limited over the last two years. Ares Capital has responded to constraints on raising new capital by pursuing other avenues of liquidity and growth, such as adjusting the pace of Ares Capital's investments, becoming more selective in evaluating investment opportunities, pursuing asset sales, developing its third-party asset management capabilities and/or recycling lower yielding investments. Ares Capital also intends to pursue additional opportunities to manage third party funds. As the global liquidity situation and market conditions evolve, Ares Capital will continue to monitor and adjust its approach to funding accordingly. However, given the unprecedented nature of the volatility in the global markets, there can be no assurances that these activities will be successful. While levels of market disruption and volatility appear to be improving, there can be no assurance that they will not worsen. If they do, Ares Capital could face materially higher financing costs. Consequently, Ares Capital's operating strategy could be materially and adversely affected.

Consistent with the depressed market conditions of the general economy, the stocks of BDCs as an industry have traded at near historic lows for over twelve months as a result of concerns over liquidity, credit quality, leverage restrictions and distribution requirements. As a result of the deterioration of the market, several of Ares Capital's peers are no longer active in the market and are winding down their investments, have defaulted on their indebtedness, have decreased their distributions to stockholders or have announced share repurchase programs. While market conditions have improved, Ares Capital cannot assure you that the market pressures Ares Capital faces will not have a material adverse effect on its business, financial condition and results of operations.

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

Staffing

Ares Capital does not currently have any employees and does not expect to have any employees. Services necessary for Ares Capital's business are provided by individuals who are employees of Ares Capital Management and Ares Operations, pursuant to the terms of the investment advisory and management agreement and the administration agreement. Each of Ares Capital's executive officers described under "Management of Ares Capital" is an employee of Ares Operations or Ares Capital Management. Ares Capital's day-to-day investment operations are managed by Ares Capital's investment adviser. Most of the services necessary for the origination and administration of Ares Capital's investment portfolio are provided by investment professionals employed by Ares Capital Management. Ares Capital Management has approximately 34 investment professionals who focus on origination and transaction development and the ongoing monitoring of Ares Capital's investments. See "Management of Ares Capital Investment Advisory and Management Agreement." In addition, Ares

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Capital reimburses Ares Operations for Ares Capital's allocable portion of expenses incurred by it in performing its obligations under the administration agreement, including Ares Capital's allocable portion of the cost of Ares Capital's officers (including its chief compliance officer, chief financial officer, secretary and treasurer) and their respective staffs. See "Management of Ares Capital Administration Agreement."

Properties

Ares Capital does not own any real estate or other physical properties materially important to Ares Capital's operation. Ares Capital's headquarters are currently located at 280 Park Avenue, 22nd Floor, Building East, New York, New York 10017. Ares Capital rents the office space directly from a third party pursuant to a lease that expires on February 27, 2011. In addition, Ares Capital has entered into a sublease with Ares Management whereby Ares Management subleases approximately 25% of certain office space for a fixed rent equal to 25% of the basic annual rent payable by Ares Capital under this lease, plus certain additional costs and expenses.

Legal Proceedings

Ares Capital is aware that a number of lawsuits have been filed by stockholders of Allied Capital challenging the merger. The suits are filed either as putative stockholder class actions, shareholder derivative actions or both. All of the actions assert similar claims against the members of Allied Capital's board of directors alleging that the merger agreement is the product of a flawed sales process and that Allied Capital's directors breached their fiduciary duties by agreeing to a structure that was not designed to maximize the value of Allied Capital's stockholders and by failing to adequately value and obtain fair consideration for Allied Capital's shares. They also claim that Ares Capital (and, in several cases, Merger Sub, and, in several other cases, Allied Capital) aided and abetted the directors' alleged breaches of fiduciary duties. All of the actions demand, among other things, a preliminary and permanent injunction enjoining the merger and rescinding the transaction or any part thereof that may be implemented.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF ARES CAPITAL

The information contained in this section should be read in conjunction with "Selected Financial Data of Ares Capital," "Unaudited Selected Pro Forma Consolidated Financial Data," "Unaudited Pro Forma Per Share Data," "Unaudited Pro Forma Condensed Consolidated Financing Statements" and Ares Capital's financial statements and notes thereto appearing elsewhere in this document.

Ares Capital cannot assure you that the Merger will be consummated as scheduled, or at all. See "Risk Factors Risks Related to the Merger" for a description of the risks associated with a failure to consummate the merger and a description of the risks that the combined company may face if the merger is consummated.

Overview

Ares Capital is a specialty finance company that is a closed-end, non-diversified management investment company incorporated in Maryland. Ares Capital has elected to be regulated as a BDC under the Investment Company Act. Ares Capital was founded on April 16, 2004 and was initially funded on June 23, 2004 and on October 8, 2004 completed its initial public offering.

Ares Capital's investment objective is to generate both current income and capital appreciation through debt and equity investments. Ares Capital invests primarily in first and second lien senior loans and mezzanine debt, which in some cases includes an equity component like warrants. To a lesser extent Ares Capital makes equity investments.

Ares Capital is externally managed by Ares Capital Management, an affiliate of Ares Management, a global alternative asset manager and SEC registered investment adviser, pursuant to the investment advisory and management agreement. Ares Operations, an affiliate of Ares Management, provides the administrative services necessary for Ares Capital to operate.

As a BDC, Ares Capital is required to comply with certain regulatory requirements. For instance, it generally has to invest at least 70% of Ares Capital's total assets in "qualifying assets," including securities and indebtedness of private U.S. companies and certain public U.S. companies, cash, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less.

Ares Capital has elected to be treated as a RIC under Subchapter M of the Code and operates in a manner so as to qualify for the tax treatment applicable to RICs. To qualify as a RIC, Ares Capital must, among other things, meet certain source-of-income and asset diversification requirements and timely distribute to its stockholders generally at least 90% of Ares Capital's "investment company taxable income," as defined by the Code, for each year. Pursuant to this election, Ares Capital generally will not have to pay corporate level taxes on any income that Ares Capital distributes to its stockholders provided that it satisfies those requirements.

Critical Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States, and include the accounts of Ares Capital and its wholly owned subsidiaries. The consolidated financial statements reflect all adjustments and reclassifications which, in the opinion of management, are necessary for the fair presentation of the results of the operations and financial condition as of and for the periods presented. All significant intercompany balances and transactions have been eliminated.

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Cash and Cash Equivalents

Cash and cash equivalents include short-term, liquid investments in a money market fund. Cash and cash equivalents are carried at cost which approximates fair value.

Concentration of Credit Risk

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

Investments

Investment transactions are recorded on the trade date. Realized gains or losses are computed using the specific identification method. Investments for which market quotations are readily available are typically valued at such market quotations. In order to validate market quotations, Ares Capital looks at a number of factors to determine if the quotations are representative of fair value, including the source and nature of the quotations. Debt and equity securities that are not publicly traded or whose market prices are not readily available (i.e., substantially all of Ares Capital's investments) are valued at fair value as determined in good faith by Ares Capital's board of directors, based on the input of Ares Capital's management and audit committee and independent valuation firms that have been engaged at the direction of the board to assist in the valuation of each portfolio investment without a readily available market quotation at least once during a trailing 12-month period and under a valuation policy and consistently applied valuation process. The valuation process is conducted at the end of each fiscal quarter, with approximately 50% (based on value) of Ares Capital's valuations of portfolio companies without readily available market quotations subject to review by an independent valuation firm each quarter.

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

Because there is not a readily available market value for most of the investments in Ares Capital's portfolio, it values substantially all of its portfolio investments at fair value as determined in good faith by Ares Capital's board of directors, based on the input of Ares Capital's management and audit committee and independent valuation firms under a valuation policy and a consistently applied valuation process. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of Ares Capital's investments may fluctuate from period to period. Additionally, the fair value of Ares Capital's investments may differ significantly from the values that would have been used had a ready market existed for such investments and may differ materially from the values that Ares Capital may ultimately realize. Further, such investments are generally subject to legal and other restrictions on resale or otherwise are less liquid than publicly traded securities. If Ares Capital was required to liquidate a portfolio investment in a forced or liquidation sale, Ares Capital may realize significantly less than the value at which Ares Capital has recorded it.

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

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than would be realized based on the valuations currently assigned. See "Risk Factors Risks Relating to Ares Capital Price declines and illiquidity in the corporate debt markets have adversely affected, and may in the future adversely affect, the fair value of Ares Capital's portfolio investments, reducing Ares Capital's net asset value through increased net unrealized depreciation."

With respect to investments for which market quotations are not readily available, Ares Capital's board of directors undertakes a multi-step valuation process each quarter, as described below:

Ares Capital's quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals responsible for the portfolio investment in conjunction with Ares Capital's portfolio management team.

Preliminary valuation conclusions are then documented and discussed by Ares Capital's management.

The audit committee of Ares Capital's board of directors reviews these preliminary valuations, as well as the input of independent valuation firms with respect to the valuations of approximately 50% (based on value) of Ares Capital's portfolio companies without readily available market quotations.

The board of directors discusses valuations and determines the fair value of each investment in Ares Capital's portfolio without a readily available market quotation in good faith based on the input of Ares Capital's management and audit committee and independent valuation firms.

Effective January 1, 2008, Ares Capital adopted ASC 820-10 (previously SFAS No. 157, Fair Value Measurements), or "SFAS 157," which expands the application of fair value accounting for investments (see Note 8 to the consolidated financial statements for the period ended September 30, 2009).

Interest Income Recognition

Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis. Discounts and premiums on securities purchased are accreted/amortized over the life of the respective security using the effective yield method. The amortized cost of investments represents the original cost adjusted for the accretion of discounts and amortization of premiums.

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

Payment-in-Kind Interest

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

Capital Structuring Service Fees and Other Income

Ares Capital's investment adviser seeks to provide assistance to Ares Capital's portfolio companies in connection with Ares Capital's investments and in return Ares Capital may receive fees for capital

Explanation of Responses:

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

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

Foreign Currency Translation

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

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

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

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

Accounting for Derivative Instruments

Ares Capital does not utilize hedge accounting and marks its derivatives to market through operations.

Offering Expenses

Ares Capital's offering costs are charged against the proceeds from equity offerings when received.

Debt Issuance Costs

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

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U.S. Federal Income Taxes

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

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

Certain of Ares Capital's wholly owned subsidiaries are subject to U.S. federal and state income taxes and Ares Capital and its subsidiaries may be subject to foreign taxes.

Dividends

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

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

Use of Estimates in the Preparation of Financial Statements

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

New Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board, or "FASB," issued ASC 860 (previously SFAS No. 166, *Accounting for Transfer of Financial Assets*, which amends the guidance in SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities).* ASC 860 eliminates the qualifying special-purpose entities, or "QSPEs," concept, creates more stringent

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conditions for reporting a transfer of a portion of a financial asset as a sale, clarifies the derecognition criteria, revises how retained interests are initially measured, and removes the guaranteed mortgage securitization recharacterization provisions. ASC 860 requires additional year-end and interim disclosures for public and nonpublic companies that are similar to the disclosures required by FSP FAS 140-4 and FIN 46(R)-8. ASC 860 is effective as of the beginning of a company's first fiscal year that begins after November 15, 2009 (January 1, 2010 for calendar year-end companies), and for subsequent interim and annual reporting periods. ASC 860's disclosure requirements must be applied to transfers that occurred before and after its effective date. Early adoption is prohibited. Ares Capital is currently evaluating the effect that the provisions of ASC 860 may have on Ares Capital's financial condition and results of operations.

In June 2009, FASB issued ASC 810 (previously SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*, which amends the guidance in FASB Interpretation No., or "FIN," 46(R), *Consolidation of Variable Interest Entities*). ASC 810 requires reporting entities to evaluate former QSPEs for consolidation, changes the approach to determining the primary beneficiary of a variable interest entity, or a "VIE," from a quantitative assessment to a qualitative assessment designed to identify a controlling financial interest, and increases the frequency of required reassessments to determine whether a company is the primary beneficiary of a VIE. ASC 810 also clarifies, but does not significantly change, the characteristics that identify a VIE. ASC 810 requires additional year-end and interim disclosures for public and non-public companies that are similar to the disclosures required by FSP FAS 140-4 and FIN 46(R)-8, *Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities.* ASC 810 is effective as of the beginning of a company's first fiscal year that begins after November 15, 2009 (January 1, 2010 for calendar year-end companies), and for subsequent interim and annual reporting periods. All QSPEs and entities currently subject to FIN 46(R) will need to be reevaluated under the amended consolidation requirements as of the beginning of the first annual reporting period that begins after November 15, 2009. Early adoption is prohibited. Ares Capital is currently evaluating the effect that the provisions of ASC 810 may have on Ares Capital's financial condition and results of operations.

In June 2009, FASB issued ASC 2005, (previously SFAS NO. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles ("GAAP") a replacement of FASB Statement No. 162, or the "Codification"*). This Codification will become the source of authoritative U.S. GAAP recognized by FASB to be applied by nongovernmental entities. Once the Codification is in effect, all of its content will carry the same level of authority, effectively superseding SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles.* In other words, the GAAP hierarchy will be modified to include only two levels of GAAP: authoritative and nonauthoritative. The Codification is not intended to change GAAP, but it will change the way GAAP is organized and presented. The Codification is effective for financial statements issued for interim and annual periods ending after September 15, 2009. In order to ease the transition to the Codification, Ares Capital has provided the Codification cross-reference alongside the references to the standards issued and adopted prior to the adoption of the Codification.

Portfolio and Investment Activity
(in millions, except number of new investment commitments, terms and percentages)

	Nine Months Ended September 30,		Year Ended December 31,		
	2009	2008	2008	2007	2006
New investment commitments(1):					
New portfolio companies	$ 11.7	$ 556.0	$ 600.5	$ 1,091.6	$ 812.5
Existing portfolio companies	123.7	273.6	305.0	256.0	297.5
Total new investment commitments	135.4	829.6	905.5	1,347.6	1,110.0
Less:					
Investment commitments exited	270.7	354.9	430.3	654.1	404.9
Net investment commitments	$ (135.3)	$ 474.7	$ 475.2	$ 693.5	$ 705.1
Principal amount of investments purchased:					
Senior term debt	$ 164.8	$ 463.8	$ 529.2	$ 886.7	$ 726.4
Senior subordinated debt	31.6	295.8	336.3	187.1	249.4
Equity and other	23.7	55.1	60.4	177.6	111.7
Total	$ 220.1	$ 814.7	$ 925.9	$ 1,251.4	$ 1,087.5
Principal amount of investments sold or repaid:					
Senior term debt	$ 170.6	$ 359.7	$ 448.8	$ 608.3	$ 255.5
Senior subordinated debt	82.0	19.5	29.0	89.8	99.2
Equity and other	19.1	7.4	7.4	20.6	75.3
Total	$ 271.7	$ 386.6	$ 485.2	$ 718.7	$ 430.0
Number of new investment commitments(2)	22	34	39	47	54
Average new investment commitments amount	$ 6.2	$ 24.4	$ 23.2	$ 28.7	$ 19.0
Weighted average term for new investment commitments (in months)	52	72	66	69	69
Weighted average yield of debt and income producing securities at fair value funded during the period(3)	9.93%	12.59%	12.57%	11.51%	11.76%
Weighted average yield of debt and income producing securities at amortized cost funded during the period(3)	10.46%	12.59%	12.58%	11.53%	11.76%
Weighted average yield of debt and income producing securities at fair value sold or repaid during the period(3)	12.20%	9.29%	9.49%	11.67%	11.39%
Weighted average yield of debt and income producing securities at amortized cost sold or repaid during the period(3)	11.62%	9.29%	9.79%	11.72%	11.95%

(1) New investment commitments includes new agreements to fund revolving credit facilities or delayed draw loans.

(2) Number of new investments represents each commitment to a particular portfolio company.

(3) When Ares Capital refers to the "weighted average yield at fair value" in this table, Ares Capital computes it with respect to particular securities by taking the (a) annual stated interest rate or yield earned plus the net annual amortization of original issue discount and

market discount earned on accruing debt included in such securities, and dividing it by (b) total debt and income producing securities at fair value included in such securities. When Ares Capital refers to the "weighted average yield at amortized cost" in this table, Ares Capital computes it with respect to particular securities by taking the (a) annual stated interest rate or yield earned plus the net

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annual amortization of original issue discount and market discount earned on accruing debt included in such securities, and dividing it by (b) total debt and income producing securities at amortized cost included in such securities.

The investment adviser employs an investment rating system to categorize Ares Capital's investments. In addition to various risk management and monitoring tools, the investment adviser grades the credit status of all investments on a scale of 1 to 4 no less frequently than quarterly. This system is intended to reflect the performance of the portfolio company's business, the collateral coverage of the investment and other relevant factors. Under this system, investments with a grade of 4 involve the least amount of risk in Ares Capital's portfolio. This portfolio company is performing above expectations and the trends and risk factors are generally favorable, including a potential exit. Investments graded 3 involve a level of risk that is similar to the risk at the time of origination. This portfolio company is performing as expected and the risk factors are neutral to favorable. All new investments are initially assessed a grade of 3. Investments graded 2 involve a portfolio company performing below expectations and indicates that the investment's risk has increased materially since origination. This portfolio company may be out of compliance with debt covenants, however, payments are generally not more than 120 days past due. For investments graded 2, Ares Capital's investment adviser increases procedures to monitor the portfolio company and will write down the fair value of the investment if it is deemed to be impaired. An investment grade of 1 indicates that the portfolio company is performing materially below expectations and that the investment risk has substantially increased since origination. Most or all of the debt covenants are out of compliance and payments are substantially delinquent. Investments graded 1 are not anticipated to be repaid in full. Ares Capital's investment adviser employs half-point increments to reflect underlying trends in portfolio company operating or financial performance, as well as the general outlook. As of September 30, 2009, the weighted average investment grade of the investments in Ares Capital's portfolio was 3.0 with 5.3% of total investments at amortized cost (or 1.7% at fair value) on non-accrual status. The weighted average investment grade of the investments in Ares Capital's portfolio as of December 31, 2008 was 2.9. The distribution of the grades of Ares Capital's portfolio companies as of September 30, 2009 and December 31, 2008 is as follows (dollar amounts in thousands):

	September 30, 2009		**December 31, 2008**	
	Fair Value	**Number of Companies**	**Fair Value**	**Number of Companies**
Grade 1	$ 20,022	9	$ 48,192	8
Grade 2	152,485	10	180,527	9
Grade 3	1,683,634	67	1,632,136	68
Grade 4	111,583	8	112,122	6
	$ 1,967,724	94	$ 1,972,977	91

The weighted average yields of the following portions of Ares Capital's portfolio as of September 30, 2009 and December 31, 2008 were as follows:

	September 30, 2009		**December 31, 2008**	
	Fair Value	**Amortized Cost**	**Fair Value**	**Amortized Cost**
Debt and income producing securities	12.53%	11.70%	12.79%	11.73%
Total portfolio	10.95%	9.60%	11.24%	9.78%
Senior term debt	11.42%	10.74%	12.01%	10.85%
Senior subordinated debt	14.94%	13.64%	14.78%	13.69%
Income producing equity securities	10.19%	10.89%	8.42%	9.30%
First lien senior term debt	9.94%	9.63%	10.80%	9.99%
Second lien senior term debt	13.75%	12.41%	13.75%	12.04%

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Results of Operations

For the Three and Nine Months Ended September 30, 2009 and 2008

Operating results for the three and nine ended September 30, 2009 and 2008 are as follows (in thousands):

	For the three months ended		For the nine months ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Total investment income	$ 60,881	$ 62,067	$ 176,008	$ 177,738
Total expenses	27,521	29,365	80,391	83,186
Net investment income before income taxes	33,360	32,702	95,617	94,552
Income tax expense (benefit), including excise tax	454	(118)	563	(302)
Net investment income	32,906	32,820	95,054	94,854
Net realized gains (losses)	(1,656)	4,580	22,311	4,796
Net unrealized gains (losses)	32,026	(78,793)	15,698	(128,605)
Net increase in stockholders' equity resulting from operations	$ 63,276	$ (41,393)	$ 133,063	$ (28,955)

Net income can vary substantially from period to period for various factors, including the recognition of realized gains and losses and unrealized appreciation and depreciation. As a result, quarterly comparisons of net income may not be meaningful.

Investment Income

For the three months ended September 30, 2009, Ares Capital's total investment income decreased $1.2 million, or 2%, over the three months ended September 30, 2008. For the three months ended September 30, 2009, total investment income consisted of $56.9 million in interest income from investments, $2.2 million in dividend income and $1.6 million in other income. There were no capital structuring service fees for the three months ended September 30, 2009 compared to $3.3 million for the same period in 2008. The decrease in capital structuring service fees was primarily due to the significant decrease in new investment commitments for the three months ended September 30, 2009 as compared to the three months ended September 30, 2008. Dividend income increased $1.4 million or 186% to $2.2 million for the three months ended September 30, 2009 from $0.8 million for the comparable period in 2008 primarily due to the dividend from IHAM as a result of treating IHAM as a portfolio company (see Note 10 to Ares Capital's consolidated financial statements for the nine months ended September 30, 2009). Additionally, other income increased $0.9 million or 120% to $1.6 million for the three months ended September 30, 2009 from $0.7 million for the comparable period in 2008 primarily due to miscellaneous amendment fees received during the period.

For the nine months ended September 30, 2009, Ares Capital's total investment income decreased $1.7 million, or 1%, over the nine months ended September 30, 2008. For the nine months ended September 30, 2009, total investment income consisted of $163.2 million in interest income from investments, $1.8 million in capital structuring service fees, $3.4 million in dividend income, $4.4 million in other income and $2.7 million in management fees. Capital structuring service fees decreased $16.7 million, or 90%, to $1.8 million for the nine months ended September 30, 2009 from $18.6 million for the comparable period in 2008. The decrease in capital structuring service fees was primarily due to the decrease in new investment commitments for the nine months ended September 30, 2009 as compared to the nine months ended September 30, 2008. Interest income from investments increased $11.3 million, or 7%, to $163.2 million for the nine months ended September 30, 2009 from $151.9 million for the comparable period in 2008. The increase in interest income from investments was primarily due to the increase in the size of the portfolio. The average investments, at amortized cost, for the period increased from $2.2 billion for the nine months ended September 30, 2008 to $2.3 billion for the comparable period in 2009. Other income increased $2.0 million or 82% to $4.4 million for the nine months ended September 30, 2009 from $2.4 million for the comparable period in 2008, primarily due to miscellaneous amendment fees received during the period. Dividend income increased $1.5 million or 77% to $3.4 million for the nine months ended September 30, 2009 from $1.9 million for the comparable period in 2008, primarily due to the dividend from IHAM.

Operating Expenses

For the three months ended September 30, 2009, Ares Capital's total expenses decreased $1.8 million, or 6%, over the three months ended September 30, 2008. Interest expense and credit facility fees decreased $3.8 million, or 40%, to $5.7 million for the three months ended September 30, 2009 from $9.5 million for the comparable period in 2008, primarily due to the lower average cost of debt. The average cost of debt for the three months ended September 30, 2009 was 2.16% compared to the average cost of debt of 3.74% for the comparable period in 2008 due to the significant decrease in LIBOR over the period. There were $831 million in average outstanding borrowings during the three months ended September 30, 2009 compared to average outstanding borrowings of $883 million in the comparable period in 2008. For the three months ended September 30, 2009, Ares Capital incurred $2.0 million in professional fees related to the merger that were not incurred in the comparable period in 2008.

For the nine months ended September 30, 2009, Ares Capital's total expenses decreased $2.8 million, or 3%, over the nine months ended September 30, 2008. Interest expense and credit facility fees decreased $8.0 million, or 30%, to $18.6 million for the nine months ended September 30, 2009 from $26.6 million for the comparable period in 2008, primarily due to the lower average cost of debt. The average cost of debt for the nine months ended September 30, 2009 was 2.21% compared to the average cost of debt of 3.71% for the comparable period in 2008 due to the significant decrease in LIBOR over the period offset by a higher spread for the CP Funding Facility. There were $865 million in average outstanding borrowings during the nine months ended September 30, 2009 compared to average outstanding borrowings of $794 million in the comparable period in 2008. The decrease in total expenses was partially offset by the increase in administrative expense, which increased $1.2 million, or 71%, to $2.9 million for the nine months ended September 30, 2009 from $1.7 million for the comparable period in 2008. This increase was primarily due to the expenses incurred by IHAM pursuant to a separate services agreement with Ares Capital Management. There was no such agreement in place in the comparable period in 2008. Additionally, professional fees increased $1.4 million, or 32%, to $5.7 million for the nine months ended September 30, 2009 from $4.4 million for the comparable period in 2008. This increase was primarily due to a rise in legal and valuation costs. For the three months ended September 30, 2009, Ares Capital incurred $2.0 million in professional fees related to the merger that were not incurred in the comparable period in 2008.

Income Tax Expense, Including Excise Tax

Ares Capital has elected to be treated as a RIC under Subchapter M of the Code and operates in a manner so as to qualify for the U.S. federal income tax treatment applicable to RICs. Among other things, Ares Capital has, in order to maintain its RIC status, made and intends to continue to make the requisite distributions to its stockholders which will generally relieve Ares Capital from U.S. federal income tax liability.

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

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income is earned. For the three months ended September 30, 2009, Ares Capital recorded no amounts for U.S. federal excise tax. For the nine months ended September 30, 2009, Ares Capital recognized $0.1 million of benefits for U.S. federal excise tax. For the three months ended September 30, 2008, Ares Capital recorded a $0.1 million provision for U.S. federal excise tax. For the nine months ended September 30, 2008, Ares Capital recorded a benefit of $0.4 million for U.S. federal excise tax.

Certain of Ares Capital's wholly owned subsidiaries are subject to U.S. federal and state income taxes and Ares Capital and its subsidiaries may be subject to foreign taxes. For the three and nine months ended September 30, 2009, Ares Capital recorded tax provisions of approximately $0.5 million and $0.6 million for these subsidiaries, respectively. For the three and nine months ended September 30, 2008, Ares Capital recorded tax provisions of approximately $0.1 million for these subsidiaries.

Net Unrealized Gains/Losses

For the three months ended September 30, 2009, Ares Capital had net unrealized gains of $32.0 million, which was primarily comprised of $17.6 million in unrealized depreciation, $45.7 million in unrealized appreciation and $3.9 million related to the reversal of prior period net unrealized depreciation. The most significant changes in net unrealized appreciation and depreciation during the three months ended September 30, 2009 were as follows (in millions):

Portfolio Company	For the three months ended September 30, 2009 Unrealized Appreciation (Depreciation)	
ADF Restaurant Group, LLC	$	5.1
Imperial Capital Group, LLC		5.0
Wear Me Apparel, LLC		4.8
CT Technologies Holdings, LLC		2.8
Apple & Eve, LLC		2.3
OTG Management, Inc.		1.8
Best Brands Corporation		1.8
Capella Healthcare, Inc.		1.7
Bumble Bee Foods, LLC		1.7
Prommis Solutions, LLC		1.6
National Print Group, Inc.		1.6
Instituto de Banca y Comercio, Inc.		1.5
The Teaching Company, LLC		1.4
Pillar Holdings LLC		1.0
3091779 Nova Scotia Inc.		(1.1)
Wastequip, Inc.		(1.3)
AWTP, LLC		(1.4)
MPBP Holdings, Inc.		(1.9)
LVCG Holdings LLC		(2.0)
Canon Communications LLC		(2.2)
R3 Education, Inc.		(3.5)
Other		7.4
Total	$	28.1

For the three months ended September 30, 2008, Ares Capital had net unrealized losses of $78.8 million, which primarily consisted of $88.3 million of unrealized depreciation from investments less $10.3 million of unrealized appreciation from investments. The most significant changes in net

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unrealized appreciation and depreciation during the three months ended September 30, 2008 were as follows (in millions):

Portfolio Company	For the three months ended September 30, 2008 Unrealized Appreciation (Depreciation)	
Waste Pro USA, Inc.	$	2.8
Hudson Group, Inc.		2.8
Industrial Container Services, LLC		1.6
MPBP Holdings, Inc.		(3.2)
HB&G Building Products		(3.2)
Apple & Eve, LLC		(3.6)
Reflexite Corporation		(4.0)
Things Remembered		(4.0)
Capella Healthcare, Inc.		(4.8)
Wear Me Apparel, LLC		(6.8)
Best Brands Corporation		(7.4)
Courtside Acquisition Corp.		(8.6)
FirstLight Financial Corporation		(10.0)
DSI Renal, Inc.		(10.0)
Other		(20.4)
Total	$	(78.8)

For the nine months ended September 30, 2009, Ares Capital had net unrealized gains of $15.7 million, which was primarily comprised of $81.4 million in unrealized depreciation and $91.8 million in unrealized appreciation and $5.3 million relating to the reversal of prior period net

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unrealized depreciation. The most significant changes in net unrealized appreciation and depreciation during the nine months ended September 30, 2009 were as follows (in millions):

Portfolio Company	**For the nine months ended September 30, 2009 Unrealized Appreciation (Depreciation)**	
Apple & Eve, LLC	$	10.5
Best Brands Corp.		8.2
Ivy Hill Asset Management, L.P.(1)		8.0
Capella Healthcare, Inc.		6.0
Wear Me Apparel, LLC		6.0
Imperial Capital Group, LLC		5.0
ADF Restaurant Group		4.9
Waste Pro USA, Inc.		4.2
Prommis Solutions, LLC		3.8
Booz Allen Hamilton, Inc.		3.5
DSI Renal, Inc.		2.8
Instituto de Banca y Comercio, Inc.		2.7
CT Technologies Holdings, LLC		2.4
Lakeland Finance, LLC		2.0
Pillar Holdings LLC		2.0
Bumble Bee Foods, LLC		1.7
Wyle Laboratories, Inc.		1.4
Savers, Inc.		1.4
Magnacare Holdings, Inc.		1.4
The Teaching Company, LLC		1.3
Encanto Restaurants, Inc.		1.2
American Residential Services, LLC		1.2
Hudson Group, Inc.		1.2
Diversified Collections Services, Inc.		1.0
Industrial Container Services, LLC		(1.3)
Planet Organic Health Corp.		(1.3)
Things Remembered, Inc.		(1.8)
HB&G Building Products		(1.8)
Sigma International Group, Inc.		(2.6)
Canon Communications LLC		(2.6)
VOTC Acquisition Corp.		(2.8)
National Print Group, Inc.		(2.8)
MPBP Holdings, Inc.		(3.2)
Growing Family, Inc.		(3.4)
R3 Education, Inc.		(3.4)
Courtside Acquisition Corp.		(3.4)
Wastequip, Inc.		(4.0)
AWTP, LLC		(4.1)
Direct Buy Holdings, Inc.		(4.2)
Summit Business Media, LLC		(4.7)
LVCG Holdings LLC		(6.5)
Reflexite Corporation		(10.6)
FirstLight Financial Corporation		(11.0)
Other		2.1
Total	$	10.4

(1) See Note 10 to Ares Capital's consolidated financial statements for the nine months ended September 30, 2009.

Explanation of Responses:

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For the nine months ended September 30, 2008, Ares Capital had net unrealized losses of $128.6 million, which primarily consisted of $167.3 million of unrealized depreciation from investments less $39.6 million of unrealized appreciation from investments. The most significant changes in net unrealized appreciation and depreciation during the three months ended September 30, 2008 were as follows (in millions):

Portfolio Company	For the nine months ended September 30, 2008 Unrealized Appreciation (Depreciation)	
Reflexite Corporation	$	7.3
R3 Education, Inc.		5.0
Industrial Container Services, LLC		2.9
WastePro USA, Inc.		2.8
Hudson Group, Inc.		2.8
Instituto de Banca y Comercio, Inc.		2.7
Capella Healthcare, Inc.		(4.8)
HB&G Building Products		(5.2)
Apple & Eve, LLC		(5.9)
Primis Holdings, LLC		(6.0)
Best Brands Corporation		(7.4)
Making Memories Wholesale, Inc.		(8.2)
DSI Renal, Inc.		(10.2)
MPBP Holdings, Inc.		(10.5)
Wear Me Apparel, LLC		(11.2)
Reflexite Corporation		(14.0)
FirstLight Financial Corporation		(15.0)
Courtside Acquisition Corp.		(25.7)
Other		(28.0)
Total	$	(128.6)

Net Realized Gains/Losses

During the three months ended September 30, 2009, Ares Capital had $104.4 million of sales and repayments resulting in $1.7 million of net realized losses. These sales and repayments included $5.0 million of loans sold to the Ivy Hill Funds, the two middle-market credit funds managed by Ares Capital's portfolio company, IHAM (see Note 10 to Ares Capital's consolidated financial statements for the nine months ended September 30, 2009 for more detail on IHAM and the Ivy Hill Funds). Net realized losses on investments were comprised of $12.8 million of gross realized gains and $14.5 million of gross realized losses. The most significant realized gains and losses on investments for the three months ended September 30, 2009 were as follows (in millions):

Portfolio Company	Realized Gain (Loss)	
WastePro USA, Inc.	$	12.3
Making Memories Wholesale, Inc.		(14.2)
Other		0.2
Total	$	(1.7)

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During the three months ended September 30, 2008, Ares Capital had $168.0 million of sales and repayments resulting in $4.6 million of net realized gains. The most significant realized gains on investments for the three months ended September 30, 2008 were as follows (in millions):

Portfolio Company		Realized Gain (Loss)
Daily Candy, Inc.	$	2.5
Waste Pro USA, Inc.		2.0
Other		0.1
Total	$	4.6

During the nine months ended September 30, 2009, Ares Capital repurchased $34.8 million of CLO Notes resulting in a $26.5 million realized gain on the extinguishment of debt. Ares Capital also had $267.4 million of sales and repayments resulting in $4.2 million of net realized losses. These sales and repayments included $45.5 million of loans sold to the Ivy Hill Funds. Net realized losses on investments were comprised of $13.0 million of gross realized gains and $17.2 million of gross realized losses. The most significant realized gains and losses on investments for the nine months ended September 30, 2009 were as follows (in millions):

Portfolio Company		Realized Gain (Loss)
WastePro USA, Inc.	$	12.3
Capella Healthcare, Inc.		(1.0)
Instituto de Banca y Commercio, Inc.		(1.2)
Making Memories Wholesale, Inc.		(14.2)
Other		(0.1)
Total	$	(4.2)

During the nine months ended September 30, 2008, Ares Capital had $393.6 million of sales and repayments resulting in $4.8 million of net realized gains.

Portfolio Company		Realized Gain (Loss)
Daily Candy, Inc.	$	2.5
Waste Pro USA, Inc.		2.0
Other		0.3
Total	$	4.8

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For the Years Ended December 31, 2008, 2007 and 2006

Operating results for the years ended December 31, 2008, 2007 and 2006 are as follows (in thousands):

	For the year ended December 31,		
	2008	**2007**	**2006**
Total Investment Income	$ 240,461	$ 188,873	$ 120,021
Total Expenses	113,221	94,750	58,458
Net Investment Income Before Income Taxes	127,240	94,123	61,563
Income Tax Expense (Benefit), Including Excise Tax	248	(826)	4,931
Net Investment Income	126,992	94,949	56,632
Net Realized Gains	6,371	6,544	27,616
Net Unrealized Losses	(272,818)	(10,661)	(14,553)
Net (Decrease) Increase in Stockholders' Equity Resulting From Operations	$ (139,455)	$ 90,832	$ 69,695

Investment Income

For the year ended December 31, 2008, Ares Capital's total investment income increased $51.6 million, or 27%, over the year ended December 31, 2007. Interest income from investments increased $46.0 million, or 28%, to $208.5 million for the year ended December 31, 2008 from $162.4 million for the comparable period in 2007. The increase in interest income from investments was primarily due to the increase in the size of the portfolio as well as increases in the weighted average yield on the portfolio. The average investments, at fair value, for the year increased to $2.0 billion for the year ended December 31, 2008 from $1.5 billion for the comparable period in 2007. Capital structuring service fees increased $3.2 million, or 18%, to $21.2 million for the year ended December 31, 2008 from $18.0 million for the comparable period in 2007. The increase in capital structuring service fees was primarily due to the increase in fee percentages as a result of more favorable terms available in the current market.

For the year ended December 31, 2007, Ares Capital's total investment income increased $68.9 million, or 57%, from the year ended December 31, 2006. Interest income from investments increased $64.1 million, or 65%, to $162.4 million for the year ended December 31, 2007 from $98.3 million for the comparable period in 2006. The increase in interest income from investments was primarily due to the increase in the overall size of the portfolio. The average investments, at fair value, for the year increased to $1.5 billion for the year ended December 31, 2007 from $871.0 million for the comparable period in 2006. Capital structuring service fees increased $2.0 million, or 12%, to $18.0 million for the year ended December 31, 2007 from $16.0 million for the comparable period in 2006. The increase in capital structuring service fees was primarily due to the increased amount of new investments made. The amount of new investments made increased to $1.3 billion during the year ended December 31, 2007 from $1.1 billion for the comparable period in 2006.

Operating Expenses

For the year ended December 31, 2008, Ares Capital's total expenses increased $18.5 million, or 19%, from the year ended December 31, 2007. Base management fees increased $6.9 million, or 29%, to $30.5 million for the year ended December 31, 2008 from $23.5 million for the comparable period in 2007, primarily due to the increase in the size of the portfolio. Incentive fees related to pre-incentive fee net investment income increased $8.2 million, or 35%, to $31.7 million for the year ended December 31, 2008 from $23.5 million for the comparable period in 2007, primarily due to the increase in the size of the portfolio and the related increase in net investment income. The increase in total expenses was partially offset by the decline in interest expense and credit facility fees. Interest expense and credit facility fees decreased $0.4 million, or 1%, to $36.5 million for the year ended December 31, 2008 from $36.9 million for the comparable period in 2007, despite significant increases in the outstanding borrowings for the period. The average outstanding borrowings during the year ended December 31, 2008 was $819.0 million compared to average outstanding borrowings of $567.9 million for the comparable period in 2007. The increase in outstanding borrowings was more than offset by the decline in the average cost of borrowing which went from 6.08% for the year ended December 31, 2007 to 4.06% for the year ended December 31, 2008.

For the year ended December 31, 2007, Ares Capital's total expenses increased $36.3 million, or 62%, from the year ended December 31, 2006. Base management fees increased $9.9 million, or 72%, to $23.5 million for the year ended December 31, 2007 from $13.6 million for the comparable period in 2006, primarily due to the increase in the size of the portfolio. Incentive fees related to pre-incentive fee net investment income increased $7.5 million, or 46%, to $23.5 million for the year ended December 31, 2007 from $16.1 million for the comparable period in 2006, primarily due to the increase in the size of the portfolio and the related increase in net investment income. Interest expense and credit facility fees increased $18.3 million, or 99%, to $36.9 million for the year ended December 31, 2007 from $18.6 million for the comparable period in 2006, primarily due to the significant increase in the outstanding borrowings. The average outstanding borrowings during the year ended December 31, 2007 was $567.9 million compared to average outstanding borrowings of $262.4 million for the comparable period in 2006. The increase in total expenses was partially offset by the decline in incentive fees related to realized gains. There were no incentive fees related to realized gains during the year ended December 31, 2007 compared to $3.4 million for the year ended December 31, 2006, due to gross unrealized depreciation offsetting net realized gains for the period. Net realized gains were $6.6 million during the year ended December 31, 2007 whereas gross unrealized depreciation recognized was $61.2 million.

Income Tax Expense, Including Excise Tax

For the years ended December 31, 2008, 2007 and 2006, Ares Capital recorded provisions of approximately $0.1 million, $0.1 million and $0.6 million, respectively, for federal excise tax.

For the year ended December 31, 2008, Ares Capital recorded a tax provision of approximately $0.1 million for Ares Capital's wholly owned subsidiaries that are subject to U.S. federal and state income taxes. For the year ended December 31, 2007, Ares Capital recorded a tax benefit of approximately $0.9 million for these subsidiaries. For the year ended December 31, 2006, Ares Capital recorded a tax provision of $4.4 million for these subsidiaries.

Net Realized Gains/Losses

During the year ended December 31, 2008, Ares Capital had $495.6 million of sales and repayments resulting in $6.6 million of net realized gains. These sales and repayments included the $75.5 million of loans sold to the Ivy Hill Funds. Net realized gains were comprised of $6.8 million of

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gross realized gains and $0.2 of gross realized losses. The most significant realized gains and losses during the year ended December 31, 2008 were as follows (in millions):

Portfolio Company		Realized Gain (Loss)
Hudson Group, Inc.	$	2.8
Waste Pro USA, Inc.		2.0
Daily Candy, Inc.		1.3
Other		0.5
Total	$	6.6

During the year ended December 31, 2007, Ares Capital had $725.2 million of sales and repayments resulting in $6.6 million of net realized gains. These sales and repayments included the $133.0 million of loans sold to Ivy Hill I. Net realized gains were comprised of $16.2 million of gross realized gains and $9.7 million of gross realized losses. The most significant realized gains and losses during the year ended December 31, 2007 were as follows (in millions):

Portfolio Company		Realized Gain (Loss)
The GSI Group, Inc.	$	6.2
Varel Holdings, Inc.		4.0
Equinox SMU Partners LLC		3.5
Berkline/Benchcraft Holdings LLC		(8.8)
Other		1.7
Total	$	6.6

During the year ended December 31, 2006, Ares Capital had $457.7 million of sales and repayments resulting in $27.6 million of net realized gains. Net realized gains were comprised of $27.7 million of gross realized gains and $0.1 million of gross realized losses. The most significant realized gains and losses during the year ended December 31, 2006 were as follows (in millions):

Portfolio Company		Realized Gain (Loss)
CICQ, LP	$	18.6
United Site Services, Inc.		4.5
GCA Services Group, Inc.		1.0
Other		3.5
Total	$	27.6

Net Unrealized Gains/Losses

For the year ended December 31, 2008, Ares Capital had net unrealized losses of $272.8 million, which was comprised of $54.9 million in unrealized appreciation, $323.9 million in unrealized depreciation and $3.8 million relating to the reversal of prior period net unrealized appreciation. The

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most significant changes in net unrealized appreciation and depreciation during the year ended December 31, 2008 were as follows (in millions):

Portfolio Company		Unrealized Appreciation (Depreciation)
R3 Education, Inc.	$	5.0
Instituto de Banco Y Comercio, Inc.		4.5
Industrial Container Services LLC		4.1
Diversified Collection Services, Inc.		3.4
Campus Management Corp.		3.0
Prommis Solutions, LLC		(3.1)
309179 Nova Scotia, Inc.		(3.1)
National Print Group, Inc.		(3.1)
Athletic Club Holdings, Inc.		(3.2)
Booz Allen Hamilton, Inc.		(3.2)
Wastequip, Inc.		(3.3)
Direct Buy Holdings, Inc.		(3.6)
OnCURE Medical Corp.		(3.6)
VSS-Tranzact Holdings, LLC		(4.0)
Summit Business Media, LLC		(4.0)
Best Brands Corporation		(4.3)
GG Merger Sub I, Inc.		(4.7)
Apogee Retail, LLC		(4.8)
Ivy Hill Middle Market Credit Fund, Ltd.		(5.6)
Making Memories Wholesale, Inc.		(6.7)
Vistar Corporation		(6.9)
HB&G Building Products		(7.4)
Growing Family, Inc.		(7.5)
Primis Marketing Group, Inc.		(7.6)
Capella Healthcare, Inc.		(9.5)
Wear Me Apparel, LLC		(12.1)
Things Remembered, Inc.		(12.3)
Apple & Eve, LLC		(12.4)
MPBP Holdings, Inc.		(15.3)
DSI Renal, Inc.		(18.1)
Reflexite Corporation		(19.2)
Courtside Acquisition Corp.		(30.9)
FirstLight Financial Corporation		(37.0)
Other		(32.5)
Total	$	(269.0)

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For the year ended December 31, 2007, Ares Capital had net unrealized losses of $10.7 million, which was comprised of $52.5 million in unrealized appreciation, $60.4 million in unrealized depreciation and $2.8 million relating to the reversal of prior period net unrealized appreciation. The most significant changes in unrealized appreciation and depreciation during the year ended December 31, 2007 were as follows (in millions):

Portfolio Company		**Unrealized Appreciation (Depreciation)**
Reflexite Corporation	$	27.2
The GSI Group, Inc.		5.6
Waste Pro, Inc.		4.0
Daily Candy, Inc.		3.6
Industrial Container Services, Inc.		3.2
Varel Holdings, Inc.		3.0
Wastequip, Inc.		(3.2)
Making Memories Wholesale, Inc.		(5.0)
Primis Marketing Group, Inc.		(5.6)
Universal Trailer Corporation		(7.2)
Wear Me Apparel, LLC		(8.0)
FirstLight Financial Corporation		(10.0)
MPBP Holdings, Inc.		(10.5)
Other		(5.0)
Total	$	(7.9)

For the year ended December 31, 2006, Ares Capital had net unrealized losses of $14.6 million, which was comprised of $9.2 million in unrealized appreciation, $8.9 million in unrealized depreciation and $14.9 million relating to the reversal of prior period net unrealized appreciation. The most significant changes in unrealized appreciation and depreciation during the year ended December 31, 2006 were as follows (in millions):

Portfolio Company		**Unrealized Appreciation (Depreciation)**
CICQ, LP	$	4.0
Universal Trailer Corporation		3.4
Varel Holdings, Inc.		1.0
Making Memories Wholesale, Inc.		(2.4)
Berkshire/Benchcraft Holdings LLC		(6.5)
Other		0.8
Total	$	0.3

Financial Condition, Liquidity and Capital Resources

Since its inception, Ares Capital's liquidity and capital resources have been generated primarily from the net proceeds of public offerings of common stock, the Debt Securitization, advances from its credit facilities, as well as cash flows from operations.

As of September 30, 2009, Ares Capital had $61.5 million in cash and cash equivalents and $767.9 million in total indebtedness outstanding. Subject to leverage restrictions, Ares Capital had approximately $453.9 million available for additional borrowings under its credit facilities as of September 30, 2009.

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Due to volatility in global markets, the availability of capital and access to capital markets has been limited over the last two years. Ares Capital has responded to recent constraints on raising new capital by pursuing other avenues of liquidity and growth, such as adjusting the pace of its investments, becoming more selective in evaluating investment opportunities to ensure appropriate risk-adjusted returns, pursuing asset sales, developing its third-party asset management capabilities and/or recycling lower yielding investments. Ares Capital also intends to continue pursuing opportunities to manage third-party funds. As the global liquidity situation evolves, Ares Capital will continue to monitor and adjust its funding approach accordingly. However, given the unprecedented nature of the volatility in the global markets, there can be no assurances that these activities will be successful. While levels of market disruption and volatility appear to be improving, there can be no assurance that they will not worsen. If they do, Ares Capital could face materially higher financing costs. Consequently, Ares Capital's operating strategy could be materially and adversely affected. The illiquidity of Ares Capital's investments may make it difficult for Ares Capital to sell such investments if required. As a result, Ares Capital may realize significantly less than the value at which it has recorded its investments.

Equity Offerings

The following table summarizes the total shares issued and proceeds Ares Capital received net of underwriter, dealer manager and offering costs for the nine months ended September 30, 2009 and 2008 (in millions, except per share data):

	Shares issued	Offering price per share	Proceeds net of dealer manager and offering costs
August 2009 public offering	12.4	$ 9.25	$ 109.1
Total for the nine months ended September 30, 2009	12.4		$ 109.1
April 2008 public offering	24.2	$ 11.00	$ 259.8
Total for the nine months ended September 30, 2008	24.2		$ 259.8

Debt Capital Activities

Ares Capital's debt obligations consisted of the following as of September 30, 2009 and December 31, 2008 (in millions):

	September 30, 2009		December 31, 2008	
	Outstanding	Total Available(1)	Outstanding	Total Available(1)
Credit Facility	$ 271.1	$ 525.0	$ 480.5	$ 510.0
CP Funding Facility	223.0	223.0	114.3	350.0
CP Funding II Facility		200.0		
Debt Securitization	273.8	273.8	314.0	314.0
	$ 767.9	$ 1,221.8	$ 908.8	$ 1,174.0

(1) Subject to borrowing base and leverage restrictions.

The weighted average interest rate and weighted average maturity of all Ares Capital's outstanding borrowings as of September 30, 2009 were 2.02% and 4.8 years, respectively. The weighted average interest rate and weighted average maturity of all Ares Capital's outstanding borrowings as of December 31, 2008 were 3.03% and 4.9 years, respectively.

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The ratio of total debt outstanding to stockholders' equity as of September 30, 2009 was 0.63:1.00 compared to 0.83:1.00 as of December 31, 2008.

A summary of Ares Capital's contractual payment obligations as of December 31, 2008 are as follows (in millions):

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Credit Facility	$ 480.5	$	$ 480.5	$	$
CP Funding Facility	114.3	114.3			
Debt Securitization	314.0				314.0
Total Debt	$ 908.8	$ 114.3	$ 480.5	$	$ 314.0

In accordance with the Investment Company Act, with certain limited exceptions, Ares Capital is only allowed to borrow amounts such that Ares Capital's asset coverage, as defined in the Investment Company Act, is at least 200% after such borrowing. As of September 30, 2009, Ares Capital's asset coverage for borrowed amounts was 259%. As of December 31, 2008, Ares Capital's asset coverage for borrowed amounts was 220%.

Credit Facility

In December 2005, Ares Capital entered into the Credit Facility, under which, as amended as of September 30, 2009, the lenders had agreed to extend credit to Ares Capital in an aggregate principal amount not exceeding $525 million at any one time outstanding. As of September 30, 2009, the Credit Facility was to expire on December 28, 2010 and was secured by substantially all of the assets of Ares Capital and Ares Capital's consolidated subsidiaries (subject to certain exceptions, including investments held by Ares Capital CP under the CP Funding Facility, investments held by Ares Capital CP II under the CP Funding II Facility and those held as a part of the Debt Securitization, each discussed below) which as of September 30, 2009 consisted of 167 investments.

As of September 30, 2009, the Credit Facility also included an "accordion" feature that allowed Ares Capital to increase the size of the Credit Facility to a maximum of $765 million under certain circumstances. The Credit Facility also included usual and customary events of default and covenants for senior secured revolving credit facilities of this nature and companies of this type. As of September 30, 2009, there was $271.1 million outstanding under the Credit Facility and Ares Capital continued to be in compliance with all of the limitations and requirements of the Credit Facility. As of December 31, 2008, there was $480.5 million outstanding under the Credit Facility. See Note 7 to Ares Capital's consolidated financial statements for the period ended September 30, 2009 for more detail on the Credit Facility.

On January 22, 2010, the Credit Facility was amended and restated to, among other things, increase the size of the facility from $525 million to $690 million (comprised of $615 million in commitments on a stand-alone basis and an additional $75 million in commitments contingent upon the closing of the merger), extend the maturity date to January 22, 2013, modify pricing and permit certain mergers, including a merger of the type currently contemplated by the merger agreement. Subject to certain exceptions, pricing under the Credit Facility, as amended as of the date of this document, is based on LIBOR plus an applicable spread of between 2.50% and 4.00% or an "alternate base rate" (which is the highest of a prime rate, the federal funds rate plus 0.50% or the one month LIBOR plus 1.00%) plus an applicable spread of between 1.50% and 3.00%, in each case based on a pricing grid depending on Ares Capital's credit rating. The effective LIBOR spread under the Credit Facility on January 22, 2010 was 3.00%. The Credit Facility continues to be secured by substantially all of Ares Capital's assets (subject to certain exceptions, including investments held by Ares Capital CP under the CP Funding Facility and those held as a part of the Debt Securitization, each discussed below).

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The Credit Facility, as amended as of the date of this document, includes an "accordion" feature that allows Ares Capital, under certain circumstances, to increase the size of the Credit Facility to a maximum of $897.5 million prior to the closing of the merger and up to a maximum of $1.05 billion upon the closing of the merger. The Credit Facility also continues to include usual and customary events of default and covenants for senior secured revolving credit facilities of this nature and companies of this type. As of January 22, 2010, there was $490.7 million outstanding under the Credit Facility and Ares Capital continued to be in compliance with all of the limitations and requirements of the Credit Facility.

CP Funding Facility

In October 2004, Ares Capital formed Ares Capital CP Funding LLC, or "Ares Capital CP," a wholly owned subsidiary of Ares Capital, through which Ares Capital established the CP Funding Facility that, as amended, allowed Ares Capital CP to issue up to $350 million of variable funding certificates. On May 7, 2009, Ares Capital and Ares Capital CP entered into an amendment that, among other things, converted the CP Funding Facility from a revolving facility to an amortizing facility, extended the maturity from July 21, 2009 to May 7, 2012, reduced the availability from $350 million to $225 million (with a reduction in the outstanding balance required by each of May 7, 2010 and May 7, 2011) and decreased the advance rates applicable to certain types of eligible loans. In addition, the interest rate charged on the CP Funding Facility was increased from the commercial paper rate, Eurodollar or adjusted Eurodollar rate, as applicable, plus 2.50% to the commercial paper, Eurodollar or adjusted Eurodollar rate, as applicable, plus 3.50% and the commitment fee requirement was removed. Ares Capital also paid a renewal fee of 1.25% of the total facility amount, or $2.8 million. As of September 30, 2009, there was $223.0 million outstanding under the CP Funding Facility and Ares Capital continued to be in compliance with all of the limitations and requirements of the CP Funding Facility. As of December 31, 2008, there was $114.3 million outstanding under the CP Funding Facility.

The CP Funding Facility is secured by all of the assets held by Ares Capital CP, which as of September 30, 2009 consisted of 36 investments. In addition, the CP Funding Facility was guaranteed by all of the assets of Ares Capital CP Funding II LLC, or "Ares Capital CP II," an indirect wholly owned subsidiary of Ares Capital.

On January 22, 2010, Ares Capital combined the CP Funding Facility with the CP Funding II Facility into a single $400 million revolving securitized facility between Ares Capital CP and Wachovia Bank, N.A., or "Wachovia." The combination, among other things, converted the CP Funding Facility from an amortizing facility to a revolving facility, extended the maturity date to January 22, 2013 (with two one-year extension options, subject to mutual consent), modified the pricing structure of the CP Funding Facility and pre-approved the merger. In connection with the combination, Ares Capital terminated the CP Funding II Facility.

The CP Funding Facility is secured by all of the assets held by Ares Capital CP and the membership interest in Ares Capital CP. As of the date of this document, subject to certain exceptions, the interest charged on the CP Funding Facility is based on LIBOR plus an applicable spread of between 2.25% and 3.75% or a "base rate" (which is the higher of a prime rate or the federal funds rate plus 0.50%) plus an applicable spread of between 1.25% to 2.75%, in each case based on a pricing grid depending upon the credit rating of Ares Capital. The effective LIBOR spread under the CP Funding Facility on January 22, 2010 was 2.75%. The CP Funding Facility continues to include usual and customary events of default and covenants for securitized revolving facilities of this nature and companies of this type. As of January 22, 2010, there was approximately $209 million outstanding under the CP Funding Facility and Ares Capital CP continued to be in compliance with all of the limitations and requirements of the CP Funding Facility.

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CP Funding II Facility

On July 21, 2009, Ares Capital CP II entered into an agreement with Wachovia to establish a new revolving facility, the CP Funding II Facility, whereby Wachovia agreed to extend credit to Ares Capital CP II in an aggregate principal amount not exceeding $200 million at any one time outstanding. The CP Funding II Facility was scheduled to expire on July 21, 2012, with two one-year extension options, subject to mutual consent. Subject to certain exceptions, the interest charged on the CP Funding II Facility was based on LIBOR plus 4.00%. The CP Funding II Facility was secured by all of the assets held by Ares Capital CP II. As of September 30, 2009, there were no amounts outstanding on the CP Funding II Facility. In addition, the CP Funding II Facility was guaranteed by all of the assets of Ares Capital CP. See Note 7 to Ares Capital's consolidated financial statements for the period ended September 30, 2009 for more detail on the CP Funding II Facility.

On January 22, 2010, Ares Capital combined the CP Funding Facility with the CP Funding II Facility. In connection with the combination, Ares Capital terminated the CP Funding II Facility.

Debt Securitization

In July 2006, through Ares Capital's wholly owned subsidiary, ARCC CLO 2006 LLC, or "ARCC CLO," Ares Capital completed the Debt Securitization, and issued approximately $314.0 million principal amount of CLO Notes (including $50.0 million of revolving notes, all of which were drawn down as of September 30, 2009) to third parties that are secured by a pool of middle-market loans that were purchased or originated by Ares Capital. Such CLO Notes are included in the September 30, 2009 consolidated balance sheet. Ares Capital retained approximately $86.0 million of aggregate principal amount of certain BBB/Baa2 and non-rated securities in the Debt Securitization, or the "Retained Notes." During the nine months ended September 30, 2009, Ares Capital repurchased, in several open market transactions, $34.8 million of CLO Notes, consisting of $14.0 million of the Class B Notes and $20.8 million of the Class C Notes, for a total purchase price of $8.2 million. As a result of these purchases, Ares Capital recognized a $26.5 million gain on the extinguishment of debt and, as of September 30, 2009, Ares Capital held an aggregate principal amount of $120.8 million of CLO Notes, in total. All of the CLO Notes mature on December 20, 2019, and, as of September 30, 2009, there was $273.8 million outstanding under the Debt Securitization (excluding the Retained Notes). The blended pricing of CLO Notes, excluding fees, is approximately 3-month LIBOR plus 27 basis points.

As of September 30, 2009, there were 54 investments securing the notes. See Note 7 to Ares Capital's consolidated financial statements for the period ended September 30, 2009 for more detail on the Debt Securitization.

The Moody's Investors Service rating of the Class A-1B Notes, the Class A-2B Notes, the Class B Notes and the Class C Notes have been reduced below the respective ratings issued for such notes on the facility's closing date. As of September 30, 2009, the Class A-1B Notes had a rating of Aa2, the Class A-2B Notes had a rating of Aa1, the Class B Notes had a rating of A1 and the Class C Notes had a rating of Baa3. As a result of the downgrades, among other things, Ares Capital's ability to transfer loans out of the facility has been restricted and certain principal proceeds must be used to further reduce the outstanding principal balance of such notes on each distribution date.

Portfolio Valuation

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

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

Because there is not a readily available market value for most of the investments in Ares Capital's portfolio, Ares Capital values substantially all of its portfolio investments at fair value as determined in good faith by Ares Capital's board of directors, based on the input of its management and audit committee and independent valuation firms under a valuation policy and a consistently applied valuation process. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of Ares Capital's investments may fluctuate from period to period. Additionally, the fair value of Ares Capital's investments may differ significantly from the values that would have been used had a ready market existed for such investments and may differ materially from the values that Ares Capital may ultimately realize. Further, such investments are generally subject to legal and other restrictions on resale or otherwise are less liquid than publicly traded securities. If Ares Capital was required to liquidate a portfolio investment in a forced or liquidation sale, Ares Capital may realize significantly less than the value at which Ares Capital has recorded it.

In addition, changes in the market environment, such as inflation, and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than would be realized based on the valuations currently assigned. See "Risk Factors Risks Relating to Ares Capital Price declines and illiquidity in the corporate debt markets have adversely affected, and may in the future adversely affect, the fair value of Ares Capital's portfolio investments, reducing Ares Capital's net asset value through increased net unrealized depreciation."

With respect to investments for which market quotations are not readily available, Ares Capital's board of directors undertakes a multi-step valuation process each quarter, as described below:

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

- Preliminary valuation conclusions are then documented and discussed by Ares Capital's management.

- The audit committee of Ares Capital's board of directors reviews these preliminary valuations, as well as the input of independent valuation firms with respect to the valuations of approximately 50% (based on value) of Ares Capital's portfolio companies without readily available market quotations.

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The board of directors discusses valuations and determines the fair value of each investment in Ares Capital's portfolio without a readily available market quotation in good faith based on the input of Ares Capital's management and audit committee and independent valuation firms.

Effective January 1, 2008, Ares Capital adopted SFAS 157, which expands the application of fair value accounting for investments (see Note 8 to the consolidated financial statements).

Off Balance Sheet Arrangements

As of September 30, 2009 and December 31, 2008, Ares Capital had the following commitments to fund various revolving senior secured and subordinated loans (in millions):

	September 30, 2009	December 31, 2008
Total revolving commitments	$ 295.4	$ 419.0
Less: funded commitments	(90.4)	(139.6)
Total unfunded commitments	205.0	279.4
Less: commitments substantially at discretion of Ares Capital	(10.0)	(32.4)
Less: unavailable commitments due to borrowing base or other covenant restriction	(89.0)	(64.5)
Total net adjusted unfunded revolving commitments	$ 106.0	$ 182.5

Of the total commitments as of September 30, 2009, $174.2 million extend beyond the maturity date for the Credit Facility. Additionally, $104.4 million of the total commitments or $6.5 million of the net adjusted unfunded commitments are scheduled to expire in 2009. Included within the total commitments as of September 30, 2009 are commitments to issue up to $24.3 million in standby letters of credit through a financial intermediary on behalf of certain portfolio companies.

Under these arrangements, Ares Capital would be required to make payments to third parties if the portfolio companies were to default on their related payment obligations. As of September 30, 2009, Ares Capital had $21.4 million in standby letters of credit issued and outstanding on behalf of the portfolio companies, of which no amounts were recorded as a liability. Of these letters of credit, $0.4 million expire on January 31, 2010, $0.2 million expire on February 28, 2010, $3.7 million expire on March 31, 2010, $8.1 million expire on July 31, 2010 and $9.0 million expire on September 30, 2010. These letters of credit may be extended under substantially similar terms for additional one-year terms at Ares Capital's option until the Credit Facility, under which the letters of credit were issued, matures. As of September 30, 2009, the Credit Facility matured on December 28, 2010.

As of September 30, 2009 and December 31, 2008, Ares Capital was subject to subscription agreements to fund equity investments in private equity investment partnerships, substantially all at the discretion of Ares Capital, as follows (in millions):

	September 30, 2009	December 31, 2008
Total private equity commitments	$ 428.3	$ 428.3
Total unfunded private equity commitments	$ 419.1	$ 423.6

Quantitative and Qualitative Disclosures About Market Risk

Ares Capital is subject to financial market risks, including changes in interest rates and the valuations of Ares Capital's investment portfolio.

Interest Rate Risk

Interest rate sensitivity refers to the change in earnings that may result from changes in the level of interest rates. Because Ares Capital funds a portion of its investments with borrowings, Ares

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Capital's net investment income is affected by the spread between the rate at which Ares Capital invests and the rate at which it borrows. As a result, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on Ares Capital's net investment income.

As of September 30, 2009, approximately 57% of the investments at fair value in Ares Capital's portfolio were at fixed rates while approximately 30% were at variable rates and 13% were non-interest earning. Additionally, 11% of the investments at fair value or 37% of the investments at fair value with variable rates contain interest rate floor features. The Debt Securitization, the CP Funding Facility, the CP Funding II Facility and the Credit Facility all featured variable rates.

Ares Capital regularly measures Ares Capital's exposure to interest rate risk. Ares Capital assesses interest rate risk and manages Ares Capital's interest rate exposure on an ongoing basis by comparing its interest rate sensitive assets to its interest rate sensitive liabilities. Based on that review, Ares Capital determines whether or not any hedging transactions are necessary to mitigate exposure to changes in interest rates.

In October 2008, Ares Capital entered into a two-year interest rate swap agreement for a total notional amount of $75 million. Under the interest rate swap agreement, Ares Capital will pay a fixed interest rate of 2.985% and receive a floating rate based on the prevailing three-month LIBOR. Ares Capital believes that this agreement will enable it to mitigate interest rate risk and remain match funded.

While hedging activities may mitigate Ares Capital's exposure to adverse fluctuations in interest rates, certain hedging transactions that Ares Capital may enter into in the future, such as interest rate swap agreements, may also limit Ares Capital's ability to participate in the benefits of lower interest rates with respect to its portfolio investments.

Based on Ares Capital's September 30, 2009 balance sheet, the following table shows the impact on net income of base rate changes in interest rates assuming no changes in Ares Capital's investment and borrowing structure and reflecting the effect of Ares Capital's interest rate swap agreement described above and in Note 11 of the consolidated financial statements (in millions):

Basis Point Change	**Interest Income**	**Interest Expense**	**Net Income**
Up 300 basis points	$ 14.0	$ 20.8	$ (6.8)
Up 200 basis points	$ 8.9	$ 13.9	$ (5.0)
Up 100 basis points	$ 4.4	$ 6.9	$ (2.5)
Down 100 basis points	$ (2.3)	$ (4.2)	$ 1.9
Down 200 basis points	$ (3.5)	$ (8.4)	$ 4.9
Down 300 basis points	$ (4.7)	$ (12.6)	$ 7.9

Based on Ares Capital's December 31, 2008 balance sheet, the following table shows the impact on net income of base rate changes in interest rates assuming no changes in Ares Capital's investment and borrowing structure and reflecting the effect of Ares Capital's interest rate swap agreement described above and in Note 11 of the consolidated financial statements (in millions):

Basis Point Change	**Interest Income**	**Interest Expense**	**Net Income**
Up 300 basis points	$ 21.4	$ 25.0	$ (3.6)
Up 200 basis points	$ 14.2	$ 16.7	$ (2.5)
Up 100 basis points	$ 7.1	$ 8.3	$ (1.2)
Down 100 basis points	$ (6.2)	$ (8.3)	$ 2.1
Down 200 basis points	$ (11.2)	$ (15.1)	$ 3.9
Down 300 basis points	$ (14.7)	$ (17.0)	$ 2.3

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SENIOR SECURITIES OF ARES CAPITAL
(dollar amounts in thousands, except per share data)

Information about Ares Capital's senior securities (including preferred stock, debt securities and other indebtedness) is shown in the following tables as of each fiscal year ended December 31 since Ares Capital commenced operations and as of September 30, 2009. The report of Ares Capital's independent registered public accounting firm, KPMG LLP, on the senior securities table as of December 31, 2008 is attached as an exhibit to this document. The " " indicates information that the SEC expressly does not require to be disclosed for certain types of senior securities.

Class and Year	Total Amount Outstanding Exclusive of Treasury Securities(1)	Asset Coverage Per Unit(2)	Involuntary Liquidating Preference Per Unit(3)	Average Market Value Per Unit(4)
Credit Facility				
Fiscal 2009 (as of September 30, 2009, unaudited)	$ 271,091	$ 915.15		
Fiscal 2008	$ 480,486	$ 1,165.69	$	N/A
Fiscal 2007	$ 282,528	$ 1,098.58	$	N/A
Fiscal 2006	$ 193,000	$ 1,056.23	$	N/A
Fiscal 2005	$	$	$	N/A
CP Funding Facility				
Fiscal 2009 (as of September 30, 2009, unaudited)	$ 223,027	$ 752.90		
Fiscal 2008	$ 114,300	$ 277.30	$	N/A
Fiscal 2007	$ 85,000	$ 330.07	$	N/A
Fiscal 2006	$ 15,000	$ 82.09	$	N/A
Fiscal 2005	$ 18,000	$ 32,645.12	$	N/A
CP Funding II Facility				
Fiscal 2009 (as of September 30, 2009, unaudited)	$ 0	N/A		
Debt Securitization				
Fiscal 2009 (as of September 30, 2009, unaudited)	$ 273,753	$ 924.14		
Fiscal 2008	$ 314,000	$ 761.78	$	N/A
Fiscal 2007	$ 314,000	$ 1,220.95	$	N/A
Fiscal 2006	$ 274,000	$ 1,499.51	$	N/A

(1) Total amount of each class of senior securities outstanding at the end of the period presented.

(2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as Ares Capital's consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by senior securities representing indebtedness. This asset coverage ratio is multiplied by $1,000 to determine the Asset Coverage Per Unit. In order to determine the specific Asset Coverage Per Unit for each of the Credit Facility, the CP Funding Facility and the Debt Securitization, the total Asset Coverage Per Unit was divided based on the amount outstanding at the end of the period for each.

(3) The amount to which such class of senior security would be entitled upon the involuntary liquidation of Ares Capital in preference to any security junior to it.

(4) Not applicable, as none of Ares Capital's current senior securities are registered for public trading.

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PORTFOLIO COMPANIES OF ARES CAPITAL

Ares Capital's investment adviser employs an investment rating system to categorize Ares Capital's investments. See "Business of Ares Capital Ongoing Relationships With and Monitoring of Portfolio Companies." As of September 30, 2009, the weighted average investment grade of the debt in Ares Capital's portfolio was 3.0 with 5.3% of total investments at amortized cost (or 1.7% at fair value) and seven loans past due or on non-accrual status. As of September 30, 2009, the weighted average yield of debt and income producing securities at fair value in Ares Capital's portfolio was approximately 12.53% (11.70% at amortized cost) (fair value is computed as (1) the annual stated interest rate or yield earned plus the net annual amortization of original issue discount and market discount on accruing debt divided by (2) total debt and income producing securities at fair value and amortized cost is computed as (a) annual stated interest rate or yield earned plus the net annual amortization of original issue discount and market discount earned on accruing debt included in such securities, divided by (b) total debt and income producing securities at amortized cost included in such securities).

The following table describes each of the businesses included in Ares Capital's portfolio and reflects data as of September 30, 2009. Percentages shown for class of investment securities held by Ares Capital represent percentage of the class owned and do not necessarily represent voting ownership. Percentages shown for equity securities, other than warrants or options, represent the actual percentage of the class of security held before dilution. Percentages shown for warrants and options held represent the percentage of class of security Ares Capital may own assuming Ares Capital exercises its warrants or options before dilution.

Ares Capital has indicated by footnote portfolio companies (1) where Ares Capital directly or indirectly owns more than 25% of the outstanding voting securities of such portfolio company and, therefore, are presumed to be "controlled" by Ares Capital under the Investment Company Act and (2) where Ares Capital directly or indirectly owns 5% to 25% of the outstanding voting securities of such portfolio company or where Ares Capital holds one or more seats on the portfolio company's board of directors and, therefore, is deemed to be an "affiliated person" under the Investment Company Act. Ares Capital directly or indirectly owns less than 5% of the outstanding voting securities of all other portfolio companies (or has no other affiliations with such portfolio companies) listed on the table. Ares Capital offers to make significant managerial assistance to certain of Ares Capital's portfolio companies. Ares Capital may also receive rights to observe the meetings of Ares Capital's portfolio companies' boards of directors.

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ARES CAPITAL AND SUBSIDIARIES

PORTFOLIO COMPANIES
As of September 30, 2009
(dollar amounts in thousands)

Company	Industry	Investment	Interest(1)	Maturity	% of Class Held at 9-30-09	Fair Value
3091779 Nova Scotia Inc.	Baked goods	Senior secured revolving loan	8.00%	11/3/2012		$ 7,127(18)
1 Valleybrook Dr., Suite 203	manufacturer	Junior secured loan	10.00% Cash, 4.00% PIK	11/3/2012		$ 11,278
Don Mills, Ontario M3B 2S7		Common stock warrants		11/3/2012	2.25%	$ (2)
ADF Capital, Inc. & ADF Restaurant Group, LLC	Restaurant owner and	Senior secured revolving loan	6.50% (Libor + 3.50%/Q)	11/27/2013		$ 1,408(3)
165 Passaic Avenue	operator	Senior secured revolving loan	6.50% (Libor + 3.50%/S)	11/27/2013		$ 2,010(3)
Fairfield, NJ 07004		Senior secured loan	12.50% (Libor + 6.50% Cash, 3.00% PIK/Q)	11/27/2012		$ 23,615
		Senior secured loan	12.50% (Libor + 6.50% Cash, 3.00% PIK/Q)	11/27/2012		$ 11,069
		Promissory note	12.00% PIK	11/27/2016	83.33%	$ 13,795
		Common stock warrants				$ 4,370(2)
American Broadband Communications, LLC and American Broadband Holding Company	Broadband	Senior subordinated loan	18.00% (10.00% Cash, 8.00% PIK/Q)	11/7/2014		$ 34,004
401 N. Tryon Street, 10th Floor	communication					
Charlotte, NC 28202	services	Senior subordinated loan	18.00% (10.00% Cash, 8.00% PIK/Q)	11/7/2014		$ 8,580
		Common stock warrants			17.00%	$ (2)
American Renal Associates, Inc.	Dialysis provider	Senior secured loan	8.50% (Libor + 6.00%/D)	12/31/2010		$ 1,082
5 Cherry Hill Drive, Suite 120		Senior secured loan	8.50% (Libor + 6.00%/Q)	12/13/2011		$ 10,401
Danvers, MA 01923		Senior secured revolving loan		12/31/2010		$ (4)
American Residential Services, LLC 860 Ridge Lake Blvd A3-1860 Memphis, TN 38120	Plumbing, heating and air-conditioning services	Junior secured loan	10.00% Cash, 2.00% PIK	4/1/2015		$ 19,685
AP Global Holdings, Inc. 1043 North 47th Avenue Phoenix, AZ 85043	Safety and security equipment manufacturer	Senior secured loan	4.75% (Libor + 4.50%/M)	10/26/2013		$ 7,110

Apple & Eve, LLC and US Juice Partners, LLC(19)	Juice manufacturer	Senior secured loan	14.50% (Libor + 11.50%/M)	10/1/2013		$ 23,974	
2 Seaview Blvd		Senior secured loan	14.50% (Libor + 11.50%/M)	10/1/2013		$ 11,752	
Port Washington, NY 11050		Senior secured revolving loan		10/1/2013		$	(5)
		Senior units			8.74%	$ 3,500	
Apogee Retail, LLC	For-profit thrift	Senior secured revolving loan		3/27/2012		$	(6)
1387 Cope Ave E	retailer	Senior secured loan	12.00% Cash, 4.00% PIK	11/28/2012		$ 11,296	
Maplewood, MN 55109		Senior secured loan	5.49% (Libor + 5.25%/M)	3/27/2012		$ 1,677	
		Senior secured loan	5.49% (Libor + 5.25%/M)	3/27/2012		$ 2,679	
		Senior secured loan	5.50% (Libor + 5.25%/M)	3/27/2012		$ 24,065	
		Senior secured loan	5.50% (Libor + 5.25%/M)	3/27/2012		$ 10,530	
Arrow Group Industries, Inc.	Residential and	Senior secured loan	5.28% (Libor + 5.00%/Q)	4/1/2010		$ 5,223	
1680 Route 23 North	outdoor shed						
Wayne, NJ 07470	manufacturer						
Athletic Club Holdings, Inc.	Premier health club	Senior secured loan	4.74% (Libor + 4.50%/M)	10/11/2013		$ 1,540	
5201 East Tudor Road	operator	Senior secured loan	4.75% (Libor + 4.50%/M)	10/11/2013		$ 880	
Anchorage, AL 99507		Senior secured loan	4.75% (Libor + 4.50%/M)	10/11/2013		$ 10,116	
		Senior secured loan	4.75% (Libor + 4.50%/M)	10/11/2013		$ 10,996	
		Senior secured loan	7.75% (Base Rate + 4.50%/Q)	10/11/2013		$ 4	
		Senior secured loan	6.75% (Base Rate + 3.50%/Q)	10/11/2013		$ 4	
AWTP, LLC	Water treatment	Junior secured loan	11.50% (Base Rate + 8.25%/Q)	12/22/2012		$ 4,755	
2080 Lunt Avenue	services	Junior secured loan	11.50% (Base Rate + 8.25%/Q)	12/22/2012		$ 2,086	
Elk Grove Village, IL 60007							
Best Brands Corporation	Baked goods	Senior secured loan	7.51% (Libor + 7.25%/M)	12/12/2012		$ 13,135	
1765 Yankee Doodle Road	manufacturer	Senior secured loan	7.51% (Libor + 7.25%/M)	6/30/2013		$ 8,759	
Eagan, MN 55121		Junior secured loan	12.00% Cash, 4.00% PIK	6/30/2013		$ 28,692	
		Junior secured loan	12.00% Cash, 4.00% PIK	6/30/2013		$ 8,611	
		Junior secured loan	12.00% Cash, 4.00% PIK	6/30/2013		$ 11,733	
Booz Allen Hamilton, Inc.	Strategy and	Senior secured loan	7.50% (Libor + 4.50%/S)	7/31/2015		$ 743	
8283 Greensboro Drive	technology consulting	Senior subordinated loan	11.00% Cash, 2.00% PIK	7/31/2016		$ 22,400	
McLean, VA 22102	services	Senior subordinated loan	11.00% Cash, 2.00% PIK	7/31/2016		$ 250	
Bumble Bee Foods, LLC	Canned seafood	Senior	16.25% (12.00% Cash,	11/18/2018		$ 30,756	

and BB Co-Invest LP		subordinated loan	4.25%			
9655 Granite Ridge	manufacturer	Common stock	Optional PIK)	5.84%	$	5,700
Dr. Suite 100						
San Diego, CA 92123						

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Company	Industry	Investment	Interest(1)	Maturity	% of Class Held at 9-30-09	Fair Value
Campus Management Corp. and Campus Management Acquisition Corp.(19)	Education software	Senior secured loan	13.00% Cash, 3.00% PIK	8/8/2013		$ 3,280
c/o Leeds Equity Partners, LLC	developer	Senior secured loan	13.00% Cash, 3.00% PIK	8/8/2013		$ 30,494
350 Park Avenue, 23rd Floor		Senior secured loan	10.00% Cash, 3.00% PIK	8/8/2013		$ 9,028
New York, NY 10022		Preferred stock	8.00% PIK		5.51%	$ 12,800
Canon Communications LLC	Print publications	Junior secured loan	13.75% (Libor + 8.75% Cash, 2.00% PIK/Q)	11/30/2011		$ 10,121
11444 W. Olympic Blvd.	services	Junior secured loan		11/30/2011		$ 10,314
Los Angeles, CA 90064		PIK/Q)	13.75% (Base Rate + 8.75% Cash, 2.00%			
Capella Healthcare, Inc.	Acute care hospital	Junior secured loan	13.00%	2/28/2016		$ 53,350
Two Corporate Center, Suite 200	operator	Junior secured loan	13.00%	2/28/2016		$ 29,100
501 Corporate Center Drive						
Franklin, TN 37067						
Carador, PLC(19)	Investment company	Ordinary shares			5.08%	$ 2,311
Georges Quay House						
43 Townend Street						
Dublin 2, Ireland						
CT Technologies Intermediate Holdings, Inc. and CT Technologies Holdings, LLC(19)	Healthcare analysis	Preferred stock	14.00% PIK		20.00%	$ 7,055
8901 Farrow Rd	services	Common stock			13.07%	$ 8,134
Columbia, SC 29203		Common stock			20.00%	$
Charter Baking Company, Inc.	Baked goods	Senior subordinated note	13.00% PIK	2/6/2013		$ 5,874
3300 Walnut Street	manufacturer	Preferred stock			3.05%	$ 1,725
Unit C						
Boulder, CO 80301						
CIC Flex, LP	Investment	Limited partnership units			14.28%	$ 41
60 South Sixth Street, Suite 3720	partnership					
Minneapolis, MN 55402						
Covestia Capital Partners, LP	Investment	Limited partnership interest			46.67%	$ 1,059
11111 Santa Monica Blvd., Suite 1620	partnership					
Los Angeles, CA 90025						

Courtside Acquisition Corp.	Community	Senior subordinated loan	17.00% PIK	6/29/2014		$
1700 Broadway	newspaper publisher					
New York, NY 10019						
Direct Buy Holdings, Inc. and Direct Buy Investors LP(19)	Membership-based	Senior secured loan	6.82% (Libor + 6.50%/M)	11/30/2012		$ 1,710
8450 Broadway	buying club franchisor	Partnership interests			19.31%	$ 2,500
Merrillville, IN 46410	and operator					
Diversified Collection Services, Inc.	Collections services	Senior secured loan	9.50% (Libor + 6.75%/M)	8/4/2011		$ 10,529
333 North Canyons Pkwy.		Senior secured loan	9.50% (Libor + 6.75%/M)	8/4/2011		$ 3,747
Livermore, CA 94551		Senior secured loan	9.50% (Libor + 6.75%/Q)	8/4/2011		$ 323
		Senior secured loan	9.50% (Libor + 6.75%/Q)	8/4/2011		$ 115
		Senior secured loan	13.75% (Libor + 11.00%/Q)	2/4/2011		$ 1,931
		Senior secured loan	13.75% (Libor + 11.00%/Q)	8/4/2011		$ 7,492
		Preferred stock			0.68%	$ 264
		Common stock			0.56%	$ 286
DSI Renal, Inc.	Dialysis provider	Senior secured revolving loan	5.30% (Libor + 5.00%/M)	3/31/2013		$ 103(7)
511 Union Street Suite 1800		Senior secured revolving loan	5.30% (Libor + 5.00%/M)	3/31/2013		$ 2,992(7)
Nashville, TN 37219		Senior secured revolving loan	5.30% (Libor + 5.00%/M)	3/31/2013		$ 952(7)
		Senior secured revolving loan	5.30% (Libor + 5.00%/M)	3/31/2013		$ 979(7)
		Senior secured revolving loan	5.30% (Libor + 5.00%/M)	3/31/2013		$ 1,360(7)
		Senior secured revolving loan	5.30% (Libor + 5.00%/M)	3/31/2013		$ 2(7)
		Senior secured revolving loan	5.30% (Libor + 5.00%/M)	3/31/2013		$ 15(7)
		Senior secured revolving loan	5.30% (Libor + 5.00%/M)	3/31/2013		$ 21(7)
		Senior secured revolving loan	5.30% (Libor + 5.00%/M)	3/31/2013		$ 46(7)
		Senior secured revolving loan	5.30% (Libor + 5.00%/M)	3/31/2013		$ 14(7)
		Senior secured revolving loan	5.30% (Libor + 5.00%/M)	3/31/2013		$ 17(7)
		Senior secured revolving loan	5.30% (Libor + 5.00%/M)	3/31/2013		$ 250(7)
		Senior secured revolving loan	5.30% (Libor + 5.00%/M)	3/31/2013		$ 37(7)
		Senior secured loan	5.30% (Libor + 5.00%/M)	4/7/2014		$ 14,472
		Senior subordinated note	16.00% PIK	4/7/2014		$ 49,263
		Senior subordinated note	16.00% PIK	4/7/2014		$ 10,577
ELC Acquisition Corporation	Developer,	Senior secured loan	3.50% (Libor + 3.25%/M)	11/29/2012		$ 154
2 Lower Ragsdale Drive	manufacturer and	Junior secured loan	7.25% (Libor + 7.00%/M)	11/29/2013		$ 7,917
Monterey, CA 93940	retailer of educational products					

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Company	Industry	Investment	Interest(1)	Maturity	% of Class Held at 9-30-09	Fair Value
Emerald Performance Materials, LLC	Polymers and	Senior secured loan	8.25% (Libor + 4.25%/M)	5/22/2011		$ 8,657
2020 Front Street, Suite 100	performance	Senior secured loan	8.25% (Libor + 4.25%/M)	5/22/2011		$ 515
Cuyahoga Falls, OH 44221	materials	Senior secured loan	8.50% (Base Rate + 5.25%/M)	5/22/2011		$ 150
	manufacturer	Senior secured loan	10.00% (Libor + 6.00%/M)	5/22/2011		$ 1,508
		Senior secured loan	13.00% Cash, 3.00% PIK	5/22/2011		$ 4,704
Encanto Restaurants, Inc.	Restaurant owner	Junior secured loan	7.50% Cash, 3.50% PIK	8/2/2013		$ 20,299
c/o Harvest Partners, Inc.	and operator	Junior secured loan	7.50% Cash, 3.50% PIK	8/2/2013		$ 3,867
280 Park Avenue, 33rd Floor New York, NY 10017						
Firstlight Financial Corporation(19)	Investment company	Senior subordinated loan	1.00% PIK	12/31/2016		$ 54,670
1700 E. Putnum Ave.		Common stock			20.00%	$
Old Greenwich, CT 06870		Common stock			100.00%	$
GCA Services Group, Inc.	Custodial services	Senior secured loan	12.00%	12/31/2011		$ 23,255
1350 Euclid Ave, Suite 1500		Senior secured loan	12.00%	12/31/2011		$ 4,768
Cleveland, OH 44115		Senior secured loan	12.00%	12/31/2011		$ 9,866
GG Merger Sub I, Inc.	Drug testing	Senior secured loan	4.30% (Libor + 4.00%/Q)	12/13/2014		$ 9,744
4130 Parklake Avenue, Suite 400 Raleigh, NC 27612	services	Senior secured loan	4.30% (Libor + 4.00%/Q)	12/13/2014		$ 10,320
Growing Family, Inc. and GFH Holdings, LLC 3613 Mueller Road Saint Charles, MO 63301	Photography services	Senior secured revolving loan	10.50% (Libor + 3.00% Cash, 4.00% PIK/A)	8/23/2011		$ 454(8)
		Senior secured loan	13.00% (Libor + 3.50% Cash, 6.00% PIK/Q)	8/23/2011		$ 3,356
		Senior secured loan	11.25% (Base Rate + 8.00%/A)	8/23/2011		$ 111
		Senior secured loan	15.50% (Libor + 6.00% Cash, 6.00% PIK/Q)	8/23/2011		$ 1,073
		Senior secured loan	15.50% (Libor + 6.00% Cash, 6.00% PIK/Q)	8/23/2011		$ 44
		Common stock			8.43%	$
HB&G Building Products	Synthetic and wood	Senior subordinated loan	19.00% PIK	3/7/2011		$ 448
P.O. Box 589	product manufacturer	Common stock			2.39%	$
Troy, AL 36081		Warrants to purchase common stock			3.89%	$ (2)

HCP Acquisition Holdings, LLC c/o Halyard Capital Fund II, LP(20) 600 Fifth Avenue, 17th Floor New York, NY 10020	Healthcare compliance advisory services	Class A units			26.19%	$ 7,194
Heartland Dental Care, Inc. 1200 Network Centre Drive, Suite 2 Effingham, IL 62401	Dental services	Senior subordinated note	11.00% Cash, 3.25% PIK	7/30/2014		$ 32,717
Dufry AG (fka Hudson Group, Inc. and Advent - Hudson, LLC) Hardstrasse 95 CH - 4020 Basel Switzerland	Retail newstand operator	Common stock			0.67%	$ 2,200
ILC Industries, Inc. 105 Wilbur Place Bohemia, NY 11716	Industrial products provider	Junior secured loan	11.50%	8/24/2012		$ 12,000
Imperial Capital Group, LLC and Imperial Capital Private Opportunities, LP(19) 2000 Avenue of the Stars, 9th Floor S Los Angeles, CA 90067	Investment banking services	Limited partnership interest			80.00%	$ 3,094
		Common units			5.00%	$ 20,000
		Common units			5.00%	$ 3
		Common units			4.99%	$
Industrial Container Services, LLC(19) 1540 Greenwood Avenue Montebello, CA 90640	Industrial container manufacturer, reconditioner and servicer	Senior secured revolving loan		9/30/2011		$ (9)
		Senior secured loan	4.25% (Libor + 4.00%/M)	9/30/2011		$ 628
		Senior secured loan	4.25% (Libor + 4.00%/M)	9/30/2011		$ 41
		Senior secured loan	4.29% (Libor + 4.00%/M)	9/30/2011		$ 4,680
		Senior secured loan	4.29% (Libor + 4.00%/M)	9/30/2011		$ 306
		Senior secured loan	4.28% (Libor + 4.00%/M)	9/30/2011		$ 5,850
		Senior secured loan	4.28% (Libor + 4.00%/M)	9/30/2011		$ 382
		Senior secured loan	4.25% (Libor + 4.00%/M)	9/30/2011		$ 93
		Senior secured loan	4.25% (Libor + 4.00%/M)	9/30/2011		$ 1,420
		Common stock			8.88%	$ 8,550
Innovative Brands, LLC 4729 East Union Hills Drive, Suite #103 Phoenix, AZ 85050	Consumer products and personal care manufacturer	Senior secured loan	15.50%	9/22/2011		$ 9,059
		Senior secured loan	15.50%	9/22/2011		$ 8,362

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Company	**Industry**	**Investment**	**Interest(1)**	**Maturity**	**% of Class Held at 9-30-09**	**Fair Value**
Instituto de Banca y Comercio, Inc.	Private school	Senior secured loan	8.50% (Libor + 6.00%/Q)	3/15/2014		$ 11,730
Calle Santa Ana 1660	operator	Senior secured revolving loan	6.50% (Libor + 4.00%/Q)	3/15/2014		$ 1,232(10)
Santurce, PR 00909-2309		Senior subordinated loan	13.00% Cash, 3.00% PIK	6/15/2014		$ 30,644
		Preferred stock			3.11%	$ 1,883
		Common stock			4.02%	$ 2,433
		Preferred stock			4.00%	$ 1,596
		Common stock			4.00%	$ 1,596
Investor Group Services, LLC(19)	Financial services	Senior secured revolving loan		6/22/2011		$ (11)
2020 Front Street, Suite 100		Limited liability company membership interest			10.00%	$ 500
Boston, MA 02116						
Ivy Hill Asset Management, L.P.(20) 2000 Avenue of the Stars, 12th Floor Los Angeles, CA 90067		Member interest			100.00%	$ 11,088
Ivy Hill Middle Market Credit Fund, Ltd.(20)	Investment company	Class B deferrable interest notes	6.72% (Libor + 6.00%/Q)	11/20/2018		$ 36,800
2000 Avenue of the Stars, 12th Floor						
Los Angeles, CA 90067		Subordinated notes			20.00%	$ 14,113
The Kenan Advantage Group, Inc.	Fuel transportation	Senior subordinated notes	9.50% Cash, 3.50% PIK	12/16/2013		$ 25,381
4895 Dressler Road, N.W. #100	provider	Senior secured loan	3.00% (Libor + 2.75%/M)	12/16/2011		$ 2,238
Canton, OH 44718		Preferred stock	8.00% PIK		1.15%	$ 1,459
		Common stock			1.15%	$ 41
Lakeland Finance, LLC	Private school	Senior secured note	11.50%	12/15/2012		$ 30,000
590 Peter Jefferson Parkway, Suite 30 Charlottesville, VA 22911	operator	Senior secured note	11.50%	12/15/2012		$ 3,000
LVCG Holdings LLC(20)	Commercial printer	Membership interests			56.53%	$ 1,980
c/o The Decatur Group LLC 600 Seventeenth Street, Suite 2800 Denver, CO 80202						
Mactec, Inc.	Engineering and	Class B-4 stock			0.01%	$
1105 Sanctuary Parkway, Suite 300	environmental	Class C stock			38.47%	$ 150
Alpharetta, GA 30004	services					
Magnacare Holdings, Inc.,						

Magnacare Administrative Services, LLC, and Magnacare, LLC	Healthcare	Senior subordinated note	12.75% Cash, 2.00% PIK	1/30/2012		$ 4,646
825 East Gate Blvd.	professional provider					
Garden City, NY 11530						
Making Memories Wholesale, Inc.(20)	Scrapbooking	Senior secured loan	10.00% (Libor + 6.50%/Q)	8/21/2014		$ 9,875
1168 West 500 North	branded products	Senior secured loan	15.00% (7.50% Cash, 7.50% PIK/Q)	8/21/2014		$ 3,025
Centerville, UT 84014	manufacturer					
		Senior secured revolving loan		3/31/2011		$ (12)
		Common stock			10.00%	$
MPBP Holdings, Inc., Cohr Holdings, Inc. and MPBP Acquisition Co., Inc.	Healthcare	Senior secured loan		1/31/2014		$ 489
21540 Plummer Street	equipment services	Junior secured loan	6.50% (Libor + 6.25%/B)	1/31/2014		$ 5,000
Chatsworth, CA 91311		Junior secured loan	6.50% (Libor + 6.25%/B)	1/31/2014		$ 3,000
		Common stock			2.50%	$
MWD Acquisition Sub, Inc.	Dental services	Junior secured loan	6.49% (Libor + 6.25%/M)	5/3/2013		$ 4,350
680 Hehli Way PO Box 69 Mondovi, WI 54755						
National Print Group, Inc.	Printing	Senior secured revolving loan	8.25% (Base Rate + 5.00%/M)	3/2/2012		$ 166(13)
2464 Amicola Highway	management services	Senior secured revolving loan	9.00% (Libor + 6.00%/S)	3/2/2012		$ 1,114(13)
Chattanooga, TN 37406		Senior secured loan	16.00% (Base Rate + 9.00% Cash, 4.00% PIK/Q)	3/2/2012		$ 4,235
		Senior secured loan	16.00% (Base Rate + 9.00% Cash, 4.00% PIK/M)	3/2/2012		$ 693
		Preferred stock			5.17%	$
NPA Acquisition, LLC	Powersport vehicle	Junior secured loan	6.99% (Libor + 6.75%/M)	2/24/2013		$ 12,000
c/o Transportation Resources Partners, L.P. 13175 Gregg Street Poway, CA 92064	auction operator	Common units			1.94%	$ 2,300
OnCURE Medical Corp.	Radiation oncology	Senior secured loan	3.75% (Libor + 3.50%/M)	2/17/2012		$ 2,707
610 Newport Center Drive, Suite 650	care provider	Senior subordinated note	11.00% Cash, 1.50% PIK	8/18/2013		$ 29,288
Newport Beach, CA 92660		Common stock			3.38%	$ 3,000

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Company	Industry	Investment	Interest(1)	Maturity	% of Class Held at 9-30-09	Fair Value
OTG Management, Inc.	Airport restaurant	Junior secured loan	20.50% (Libor + 11.00% Cash,	6/11/2013		$ 15,884
One International Plaza, Suite 130	operator		6.50% PIK/M)			
Philadelphia, PA 19113		Warrants to purchase common stock			40.54%	$ 750(2)
		Warrants to purchase common stock				$ (2)
Partnership Capital Growth Fund I, LP	Investment	Limited partnership interest			25.00%	$ 2,711
One Embarcadero, Suite 3810	partnership					
San Francisco, CA 94111						
Passport Health Communications, Inc., Passport Holding Corp. and Prism Holding Corp.	Healthcare	Senior secured loan	10.50% (Libor + 7.50%/M)	5/9/2014		$ 12,470
720 Cool Springs Blvd., Suite 450	technology provider	Senior secured loan	10.50% (Libor + 7.50%/M)	5/9/2014		$ 11,511
Franklin, TN 37067		Series A preferred stock			5.23%	$ 9,900
		Common stock			5.23%	$ 100
PG Mergersub, Inc.	Provider of patient	Senior subordinated loan	12.50%	3/15/2016		$ 3,920
c/o Vestar Capital Partners V, LP	surveys, management	Preferred stock			0.13%	$ 334
245 Park Avenue, 41st Floor	reports and	Common stock			0.13%	$ 167
New York, NY 10167	national databases for the integrated healthcare delivery system					
Pillar Holdings LLC and PHL Holding Co.(19)	Mortgage services	Senior secured revolving loan	5.80% (Libor + 5.50%/B)	11/20/2013		$ 375(14)
220 Northpointe Parkway, Suite G		Senior secured revolving loan	5.80% (Libor + 5.50%/B)	11/20/2013		$ 938(14)
Buffalo, NY 14228		Senior secured loan	14.50%	5/20/2014		$ 1,875
		Senior secured loan	14.50%	5/20/2014		$ 5,500
		Senior secured loan	5.80% (Libor + 5.50%/B)	11/20/2013		$ 16,902
		Senior secured loan	5.80% (Libor + 5.50%/B)	11/20/2013		$ 10,550
		Common stock			8.48%	$ 7,234
Planet Organic Health Corp.	Organic grocery	Junior secured loan	13.00%	7/3/2014		$ 817
7917 - 104 Street	store operator	Junior secured loan	13.00%	7/3/2014		$ 9,737

Edmonton Alberta Canada TGE 4E1		Senior subordinated loan	13.00% Cash, 4.00% PIK	7/3/2012		$ 9,873	
Primis Marketing Group, Inc. and Primis Holdings, LLC(19)	Database marketing services	Senior subordinated note	13.50% Cash, 2.00% PIK	2/27/2013		$ 511	
c/o Pcap Managers, LLC		Preferred units			8.02%	$	
75 State Street, 26th Floor Boston, MA 02109		Common units			7.38%	$	
Prommis Solutions, LLC, E-Default Services, LLC, Statewide Tax and Title Services, LLC & Statewide Publishing Services, LLC (formerly known as MR Processing Holding Corp.)	Bankruptcy and foreclosure processing services	Senior subordinated note	11.50% Cash, 2.00% PIK	2/23/2014		$ 25,866	
1544 Old Alabama Road		Senior subordinated note	11.50% Cash, 2.00% PIK	2/23/2014		$ 25,968	
Roswell, GA 30076		Preferred stock			3.17%	$ 6,221	
Qualitor, Inc.	Automotive aftermarkets components supplier	Senior secured loan	6.00% (Base Rate + 2.75%/M)	12/31/2011		$ 1,656	
24800 Denso Drive, Suite 255 Southfield, MI 48034		Junior secured loan	9.00% (Base Rate + 5.75%/M)	6/30/2012		$ 4,750	
R2 Acquisition Corp. Modern Media Building 207 NW Park Ave Portland, OR 97209	Marketing services	Common stock			0.33%	$ 250	
R3 Education, Inc. (formerly known as Equinox EIC Partners, LLC and MUA Management Company, Ltd.)(19)	Medical school operator	Senior secured revolving loan		12/31/2012		$	(15)
1750 W. Broadway St. #222		Senior secured loan	6.25% (Libor + 6.00%/M)	12/31/2012		$ 1,162	
Oviedo, FL 32765		Senior secured loan	6.25% (Libor + 6.00%/M)	12/31/2012		$ 13,830	
		Senior secured loan	6.25% (Libor + 6.00%/M)	12/31/2012		$ 7,130	
		Common membership interest			22.19%	$ 17,185	
		Preferred stock			18.94%	$ 2,000	
		Preferred stock			6.56%	$ 200	
RedPrairie Corporation	Software manufacturer	Junior secured loan	6.97% (Libor + 6.50%/Q)	1/20/2013		$ 3,135	
c/o Francisco Partners 2882 Sand Hill Road, Suite 280 Menlo Park, CA 94045		Junior secured loan	6.97% (Libor + 6.50%/Q)	1/20/2013		$ 11,400	
Reflexite Corporation(20)	Developer and manufacturer of	Senior subordinated loan	12.50% Cash, 5.50% PIK	2/27/2015		$ 16,557	
120 Darling Drive		Common stock			39.49%	$ 24,898	

Avon, CT 06001	high-visibility reflective products

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Company	Industry	Investment	Interest(1)	Maturity	% of Class Held at 9-30-09	Fair Value
Savers, Inc. and SAI Acquisition Corporation	For-profit thrift	Senior subordinated note	10.00% Cash, 2.00% PIK	8/11/2014		$ 5,923
11400 SE 6th St. Suite 220	retailer	Senior subordinated note	10.00% Cash, 2.00% PIK	8/11/2014		$ 21,792
Bellevue, WA 98004		Common stock			3.44%	$ 5,840
Saw Mill PCG Partners LLC	Precision	Common units			66.67%	$
31005 Solon Road	components					
Solon, OH 44139	manufacturer					
The Schumacher Group of Delaware, Inc.	Outsourced	Senior subordinated loan	11.125% Cash, 1.00% PIK	7/31/2012		$ 30,909
200 Corporate Blvd., Suite 201	physician service	Senior subordinated loan	11.125% Cash, 1.00% PIK	7/31/2012		$ 5,229
Lafayette, LA 70308	provider					
Shoes for Crews, LLC	Safety footwear and	Senior secured revolving loan		7/6/2010		$ (16)
1400 Centerpark Blvd., Suite 310	slip-related mat	Senior secured loan	5.50% (Base Rate + 2.25%/Q)	7/6/2010		$ 302
West Palm Beach, FL 33401	manufacturer					
Sigma International Group, Inc.	Water treatment	Junior secured loan	15.00% (Libor + 7.00%/Q)	10/10/2013		$ 2,800
700 Goldman Drive	parts manufacturer	Junior secured loan	15.00% (Libor + 7.00%/Q)	10/10/2013		$ 1,283
Cream Ridge, NJ 08514		Junior secured loan	15.00% (Libor + 7.00%/Q)	10/10/2013		$ 1,925
		Junior secured loan	15.00% (Libor + 7.00%/Q)	10/10/2013		$ 4,200
		Junior secured loan	15.00% (Libor + 7.00%/Q)	10/10/2013		$ 1,400
		Junior secured loan	15.00% (Libor + 7.00%/Q)	10/10/2013		$ 642
Summit Business Media, LLC	Business media	Junior secured loan	15.00% PIK	11/3/2013		$ 1,600
375 Park Avenue	consulting services					
New York, NY 10152-0002						
The Teaching Company, LLC and The Teaching Company Holdings, Inc.	Education	Senior secured loan	10.50%	9/29/2012		$ 18,000
4151 Lafayette Center Drive, No. 100	publications	Senior secured loan	10.50%	9/29/2012		$ 10,000
Chantilly, VA 20151	provider	Preferred stock	8.00%		3.64%	$ 3,873
		Common stock			3.64%	$ 4
Thermal Solutions LLC and TSI Group, Inc.	Thermal	Senior secured loan	4.03% (Libor + 3.75%/M)	3/21/2011		$ 549
94 Tide Mill Road	management and	Senior secured loan	4.53% (Libor + 4.25%/Q)	3/21/2012		$ 2,494
Hampton, NH 03842	electronic packaging	Senior subordinated notes	11.50% Cash, 2.50% PIK	3/27/2012		$ 2,593
	manufacturer			9/28/2012		$ 2,042

		Senior subordinated notes	11.50% Cash, 2.75% PIK				
		Senior subordinated notes	11.50% Cash, 2.75% PIK	9/28/2012		$ 3,225	
		Preferred stock			1.31%	$ 716	
		Common stock			1.31%	$ 15	
Things Remembered, Inc. and TRM Holdings Corporation	Personalized gifts retailer	Senior secured loan	5.50%, 1.00% PIK Option	9/29/2012		$ 3,154	
5500 Avion Park Drive		Senior secured loan	5.50%, 1.00% PIK Option	9/29/2012		$ 5,112	
Highland Heights, OH 44143		Senior secured loan	5.50%, 1.00% PIK Option	9/29/2012		$ 19,882	
		Senior secured revolving loan		9/29/2012		$	(17)
		Preferred stock			3.50%	$	
		Common stock			2.98%	$	
		Preferred stock			3.20%	$	
		Warrants to purchase common shares			3.20%	$	(2)
The Thymes, LLC(20)	Cosmetic products manufacturer	Preferred stock	8.00% PIK		78.54%	$ 5,654	
629 9th Street SE Minneapolis, MN 55414		Common stock			55.45%	$	
Triad Laboratory Alliance, LLC	Laboratory services	Senior secured loan	8.50% (Libor + 5.50%/Q)	12/23/2011		$ 4,282	
4380 Federal Drive, Suite 100 Greensboro, NC 27410		Senior subordinated note	12.00% Cash, 1.75% PIK	12/23/2012		$ 15,068	
Trivergance Capital Partners, LP 2200 Fletcher Avenue, 4th Floor Fort Lee, NJ 07024	Investment partnership	Limited partnership interest			100.00%	$ 1,672	
TZ Merger Sub, Inc. 567 San Nicolas Drive, Suite 360 Newport Beach, CA 92660	Computers and electronics	Senior secured loan	7.50% (Libor + 4.50%/Q)	7/15/2015		$ 4,830	
UL Holding Co., LLC	Petroleum product manufacturer	Senior secured loan	9.34% (Libor + 8.88%/Q)	12/24/2012		$ 10,726	
2824 N Ohio		Senior secured loan	14.00%	12/24/2012		$ 2,925	
Wichita, KS 67201		Senior secured loan	14.00%	12/24/2012		$ 2,925	
		Senior secured loan	14.00%	12/24/2012		$ 975	
		Senior secured loan	9.35% (Libor + 8.88%/Q)	12/24/2012		$ 2,925	
		Common units			0.85%	$ 500	
		Common units			0.86%	$	
Universal Trailer Corporation(19) 11590 Century Blvd., Suite 103	Livestock and specialty trailer	Common stock			2.06%	$	

Cincinnati, OH 45246 manufacturer

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Company	Industry	Investment	Interest(1)	Maturity	% of Class Held at 9-30-09	Fair Value
Vistar Corporation and Wellspring Distribution Corp.	Food service	Senior subordinated loan	13.50%	5/23/2015		$ 41,444
12650 East Arapahoe Road	distributor	Senior subordinated loan	13.50%	5/23/2015		$ 23,750
Centennial, CO 80112		Senior subordinated loan	13.50%	5/23/2015		$ 4,750
		Class A non-voting common stock			33.33%	$ 3,253
VOTC Acquisition Corp.	Radiation oncology	Senior secured loan	11.00% Cash, 2.00% PIK	7/31/2012		$ 17,329
1500 Rosecrans Ave, Suite 400 Manhattan Beach, CA 90266	care provider	Series E preferred shares			28.20%	$ 3,800
VSC Investors LLC	Investment company	Membership interest			4.63%	$ 635
401 Vance Street						
VSS-Tranzact Holdings, LLC(19)	Management	Common membership interest			8.51%	$ 6,000
350 Park Avenue	consulting services					
New York, NY 10022						
Waste Pro USA, Inc.	Waste management services	Class A Common Equity			2.61%	$ 13,263
2101 West State Road 434, Suite 315 Longwood, FL 32779						
Wastequip, Inc.(19)	Waste management	Senior subordinated loan	10.00% Cash, 2.50% PIK	2/5/2015		$ 3,936
25800 Science Park Drive, Suite 140	equipment	Common stock			5.34%	$
Beachwood, OH 44122	manufacturer					
Wear Me Apparel, LLC(19)	Clothing	Senior subordinated notes	17.50% PIK	4/2/2013		$ 18,083
31 W 34th Street New York, NY 10001-3009	manufacturer	Common stock			12.30%	$
Web Services Company, LLC	Laundry service	Senior secured loan	5.30% (Libor + 5.00%/Q)	8/28/2014		$ 4,802
3690 Redondo Beach Ave.	and equipment	Senior subordinated loan	11.50% Cash, 2.50% PIK	8/29/2016		$ 17,198
Redondo Beach, CA 90278	provider	Senior subordinated loan	11.50% Cash, 2.50% PIK	8/29/2016		$ 24,358
Wyle Laboratories, Inc. and Wyle Holdings, Inc.	Provider of	Junior secured loan	15.00%	7/17/2014		$ 16,000
1960 E. Grand Ave., Suite 900	specialized	Junior secured loan	15.00%	7/17/2014		$ 12,000

El Segundo, CA 90245-5023	engineering,	Senior preferred stock	10.00% PIK		0.77%	$	77
	scientific and	Junior preferred stock	8.00% PIK		0.77%	$	1,455
	technical services	Common stock			0.72%	$	148
X-rite, Incorporated	Artwork software	Junior secured loan	14.38% (Libor + 10.38%/Q)	7/31/2013		$	3,116
3100 44th Street SW	manufacturer	Junior secured loan	14.38% (Libor + 10.38%/Q)	7/31/2013		$	7,790
Grandville, MI 49418							
					Total	$	1,967,724

(1) All interest is payable in cash unless otherwise indicated. A majority of the variable rate loans to Ares Capital's portfolio companies bear interest at a rate that may be determined by reference to either LIBOR or an alternate Base Rate (commonly based on the Federal Funds Rate or the Prime Rate), at the borrower's option, which resets daily (D), monthly (M), bi-monthly (B), quarterly (Q) or semi-annually (S). For each such loan, Ares Capital has provided the current interest rate in effect as of September 30, 2009.

(2) Percentages shown for warrants or convertible preferred stock held represents the percentages of common stock Ares Capital may own on a fully diluted basis, assuming Ares Capital exercises its warrants or converts its preferred stock to common stock.

(3) $1,582 of total commitment of $5,000 for the revolver remains unfunded as of September 30, 2009.

(4) Total commitment of $1,967 remains unfunded as of September 30, 2009.

(5) Total commitment of $10,000 remains unfunded as of September 30, 2009.

(6) Total commitment of $7,802 remains unfunded as of September 30, 2009.

(7) Total commitment of $8,134 remains unfunded as of September 30, 2009.

(8) $0 of total commitment of $2,500 remains unfunded as of September 30, 2009.

(9) $12,907 of total commitment of $15,696 remains unfunded as of September 30, 2009.

(10) $3,191 of total commitment of $11,500 remains unfunded as of September 30, 2009.

(11) Total commitment of $2,500 remains unfunded as of September 30, 2009.

(12) Total commitment of $2,500 remains unfunded as of September 30, 2009

(13) $0 of total commitment of $4,109 remains unfunded as of September 30, 2009.

(14) $2,033 of total commitment of $3,750 remains unfunded as of September 30, 2009.

(15) Total commitment of $25,000 remains unfunded as of September 30, 2009

(16)

Total commitment of $5,833 remains unfunded as of September 30, 2009

(17)

Total commitment of $5,000 remains unfunded as of September 30, 2009.

(18)

$3,371 of total commitment of $10,209 remains unfunded as of September 30, 2009.

(19)

As defined in the Investment Company Act, Ares Capital is an "Affiliate" of this portfolio company because it owns 5% or more of the portfolio company's outstanding voting securities.

(20)

As defined in the Investment Company Act, Ares Capital is an "Affiliate" of this portfolio company because it owns 5% or more of the portfolio company's outstanding voting securities or it has the power to exercise control over the management or policies of such portfolio company (including through a management agreement). In addition, as defined in the Investment Company Act, Ares Capital "Controls" this portfolio company because it owns more than 25% of the portfolio company's outstanding voting securities or it has the power to exercise control over the management or policies of such portfolio company (including through a management agreement).

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MANAGEMENT OF ARES CAPITAL

The business and affairs of Ares Capital are managed under the direction of Ares Capital's board of directors. The responsibilities of the board of directors include, among other things, the quarterly valuation of Ares Capital's assets. The board of directors currently consists of seven members, four of whom are not "interested persons" of Ares Capital as defined in Section 2(a)(19) of the Investment Company Act. Ares Capital refers to these individuals as Ares Capital's independent directors. Ares Capital's board of directors elects Ares Capital's officers, who will serve at the discretion of the board of directors. The board of directors maintains an audit committee and nominating committee, and may establish additional committees from time to time as necessary.

Executive Officers and Board of Directors

Under Ares Capital's charter and bylaws, Ares Capital's directors are divided into three classes. Directors are elected for staggered terms of three years each, with the term of office of only one of these three classes of directors expiring each year. Each director will hold office for the term to which he or she is elected and until his or her successor is duly elected and qualifies.

Directors

Information regarding the board of directors is as follows:

Name	Age	Position	Director Since	Expiration of Term
Independent Directors				
Douglas E. Coltharp	48	Director	2004	2011
Frank E. O'Bryan	76	Director	2005	2010
Gregory W. Penske	47	Director	2009	2012
Eric B. Siegel	51	Director	2004	2010
Interested Directors				
Michael J. Arougheti	37	President and Director	2009	2011
Robert L. Rosen	63	Director	2004	2012
Bennett Rosenthal	46	Chairman and Director	2004	2012

The address for each director is c/o Ares Capital Corporation, 2000 Avenue of the Stars, 12th Floor, Los Angeles, California 90067.

Executive Officers Who Are Not Directors

Information regarding Ares Capital's executive officers who are not directors is as follows:

Name	Age	Position
Joshua M. Bloomstein	36	Vice President, General Counsel and Assistant Secretary
Richard S. Davis	51	Chief Financial Officer
Merritt S. Hooper	48	Secretary and Assistant Treasurer
Daniel F. Nguyen	38	Treasurer
Karen A. Tallman	52	Chief Compliance Officer
Michael D. Weiner	57	Vice President

The address for each executive officer is c/o Ares Capital Corporation, 2000 Avenue of the Stars, 12th Floor, Los Angeles, California 90067.

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Biographical Information

Directors

Ares Capital's directors have been divided into two groups interested directors and independent directors. Interested directors are interested persons as defined in the Investment Company Act.

Independent Directors

Douglas E. Coltharp, 48, has served as a director of Ares Capital since 2004. Since May 2007, Mr. Coltharp has been a partner at Arlington Capital Advisors and Arlington Investment Partners, Birmingham, AL-based financial advisory and private equity businesses. Prior to that, from November 1996 to May 2007, he was the Executive Vice President and Chief Financial Officer of Saks Incorporated and its predecessor organization (NYSE "SKS"). Prior to joining Saks Incorporated, Mr. Coltharp spent ten years in the Corporate Finance Department of NationsBank (now known as Bank of America), most recently as Senior Vice President and head of the Southeast Corporate Finance Group headquartered in Atlanta. Mr. Coltharp holds a B.S. in Finance and Economics from Lehigh University in Bethlehem, Pennsylvania and an M.B.A. from the Wharton School, University of Pennsylvania, in Philadelphia, Pennsylvania. Mr. Coltharp also serves on the board of directors of Under Armour, Inc. (NYSE "UA").

Frank E. O'Bryan, 76, has served as a director of Ares Capital since 2005. Mr. O'Bryan served as Chairman of the Board of WMC Mortgage Company from 1997 to 2003 and as a Vice Chairman until 2004, when the company was sold to General Electric Corporation. Mr. O'Bryan served as Vice Chairman of Shearson/American Express Mortgage Corp. (formerly Western Pacific Financial) and as a Director of Shearson American Express from 1981 to 1985 and prior to that served as a Director and senior executive of Shearson Hayden Stone from 1979 to 1981. Mr. O'Bryan has been a Director of The First American Corporation since 1994. Mr. O'Bryan is a past member of the boards of directors of Damon Corporation, Grubb & Ellis, Standard Pacific Corporation and Farmers & Merchants Bank.

Gregory W. Penske, 47, has served as a director of Ares Capital since February 2009. Mr. Penske has served as President and CEO of Penske Motor Group, Inc, an automotive group that owns and operates Toyota, Lexus and Scion dealerships in California, since 1993. Mr. Penske was the former President and CEO of Penske Motorsports, Inc., which operated racetracks across the country. Penske Motorsports, Inc. was publicly traded on the NASDAQ exchange and was thereafter sold to International Speedway Corporation in 1999. Mr. Penske serves as a member of the boards of directors for Penske Corporation, the Los Angeles Sports Council and Friends of Golf, Inc., and is on the Board of Trustees for the John Thomas Dye School. He is a member of the Toyota Parts and Service Advisory Council, the Toyota President's Cabinet and the Toyota Board of Governors. Mr. Penske is also a former member of the boards of directors of the Alltel Corporation, International Speedway Corporation and the Southern California Committee for the Olympic Games. Mr. Penske holds a BS in Business from Cornell University.

Eric B. Siegel, 51, has served as a director of Ares Capital since 2004. Since 1995, Mr. Siegel has been an independent business consultant providing advice through a limited liability company owned by Mr. Siegel, principally with respect to acquisition strategy and structuring, and the subsequent management of acquired entities. Mr. Siegel is currently a member of the Advisory Board of and consultant to the Milwaukee Brewers Baseball Club and a Director and Chairman of the Executive Committee of El Paso Electric Company, a NYSE publicly traded utility company. Mr. Siegel is also a past member of the boards of directors of a number of public companies, including Kerzner International Ltd. until it went private in 2006. Mr. Siegel rejoined the board of Kerzner International Ltd., currently a private company, in 2008. Mr. Siegel is a retired limited partner of Apollo Advisors, L.P. and Lion Advisors, L.P. Mr. Siegel is also a member of the Board of Trustees of the Marlborough School, a member of the board of directors of the Friends of the Los Angeles Free

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Clinic and a board member of Reprise Theatre Company, a non-profit theatre organization. Mr. Siegel holds his Bachelor of Arts degree *summa cum laude* and Phi Beta Kappa and law degree Order of the Coif from the University of California at Los Angeles.

Interested Directors

Michael J. Arougheti, 37, serves as President of Ares Capital and became a director of Ares Capital in February 2009. Mr. Arougheti joined Ares Management in May 2004 and is a Founding Member of Ares. Mr. Arougheti is also a Partner in the Private Debt Group of Ares and is a Partner of Ares Capital Management, Ares Capital's investment adviser. In addition, Mr. Arougheti serves as a member of the Investment Committee of Ares Capital Management and of the Investment Committee for the Ares European Private Debt Group. From 2001 to 2004, Mr. Arougheti was employed by Royal Bank of Canada, where he was a Managing Partner of the Principal Finance Group of RBC Capital Partners and a member of the firm's Mezzanine Investment Committee. At RBC Capital Partners, Mr. Arougheti oversaw an investment team that originated, managed and monitored a diverse portfolio of middle-market leveraged loans, senior and junior subordinated debt, preferred equity and common stock, as well as warrants on behalf of RBC and other third party institutional investors. Mr. Arougheti joined Royal Bank of Canada in October 2001 from Indosuez Capital, where he was a Principal, responsible for originating, structuring and executing leveraged transactions across a broad range of products and asset classes. Mr. Arougheti sat on the firm's Investment Committee and was also active in the firm's private equity fund investment and its fund of funds program. Prior to joining Indosuez in 1994, Mr. Arougheti worked at Kidder, Peabody & Co., where he was a member of the firm's Mergers and Acquisitions Group, advising clients in various industries, including natural resources, pharmaceuticals and consumer products. Mr. Arougheti has extensive experience in leveraged finance, including senior bank loans, mezzanine debt and private equity. He has worked on a range of transactions for companies in the consumer products, manufacturing, healthcare, retail and technology industries. Mr. Arougheti also serves on the boards of directors of Reflexite Corporation, Investor Group Services, HCPro, Inc. and Riverspace Arts, a not-for-profit arts organization. Mr. Arougheti received a BA in Ethics, Politics and Economics, *cum laude*, from Yale University. Mr. Arougheti is an "interested person" of Ares Capital as defined in Section 2(a)(19) of the Investment Company Act because he is the President of Ares Capital, is on the investment committee of Ares Capital Management, Ares Capital's investment adviser, and is a member of Ares Partners Management Company LLC, the parent of Ares Management, the managing member of the investment adviser.

Robert L. Rosen, 63, has served as a director of Ares Capital since 2004. From 1987 to present, Mr. Rosen has been CEO of RLR Partners, LLC, a private investment firm with interests in financial services, healthcare media and multi industry companies. In 1998, Mr. Rosen founded National Financial Partners ("NFP"), an independent distributor of financial services to high net worth individuals and small to medium sized corporations. He served as NFP's CEO from 1998 to 2000 and as its Chairman until January 2002. From 1989 to 1993, Mr. Rosen was Chairman and CEO of Damon Corporation, a leading healthcare and laboratory testing company that was ultimately sold to Quest Diagnostics. From 1983 to 1987, Mr. Rosen was Vice Chairman of Maxxam Group. Prior to that, Mr. Rosen spent twelve years at Shearson American Express in positions in research, investment banking and senior management, and for two years was Assistant to Sanford Weill, the then Chairman and CEO of Shearson. Mr. Rosen holds an MBA in finance from NYU's Stern School. Mr. Rosen is an "interested person" of Ares Capital as defined in Section 2(a)(19) of the Investment Company Act because he has entered into a strategic advisory relationship with Ares and an affiliate of Ares Capital owns limited partner interests in a fund controlled by Mr. Rosen.

Bennett Rosenthal, 46, has served as Chairman of Ares Capital's board of directors since 2004. Mr. Rosenthal joined Ares Management in 1998 and is a Founding Member of Ares and a Senior Partner in the Private Equity Group. Mr. Rosenthal also serves on the Investment Committee of Ares

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Capital Management. Prior to joining Ares, Mr. Rosenthal was Managing Director in the Global Leveraged Finance Group of Merrill Lynch and was responsible for originating, structuring and negotiating leveraged loan and high yield financings. Mr. Rosenthal was also a senior member of Merrill Lynch's Leveraged Transaction Commitment Committee. Mr. Rosenthal is a member of the following boards of directors: AmeriQual Management, Inc., Aspen Dental Management, Inc., Douglas Dynamics, LLC, Hanger Orthopedic Group, Inc. and National Bedding Company LLC (Serta). Mr. Rosenthal graduated *summa cum laude* with a BS in Economics from the University of Pennsylvania's Wharton School of Business where he also received his MBA with distinction. Mr. Rosenthal is an "interested person" of Ares Capital as defined in Section 2(a)(19) of the Investment Company Act because he is on the investment committee of Ares Capital Management, Ares Capital's investment adviser, and is a member of Ares Partners Management Company LLC, the parent of Ares Management, the managing member of the investment adviser.

Executive Officers Who Are Not Directors

Joshua M. Bloomstein, 36, serves as Vice President, General Counsel and Assistant Secretary of Ares Capital. He joined Ares Management in November 2006 and currently serves as the Deputy General Counsel of Ares Management. From January 2005 to October 2006, Mr. Bloomstein was an associate in the private equity and corporate groups of Latham & Watkins LLP, focusing on mergers and acquisitions transactions and private equity investments as well as general partnership and corporate matters. Mr. Bloomstein graduated *magna cum laude* with a BA in Political Science from the State University of New York at Albany and received a JD degree, *magna cum laude*, from the University of Miami School of Law.

Richard S. Davis, 51, serves as Chief Financial Officer of Ares Capital. He joined Ares Management in June 2006 as Executive Vice President Finance. From December 1997 to May 2006, Mr. Davis was with Arden Realty, Inc., a real estate investment trust and formerly the largest publicly traded owner in Southern California, serving as its Executive Vice President, Chief Financial Officer since July 2000. From 1996 to 1997, Mr. Davis was with Catellus Development Corporation, where he was responsible for accounting and finance for the asset management and development divisions. From 1985 to 1996, Mr. Davis served as a member of the audit staff of both KPMG LLP and Price Waterhouse LLP. Mr. Davis is a Certified Public Accountant and a member of the American Institute of CPAs. Mr. Davis received a BS in Accounting from the University of Missouri at Kansas City.

Merritt S. Hooper, 48, serves as Secretary and Assistant Treasurer of Ares Capital. From July 2004 to March 2007, Ms. Hooper served as Treasurer of Ares Capital and, from July 2004 to May 2007, as Vice President of Investor Relations of Ares Capital. Ms. Hooper has been with Ares since its founding and is the Senior Vice President and Director of Investor Relations/Marketing for all Ares funds as well as a senior investment analyst in the Capital Markets Group. Prior to Ares, Ms. Hooper worked at Lion Advisors (an affiliate of Apollo Management L.P.) from 1991 to 1997 as a senior credit analyst participating in both portfolio management and strategy. From 1987 until 1991, Ms. Hooper was with Columbia Savings and Loan, most recently as Vice President in the Investment Management Division. Ms. Hooper serves on the executive and investment boards of Cedars Sinai Medical Center in Los Angeles. Ms. Hooper graduated from the University of California at Los Angeles with a BA in Mathematics and received her MBA in Finance from UCLA's Anderson School of Management.

Daniel F. Nguyen, 38, serves as the Treasurer of Ares Capital. He joined Ares Management in August 2000 and currently serves as an Executive Vice President and the Chief Financial Officer of Ares Management. From 1996 to 2000, Mr. Nguyen was with Arthur Andersen LLP, where he was in charge of conducting business audits on numerous financial clients, performing due diligence investigation of potential mergers and acquisitions, and analyzing changes in accounting guidelines for derivatives. At Arthur Andersen LLP, Mr. Nguyen also focused on treasury risk management and on mortgage backed securities and other types of structured financing. Mr. Nguyen graduated with a BS in

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Accounting from the University of Southern California's Leventhal School of Accounting and received an MBA in Global Business from Pepperdine University's Graziadio School of Business and Management. Mr. Nguyen also studied European Business at Oxford University as part of the MBA curriculum. Mr. Nguyen is a Chartered Financial Analyst and a Certified Public Accountant.

Karen A. Tallman, 52, serves as Chief Compliance Officer of Ares Capital and joined Ares Management in June 2007. From April 2006 to June 2007, Ms. Tallman acted as counsel to Ares Management. Prior to joining Ares, Ms. Tallman was General Counsel of Continuum Commerce LLC, a direct response marketing firm. From 1997 to 2002, Ms. Tallman was General Counsel and Secretary of Merisel, Inc., a NASDAQ listed computer products distributor, and served as Senior Vice President beginning in 2001. From 1992 to 1997, Ms. Tallman was employed by CB Commercial Real Estate Group, Inc., most recently in the positions of Vice President, Secretary and Senior Counsel. Previously, Ms. Tallman was a corporate attorney for nine years at the law firm of Skadden, Arps, Slate, Meagher & Flom LLP. Ms. Tallman graduated *magna cum laude* with a BA in Economics and Political Science from Miami University and received a JD with highest honors from George Washington University.

Michael D. Weiner, 57, serves as Vice President of Ares Capital. Mr. Weiner is also General Counsel of Ares Management. Mr. Weiner joined Ares Management in September 2006 and is a member of Ares. Previously, Mr. Weiner served as General Counsel to Apollo Management L.P., or "Apollo," and had been an officer of the corporate general partners of Apollo since 1992. Prior to joining Apollo, Mr. Weiner was a partner in the law firm of Morgan, Lewis & Bockius specializing in corporate and alternative financing transactions, securities law as well as general partnership, corporate and regulatory matters. Mr. Weiner has served and continues to serve on the boards of directors of several corporations, including Hughes Communications, Inc. and SkyTerra Communications, Inc. Mr. Weiner also serves on the Board of Governors of the Cedars Sinai Medical Center in Los Angeles. Mr. Weiner graduated with a BS in Business and Finance from the University of California at Berkeley and a JD from the University of Santa Clara.

Investment Committee

Information regarding the members of Ares Capital Management's investment committee is as follows:

Name	Age	Position
Michael J. Arougheti	37	President and Director of Ares Capital, Member of Investment Committee
Eric B. Beckman	43	Member of Investment Committee, Portfolio Manager
R. Kipp deVeer	37	Member of Investment Committee, Portfolio Manager
Mitchell Goldstein	43	Member of Investment Committee, Portfolio Manager
John Kissick	68	Member of Investment Committee
Antony P. Ressler	49	Member of Investment Committee
Bennett Rosenthal	46	Chairman and Director of Ares Capital, Member of Investment Committee
David Sachs	50	Member of Investment Committee
Michael L. Smith	38	Member of Investment Committee, Portfolio Manager

The address for each member of Ares Capital Management's investment committee is c/o Ares Capital Corporation, 2000 Avenue of the Stars, 12th Floor, Los Angeles, California 90067.

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Members of Ares Capital Management's Investment Committee Who Are Not Directors or Officers of Ares Capital

Eric B. Beckman Mr. Beckman joined Ares Management in 1998 and serves as a Partner in the Private Debt Group of Ares Management and a member of the Investment Committee of Ares Capital Management. Before joining the Private Debt Group, he served as a Partner in the Private Equity Group focusing on mezzanine and special situation investments. While at Ares Management, he has been responsible for originating, structuring and managing investments in senior loans, mezzanine debt, private equity and distressed securities across a number of industries. Mr. Beckman joined Ares from Goldman, Sachs & Co., or "Goldman Sachs," where he specialized in leveraged loan and high yield bond financings. While at Goldman Sachs, he was also involved in raising and managing the West Street Bridge Loan Fund, and in certain restructuring advisory and distressed lending activities. Earlier in his career he worked in the Office of the Mayor and for the City Council of New York. Mr. Beckman is the chair of the Los Angeles Advisory Committee and a member of the national board of directors of the Posse Foundation, a college access program for inner city youth. He graduated *summa cum laude* with a BA in Political Theory and Economics from Cornell University, and received his JD from the Yale Law School where he was a senior editor of the *Yale Law Journal*.

R. Kipp deVeer Mr. deVeer joined Ares Management in May 2004 and serves as a Partner in the Private Debt Group of Ares Management and a member of the Investment Committee of Ares Capital Management. Prior to joining Ares Management, Mr. deVeer was a partner at RBC Capital Partners, a division of Royal Bank of Canada, which led the firm's middle-market financing and principal investment business. Mr. deVeer joined RBC in October 2001 from Indosuez Capital, where he was Vice President in the Merchant Banking Group. Mr. deVeer has also worked at J.P. Morgan and Co., both in the Special Investment Group of J.P. Morgan Investment Management, Inc. and the Investment Banking Division of J.P. Morgan Securities Inc. Mr. deVeer received a BA from Yale University and an MBA from Stanford University's Graduate School of Business.

Mitchell Goldstein Mr. Goldstein joined Ares Management in May 2005 and serves as a Partner in the Private Debt Group of Ares Management and a member of the Investment Committee of Ares Capital Management. Prior to joining Ares Management, Mr. Goldstein worked at Credit Suisse First Boston, or "CSFB," where he was a Managing Director in the Financial Sponsors Group. At CSFB, Mr. Goldstein was responsible for providing investment banking services to private equity funds and hedge funds with a focus on M&A and restructurings as well as capital raisings, including high yield, bank debt, mezzanine debt, and IPOs. Mr. Goldstein joined CSFB in 2000 at the completion of the merger with Donaldson, Lufkin & Jenrette. From 1998 to 2000, Mr. Goldstein was at Indosuez Capital, where he was a member of the Investment Committee and a Principal, responsible for originating, structuring and executing leveraged transactions across a broad range of products and asset classes. From 1993 to 1998, Mr. Goldstein worked at Bankers Trust, where he was responsible for financing and advising clients in various industries including media and telecommunications, consumer products, automotive and healthcare. Mr. Goldstein graduated *summa cum laude* from the State University of New York at Binghamton with a BS in Accounting, received an MBA from Columbia University's Graduate School of Business and is a Certified Public Accountant.

John Kissick Mr. Kissick has been with Ares Management since its founding in 1997 and serves as a Senior Advisor to the Capital Markets Group of Ares Management and as a member of the Investment Committee of Ares Capital Management and all Ares funds. He is also a Founding Member of Ares and a Senior Partner in the Private Equity Group. Prior to Ares, Mr. Kissick was a co-founder of Apollo Management, L.P. in 1990 and was a member of Apollo's original six-member management team. Together with Antony Ressler, Mr. Kissick oversaw and led the activities of Apollo Management, L.P. and Lion Advisors, L.P., an affiliate of Apollo Management L.P., from 1990 until 1997, with a focus on high yield bonds, leveraged loans and other fixed income assets. Prior to 1990,

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Mr. Kissick served as a Senior Executive Vice President of Drexel Burnham Lambert, where he began in 1975, eventually heading its Corporate Finance Department. Mr. Kissick serves on the boards of the Cedars Sinai Medical Center in Los Angeles, the Stanford University Graduate School of Business and Athletic Department as well as Mentor LA, which helps economically disadvantaged children graduate from high school through a variety of mentoring and other programs. Mr. Kissick graduated from Yale University with a BA in Economics and with highest honors from the Stanford Business School with an MBA in Finance.

Antony P. Ressler Mr. Ressler has been with Ares Management since its founding in 1997 and is a Founding Member of Ares and a Senior Partner in the Private Equity Group. He serves as a Senior Advisor to the Capital Markets Group of Ares Management and as a member of the Investment Committee of Ares Capital Management and all Ares Private Equity funds. Prior to Ares, Mr. Ressler was a co-founder of Apollo Management, L.P. in 1990 and was a member of Apollo's original six-member management team. Together with Mr. Kissick, Mr. Ressler oversaw and led the capital markets activities of Apollo Management, L.P. and Lion Advisors, L.P. from 1990 until 1997, with a focus on high yield bonds, leveraged loans and other fixed income assets. Prior to 1990, Mr. Ressler served as a Senior Vice President in the High Yield Bond Department of Drexel Burnham Lambert, with responsibility for the New Issue/Syndicate Desk. Mr. Ressler serves on several boards of directors including Kinetics Holdings LLC, National Bedding Company LLC (Serta) and WCA Waste Corporation. Mr. Ressler also is a member of the Board of Trustees of the Center for Early Education, the Los Angeles County Museum of Art, the Alliance for College Ready Public Schools, the Small School Alliance, the Asia Society of Southern California and is involved in the U.S. Chapter of Right to Play (formerly known as Olympic Aid), an international humanitarian organization that is committed to improving the lives of the most disadvantaged children through sports and play, currently operating in over 20 countries worldwide. Mr. Ressler is also one of the founding members of the board of directors of the Painted Turtle Camp, a $40 million southern California based facility created to serve children dealing with chronic and life threatening illnesses by creating memorable, old-fashioned camping experiences. Mr. Ressler received his BSFS from Georgetown University's School of Foreign Service and his MBA from Columbia University's Graduate School of Business.

David Sachs Mr. Sachs has been with Ares Management since its founding in 1997 and is a Founding Member of Ares, a Senior Partner in the Ares Capital Markets Group and serves as a member of the Investment Committee of Ares Capital Management and all Ares funds. From 1994 until 1997, Mr. Sachs was a principal of Onyx Partners, Inc. specializing in merchant banking and related capital raising activities in the private equity and mezzanine debt markets. From 1990 to 1994, Mr. Sachs was employed by Taylor & Co., an investment manager providing investment advisory and consulting services to members of the Bass Family of Fort Worth, Texas. From 1984 to 1990, Mr. Sachs was with Columbia Savings and Loan Association, most recently as Executive Vice President, responsible for all asset liability management as well as running the Investment Management Department. Mr. Sachs serves on the board of directors of Terex Corporation. Mr. Sachs graduated from Northwestern University with a BS in Industrial Engineering and Management Science.

Michael L. Smith Mr. Smith joined Ares Management in May 2004 and serves as a Partner in the Private Debt Group of Ares Management and a member of the Investment Committee of Ares Capital Management. Prior to joining Ares Management, Mr. Smith was a Partner at RBC Capital Partners, a division of Royal Bank of Canada, which led the firm's middle-market financing and principal investment business. Mr. Smith joined RBC in October 2001 from Indosuez Capital, where he was a Vice President in the Merchant Banking Group. Previously, Mr. Smith worked at Kenter, Glastris & Company, a private equity investment firm specializing in leveraged management buyouts, and at Salomon Brothers Inc., in their Debt Capital Markets Group and Financial Institutions Group. Mr. Smith received a BS in Business Administration, *cum laude*, from the University of Notre Dame and a Masters in Management from Northwestern University's Kellogg Graduate School of Management.

Committees of the Board of Directors

Ares Capital's board of directors has established an audit committee and a nominating committee. Ares Capital does not have a compensation committee because Ares Capital's executive officers do not receive any direct compensation from Ares Capital. During 2009, the board of directors held twenty-one formal meetings, the audit committee held five formal meetings and the nominating committee held four formal meetings. Ares Capital encourages, but does not require, the directors to attend Ares Capital's annual meeting of its stockholders.

Audit Committee

The members of the audit committee are Messrs. Coltharp, O'Bryan and Siegel, each of whom is independent for purposes of the Investment Company Act and NASDAQ corporate governance regulations. Mr. Coltharp serves as chairman of the audit committee. The board of directors has adopted a charter for the audit committee, which is available on Ares Capital's website at *www.arescapitalcorp.com.* The audit committee is responsible for approving Ares Capital's independent accountants, reviewing with Ares Capital's independent accountants the plans and results of the audit engagement, approving professional services provided by Ares Capital's independent accountants, reviewing the independence of Ares Capital's independent accountants and reviewing the adequacy of Ares Capital's internal accounting controls. The audit committee is also responsible for aiding Ares Capital's board of directors in fair value pricing debt and equity securities that are not publicly traded or for which current market values are not readily available. The audit committee also currently receives input from independent valuation firms that have been engaged at the direction of the board to value certain portfolio investments.

Nominating Committee

The members of the nominating committee are Messrs. Coltharp, O'Bryan and Siegel, each of whom is independent for purposes of the Investment Company Act and NASDAQ corporate governance regulations. Mr. Siegel serves as chairman of the nominating committee. Ares Capital's board of directors has adopted a charter for the nominating committee, which is available on Ares Capital's website at *www.arescapitalcorp.com.* The nominating committee is responsible for selecting, researching and nominating directors for election by Ares Capital's stockholders, selecting nominees to fill vacancies on the board or a committee of the board, developing and recommending to the board a set of corporate governance principles and overseeing the evaluation of the board and Ares Capital's management.

The nominating committee may consider recommendations for nomination of directors from Ares Capital's stockholders. Nominations made by stockholders must be delivered to or mailed (setting forth the information required by Ares Capital's bylaws) and received at Ares Capital's principal executive offices not earlier than 150 days nor fewer than 120 days in advance of the first anniversary of the date on which Ares Capital first mailed Ares Capital's proxy materials for the previous year's annual meeting of stockholders; *provided*, *however*, that if the date of the annual meeting has changed by more than 30 days from the prior year, the nomination must be received not earlier than the 150th day prior to the date of such annual meeting nor later than the later of (1) the 120th day prior to the date of such annual meeting or (2) the 10th day following the day on which public announcement of such meeting date is first made.

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Compensation Committee

Ares Capital does not have a compensation committee because Ares Capital's executive officers do not receive any direct compensation from Ares Capital.

Beneficial Ownership of Ares Capital's Directors

The following table sets forth the dollar range of Ares Capital's equity securities based on the closing price of Ares Capital common stock on January 22, 2010 and the number of shares beneficially owned by each of Ares Capital's directors as of December 31, 2009. Ares Capital is not part of a "family of investment companies," as that term is defined in the Investment Company Act.

Name of Director	Aggregate Dollar Range of Equity Securities in Ares Capital(1)(2)
Independent Directors(3)	
Douglas E. Coltharp	$50,001-$100,000
Frank E. O'Bryan	Over $100,000
Gregory W. Penske	None
Eric B. Siegel	Over $100,000
Interested Directors	
Michael J. Arougheti	Over $100,000
Robert L. Rosen	$50,001-$100,000
Bennett Rosenthal	None

(1) The dollar ranges are as follows: none, $1-$10,000, $10,001-$50,000, $50,001-$100,000 or over $100,000. The dollar range of Ares Capital's equity securities beneficially owned is calculated based on the closing sales price of Ares Capital common stock as reported on NASDAQ as of January 22, 2010.

(2) Beneficial ownership determined in accordance with Rule 16a-1(a)(2) under the Exchange Act.

(3) As of January 22, 2010, to the best of Ares Capital's knowledge, except as listed above, none of the independent directors, nor any of their immediate family members, had any interest in Ares Capital, Ares Capital's investment adviser or any person or entity directly or indirectly controlling, controlled by or under common control with Ares Capital or its investment adviser.

Compensation Table

The following table shows information regarding the compensation received by Ares Capital's directors, none of whom is an employee of Ares Capital, for the fiscal year ended December 31, 2009. No compensation is paid by Ares Capital to directors who are or are being treated as "interested persons." No information has been provided with respect to Ares Capital's executive officers who are

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not directors, since Ares Capital's executive officers do not receive any direct compensation from Ares Capital.

Name	Fees Earned or Paid in Cash(1)	Total
Independent Directors		
Douglas E. Coltharp	$ 133,000	$ 133,000
Frank E. O'Bryan	$ 117,500	$ 117,500
Gregory W. Penske(2)	$ 62,500	$ 62,500
Eric B. Siegel	$ 130,000	$ 130,000
Interested Directors		
Michael J. Arougheti(3)	None	None
Robert L. Rosen(4)	None	None
Bennett Rosenthal	None	None

(1) For a discussion of the independent directors' compensation, see below.

(2) Mr. Penske became a director in February 2009.

(3) Mr. Arougheti became a director in February 2009.

(4) While Mr. Rosen did not receive any compensation from Ares Capital for the fiscal year ended December 31, 2009, he did receive $117,500 from Ares Management for such period in connection with his service as a director of Ares Capital.

The independent directors receive an annual fee of $75,000. They also receive $2,500 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each board meeting and will receive $1,000 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each committee meeting. In addition, the chairman of the audit committee receives an annual fee of $5,000 and each chairman of any other committee receives an annual fee of $2,000 for his additional services in these capacities. In addition, Ares Capital purchases directors' and officers' liability insurance on behalf of its directors and officers. Independent directors have the option to receive their directors' fees paid in shares of Ares Capital common stock issued at a price per share equal to the greater of net asset value or the market price at the time of payment.

Portfolio Managers

The following individuals function as portfolio managers primarily responsible for the day-to-day management of Ares Capital's portfolio. The portfolio managers are comprised of (1) the underwriting committee, whose primary responsibility is to recommend investments for approval to the Investment

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Committee of Ares Capital Management and (2) members of the Investment Committee of Ares Capital Management who are not otherwise on the underwriting committee.

Name	Position	Length of Service with Ares (years)	Principal Occupation(s) During Past 5 Years
Michael J. Arougheti	President and Director of Ares Capital	5	Mr. Arougheti has served as President of Ares Capital since May 2004 and a director of Ares Capital since February 2009. He is also a Founding Member of Ares. Mr. Arougheti is also a Partner in the Private Debt Group of Ares and is a Partner of Ares Capital Management. In addition, Mr. Arougheti serves as a member of the Investment Committee of Ares Capital Management and of the Investment Committee for the Ares European Private Debt Group. From October 2001 until joining Ares Capital in May 2004, Mr. Arougheti served as a Managing Partner of the Principal Finance Group of RBC Capital Partners and a member of its Mezzanine Investment Committee.
Eric B. Beckman	Partner in Private Debt Group	11	Mr. Beckman joined Ares Management in 1998 and serves as a Partner in the Private Debt Group of Ares Management and serves as a member of the Investment Committee of Ares Capital Management. Before joining the Private Debt Group, Mr. Beckman served as a Senior Partner of the Private Equity Group focusing on mezzanine and special situation investments.
R. Kipp deVeer	Partner in Private Debt Group	5	Mr. deVeer joined Ares Management in May 2004 and serves as a Partner in the Private Debt Group of Ares Management and serves as a member of the Investment Committee of Ares Capital Management. From 2001 until joining Ares Management, Mr. deVeer was a Partner at RBC Capital Partners, a division of Royal Bank of Canada, in the Principal Finance Group, which led the firm's middle-market financing and principal investment business.

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Name	Position	Length of Service with Ares (years)	Principal Occupation(s) During Past 5 Years
Mitchell Goldstein	Partner in Private Debt Group	4	Mr. Goldstein joined Ares Management in May 2005 and serves as a Partner in the Private Debt Group of Ares Management and serves as a member of the Investment Committee of Ares Capital Management. Prior to joining Ares Management, Mr. Goldstein worked at Credit Suisse First Boston, where he was a Managing Director in the Financial Sponsors Group. Mr. Goldstein joined CSFB in 2000 at the completion of the merger with Donaldson Lufkin and Jenrette.
John Kissick	Senior Partner in Private Equity Group	12	Mr. Kissick is a Founding Member of Ares and serves as a Senior Partner in the Private Equity Group of Ares Management. Mr. Kissick is a Senior Advisor to the Capital Markets Group of Ares Management and serves on the Investment Committee of Ares Capital Management and all Ares funds.
Antony P. Ressler	Senior Partner in Private Equity Group	12	Mr. Ressler is a Founding Member of Ares and serves as a Senior Partner in the Private Equity Group. Mr. Ressler is a Senior Advisor to the Capital Markets Group and serves on the Investment Committee of Ares Capital Management and all Ares Private Equity funds.
Bennett Rosenthal	Chairman of the board of directors of Ares Capital; Senior Partner in Private Equity Group	12	Mr. Rosenthal has served as Chairman of Ares Capital's board of directors since 2004. He has been with Ares since 1998, is a Founding Member of Ares and serves as a Senior Partner in the Private Equity Group. Mr. Rosenthal also serves on the Investment Committee of Ares Capital Management.
David Sachs	Senior Partner in Capital Markets Group	12	Mr. Sachs is a Founding Member of Ares and serves as a Senior Partner in the Ares Capital Markets Group. Mr. Sachs serves on the Investment Committee of Ares Capital Management and all Ares funds.

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Name	Position	Length of Service with Ares (years)	Principal Occupation(s) During Past 5 Years
Michael L. Smith	Partner in Private Debt Group	5	Mr. Smith joined Ares Management in May 2004 and serves as a Partner in the Private Debt Group of Ares Management and on the Investment Committee of Ares Capital Management. From 2001 until joining Ares Management, Mr. Smith was a Partner at RBC Capital Partners, a division of Royal Bank of Canada, in the Principal Finance Group, which led the firm's middle-market financing and principal investment business.

None of the individuals listed above is primarily responsible for the day-to-day management of the portfolio of any other account, except that Messrs. Kissick, Ressler, Rosenthal and Sachs are each Senior Partners of Ares with significant responsibilities for other Ares managed funds, which as of December 31, 2009 had approximately $33 billion (including Ares Capital) of committed capital under management used to calculate Ares' advisory fees related to such funds. See "Risk Factors Risks Relating to Ares Capital There are significant potential conflicts of interest that could impact Ares Capital's investment returns."

Each of Messrs. Arougheti, Beckman, deVeer, Goldstein and Smith is equally responsible for deal origination, execution and portfolio management. Mr. Arougheti, as Ares Capital's President, spends a greater amount of his time on corporate and administrative activities in his role as an officer.

As of September 30, 2009, each of Messrs. Beckman, deVeer, Goldstein and Smith is a full-time employee of Ares Capital Management and receives a fixed salary for the services he provides to Ares Capital. Each will also receive an annual amount that is equal to a fixed percentage of any incentive fee received by Ares Capital Management from Ares Capital for a fiscal year. None of the portfolio managers receives any direct compensation from Ares Capital.

The following table sets forth the dollar range of equity securities of Ares Capital based on the closing price of Ares Capital common stock on January 22, 2010 and the number of shares beneficially owned by each of the portfolio managers described above as of December 31, 2009.

Name	Aggregate Dollar Range of Equity Securities in Ares Capital(1)
Michael J. Arougheti	Over $1,000,000(2)
Eric B. Beckman	Over $1,000,000
R. Kipp deVeer	$100,001-$500,000
Mitchell Goldstein	$100,001-$500,000
John Kissick	None(2)
Antony P. Ressler	Over $1,000,000(2)
Bennett Rosenthal	None(2)
David Sachs	$100,001-$500,000(2)
Michael L. Smith	Over $1,000,000

(1) Dollar ranges are as follows: none, $1-$10,000, $10,001-$50,000, $50,001-$100,000, $100,001-$500,000, $500,001-$1,000,000 or over $1,000,000.

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(2) Ares Investments, whose managing member is Ares Partners Management Company LLC, owned 2,859,882 shares of Ares Capital common stock as of December 31, 2009. Each of the members of Ares Partners Management Company LLC (which include Messrs. Arougheti, Kissick, Ressler, Rosenthal and Sachs or vehicles controlled by them) disclaims beneficial ownership of all shares of Ares Capital common stock owned by Ares Investments, except to the extent of any indirect pecuniary interest therein. The shares of Ares Capital common stock held by Ares Investments have been pledged in the ordinary course to secure indebtedness under a credit facility under which Ares Investments is a co-borrower with Ares Management, an indirect subsidiary of Ares Partners Management Company LLC.

Investment Advisory and Management Agreement

Management Services

Ares Capital Management serves as Ares Capital's investment adviser and is registered as an investment adviser under the Advisers Act. Subject to the overall supervision of Ares Capital's board of directors, the investment adviser manages the day-to-day operations of, and provides investment advisory and management services to, Ares Capital. Under the terms of the investment advisory and management agreement, Ares Capital Management:

- determines the composition of Ares Capital's portfolio, the nature and timing of the changes to Ares Capital's portfolio and the manner of implementing such changes;
- identifies, evaluates and negotiates the structure of the investments Ares Capital makes (including performing due diligence on Ares Capital's prospective portfolio companies);
- closes and monitors the investments Ares Capital makes; and
- determines the securities and other assets that Ares Capital purchases, retains or sells.

Ares Capital Management was initially formed to provide investment advisory services to Ares Capital and it has not previously provided investment advisory services to anyone else. However, its services to Ares Capital under the investment advisory and management agreement are not exclusive, and it is free to furnish similar services to other entities.

The sole member of Ares Capital Management is Ares Management, an independent international investment management firm. Ares funds, including funds managed by Ares Management, had, as of December 31, 2009, approximately $33 billion of total committed capital.

Management Fee

Pursuant to the investment advisory and management agreement with Ares Capital Management and subject to the overall supervision of Ares Capital's board of directors, Ares Capital Management provides investment advisory services to Ares Capital. For providing these services, Ares Capital Management receives a fee from Ares Capital, consisting of two components a base management fee and an incentive fee. Ares Capital Management has committed to defer up to $15 million in base management and incentive fees for each of the first two years following the merger if certain earnings targets are not met to help support consistent cash flows and the combined company's dividend payments.

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

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

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

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

Ares Capital pays the investment adviser an incentive fee with respect to Ares Capital's pre-incentive fee net investment income in each calendar quarter as follows:

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

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

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

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

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The following is a graphical representation of the calculation of the income related portion of the incentive fee:

Quarterly Incentive Fee Based on Net Investment Income

Pre-incentive fee net investment income
(expressed as a percentage of the value of net assets)

Percentage of pre-incentive fee net investment income
allocated to income related portion of incentive fee

These calculations will be appropriately pro rated for any period of less than three months and adjusted for any share issuances or repurchases during the current quarter.

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

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

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

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

Ares Capital defers cash payment of any incentive fee otherwise earned by the investment adviser if during the most recent four full calendar quarter period ending on or prior to the date such payment is to be made the sum of (a) the aggregate distributions to the stockholders of Ares Capital and (b) the change in net assets (defined as total assets less indebtedness and before taking into account any incentive fees payable during the period) is less than 8.0% of Ares Capital's net assets at the beginning of such period. These calculations were appropriately pro rated during the first three calendar quarters following October 8, 2004 and are adjusted for any share issuances or repurchases.

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Examples of Quarterly Incentive Fee Calculation

Example 1 Income Related Portion of Incentive Fee(1):

Assumptions

Hurdle rate(2) = 2.00%

Management fee(3) = 0.375%

Other expenses (legal, accounting, custodian, transfer agent, etc.)(4) = 0.20%

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(1) The hypothetical amount of pre-incentive fee net investment income shown is based on a percentage of total net assets. In addition, the example assumes that during the most recent four full calendar quarter period ending on or prior to the date the payment set forth in the example is to be made, the sum of (a) Ares Capital's aggregate distributions to Ares Capital's stockholders and (b) Ares Capital's change in net assets (defined as total assets less indebtedness and before taking into account any incentive fees payable during the period) is at least 8% of Ares Capital's net assets at the beginning of such period (as adjusted for any share issuances or repurchases).

(2) Represents a quarter of the 8.0% annualized hurdle rate.

(3) Represents a quarter of the 1.5% annualized management fee.

(4) Excludes offering expenses.

Alternative 1

Additional Assumptions

Investment income (including interest, dividends, fees, etc.) = 1.25%

Pre-incentive fee net investment income
(investment income - (management fee + other expenses)) = 0.675%

Pre-incentive fee net investment income does not exceed the hurdle rate, therefore there is no incentive fee.

Alternative 2

Additional Assumptions

Investment income (including interest, dividends, fees, etc.) = 2.70%

Pre-incentive fee net investment income
(investment income - (management fee + other expenses)) = 2.125%

Pre-incentive fee net investment income exceeds hurdle rate, therefore there is an incentive fee.

Incentive Fee	=	100% × "Catch-Up" + the greater of 0% **AND** (20% × (pre-incentive fee net investment income - 2.50%)
	=	(100% × (2.125% - 2.00%)) + 0%
	=	100% × 0.125%
	=	0.125%

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Alternative 3

Additional Assumptions

Investment income (including interest, dividends, fees, etc.) = 3.50%

Pre-incentive fee net investment income (investment income - (management fee + other expenses)) = 2.925%
Pre-incentive fee net investment income exceeds hurdle rate, therefore there is an incentive fee.

Incentive Fee	=	100% × "Catch-Up" + the greater of 0% **AND** (20% × (pre-incentive fee net investment income - 2.50%)
	=	(100% × (2.50% - 2.00%)) + (20% × (2.925% - 2.50%))
	=	0.50% + (20% × 0.425%)
	=	0.50% + 0.085%
	=	0.585%

Example 2 Capital Gains Portion of Incentive Fee:

Alternative 1:

Assumptions

Year 1: $20 million investment made in Company A ("Investment A"), and $30 million investment made in Company B ("Investment B")

Year 2: Investment A is sold for $50 million and fair market value ("FMV") of Investment B determined to be $32 million

Year 3: FMV of Investment B determined to be $25 million

Year 4: Investment B sold for $31 million

The capital gains portion of the incentive fee, if any, would be:

Year 1: None (No sales transactions)

Year 2: $6 million (20% multiplied by $30 million realized capital gains on sale of Investment A)

Year 3: None; $5 million (20% multiplied by ($30 million realized cumulative capital gains less $5 million cumulative capital depreciation)) less $6 million (previous Capital Gains Fee paid in Year 2)

Year 4: $200,000; $6.2 million (20% multiplied by $31 million cumulative realized capital gains) less $6 million (Capital Gains Fee paid in Year 2)

Alternative 2

Assumptions

Year 1: $20 million investment made in Company A ("Investment A"), $30 million investment made in Company B ("Investment B") and $25 million investment made in Company C ("Investment C")

Year 2: Investment A sold for $50 million, FMV of Investment B determined to be $25 million and FMV of Investment C determined to be $25 million

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Year 3: FMV of Investment B determined to be $27 million and Investment C sold for $30 million

Year 4: FMV of Investment B determined to be $35 million

Year 5: Investment B sold for $20 million

The capital gains portion of the incentive fee, if any, would be:

Year 1: None (No sales transactions)

Year 2: $5 million (20% multiplied by $25 million ($30 million realized capital gains on Investment A less $5 million unrealized capital depreciation on Investment B))

Year 3: $1.4 million ($6.4 million (20% multiplied by $32 million ($35 million cumulative realized capital gains less $3 million unrealized capital depreciation)) less $5 million (Capital Gains Fee paid in Year 2))

Year 4: None (No sales transactions)

Year 5: None ($5 million (20% multiplied by $25 million (cumulative realized capital gains of $35 million less realized capital losses of $10 million)) less $6.4 million (cumulative Capital Gains Fee paid in Year 2 and Year 3))

For the nine months ended September 30, 2009, Ares Capital incurred $22.5 million in base management fees and $23.8 million in incentive management fees related to pre-incentive fee net investment income. For the nine months ended September 30, 2009, Ares Capital accrued no incentive management fees related to net realized capital gains. As of September 30, 2009, $56.5 million was unpaid and included in "management and incentive fees payable" in the accompanying consolidated balance sheet. Payment of $49 million in incentive management fees for the fifteen months ended September 30, 2009 has been deferred pursuant to the investment advisory and management agreement.

For the year ended December 31, 2008, Ares Capital incurred $30.5 million in base management fees, $31.7 million in incentive management fees related to pre-incentive fee net investment income and no incentive management fees related to realized capital gains.

For the year ended December 31, 2007, Ares Capital incurred $23.5 million in base management fees, $23.5 million in incentive management fees related to pre-incentive fee net investment income and no incentive management fees related to realized capital gains.

For the year ended December 31, 2006, Ares Capital incurred $13.6 million in base management fees, $16.1 million in incentive management fees related to pre-incentive fee net investment income and $3.4 million in incentive management fees related to realized capital gains.

Payment of Ares Capital's Expenses

The services of all investment professionals and staff of the investment adviser, when and to the extent engaged in providing investment advisory and management services, and the compensation and routine overhead expenses of such personnel allocable to such services, are provided and paid for by Ares Capital Management (not including services provided to any of Ares Capital's portfolio companies like IHAM, pursuant to separate contractual agreements). Ares Capital bears all other costs and expenses of Ares Capital's operations and transactions, including those relating to: rent; organization; calculation of Ares Capital's net asset value (including the cost and expenses of any independent valuation firm); expenses incurred by Ares Capital Management payable to third parties, including agents, consultants or other advisers, in monitoring Ares Capital's financial and legal affairs and in monitoring Ares Capital's investments and performing due diligence on Ares Capital's prospective

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portfolio companies; interest payable on indebtedness, if any, incurred to finance Ares Capital's investments; offerings of Ares Capital common stock and other securities; investment advisory and management fees; administration fees; fees payable to third parties, including agents, consultants or other advisers, relating to, or associated with, evaluating and making investments; transfer agent and custodial fees; registration fees; listing fees; taxes; independent directors' fees and expenses; costs of preparing and filing reports or other documents with the SEC; the costs of any reports, proxy statements or other notices to stockholders, including printing costs; to the extent Ares Capital is covered by any joint insurance policies, Ares Capital's allocable portion of the insurance premiums for such policies; direct costs and expenses of administration, including auditor and legal costs; and all other expenses incurred by Ares Capital or Ares Operations in connection with administering Ares Capital's business, such as Ares Capital's allocable portion of overhead under the administration agreement, including Ares Capital's allocable portion of the salary and cost of Ares Capital's officers (including Ares Capital's chief compliance officer, chief financial officer, secretary and treasurer) and their respective staffs (including travel).

Duration and Termination

Unless terminated earlier, the investment advisory and management agreement will continue in effect until June 1, 2010 and will renew for successive annual periods thereafter if approved annually by Ares Capital's board of directors or by the affirmative vote of the holders of a majority of Ares Capital's outstanding voting securities, including, in either case, approval by a majority of Ares Capital's directors who are not "interested persons." The investment advisory and management agreement will automatically terminate in the event of its assignment. The investment advisory and management agreement may be terminated by either party without penalty upon 60 days' written notice to the other. A discussion regarding the basis for Ares Capital's board of directors' approval of the continuation of the investment advisory and management agreement for 2008 is available in Ares Capital's annual report on Form 10-K for the fiscal year ended December 31, 2008.

Conflicts of interest may arise if Ares Capital's investment adviser seeks to change the terms of Ares Capital's investment advisory and management agreement, including, for example, the terms for compensation. Any material change to the investment advisory and management agreement must be submitted to stockholders for approval under the Investment Company Act and Ares Capital may from time to time decide it is appropriate to seek stockholder approval to change the terms of the agreement. See "Risk Factors Risks Relating to Ares Capital Ares Capital is dependent upon Ares Capital Management's key personnel for Ares Capital's future success and upon their access to Ares investment professionals."

Indemnification

The investment advisory and management agreement provides that, absent willful misfeasance, bad faith or gross negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations, Ares Capital Management, its members and their respective officers, managers, partners, agents, employees, controlling persons, members and any other person or entity affiliated with it are entitled to indemnification from Ares Capital for any damages, liabilities, costs and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) arising from the rendering of Ares Capital Management's services under the investment advisory and management agreement or otherwise as an investment adviser of Ares Capital.

Deferral of Investment Adviser's Base Management and Incentive Fees

If the merger and subsequent combination are consummated in accordance with the terms set forth in the merger agreement, Ares Capital Management has committed to defer up to $15 million in base management and incentive fees for each of the first two years following the merger if certain

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earnings targets are not met to help support consistent cash flows and the combined company's dividend payments.

Organization of the Investment Adviser

Ares Capital Management is a Delaware limited liability company that is registered as an investment adviser under the Advisers Act. The principal executive offices of Ares Capital Management are located at 2000 Avenue of the Stars, 12th Floor, Los Angeles, California 90067.

Administration Agreement

Ares Capital is also party to a separate administration agreement with Ares Capital's administrator, Ares Operations, an affiliate of Ares Capital's investment adviser. Ares Capital's board of directors approved the continuation of Ares Capital's administration agreement on May 4, 2009, which extended the term of the agreement until June 1, 2010. Pursuant to the administration agreement, Ares Operations furnishes Ares Capital with office equipment and clerical, bookkeeping and record keeping services. Under the administration agreement, Ares Operations also performs, or oversees the performance of, Ares Capital's required administrative services, which include, among other things, being responsible for the financial records that Ares Capital is required to maintain and preparing reports to Ares Capital's stockholders and reports filed with the SEC. In addition, Ares Operations assists Ares Capital in determining and publishing Ares Capital's net asset value, oversees the preparation and filing of Ares Capital's tax returns and the printing and dissemination of reports to Ares Capital's stockholders, and generally oversees the payment of Ares Capital's expenses and the performance of administrative and professional services rendered to Ares Capital by others. Payments under the administration agreement are equal to an amount based upon Ares Capital's allocable portion of Ares Operations' overhead in performing its obligations under the administration agreement, including Ares Capital's allocable portion of the cost of Ares Capital's officers (including Ares Capital's chief compliance officer, chief financial officer, secretary and treasurer) and their respective staffs. The administration agreement may be terminated by either party without penalty upon 60 days' written notice to the other party.

For the nine months ended September 30, 2009, Ares Capital incurred $2.9 million in administrative fees.

For the year ended December 31, 2008, Ares Capital incurred $2.7 million in administrative fees. For the year ended December 31, 2007, Ares Capital incurred $1.0 million in administrative fees. For the year ended December 31, 2006, Ares Capital incurred $0.9 million in administrative fees.

Indemnification

The administration agreement provides that, absent willful misfeasance, bad faith or negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations, Ares Operations, its members and their respective officers, managers, partners, agents, employees, controlling persons, members and any other person or entity affiliated with it are entitled to indemnification from Ares Capital for any damages, liabilities, costs and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) arising from the rendering of Ares Operations' services under the administration agreement or otherwise as administrator for Ares Capital.

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CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS OF ARES CAPITAL

Ares Capital is party to an investment advisory and management agreement with Ares Capital Management, whose sole member is Ares Management, an entity in which certain members of Ares Capital's senior management and Ares Capital's chairman of the board have indirect ownership and financial interests. Certain members of Ares Capital's senior management also serve as principals of other investment managers affiliated with Ares Management that may in the future manage investment funds with investment objectives similar to ours. In addition, certain of Ares Capital's executive officers and directors and the members of the investment committee of Ares Capital's investment adviser, Ares Capital Management, serve or may serve as officers, directors or principals of entities that operate in the same or related line of business as Ares Capital does or of investment funds managed by Ares Capital's affiliates. Accordingly, Ares Capital may not be given the opportunity to participate in certain investments made by investment funds managed by advisers affiliated with Ares Management, including Ares Capital Management. However, Ares Capital's investment adviser and other members of Ares intend to allocate investment opportunities in a fair and equitable manner that meets Ares Capital's investment objective and strategies so that Ares Capital is not disadvantaged in relation to any other client. See "Risk Factors Risks Relating to Ares Capital There are significant potential conflicts of interest that could impact Ares Capital's investment returns."

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

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

Pursuant to the terms of the administration agreement, Ares Operations currently provides Ares Capital with the administrative services necessary to conduct Ares Capital's day-to-day operations. Ares Management is the sole member of and controls Ares Operations.

Ares Capital's portfolio company, IHAM, is party to a services agreement with Ares Capital Management. Pursuant to the terms of such services agreement, Ares Capital Management provides IHAM with the facilities, investment advisory services and administrative services necessary for the operations of IHAM. IHAM reimburses Ares Capital Management for the costs and expenses incurred by Ares Capital Management in performing its obligations under such services agreement.

Ares Capital rents office space directly from a third party pursuant to a lease that expires on February 27, 2011. In addition, Ares Capital has entered into a sublease agreement with Ares Management whereby Ares Management subleases approximately 25% of certain office space for a fixed rent equal to 25% of the basic annual rent payable by Ares Capital under this lease, plus certain additional costs and expenses. For the years ended December 31, 2008, 2007 and 2006, such amounts payable to Ares Capital totaled $0.3 million, $0.3 million and $0.1 million, respectively.

Ares Capital has also entered into a license agreement with Ares pursuant to which Ares has agreed to grant Ares Capital a non-exclusive, royalty-free license to use the name "Ares." Under this agreement, Ares Capital will have a right to use the Ares name for so long as Ares Capital Management remains Ares Capital's investment adviser. Other than with respect to this limited license, Ares Capital will have no legal right to the "Ares" name. This license agreement will remain in effect

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for so long as the investment advisory and management agreement with Ares Capital Management is in effect and Ares Capital Management remains its investment adviser. Like the investment advisory and management agreement, the license agreement may also be terminated by either party without penalty upon 60 days' written notice to the other.

In connection with Ares Capital's initial public offering, Ares Capital's investment adviser paid to underwriters, on Ares Capital's behalf, an additional sales load of approximately $2.5 million. This amount accrued interest at a variable rate that adjusted quarterly equal to the three-month LIBOR plus 2% per annum. Ares Capital repaid this amount in full, plus accrued and unpaid interest, in February 2006.

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CONTROL PERSONS AND PRINCIPAL STOCKHOLDERS OF ARES CAPITAL

To Ares Capital's knowledge, as of January 15, 2010, there were no persons that owned 25% or more of Ares Capital's outstanding voting securities and no person would be deemed to control Ares Capital, as such term is defined in the Investment Company Act.

The following table sets forth, as of January 15, 2010 (unless otherwise noted), the number of shares of Ares Capital common stock beneficially owned by each of its current directors and executive officers, all directors and executive officers as a group and certain beneficial owners, according to information furnished to Ares Capital by such persons or publicly available filings.

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the securities. Ownership information for those persons who beneficially own 5% or more of Ares Capital's shares of common stock is based upon Schedule 13D, Schedule 13G, Form 13F or other filings by such persons with the SEC and other information obtained from such persons. To Ares Capital's knowledge, as of January 15, 2010, there were no persons that owned 5% or more of Ares Capital's shares of common stock.

The address for each of the directors and executive officers is c/o Ares Capital Corporation, 2000 Avenue of the Stars, 12th Floor, Los Angeles, California 90067.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class(1)
Directors and Executive Officers:		
Interested Directors		
Michael J. Arougheti	153,679(2)	*
Robert L. Rosen	7,500	*
Bennett Rosenthal	None(2)	
Independent Directors		
Douglas E. Coltharp	4,500	*
Frank E. O'Bryan	12,400	*
Gregory W. Penske	None	
Eric B. Siegel	22,389	*
Executive Officers Who Are Not Directors		
Joshua M. Bloomstein	None	
Richard S. Davis	72,093	*
Merritt S. Hooper	None	
Daniel F. Nguyen	None	
Karen A. Tallman	25,000	*
Michael D. Weiner	8,929(2)	*
All Directors and Executive Officers as a Group (13 persons)	306,490(2)	*

*
Represents less than 1%.

(1)
Based on 109,944,674 shares of common stock outstanding as of January 15, 2010.

(2)
Ares Investments, whose managing member is Ares Partners Management Company LLC, owned 2,859,882 shares of Ares Capital common stock as of January 15, 2010. Each of the members of Ares Partners Management Company LLC (which include Messrs. Rosenthal, Arougheti and Weiner or vehicles controlled by them) disclaims beneficial ownership of all shares of Ares Capital common stock owned by Ares Investments, except to the extent of any indirect pecuniary interest therein. The shares of Ares Capital common stock held by Ares Investments have been pledged in the ordinary course to secure indebtedness under a credit facility under which Ares Investments is a co-borrower with Ares Management, an indirect subsidiary of Ares Partners Management Company LLC.

BUSINESS OF ALLIED CAPITAL

General

Allied Capital is a BDC in the private equity business that is internally managed. Specifically, Allied Capital generally invests in primarily private middle-market companies with EBITDA, or earnings before interest, taxes, depreciation and amortization, of between $5 million and $150 million in a variety of industries through long-term debt and equity capital instruments. As a BDC, Allied Capital was created to be a source of capital to small and growing businesses in the United States. Allied Capital has participated in the private equity business since it was founded in 1958. Since then through September 30, 2009, Allied Capital has invested more than $14 billion in thousands of companies nationwide. Allied Capital primarily invests in the American entrepreneurial economy, helping to build middle-market businesses and support American jobs. At September 30, 2009, Allied Capital's private finance portfolio included investments in 88 companies that generate aggregate annual revenues of approximately $10 billion and employ more than 48,000 people. Allied Capital generally invests in established companies with adequate cash flow for debt service.

Allied Capital's investment objective is to achieve current income and capital gains. In order to achieve this objective, Allied Capital has primarily invested in debt and equity securities of private companies in a variety of industries. However, from time to time, Allied Capital has invested in companies that are public, but lack access to additional public capital.

Allied Capital is internally managed by its management team of senior officers and managing directors. At September 30, 2009, Allied Capital had 112 employees. Allied Capital is headquartered in Washington, D.C., with offices in New York, NY and Arlington, VA.

Private Equity Investing

The United States and the global economies continue to operate in an unprecedented economic recession and the U.S. capital markets continue to experience volatility and a severe lack of liquidity. Allied Capital's strategy in these difficult economic times has been focused on reducing costs and streamlining its organization; building liquidity through selected asset sales; retaining capital by limiting new investment activity and suspending dividend payments; and working with portfolio companies to help them position for growth when the economy recovers.

As a private equity investor, Allied Capital's portfolio primarily consists of long-term investments in the debt and equity of primarily private middle-market companies. These investments generally are long-term in nature and privately negotiated and no readily available market exists for them. This makes Allied Capital's investments highly illiquid and, as a result, they cannot be readily traded. When Allied Capital makes an investment, it enters into a long-term arrangement where its ultimate exit from that investment may be three to ten years in the future.

Allied Capital has focused on investments in the debt of primarily private middle-market companies because they have been structured to provide recurring cash flow to Allied Capital as the investor. In addition to earning interest income, Allied Capital may earn income from management, consulting, diligence, structuring or other fees. Allied Capital may also enhance its total return with capital gains realized from investments in equity instruments or from equity features, such as nominal cost warrants.

Historically, Allied Capital has competed for investments with a large number of private equity funds and mezzanine funds, other BDCs, hedge funds, investment banks, other equity and non-equity based investment funds and other sources of financing, including specialty finance companies and traditional financial services companies such as commercial banks. However, Allied Capital has primarily competed with other providers of long-term debt and equity capital to middle-market companies, including private equity funds and other BDCs.

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

Senior loans carry a fixed rate of interest or a floating rate of interest, set as a spread over prime or LIBOR, and generally require payments of both principal and interest throughout the life of the loan. Senior loans generally have contractual maturities of three to six years and interest is generally paid to Allied Capital monthly or quarterly. Unitranche debt generally carries a fixed rate of interest. Unitranche debt generally requires payments of both principal and interest throughout the life of the loan. Unitranche debt generally has contractual maturities of five to six years and interest generally is paid to Allied Capital quarterly. Subordinated debt generally carries a fixed rate of interest generally with contractual maturities of five to ten years and generally has interest-only payments in the early years and payments of both principal and interest in the later years, although maturities and principal amortization schedules may vary. Interest on subordinated debt generally is paid to Allied Capital quarterly.

From time to time, Allied Capital underwrites or arranges senior loans related to its portfolio investments or for other companies that are not in its portfolio. At closing, all or a portion of the underwritten commitment may be funded by Allied Capital, pending sale of the loan to other investors at closing. Allied Capital generally earns a fee on the senior loans it underwrites or arranges whether or not Allied Capital funds the underwritten commitment. After completion of the loan sales, Allied Capital may or may not retain a position in these senior loans. Principal collections include repayments of senior debt funded by Allied Capital that was subsequently sold by Allied Capital or refinanced or repaid by the portfolio companies. These transactions may include loan sales to other portfolio companies controlled by Allied Capital or funds affiliated with or managed by Allied Capital. See " Asset Management" below.

Allied Capital also has invested in the bonds and preferred shares/income notes of collateralized loan obligations, or "CLOs," or collateralized debt obligations, or "CDOs," where the underlying collateral pool consists primarily of senior loans. Certain of the CLOs and CDOs in which Allied Capital has invested may be managed by Allied Capital or Callidus Capital Management, LLC, or "Callidus Capital Management," a wholly owned portfolio company of Allied Capital.

Allied Capital's portfolio includes buyout transactions in which it holds investments in senior debt, subordinated debt and equity (preferred and/or voting or non-voting common) where Allied Capital's equity ownership represents a significant portion of the equity, but may or may not represent a controlling interest. If Allied Capital invests in non-voting equity in a buyout investment, it generally has an option to acquire a controlling stake in the voting securities of the portfolio company at fair market value. Historically, Allied Capital has structured its buyout investments such that it seeks to earn a blended current return on its total capital invested through a combination of interest income on its loans and debt securities, dividends on preferred and common equity and management, consulting or transaction services fees to compensate Allied Capital for the managerial assistance that it may provide to the portfolio company.

The structure of each debt and equity security includes many terms governing interest rate, repayment terms, prepayment penalties, financial covenants, operating covenants, ownership parameters, dilution parameters, liquidation preferences, voting rights and put or call rights. Allied Capital's senior loans and unitranche debt are generally in a first lien position, however in a liquidation scenario, the collateral, if any, may not be sufficient to support Allied Capital's outstanding investment. Allied Capital's junior or mezzanine loans are generally unsecured. Allied Capital's investments may be subject to certain restrictions on resale and generally have no established trading market.

At September 30, 2009, 42.2% of the private finance investments at value were in companies more than 25% owned, 7.3% were in companies 5% to 25% owned and 50.5% were in companies less than 5% owned.

Allied Capital monitors the portfolio to maintain diversity within the industries in which it invests. Allied Capital may or may not concentrate in any industry or group of industries in the future. The industry composition of the private finance portfolio at value at September 30, 2009 and December 31, 2008 and 2007, was as follows:

	September 30, 2009	December 31, 2008	2007
Industry			
Business services	32%	36%	37%
Consumer products	28	24	25
Private debt funds	8	6	1
Financial services	8	5	6
CLO/CDO(1)	6	8	6
Consumer services	5	5	4
Industrial products	3	5	10
Retail	2	5	4
Healthcare services	2	2	3
Other	6	4	4
Total	100%	100%	100%

(1) These funds primarily invest in senior corporate loans. Certain of these funds are managed by Callidus Capital Management, a wholly owned portfolio company of Allied Capital.

Commercial Real Estate Finance Portfolio. Allied Capital also has participated in commercial real estate finance over its history. Over the past several years, Allied Capital has not actively participated in commercial real estate finance as it believed that the market for commercial real estate had become too aggressive and that investment opportunities were not priced appropriately. As a result, Allied Capital's commercial real estate finance portfolio totaled $68.5 million at value, or 2.4% of its total assets, at September 30, 2009, and contained primarily commercial mortgage loans and real estate properties.

Asset Management

In addition to managing its own assets, Allied Capital manages certain funds that also invest in the debt and equity securities of primarily private middle-market companies in a variety of industries and broadly syndicated senior secured loans. In some cases, Allied Capital has invested in the equity of these funds, along with other third parties, from which Allied Capital may earn a current return and/or a future incentive allocation.

At September 30, 2009, Allied Capital had eight separate funds under its management, together, the "Allied Capital Managed Funds," for which Allied Capital may earn management or other fees for its services. On October 30, 2009, Allied Capital sold its investment, including its outstanding commitments and the provision of management services, in the SL Fund to Ares Capital. On December 29, 2009, Allied Capital sold its investment, including the provision of management services,

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in the SD Fund to IHAM, a portfolio company of Ares Capital, and it may sell additional Allied Capital Managed Funds.

The assets of the Allied Capital Managed Funds at September 30, 2009 and December 31, 2008, and Allied Capital's management fees as of September 30, 2009, were as follows:

($ in millions) Name of Fund	Assets of Allied Capital Managed Funds September 30, 2009	Assets of Allied Capital Managed Funds December 31, 2008	Management Fee(2)
Senior Secured Loan Fund LLC(3)	$ 921.2	$ 789.8	0.375%
Allied Capital Senior Debt Fund, L.P.(4)	351.4	412.9	1.625%(1)(2)
Knightsbridge CLO 2007-1 Ltd.	500.7	500.6	0.600%
Knightsbridge CLO 2008-1 Ltd.	304.6	304.8	0.600%
Emporia Preferred Funding I, Ltd.	419.8		0.625%(1)
Emporia Preferred Funding II, Ltd.	355.7		0.650%(1)
Emporia Preferred Funding III, Ltd.	406.1		0.650%(1)
AGILE Fund I, LLC	83.5	99.3	(1)
Total Assets	$ 3,343.0	$ 2,107.4	

(1) In addition to the management fees, Allied Capital is entitled to an incentive allocation subject to certain performance benchmarks. There can be no assurance that the incentive allocation will be earned.

(2) Management fees are stated as a percent of assets except for the SD Fund, which is stated as a percent of equity capital. The management fee paid by the SD Fund was 2.000% at December 31, 2008 and was reduced to 1.625% effective January 1, 2009 for the 2009 calendar year.

(3) In June 2009, the Unitranche Fund LLC was renamed the Senior Secured Loan Fund LLC. On October 30, 2009, Allied Capital sold its investment, including its commitments and the provision of management services, in the SL Fund to Ares Capital.

(4) On December 29, 2009, Allied Capital sold its investment, including the provision of management services, to IHAM, a portfolio company of Ares Capital.

Allied Capital's responsibilities to the Allied Capital Managed Funds may include investment execution, underwriting and portfolio monitoring services. Each of the Allied Capital Managed Funds may separately invest in the debt or equity of companies in Allied Capital's portfolio and these investments may be senior, pari passu or junior to the debt and equity investments held by Allied Capital. Allied Capital may or may not participate in investments made by the Allied Capital Managed Funds.

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In addition to managing these funds, as of the dates listed below Allied Capital held certain investments in the Allied Capital Managed Funds as follows:

($ in millions) Name of Fund	Investment Description	September 30, 2009 Cost	September 30, 2009 Value	December 31, 2008 Cost	December 31, 2008 Value
Senior Secured Loan Fund LLC(1)	Subordinated Certificates and Equity Interests	$ 165.2	$ 165.0	$ 125.4	$ 125.4
Allied Capital Senior Debt Fund, L.P.(2)	Equity interests	31.8	33.0	31.8	31.8
Knightsbridge CLO 2007-1 Ltd.	Class E Notes and Income Notes	57.4	33.8	59.6	50.1
Knightsbridge CLO 2008-1 Ltd.	Class C Notes, Class D Notes, Class E Notes and Income Notes	53.2	49.2	52.7	52.7
AGILE Fund I, LLC	Equity Interests	0.7	0.4	0.7	0.5
Total		$ 308.3	$ 281.4	$ 270.2	$ 260.5

(1) Allied Capital committed up to a total of $525.0 million of subordinated certificates to the SL Fund. The SL Fund will be capitalized as investment transactions are completed. On October 30, 2009, Allied Capital sold its investment, including its outstanding commitments and the provision of management services, in the SL Fund to Ares Capital.

(2) On December 29, 2009, Allied Capital sold its investment, including the provision of management services, to IHAM, a portfolio company of Ares Capital.

For additional discussion of the Allied Capital Managed Funds, see "Management's Discussion and Analysis of Financial Condition and Results of Operations of Allied Capital Portfolio and Investment Activity Managed Funds."

Business Processes

Business Development. Over the years, Allied Capital believes it has developed and maintained a strong and extensive network of relationships. This network includes private equity investors, investment banks, business brokers, merger and acquisition advisors, financial services companies, banks, law firms and accountants. Allied Capital is well known in the private equity industry and, through these relationships, Allied Capital has been able to source investment opportunities for its portfolio and the Allied Capital Managed Funds.

New Deal Underwriting and Investment Execution. In a typical transaction, Allied Capital reviews, analyzes and substantiates through due diligence, the business plan and operations of the potential portfolio company. Allied Capital performs financial due diligence, performs operational due diligence, studies the industry and competitive landscape and conducts reference checks with company management or other employees, customers, suppliers and competitors, as necessary. Allied Capital may work with external consultants, including accounting firms and industry or operational consultants, in performing due diligence and in monitoring its portfolio investments.

Once a prospective portfolio company is determined to be suitable for investment, Allied Capital works with the management and the other capital providers, including senior, junior and equity capital providers, to structure a transaction. Allied Capital's investments are tailored to the facts and circumstances of each deal. The specific structure is designed to protect Allied Capital's rights and manage its risk in the transaction. Allied Capital generally structures the debt instrument to require restrictive affirmative and negative covenants, default penalties or other protective provisions.

In addition, each debt investment is individually priced to achieve a return that reflects Allied Capital's rights and priorities in the portfolio company's capital structure, the structure of the debt instrument and Allied Capital's perceived risk of the investment. Allied Capital's loans and debt securities have an annual stated interest rate; however, that interest rate is only one factor in pricing the investment. The annual stated interest rate may include some component of contractual

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payment-in-kind interest, which represents contractual interest accrued and added to the loan balance that generally becomes due at maturity or upon prepayment. In addition to the interest earned on loans and debt securities, Allied Capital's debt investments may include equity features, such as nominal cost warrants or options to buy a minority interest in the portfolio company.

In a buyout transaction where Allied Capital's equity investment represents a significant portion of the equity, Allied Capital's equity ownership may or may not represent a controlling interest. If non-voting equity is invested in a buyout, Allied Capital generally has an option to acquire a controlling stake in the voting securities of the portfolio company at fair market value.

Allied Capital has a centralized, credit-based approval process for its investments. The key steps in Allied Capital's investment process are:

- Initial investment screening;
- Initial investment/finance committee, or "IFC," approval;
- Due diligence, structuring and negotiation;
- Internal review of diligence results, including peer review;
- Final IFC approval;
- Approval by the investment review committee of Allied Capital's board of directors for all debt investments that represent a commitment equal to or greater than $20 million and every buyout transaction; and
- Funding of the investment.

Allied Capital's IFC is chaired by John Scheurer, CEO, and currently includes William Walton, Chairman of the Board (vice chairman of the committee), Penni Roll, CFO, Scott Binder, Managing Director and Head of Special Assets, Robert Monk, Managing Director, Daniel Russell, Managing Director and Head of Private Finance, Susan Mayer, Managing Director, Dale Lynch, Executive Vice President, John Wellons, Chief Accounting Officer and two Principals on a rotating basis. The composition of the committee may change from time to time.

Portfolio Monitoring and Development. Middle-market companies often lack the management expertise and experience found in larger companies. As a BDC, Allied Capital is required by the Investment Company Act to make available significant managerial assistance to its portfolio companies. Allied Capital's senior level professionals work with portfolio company management teams to assist them in building their businesses. Managerial assistance includes, but is not limited to, management and consulting services related to corporate finance, marketing, human resources, personnel and board member recruiting, business operations, corporate governance, risk management and other general business matters. Allied Capital's corporate finance assistance includes supporting its portfolio companies' efforts to structure and attract additional capital. Allied Capital believes its extensive network of industry relationships and its internal resources help make Allied Capital a collaborative partner in the development of its portfolio companies.

The special assets sub-committee of Allied Capital's IFC is responsible for review and oversight of the investment portfolio, including reviewing the performance of selected portfolio companies, overseeing portfolio companies in workout status, reviewing and approving certain modifications or amendments to or certain additional investments in existing portfolio companies, reviewing and approving certain actions by portfolio companies whose voting securities are more than 50% owned by Allied Capital, reviewing significant investment-related litigation matters where Allied Capital is a named party, approving related activities and reviewing and approving proxy votes with respect to Allied Capital's portfolio investments.

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From time to time, Allied Capital will identify investments that require closer monitoring or become workout assets. Allied Capital develops a workout strategy for workout assets and the special assets sub-committee of the IFC gauges Allied Capital's progress against the strategy. The special assets sub-committee is chaired by John Scheurer, CEO, and currently includes Scott Binder, Managing Director and Head of Special Assets (vice chairman of the committee), William Walton, Chairman of the Board, Penni Roll, CFO, Daniel Russell, Managing Director and Head of Private Finance, Susan Mayer, Managing Director, and Ralph Blasey, Executive Vice President and Corporate Counsel. The composition of the committee may change from time to time.

For debt investments, Allied Capital may have board observation rights that allow it to attend portfolio company board meetings. For buyout investments, Allied Capital generally holds a majority of the seats on the board of directors where it owns a controlling interest in the portfolio company and Allied Capital generally has board observation rights where it does not own a controlling interest in the portfolio company.

Portfolio Valuation

Allied Capital determines the value of each investment in its portfolio on a quarterly basis and changes in value result in unrealized appreciation or depreciation being recognized in its statement of operations. "Value," as defined in Section 2(a)(41) of the Investment Company Act, is (1) the market price for those securities for which a market quotation is readily available and (2) for all other securities and assets, fair value is as determined in good faith by the board of directors. Since there is typically no readily available market value for the investments in its portfolio, Allied Capital values substantially all of its portfolio investments at fair value as determined in good faith by its board of directors in accordance with Allied Capital's valuation policy and the provisions of the Investment Company Act and ASC Topic 820, which includes the codification of FASB Statement No. 157, *Fair Value Measurements* and related interpretations, collectively, the "Statement."

Allied Capital determines fair value to be the price that would be received for an investment in a current sale, which assumes an orderly transaction between market participants on the measurement date. At September 30, 2009, portfolio investments recorded at fair value using level 3 inputs (as defined under the Statement) were approximately 88% of Allied Capital's total assets. Because of the inherent uncertainty of determining the fair value of investments that do not have a readily available market quotation in an active market, the fair value of Allied Capital's investments determined in good faith by its board of directors may differ significantly from the values that would have been used had a ready market existed for the investments, and the differences could be material.

There is no single approach for determining fair value in good faith. As a result, determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment while employing a consistently applied valuation process for the types of investments Allied Capital makes. Unlike banks, Allied Capital is not permitted to provide a general reserve for anticipated loan losses. Instead, Allied Capital is required to specifically value each individual investment on a quarterly basis. Allied Capital will record unrealized depreciation on investments when it determines that the fair value of a security is less than its cost basis and Allied Capital will record unrealized appreciation when it determines that the fair value is greater than its cost basis. Changes in fair value are recorded in the statement of operations as net change in unrealized appreciation or depreciation.

Valuation Process. The portfolio valuation process is managed by Allied Capital's Chief Valuation Officer, or "CVO." The CVO works with the investment professionals responsible for each investment. The following is an overview of the steps Allied Capital takes each quarter to determine the value of its portfolio:

- Allied Capital's valuation process begins with each portfolio company or investment being initially valued by the investment professionals, led by the Managing Director or senior officer who is responsible for the portfolio company relationship, or the "Deal Team";

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the CVO, members of the valuation team and third-party valuation consultants (see below), as applicable, review the preliminary valuation documentation as prepared by the Deal Team;

the CVO, members of the valuation team, and third-party consultants (see below), as applicable, meet with each Managing Director or responsible senior officer to discuss the preliminary valuation determined and documented by the Deal Team for each of their respective investments;

the Chairman of the Board, CEO, CFO and the Managing Directors meet with the CVO to discuss the preliminary valuation results;

valuation documentation is distributed to the members of Allied Capital's board of directors;

the audit committee of Allied Capital's board of directors meets separately from the full board of directors with the third-party consultants (see below) to discuss the assistance provided and results and the CVO attends this meeting;

the CVO discusses and reviews the valuations with Allied Capital's board of directors;

to the extent there are changes or if additional information is deemed necessary, a follow-up board meeting may take place; and

Allied Capital's board of directors determines the fair value of the portfolio in good faith.

In connection with its valuation process to determine the fair value of a private finance investment, Allied Capital works with third-party consultants to obtain assistance and advice, as additional support in the preparation of its internal valuation analysis, for a portion of the portfolio each quarter. In addition, Allied Capital may receive other third-party assessments of a particular private finance portfolio company's value in the ordinary course of business, most often in the context of a prospective sale transaction or in the context of a bankruptcy process.

The valuation analysis prepared by management is submitted to Allied Capital's board of directors who is ultimately responsible for the determination of fair value of the portfolio in good faith. Allied Capital generally obtains valuation assistance from Duff & Phelps, LLC, or "Duff & Phelps," for Allied Capital's private finance portfolio consisting of certain limited procedures, or "the Procedures," Allied Capital has identified and requested them to perform. Based upon the performance of the Procedures on a selection of Allied Capital's final portfolio company valuations, Duff & Phelps has concluded that the fair value of those portfolio companies subjected to the Procedures did not appear unreasonable. In addition, Allied Capital also receives third-party valuation assistance from other third-party consultants for certain private finance portfolio companies.

Allied Capital currently intends to continue to work with third-party consultants to obtain valuation assistance for a portion of the private finance portfolio each quarter. Allied Capital currently anticipates that it will generally obtain valuation assistance for all companies in the portfolio where it owns more than 50% of the outstanding voting equity securities (excluding companies with a cost less than $5.0 million and a value less than $2.5 million) on a quarterly basis and that it will generally obtain assistance for companies where it owns equal to or less than 50% of the outstanding voting equity securities (excluding companies with a cost less than $5.0 million and a value less than $2.5 million) at least once during the course of the calendar year. Valuation assistance may or may not be obtained for new companies that enter the portfolio after June 30 of any calendar year during that year or for investments with a cost less than $5.0 million and value less than $2.5 million.

For the quarter ended September 30, 2009, Allied Capital received valuation assistance for 78 portfolio companies, which represented 97.8% of the private finance portfolio at value. See "Management's Discussion and Analysis of Financial Condition and Results of Operations of Allied Capital" below.

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Corporate Structure and Offices

Allied Capital is a Maryland corporation and a closed-end, non-diversified management investment company that has elected to be regulated as a BDC under the Investment Company Act. Allied Capital has a real estate investment trust subsidiary, Allied Capital REIT, Inc., and several subsidiaries that are single-member limited liability companies established for specific purposes, including holding real estate property. Allied Capital also has a subsidiary, A.C. Corporation, that generally provides diligence and structuring services, as well as transaction, management, consulting and other services, including underwriting and arranging senior loans, to Allied Capital and its portfolio companies. A.C. Corporation also provides fund management services to certain Allied Capital Managed Funds.

Allied Capital's executive offices are located at 1919 Pennsylvania Avenue, NW, Washington, D.C. 20006-3434 and its telephone number is (202) 721-6100. In addition, Allied Capital has offices in New York, NY and Arlington, VA.

Employees

On September 30, 2009, Allied Capital employed 112 individuals, including investment and portfolio management professionals, operations professionals and administrative staff. The majority of Allied Capital's employees are located in its Washington, D.C. office.

Certain Government Regulations

Allied Capital operates in a highly regulated environment. The following discussion generally summarizes certain government regulations to which Allied Capital is subject.

Business Development Company. A BDC is defined and regulated by the Investment Company Act. A BDC must be organized in the United States for the purpose of investing in or lending to primarily private companies and making managerial assistance available to them. A BDC may use capital provided by public stockholders and from other sources to invest in long-term, private investments in businesses.

As a BDC, Allied Capital may not acquire any asset other than "qualifying assets" unless, at the time it makes the acquisition, the value of its qualifying assets represents at least 70% of the value of its total assets. The principal categories of qualifying assets relevant to Allied Capital's business are:

- Securities purchased in transactions not involving any public offering, the issuer of which is an eligible portfolio company;
- Securities received in exchange for or distributed with respect to securities described in the bullet above or pursuant to the exercise of options, warrants or rights relating to such securities; and
- Cash, cash items, government securities or high quality debt securities (within the meaning of the Investment Company Act), maturing in one year or less from the time of investment.

An eligible portfolio company is generally a domestic company that is not an investment company and that:

- does not have a class of securities with respect to which a broker may extend margin credit at the time the acquisition is made;
- is controlled by the BDC and has an affiliate of a BDC on its board of directors;
- does not have any class of securities listed on a national securities exchange;
- public companies that list their securities on a national securities exchange with a market capitalization of less than $250 million; or

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meets such other criteria as may be established by the SEC.

Control, as defined by the Investment Company Act, is presumed to exist where a BDC beneficially owns more than 25% of the outstanding voting securities of the portfolio company.

Allied Capital does not intend to acquire securities issued by any investment company that exceed the limits imposed by the Investment Company Act. Under these limits, Allied Capital generally cannot acquire more than 3% of the voting stock of any investment company (as defined in the Investment Company Act), invest more than 5% of the value of its total assets in the securities of one such investment company or invest more than 10% of the value of its total assets in the securities of such investment companies in the aggregate. With regard to that portion of Allied Capital's portfolio invested in securities issued by investment companies, it should be noted that such investments might subject Allied Capital's stockholders to additional expenses.

To include certain securities described above as qualifying assets for the purpose of the 70% test, a BDC must make available to the issuer of those securities significant managerial assistance such as providing significant guidance and counsel concerning the management, operations, or business objectives and policies of a portfolio company. Allied Capital offers to provide significant managerial assistance to its portfolio companies.

As a BDC, Allied Capital is entitled to issue senior securities in the form of stock or senior securities representing indebtedness, including debt securities and preferred stock, as long as each class of senior security has an asset coverage of at least 200% immediately after each such issuance. In addition, while any senior securities remain outstanding, Allied Capital must make provisions to prohibit any distribution to its stockholders or repurchase of its common stock unless Allied Capital meets the applicable asset coverage ratio at the time of the distribution.

Allied Capital is not generally able to issue and sell its common stock at a price below net asset value per share. Allied Capital may, however, sell its common stock, at a price below the current net asset value of the common stock, or sell warrants, options or rights to acquire such common stock, at a price below the current net asset value of the common stock if its board of directors determines that such sale is in the best interests of the company and its stockholders, and Allied Capital's stockholders approve its policy and practice of making such sales. In any such case, the price at which Allied Capital's securities are to be issued and sold may not be less than a price that, in the determination of Allied Capital's board of directors, closely approximates the market value of such securities (less any distributing commission or discount).

Allied Capital is also limited in the amount of stock options that may be issued and outstanding at any point in time. The Investment Company Act provides that the amount of a BDC's voting securities that would result from the exercise of all outstanding warrants, options and rights at the time of issuance may not exceed 25% of the BDC's outstanding voting securities, except that if the amount of voting securities that would result from the exercise of all outstanding warrants, options, and rights issued to the BDC's directors, officers, and employees pursuant to any executive compensation plan would exceed 15% of the BDC's outstanding voting securities, then the amount of voting securities that would result from the exercise of all outstanding warrants, options, and rights at the time of issuance shall not exceed 20% of the outstanding voting securities of the BDC.

Allied Capital may also be prohibited under the Investment Company Act from knowingly participating in certain transactions with its affiliates without the prior approval of the members of its board of directors who are not interested persons and, in some cases, prior approval by the SEC. Allied Capital has been granted an exemptive order by the SEC permitting it to engage in certain transactions that would be permitted if Allied Capital and its subsidiaries were one company and permitting certain transactions among Allied Capital's subsidiaries, subject to certain conditions and limitations.

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Allied Capital has designated a chief compliance officer and established a compliance program pursuant to the requirements of the Investment Company Act. Allied Capital is periodically examined by the SEC for compliance with the Investment Company Act.

As with other companies regulated by the Investment Company Act, a BDC must adhere to certain substantive regulatory requirements. A majority of Allied Capital's directors must be persons who are not interested persons, as that term is defined in the Investment Company Act. Additionally, Allied Capital is required to provide and maintain a bond issued by a reputable fidelity insurance company to protect it against larceny and embezzlement. Furthermore, as a BDC, Allied Capital is prohibited from protecting any director or officer against any liability to Allied Capital or its stockholders arising from willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person's office.

Allied Capital maintains a code of ethics that establishes procedures for personal investment and restricts certain transactions by its personnel. Allied Capital's code of ethics generally does not permit investment by its employees in securities that have been or are contemplated to be purchased or held by Allied Capital. Allied Capital's code of ethics is posted on its website at *www.alliedcapital.com* and is also filed as an exhibit to its registration statement which is on file with the SEC. You may read and copy the code of ethics at the SEC's Public Reference Room in Washington, D.C. You may obtain information on operations of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the code of ethics is available on the EDGAR database on the SEC Internet site at *http://www.sec.gov*. You may obtain copies of the code of ethics, after paying a duplicating fee, by electronic request at the following email address: publicinfo@sec.gov, or by writing to the SEC's Public Reference Section, 100 F Street, NE, Washington, D.C. 20549.

Allied Capital may not change the nature of its business so as to cease to be, or withdraw its election as, a BDC unless authorized by vote of a "majority of the outstanding voting securities," as defined in the Investment Company Act. A majority of the outstanding voting securities of a company is defined under the Investment Company Act as the lesser of: (1) 67% or more of such company's shares present at a meeting if more than 50% of the outstanding shares of such company are present and represented by proxy or (2) more than 50% of the outstanding shares of such company.

Regulated Investment Company Status. Allied Capital has elected to be taxed as a RIC under Subchapter M of the Code. In order to maintain its status as a RIC and obtain RIC tax benefits, Allied Capital must, in general, (1) continue to qualify as a BDC; (2) derive at least 90% of its gross income from dividends, interest, gains from the sale of securities and other specified types of income; (3) meet asset diversification requirements as defined in the Code; and (4) timely distribute to stockholders at least 90% of its annual investment company taxable income as defined in the Code. Allied Capital currently qualifies as a RIC. However, there can be no assurance that it will continue to qualify for such treatment in future years.

As long as Allied Capital qualifies as a RIC, it is not taxed on its investment company taxable income or realized net capital gains, to the extent that such taxable income or gains are distributed, or deemed to be distributed, to stockholders on a timely basis. Taxable income includes Allied Capital's taxable interest, dividend and fee income, as well as taxable net capital gains. Taxable income generally differs from net income for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses, and generally excludes net unrealized appreciation or depreciation, as gains or losses generally are not included in taxable income until they are realized. In addition, gains realized for financial reporting purposes may differ from gains included in taxable income as a result of Allied Capital's election to recognize gains using installment sale treatment, which generally results in the deferment of gains for tax purposes until notes or other amounts, including amounts held in escrow, received as consideration from the sale of investments are collected in cash. Taxable income includes non-cash income, such as payment-in-kind interest and dividends and the

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amortization of discounts and fees. Cash collections of income resulting from contractual payment-in-kind interest or the amortization of discounts and fees generally occur upon the repayment of the loans or debt securities that include such items. Non-cash taxable income is reduced by non-cash expenses, such as realized losses and depreciation and amortization expense.

Taxable income available for distribution includes investment company taxable income and, to the extent not deemed to be distributed or retained, net long-term capital gains. To the extent that annual taxable income available for distribution exceeds dividends paid or deemed distributed from such taxable income for the year, Allied Capital may carry over the excess taxable income into the next year and such excess income will be available for distribution in the next year as permitted under the Code. Such excess income will be treated under the Code as having been distributed during the prior year for purposes of Allied Capital's qualification for RIC tax treatment for such year. The maximum amount of excess taxable income that Allied Capital may carry over for distribution in the next year under the Code is the total amount of dividends paid in the following year, subject to certain declaration and payment guidelines. Excess taxable income carried over and paid out in the next year is generally subject to a nondeductible 4% excise tax.

Allied Capital could be subject to the AMT but any items that are treated differently for AMT purposes must be apportioned between Allied Capital and its stockholders and this may affect U.S. stockholders' AMT liabilities. Although regulations explaining the precise method of apportionment have not yet been issued, such items will generally be apportioned in the same proportion that dividends paid to each stockholder bear to Allied Capital's taxable income (determined without regard to the dividends paid deduction), unless a different method for a particular item is warranted under the circumstances.

Compliance with the Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act of 2002 imposes a wide variety of regulatory requirements on publicly held companies and their insiders. Many of these requirements apply to Allied Capital, including:

- Allied Capital's Chairman of the Board, Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer certify the financial statements contained in Allied Capital's periodic reports through the filing of Section 302 certifications;

- Allied Capital's periodic reports disclose its conclusions about the effectiveness of Allied Capital's disclosure controls and procedures;

- Allied Capital's annual report on Form 10-K contains a report from its management on internal control over financial reporting, including a statement that Allied Capital's management is responsible for establishing and maintaining adequate internal control over financial reporting as well as management's assessment of the effectiveness of Allied Capital's internal control over financial reporting, and an attestation report on the effectiveness of Allied Capital's internal control over financial reporting issued by its independent registered public accounting firm;

- Allied Capital's periodic reports disclose whether there were significant changes in Allied Capital's internal control over financial reporting or in other factors that could significantly affect Allied Capital's internal control over financial reporting subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses; and

- Allied Capital may not make any loan to any director or executive officer and it may not materially modify any existing loans.

Allied Capital has adopted procedures to comply with the Sarbanes-Oxley Act and the regulations promulgated thereunder. Allied Capital will continue to monitor its compliance with all future

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regulations that are adopted under the Sarbanes-Oxley Act of 2002 and will take actions necessary to ensure that it is in compliance therewith.

Allied Capital has adopted certain policies and procedures to comply with the NYSE corporate governance rules. In accordance with the NYSE procedures, shortly after its 2009 Annual Meeting of Stockholders, Allied Capital submitted the required CEO certification to the NYSE pursuant to Section 303A.12(a) of the listed company manual. Allied Capital's common stock is also listed on NASDAQ.

Legal Proceedings

On June 23, 2004, Allied Capital was notified by the SEC that they were conducting an informal investigation of Allied Capital. The investigation related to the valuation of securities in Allied Capital's private finance portfolio and other matters. On June 20, 2007, Allied Capital announced that it entered into a settlement with the SEC that resolved the SEC's informal investigation. As part of the settlement and without admitting or denying the SEC's allegations, Allied Capital agreed to the entry of an administrative order. In the order, the SEC alleged that, between June 30, 2001, and March 31, 2003, Allied Capital did not maintain books, records and accounts which, in reasonable detail, supported or accurately and fairly reflected valuations of certain securities in its private finance portfolio and, as a result, did not meet certain recordkeeping and internal controls provisions of the federal securities laws. In the administrative order, the SEC ordered Allied Capital to continue to maintain certain of its current valuation-related controls. Specifically, during and following the two-year period of the order, Allied Capital has: (1) continued to employ a Chief Valuation Officer, or a similarly structured officer-level employee, to oversee its quarterly valuation processes; and (2) continued to employ third-party valuation consultants to assist in its quarterly valuation processes.

On December 22, 2004, Allied Capital received letters from the U.S. Attorney for the District of Columbia requesting the preservation and production of information regarding Allied Capital and Business Loan Express, LLC (currently known as Ciena) in connection with a criminal investigation relating to matters similar to those investigated by and settled with the SEC as discussed above. Allied Capital produced materials in response to the requests from the U.S. Attorney's Office and certain current and former employees were interviewed by the U.S. Attorney's Office. Allied Capital has voluntarily cooperated with the investigation.

In late December 2006, Allied Capital received a subpoena from the U.S. Attorney for the District of Columbia requesting, among other things, the production of records regarding the use of private investigators by Allied Capital or its agents. Allied Capital's board of directors established a committee, which was advised by its own counsel, to review this matter. In the course of gathering documents responsive to the subpoena, Allied Capital became aware that an agent of Allied Capital obtained what were represented to be telephone records of David Einhorn and which purport to be records of calls from Greenlight Capital during a period of time in 2005. Also, while Allied Capital was gathering documents responsive to the subpoena, allegations were made that management of Allied Capital had authorized the acquisition of these records and that management was subsequently advised that these records had been obtained. Allied Capital's management has stated that these allegations are not true. Allied Capital has cooperated fully with the inquiry by the U.S. Attorney's Office.

On February 26, 2007, Dana Ross filed a class action complaint in the U.S. District Court for the District of Columbia in which she alleged that Allied Capital and certain members of management violated Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 thereunder. Thereafter, the court appointed new lead counsel and approved new lead plaintiffs. On July 30, 2007, plaintiffs served an amended complaint. Plaintiffs claim that, between November 7, 2005 and January 22, 2007, Allied Capital either failed to disclose or misrepresented information about its portfolio company, Business Loan Express, LLC. Plaintiffs sought unspecified compensatory and other damages, as well as other

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relief. On September 13, 2007, Allied Capital filed a motion to dismiss the lawsuit. On November 4, 2009, the motion to dismiss was granted.

Allied Capital is aware that a number of lawsuits have been filed by stockholders of Allied Capital challenging the merger. The suits are filed either as putative stockholder class actions, shareholder derivative actions or both. All of the actions assert similar claims against the members of Allied Capital's board of directors alleging that the merger agreement is the product of a flawed sales process and that Allied Capital's directors breached their fiduciary duties by agreeing to a structure that was not designed to maximize the value of Allied Capital's stockholders and by failing to adequately value and obtain fair consideration for Allied Capital's shares. They also claim that Ares Capital (and, in several cases, Merger Sub, and, in several other cases, Allied Capital) aided and abetted the directors' alleged breaches of fiduciary duties. All of the actions demand, among other things, a preliminary and permanent injunction enjoining the merger and rescinding the transaction or any part thereof that has been implemented. Allied Capital believes that each of the lawsuits is without merit, and it intends to defend each of these lawsuits vigorously.

In addition to the above matters, Allied Capital is party to certain lawsuits in the normal course of business. For a discussion of litigation regarding the merger, see "The Merger Litigation Relating to the Merger."

Furthermore, third parties may try to seek to impose liability on Allied Capital in connection with the activities of its portfolio companies. For a discussion of civil investigations being conducted regarding the lending practices of Ciena, one of Allied Capital's portfolio companies, see Note 3, "Portfolio Ciena Capital LLC" to the notes to Allied Capital's consolidated financial statements for the period ending September 30, 2009.

While the outcome of any of the open legal proceedings described above cannot at this time be predicted with certainty, Allied Capital does not expect these matters will materially affect its financial condition or results of operations; however, there can be no assurance whether any pending legal proceedings will have a material adverse effect on Allied Capital's financial condition or results of operations in any future reporting period or delay or prevent the merger from becoming effective with the agreed upon timeframe or at all.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF ALLIED CAPITAL

Overview

Allied Capital is a BDC in the private equity business that is internally managed. Specifically, Allied Capital primarily invests in private middle-market companies in a variety of industries through long-term debt and equity capital instruments. Allied Capital's financing generally is used to fund buyouts, acquisitions, growth, recapitalizations, note purchases and other types of financings. Allied Capital's investment objective is to achieve current income and capital gains.

The United States and the global economies continue to operate in an unprecedented economic recession and the U.S. capital markets continue to experience volatility and a severe lack of liquidity. Allied Capital's strategy in these difficult economic times has been focused on reducing costs and streamlining its organization; building liquidity through selected asset sales; retaining capital by limiting new investment activity and suspending dividend payments; and working with portfolio companies to help them position for growth when the economy recovers.

Allied Capital's portfolio composition at September 30, 2009 and 2008 and at December 31, 2008, 2007, and 2006, was as follows:

	September 30,		December 31,		
	2009	2008	2008	2007	2006
Private finance	97%	97%	97%	97%	97%
Commercial real estate finance	3%	3%	3%	3%	3%

Allied Capital's earnings primarily depend on the level of interest and dividend income, fee and other income and net realized and unrealized gains or losses on its investment portfolio after deducting interest expense on borrowed capital, operating expenses and income taxes, including excise tax.

Interest income primarily results from the stated interest rate earned on a loan or debt security and the amortization of loan origination fees and discounts. The level of interest income is directly related to the balance of the interest-bearing investment portfolio outstanding during the period multiplied by the weighted average yield. Allied Capital's ability to generate interest income is dependent on economic, regulatory and competitive factors that influence new investment activity, interest rates on the types of loans it makes, the level of repayments in its portfolio, the amount of loans and debt securities for which interest is not accruing and Allied Capital's ability to secure debt and equity capital for its investment activities.

The level of fee income is primarily related to the level of new investment activity and the level of fees earned from portfolio companies and funds managed by Allied Capital. The level of investment activity can vary substantially from period to period depending on many factors, including the general economic environment, the amount of debt and equity capital available to middle-market companies, the level of merger and acquisition activity for such companies, the competitive environment for the types of investments Allied Capital makes and Allied Capital's ability to secure debt and equity capital for its investment activities.

In addition to managing its own assets, Allied Capital manages certain funds that also invest in the debt and equity securities of primarily private middle-market companies in a variety of industries. At September 30, 2009, Allied Capital had eight separate funds under its management for which Allied Capital may earn management or other fees for its services. In some cases, Allied Capital has invested in the equity of these funds, along with other third parties, from which Allied Capital may earn a current return and/or a future incentive allocation. At September 30, 2009, the Allied Capital Managed Funds had total assets of approximately $3.3 billion. On October 30, 2009, Allied Capital sold its investment, including its outstanding commitments and the provision of management services, in the

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SL Fund which had assets of $921.2 million at September 30, 2009, to Ares Capital, and Allied Capital may sell additional Allied Capital Managed Funds. See " Managed Funds" below for further discussion.

In the aggregate, including the total assets on its balance sheet and assets under management in the Allied Capital Managed Funds, Allied Capital had $5.9 billion in managed assets at September 30, 2009.

On October 26, 2009, Allied Capital entered into the merger agreement with Ares Capital and Merger Sub. Pursuant to the terms of the merger agreement, in the merger Merger Sub will be merged with and into Allied Capital and, immediately thereafter, in the subsequent combination Allied Capital will be merged with and into Ares Capital. Ares Capital will be the surviving entity of the subsequent combination and, following the subsequent combination, Allied Capital will no longer exist as a separate corporation. If the merger is consummated, each share of Allied Capital common stock outstanding immediately prior to the merger will be converted into the right to receive 0.325 of a share of Ares Capital common stock, subject to the payment of cash instead of fractional shares. While there can be no assurances as to the exact timing, or that the merger will be completed at all, Allied Capital and Ares Capital are working to complete the merger in the first quarter of 2010. As more fully described in this document and in the merger agreement, the completion of the merger depends on a number of conditions being satisfied or, where legally permissible, waived. See "Description of the Merger Agreement" and the rest of this document for more details.

Portfolio and Investment Activity

The total portfolio at value, investment activity and the yield on interest-bearing investments at and for the nine months ended September 30, 2009 and 2008, and at and for the years ended December 31, 2008, 2007 and 2006, were as follows:

	At and for the Nine Months Ended September 30,		At and for the Years Ended December 31,		
($ in millions)	**2009**	**2008**	**2008**	**2007**	**2006**
Portfolio at value	$ 2,511.2	$ 4,208.5	$ 3,493.0	$ 4,780.5	$ 4,496.1
Investments funded	$ 118.1	$ 1,027.8	$ 1,078.2	$ 1,846.0	$ 2,437.8
Payment-in-kind interest and dividends, net of cash collections	$ 24.4	$ 35.9	$ 53.4	$ 12.0	$ 4.1
Principal collections related to investment repayments or sales(1)	$ 650.9	$ 878.2	$ 1,037.3	$ 1,211.6	$ 1,055.3
Yield on interest-bearing investments(2)	11.9%	11.9%	12.1%	12.1%	11.9%

(1) Principal collections related to investment repayments or sales for the nine months ended September 30, 2009, included $171.0 million of cash collections related to notes and other receivables received from the sale of investments in portfolio companies in prior periods. Principal collections related to investment repayments or sales for the nine months ended September 30, 2009 and 2008 and for the years ended December 31, 2008, 2007 and 2006, included collections of $274.9 million, $352.7 million, $383.0 million, $221.9 million and $0, respectively, related to the sale of loans to certain of Allied Capital Managed Funds. See " Managed Funds" below for further discussion.

(2) The weighted average yield on interest-bearing investments is computed as the (a) annual stated interest on accruing loans and debt securities plus the annual amortization of loan origination fees, original issue discount and market discount on accruing loans and debt securities less the annual amortization of loan origination costs, plus the effective interest yield on the preferred

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shares/income notes of CLOs, plus the effective interest yield on the subordinated certificates in the SL Fund, divided by (b) total interest-bearing investments at value. The weighted average yield is computed as of the balance sheet date.

Private Finance

Allied Capital's private finance portfolio at value, investment activity and the yield on interest-bearing investments at and for the nine months ended September 30, 2009 and 2008, and at and for the years ended December 31, 2008, 2007 and 2006, were as follows:

	At and for the Nine Months Ended September 30,				At and for the Years Ended December 31,					
	2009		2008		2008		2007		2006	
($ in millions)	Value	Yield(1)	Yield(1)	Value	Value	Yield(1)	Value	Yield(1)	Value	Yield(1)
Portfolio at value:										
Loans and debt securities:										
Senior loans	$ 289.4	4.8%	$ 434.9	4.2%	$ 306.3	5.6%	$ 344.3	7.7%	$ 405.2	8.4%
Unitranche debt	374.7	12.2%	579.3	12.0%	456.4	12.0%	653.9	11.5%	799.2	11.2%
Subordinated debt	1,182.9	13.4%	2,062.6	13.1%	1,829.1	12.9%	2,416.4	12.8%	1,980.8	12.9%
Total loans and debt securities	1,847.0	11.8%	3,076.8	11.7%	2,591.8	11.9%	3,414.6	12.1%	3,185.2	11.9%
Equity securities:										
Preferred shares/income notes of CLOs(2)	84.4	12.1%	218.3	17.1%	179.2	16.4%	203.0	14.6%	97.2	15.5%
Subordinated certificates in SL Fund(2)	165.0	14.0%	114.3	10.3%	125.4	12.0%	0.7	12.4%		
Other equity securities	346.3		692.5		502.7		1,041.0		1,095.5	
Total equity securities	595.7		1,025.1		807.3		1,244.7		1,192.7	
Total portfolio	$ 2,442.7		$ 4,101.9		$ 3,399.1		$ 4,659.3		$ 4,377.9	
Investments funded(3)	$ 115.5(4)		$ 1,020.7		$ 1,068.1		$ 1,828.0		$ 2,423.4	
Payment-in-kind interest and dividends, net of cash collections	$ 24.4		$ 35.8		$ 53.2		$ 12.7		$ 3.4	
Principal collections related to investment repayments or sales(3)	$ 644.2		$ 861.5		$ 1,020.5		$ 1,188.2		$ 1,015.4	

(1) The weighted average yield on loans and debt securities is computed as the (a) annual stated interest on accruing loans and debt securities plus the annual amortization of loan origination fees, original issue discount and market discount on accruing loans and debt securities less the annual amortization of loan origination costs, divided by (b) total loans and debt securities at value. The weighted average yield on the preferred shares/income notes of CLOs is calculated as the (a) effective interest yield on the preferred shares/income notes of CLOs, divided by (b) preferred shares/income notes of CLOs at value. The weighted average yield on the subordinated certificates in the SL Fund is computed as the (a) effective interest yield on the subordinated certificates, divided by (b) total investment at value. The weighted average yields are computed as of the balance sheet date.

(2) Investments in the preferred shares/income notes of CLOs and the subordinated certificates in the SL Fund earn a current return that is included in interest income in Allied Capital's consolidated statement of operations.

(3) Includes $171.0 million, respectively, cash collections during the nine months ended September 30, 2009 related to notes and other receivables received from the sale of investments in prior periods. Also includes

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collections from the sale or repayment of senior loans totaling $77.6 million, $225.4 million, $285.3 million, $393.4 million and $322.7 million, respectively, for the nine months ended September 30, 2009 and 2008 and for the years ended December 31, 2008, 2007 and 2006.

(4) Includes $38.7 million funded under pre-existing commitments under revolving lines of credit during the nine months ended September 30, 2009. During the nine months ended September 30, 2009, a total of $38.4 million was repaid under these arrangements, which is included in principal collections related to investment repayments or sales.

Allied Capital's private finance portfolio primarily is composed of debt and equity investments. Debt investments include senior loans, unitranche debt (an instrument that combines both senior and subordinated financing, generally in a first lien position) or subordinated debt (with or without equity features). The junior debt that Allied Capital has in the portfolio is lower in repayment priority than senior debt and is also known as mezzanine debt. Allied Capital's portfolio contains equity investments generally for a minority equity stake in portfolio companies and includes equity features such as nominal cost warrants received in conjunction with Allied Capital's debt investments. In a buyout transaction, Allied Capital generally invests in senior and/or subordinated debt and equity (preferred and/or voting or non-voting common) where its equity ownership represents a significant portion of the equity, but may or may not represent a controlling interest.

Investment Activity. Investments funded and the weighted average yield on interest-bearing investments funded for the nine months ended September 30, 2009 and 2008, and for the years ended December 31, 2008, 2007 and 2006, consisted of the following:

	For the Nine Months Ended September 30, 2009					
	Debt Investments		Buyout Investments		Total	
($ in millions)	**Amount**	**Weighted Average Yield(1)**	**Amount**	**Weighted Average Yield(1)**	**Amount**	**Weighted Average Yield(1)**
Loans and debt securities:						
Senior loans	$ 33.9	6.3%	$ 14.3	2.8%	$ 48.2	5.2%
Unitranche debt	1.0	9.5%			1.0	9.5%
Subordinated debt	3.0	15.0%	3.3	18.0%	6.3	16.5%
Total loans and debt securities	37.9	7.0%	17.6	5.6%	55.5	6.6%
Subordinated certificates in SL Fund(2)	47.4	8.4%			47.4	8.4%
Equity	7.1		5.5		12.6	
Total	$ 92.4		$ 23.1		$ 115.5	

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	For the Nine Months Ended September 30, 2008					
	Debt Investments		Buyout Investments		Total	
($ in millions)	Amount	Weighted Average Yield(1)	Amount	Weighted Average Yield(1)	Amount	Weighted Average Yield(1)
Loans and debt securities:						
Senior loans	$ 155.0	7.3%	$ 12.6	6.0%	$ 167.6	7.2%
Senior secured loan to Ciena(8) Capital LLC			319.0	0.0%	319.0	0.0%
Unitranche debt(3)	15.3	10.5%	0.5	6.6%	15.8	10.4%
Subordinated debt	243.4(4)	12.6%	50.5	15.2%	293.9	13.0%
Total loans and debt securities	413.7	10.5%	382.6	2.2%	796.3	6.5%
Preferred shares/income notes of CLOs(6)	35.6	18.6%			35.6	18.6%
Subordinated certificates in SL Fund(2)	113.6	10.8%			113.6	10.8%(9)
Equity	37.7		37.5		75.2	
Total	$ 600.6		$ 420.1		$ 1,020.7	

	2008 Investments Funded					
	Debt Investments		Buyout Investments		Total	
($ in millions)	Amount	Weighted Average Yield(1)	Amount	Weighted Average Yield(1)	Amount	Weighted Average Yield(1)
Loans and debt securities:						
Senior loans	$ 175.9	7.4%	$ 13.9	5.4%	$ 189.8	7.2%
Senior secured loan to Ciena Capital LLC			319.0	0.0%(6)	319.0	0.0%(8)
Unitranche debt(3)	15.3	10.5%	0.5	6.6%	15.8	10.4%
Subordinated debt	246.4(4)	12.6%	54.8	15.4%	301.2	13.1%
Total loans and debt securities	437.6	10.4%	388.2	2.4%	825.8	6.6%(9)
Preferred shares/income notes of CLOs(6)	35.6	18.6%			35.6	18.6%
Subordinated certificates in SL Fund(2)	124.7	10.9%			124.7	10.9%
Equity	40.5		41.5		82.0	
Total	$ 638.4		$ 429.7		$ 1,068.1	

	2007 Investments Funded					
	Debt Investments		Buyout Investments		Total	
($ in millions)	Amount	Weighted Average Yield(1)	Amount	Weighted Average Yield(1)	Amount	Weighted Average Yield(1)
Loans and debt securities:						
Senior loans	$ 249.0	9.2%	$ 63.1	8.8%	$ 312.1	9.1%
Unitranche debt(3)	109.1	10.8%	74.9	13.0%	184.0	11.7%
Subordinated debt	719.4(4)	12.8%	197.6	12.1%	917.0	12.6%
Total loans and debt securities	1,077.5	11.7%	335.6	11.7%	1,413.1	11.7%

Preferred shares/income notes of CLOs(6)	116.2	16.4%		116.2	16.4%
Subordinated certificates in SL Fund(2)	0.7	12.4%		0.7	12.4%
Equity	152.0(7)		146.0	298.0	
Total	$ 1,346.4		$ 481.6	$ 1,828.0	

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($ in millions)	2006 Investments Funded					
	Debt Investments		Buyout Investments		Total	
	Amount	Weighted Average Yield(1)	Amount	Weighted Average Yield(1)	Amount	Weighted Average Yield(1)
Loans and debt securities:						
Senior loans	$ 245.4	9.4%	$ 239.8	8.9%	$ 485.2	9.2%
Unitranche debt(3)	471.7	10.7%	146.5	12.9%	618.2	11.3%
Subordinated debt(5)	510.7	13.0%	423.8	14.4%	934.5	13.6%
Total loans and debt securities	1,227.8	11.4%	810.1	12.5%	2,037.9	11.9%
Preferred shares/income notes of CLOs(6)	26.1	14.8%			26.1	14.8%
Equity	65.3		294.1		359.4	
Total	$ 1,319.2		$ 1,104.2		$ 2,423.4	

(1)
The weighted average yield on interest-bearing investments is computed as the (a) annual stated interest on accruing interest-bearing investments, divided by (b) total interest-bearing investments funded. The weighted average yield on the preferred shares/income notes of CLOs is calculated as the (a) effective interest yield on the preferred shares/income notes of CLOs, divided by (b) preferred shares/income notes of CLOs funded. The weighted average yield on the subordinated certificates in the SL Fund is computed as the (a) effective interest yield on the subordinated certificates, divided by (b) total investment at value. The weighted average yield is calculated using yields as of the date an investment is funded.

(2)
In June 2009, the Unitranche Fund LLC was renamed the Senior Secured Loan Fund LLC. On October 30, 2009, Allied Capital sold its investment, including its outstanding commitments and the provision of management services, in the SL Fund to Ares Capital.

(3)
Unitranche debt is an investment that combines both senior and subordinated financing, generally in a first lien position. The yield on a unitranche investment reflects the blended yield of senior and subordinated debt.

(4)
Subordinated debt investments for the nine months ended September 30, 2008, and for the years ended December 31, 2008 and 2007, included $43.8 million, $43.8 million and $45.3 million, respectively, in investments in the bonds of CLOs. Certain of these CLOs are managed by Callidus Capital Corporation, or "Callidus," a wholly owned portfolio company of Allied Capital. These CLOs primarily invest in senior corporate loans.

(5)
Debt investments funded for the year ended December 31, 2006 included a $150 million subordinated debt investment in Advantage Sales & Marketing, Inc., or "Advantage," received in conjunction with its sale and a $30 million subordinated debt investment in STS Operating, Inc. received in conjunction with its sale.

(6)
CLO equity investments included preferred shares/income notes of CLOs that primarily invest in senior corporate loans. Certain of these CLOs are managed by Allied Capital or by Callidus.

(7)
Equity investments for the year ended December 31, 2007 included $31.8 million invested in the SD Fund. See " Managed Funds" below.

(8)

The senior secured loan to Ciena was acquired on September 30, 2008 and was placed on non-accrual status on the purchase date.

(9) Excluding the senior secured loan to Ciena, the weighted average yield on new investments for the year ended December 31, 2008, was 10.8%.

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For the nine months ended September 30, 2009, Allied Capital made private finance investments totaling $115.5 million. Investments arose primarily from fundings under pre-existing investment commitments, including fundings under revolving line of credit instruments and $47.4 million to fund investments made by the SL Fund. For the year ended December 31, 2008, Allied Capital made private finance investments totaling $1.1 billion, including $319.0 million related to its investment in Ciena. Historically, Allied Capital's focus for investments generally has been on higher return junior debt capital investments. Senior loans funded by Allied Capital generally were funded with the intent to sell the loan or for the portfolio company to refinance the loan at some point in the future as discussed below. Allied Capital has made fewer direct unitranche debt investments since the establishment of the SL Fund (formerly, the Unitranche Fund LLC) in the fourth quarter of 2007. Unitranche loans sourced by Allied Capital in these periods generally were referred to the SL Fund. Since its inception, Allied Capital has invested $172.8 million in the SL Fund. See " Managed Funds" below.

Allied Capital generally funds new investments using cash. In addition, Allied Capital may acquire securities in exchange for its common equity. Also, Allied Capital may acquire new securities through the reinvestment of previously accrued interest and dividends in debt or equity securities or the current reinvestment of interest and dividend income through the receipt of a debt or equity security (payment-in-kind income). From time to time Allied Capital may opt to reinvest accrued interest receivable in a new debt or equity security in lieu of receiving such interest in cash.

Allied Capital may underwrite or arrange senior loans related to its portfolio investments or for other companies that are not in its portfolio. When Allied Capital underwrites or arranges senior loans, it may earn a fee for such activities. Senior loans underwritten or arranged by Allied Capital may be funded by Allied Capital at closing. When these senior loans are closed, Allied Capital may fund all or a portion of the underwritten commitment pending sale of the loan to other investors, which may include loan sales to the Allied Capital Managed Funds or funds managed by Callidus. After completing loan sales, Allied Capital may retain a position in these senior loans. Allied Capital generally earns a fee on the senior loans it underwrites or arranges whether or not Allied Capital funds the underwritten commitment. In addition, Allied Capital may fund most or all of the debt and equity capital upon the closing of certain buyout transactions, which may include investments in lower-yielding senior debt. Subsequent to the closing, the portfolio company may refinance all or a portion of the lower-yielding senior debt, which would reduce Allied Capital's investment.

Allied Capital has focused its efforts on selling assets in its portfolio to generate capital. Principal collections related to private finance investment repayments or sales were $644.2 million for the nine months ended September 30, 2009, including $171.0 million of cash collections related to notes and other receivables received from the sale of investments in portfolio companies in prior periods. Principal collections related to private finance investment repayments or sales were $1.0 billion for the year ended December 31, 2008, which included $216.3 million sold to Allied Capital Managed Funds. Principal collections include repayments of senior debt funded by Allied Capital that was subsequently sold by Allied Capital or refinanced or repaid by the portfolio companies. Allied Capital plans to continue to sell assets and re-balance its portfolio with an emphasis on current income. However, there can be no assurance that Allied Capital will be able to achieve these objectives.

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Outstanding Investment Commitments. At September 30, 2009, Allied Capital had outstanding private finance investment commitments as follows:

($ in millions)	Companies More Than 25% Owned(1)	Companies 5% to 25% Owned	Companies Less Than 5% Owned	Total
Senior loans	$ 15.4	$ 7.4	$ 63.0	$ 85.8
Unitranche debt	3.0		11.6	14.6
Subordinated debt	16.5	4.3		20.8
Total loans and debt securities	34.9	11.7	74.6	121.2(2)
SL Fund	352.2			352.2
Equity securities	14.2	7.0	20.9	42.1(3)
Total	$ 401.3	$ 18.7	$ 95.5	$ 515.5

(1) Includes a $4.0 million revolving line of credit commitment for working capital to Callidus, a wholly owned portfolio company of Allied Capital, which owns 100% of Callidus Capital Management, an asset management company that structures and manages CLOs, CDOs and other related investments.

(2) Includes $91.8 million in the form of revolving debt facilities to 22 companies.

(3) Includes $26.7 million in commitments to seven private equity and venture capital funds. These fund commitments are generally drawn over a multi-year period of time as the funds make investments.

Total commitments were $515.5 million at September 30, 2009, or $163.3 million excluding the $352.2 million in commitments to the SL Fund. See " Managed Funds." On October 30, 2009, Allied Capital sold its investment, including its outstanding commitments and the provision for management services, in the SL Fund to Ares Capital.

In addition to these outstanding investment commitments at September 30, 2009, Allied Capital also had outstanding guarantees to private finance portfolio companies. See " Financial Condition, Liquidity and Capital Resources" below. Allied Capital intends to fund these commitments with existing cash and through cash flows from operations before new investments, although there can be no assurance that Allied Capital will generate sufficient cash flows to satisfy these commitments.

Net Unrealized Depreciation on Private Finance Portfolio. At September 30, 2009, Allied Capital's private finance portfolio totaled $4.2 billion at cost and $2.4 billion at value, which included net unrealized depreciation of $1.8 billion. $1.0 billion or 59.7% of the total net unrealized depreciation of $1.8 billion was related to Allied Capital's investments in four portfolio companies and its investment in CLO bonds and preferred shares/income notes and CDO bonds, or "CLO/CDO Assets," as follows: $445.3 million or 25.4% related to Allied Capital's investment in Ciena; $217.2 million or 12.4% related to investments in CLO/CDO Assets; $186.8 million or 10.7% related to Allied Capital's investment in EarthColor, Inc.; $106.8 million or 6.1% related to Allied Capital's investment in WMA Equity Corporation and affiliates; and $89.7 million or 5.1% related to Allied Capital's investment in Hot Stuff Foods, LLC.

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Investments in Collateralized Loan Obligations and Collateralized Debt Obligations (CLO/CDO Assets). At September 30, 2009 and December 31, 2008 and 2007, Allied Capital had investments in CLO issuances and a CDO bond which totaled as follows:

	September 30,			December 31,					
	2009			2008			2007		
($ in millions)	**Cost**	**Value**	**Yield(1)**	**Cost**	**Value**	**Yield(1)**	**Cost**	**Value**	**Yield(1)**
CLO/CDO bonds(2)	$ 130.0	$ 73.3	12.7%	$ 127.7	$ 86.1	18.5%	$ 90.7	$ 89.9	13.3%
Preferred shares/income notes of CLOs	245.0	84.4	12.1%	248.2	179.2	16.4%	218.3	203.0	14.6%
Total	$ 375.0	$ 157.7		$ 375.9	$ 265.3		$ 309.0	$ 292.9	
Percentage of total assets		5.6%			7.1%			5.6%	

(1) The weighted average yield is calculated as the (a) annual stated interest or the effective interest yield on the accruing bonds or the effective interest yield on the preferred shares/income notes, divided by (b) CLO/CDO assets at value. The market yield used in the valuation of the CLO/CDO assets may be different than the interest yields shown above. See discussion below.

(2) Included in private finance subordinated debt.

The CLO and CDO issuances in which Allied Capital has invested are primarily invested in senior corporate loans. Certain of these funds are managed by Callidus and certain of these funds are managed by Allied Capital. See also Note 3, "Portfolio" from Allied Capital's notes to its consolidated financial statements for the year ending December 31, 2008.

The initial yields on the cost basis of the CLO preferred shares and income notes are based on the estimated future cash flows expected to be paid to these CLO classes from the underlying collateral assets. As each CLO preferred share or income note ages, the estimated future cash flows are updated based on the estimated performance of the underlying collateral assets and the respective yield on the cost basis is adjusted as necessary. As future cash flows are subject to uncertainties and contingencies that are difficult to predict and are subject to future events that may alter current assumptions, no assurance can be given that the anticipated yields to maturity will be achieved.

The CLO/CDO Assets in which Allied Capital has invested are junior in priority for payment of interest and principal to the more senior notes issued by the CLOs and CDO. Cash flow from the underlying collateral assets in the CLOs and CDO generally is allocated first to the senior bonds in order of priority, then any remaining cash flow is generally distributed to the preferred shareholders and income note holders. To the extent there are ratings downgrades, defaults and unrecoverable losses on the underlying collateral assets that result in reduced cash flows, the preferred shares/income notes will bear this loss first and then the subordinated bonds would bear any loss after the preferred shares/income notes. At both September 30, 2009 and December 31, 2008, the face value of the CLO/CDO Assets held by Allied Capital was subordinate to as much as 94% of the face value of the securities outstanding in these CLOs and CDO.

At September 30, 2009 and December 31, 2008 and 2007, the underlying collateral assets of these CLO and CDO issuances, consisting primarily of senior corporate loans, were issued by 627 issuers, 658 issuers and 671 issuers, respectively, and had balances as follows:

($ in millions)	September 30, 2009	December 31, 2008	2007
Bonds	$ 232.3	$ 268.3	$ 288.5
Syndicated loans	4,387.2	4,477.3	4,122.7
Cash(1)	107.9	89.6	104.4
Total underlying collateral assets(2)	$ 4,724.4	$ 4,835.2	$ 4,515.6

(1) Includes undrawn liability amounts.

Explanation of Responses:

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(2) At September 30, 2009 and at December 31, 2008 and 2007, the total face value of defaulted obligations was $139.6 million, $95.0 million and $18.4 million, respectively, or approximately 3.0%, 2.0% and 0.4%, respectively, of the total underlying collateral assets.

Throughout 2008, market yields for CLO securities increased. As the market yields for Allied Capital's investments in CLO preferred shares/income notes increased, the fair value of certain of Allied Capital's investments in these assets decreased. At September 30, 2009, the market yield used to value Allied Capital's preferred shares/income notes ranged from 27.5% to 31.5%. At December 31, 2008, the market yield used to value Allied Capital's preferred shares/income notes was 27.5%, with the exception of the income notes in one CLO with a cost and value of $21.3 million where Allied Capital used a market yield of 23.1% due to the characteristics of this issuance. Ratings agencies have continued to downgrade the underlying collateral in these types of structures regardless of the payment status of the loan or debt security.

In the current economic environment, Allied Capital expects ratings downgrades, defaults and losses to increase and Allied Capital has also considered this in its valuation analysis. Net change in unrealized appreciation or depreciation for the nine months ended September 30, 2009 and for the year ended December 31, 2008, included a net decrease of $6.1 million and $94.7 million, respectively, related to Allied Capital's investments in CLO/CDO Assets. Allied Capital received third-party valuation assistance for its investments in the CLO/CDO Assets in each quarter of 2008 and in the first three quarters of 2009. See " Results of Operations Valuation Methodology Private Finance" below for further discussion of the third-party valuation assistance received by Allied Capital.

As the debt capital markets show significant volatility, yield spreads may widen further. As a result, if the market yields for Allied Capital's investments in CLOs continue to increase or should the performance of the underlying assets in the CLOs decrease, the fair value of Allied Capital's investments may decrease further.

Ciena Capital LLC. Ciena has provided loans to commercial real estate owners and operators. Ciena has been a participant in the SBA 7(a) Guaranteed Loan Program and its wholly owned subsidiary is licensed by the SBA as a Small Business Lending Company. Ciena remains subject to SBA rules and regulations. Ciena is headquartered in New York, NY.

On September 30, 2008, Ciena voluntarily filed for bankruptcy protection under Chapter 11 of Title 11 of the United States Code, or "the Bankruptcy Code" in the U.S. Bankruptcy Court for the Southern District of New York, or "the Court." Ciena continues to service and manage its assets as a "debtor-in-possession" under the jurisdiction of the Court and in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Court.

As a result of Ciena's decision to file for bankruptcy protection, Allied Capital's unconditional guaranty of the obligations outstanding under Ciena's revolving credit facility became due and, in lieu of paying under its guarantee, Allied Capital purchased the positions of the senior lenders under Ciena's revolving credit facility. As of September 30, 2009, the senior secured loan to Ciena had a cost basis of $319.0 million and a value of $102.2 million. Allied Capital continues to guarantee the remaining principal balance of $5 million, plus related interest, fees and expenses payable to a third party bank. In connection with its continuing guaranty of the amounts held by this bank, Allied Capital has agreed that the amounts owing to the bank under the Ciena revolving credit facility will be paid before any of the secured obligations of Ciena now owed to Allied Capital.

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At September 30, 2009 and at December 31, 2008 and 2007, Allied Capital's investment in Ciena was as follows:

	September 30, 2009		December 31, 2008		December 31, 2007	
($ in millions)	Cost	Value	Cost	Value	Cost	Value
Senior Loan	$ 319.0	$ 102.2	$ 319.0	$ 104.9	$	$
Class A Equity Interests					99.0	68.6
Class B Equity Interests(1)	119.5		119.5		119.5	
Class C Equity Interests(1)	109.1		109.3		109.3	
Total(2)	$ 547.6	$ 102.2	$ 547.8	$ 104.9	$ 327.8	$ 68.6

(1) At September 30, 2009 and at December 31, 2008 and 2007, Allied Capital held 100% of the Class B equity interests and 94.9% of the Class C equity interests.

(2) In addition to its investment in Ciena included in the portfolio, Allied Capital has amounts receivable from or related to Ciena that are included in other assets in Allied Capital's consolidated financial statements. See below.

During the nine months ended September 30, 2009, Allied Capital funded $97.4 million to support Ciena's term securitizations in lieu of draws under related standby letters of credit, including the funding of $46.0 million during the third quarter of 2009. This was required primarily as a result of the issuer of the letters of credit not extending maturing standby letters of credit that were issued under Allied Capital's former revolving line of credit. The amounts funded were recorded as other assets in Allied Capital's consolidated balance sheet as of September 30, 2009. At September 30, 2009 and December 31, 2008 and 2007, other assets included amounts receivable from or related to Ciena totaling $112.7 million, $15.4 million and $5.4 million, respectively at cost, and $2.0 million, $2.1 million and $5.4 million, respectively at value.

Net change in unrealized appreciation or depreciation included a net decrease related to Allied Capital's investment in and receivables from Ciena of $99.8 million for the nine months ended September 30, 2009. Net change in unrealized appreciation or depreciation included a net decrease in Allied Capital's investment in and receivables from Ciena of $220.5 million for the nine months ended September 30, 2008. At December 31, 2008 and 2007, other assets included amounts receivable from or related to Ciena totaling $15.4 million and $5.4 million at cost and $2.1 million and $5.4 million at value, respectively. During the fourth quarter of 2008, Allied Capital sold its Class A Equity Interests in Ciena for nominal consideration to affiliates of AllBridge Financial, LLC and realized a loss of $98.9 million. Net change in unrealized appreciation or depreciation for the year ended December 31, 2008, included a decrease in Allied Capital's investment in Ciena totaling $296.0 million and the reversal of unrealized depreciation of $99.0 million associated with the realized loss on the sale of the Class A equity interests. Net change in unrealized appreciation or depreciation included a net decrease in Allied Capital's investment in Ciena of $174.5 million and $142.3 million for the years ended December 31, 2007 and 2006, respectively. See " Valuation of Ciena Capital LLC" below.

At September 30, 2009, Allied Capital had no outstanding standby letters of credit issued under its former revolving line of credit. Allied Capital has considered the letters of credit and the funding thereof in the valuation of Ciena at September 30, 2009 and December 31, 2008.

Allied Capital's investment in Ciena was on non-accrual status, therefore Allied Capital did not earn any interest and related portfolio income from its investment in Ciena for each of the nine months ended September 30, 2009 and 2008.

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At September 30, 2009, Ciena had one non-recourse securitization SBA loan warehouse facility, which has reached its maturity date but remains outstanding. Ciena is working with the providers of the SBA loan warehouse facility with regard to the repayment of that facility. Allied Capital issued a performance guaranty whereby it agreed to indemnify the warehouse providers for any damages, losses, liabilities and related costs and expenses that they may incur as a result of Ciena's failure to perform any of its obligations as loan originator, loan seller or loan servicer under the warehouse securitizations.

The OIG and the U.S. Secret Service are conducting ongoing investigations of allegedly fraudulently obtained SBA guaranteed loans issued by Ciena. Ciena also is subject to other SBA and OIG audits, investigations and reviews. In addition, the Office of the Inspector General of the U.S. Department of Agriculture is conducting an investigation of Ciena's lending practices under the Business and Industry Loan program. The OIG and the U.S. Department of Justice are also conducting a civil investigation of Ciena's lending practices in various jurisdictions. Allied Capital is unable to predict the outcome of these inquiries and it is possible that third parties could try to seek to impose liability against Allied Capital in connection with certain defaulted loans in Ciena's portfolio. These investigations, audits and reviews are ongoing.

These investigations, audits, reviews and litigation have had and may continue to have a material adverse impact on Ciena and, as a result, could continue to negatively affect Allied Capital's financial results. Allied Capital has considered Ciena's voluntary filing for bankruptcy protection, the letters of credit and the funding thereof, current regulatory issues, ongoing investigations and litigation in performing the valuation of Ciena at September 30, 2009 and December 31, 2008.

Commercial Real Estate Finance

The commercial real estate finance portfolio at value, investment activity and the yield on interest-bearing investments, at and for the nine months ended September 30, 2009 and at and for the years ended December 31, 2008, 2007 and 2006, were as follows:

	At and for the Nine Months Ended September 30, 2009		**At and for the Years Ended December 31, 2008**		**2007**		**2006**	
($ in millions)	**Value**	**Yield(1)**	**Value**	**Yield(1)**	**Value**	**Yield(1)**	**Value**	**Yield(1)**
Portfolio at value:								
Commercial mortgage loans	$ 50.5	6.9%	$ 53.5	7.4%	$ 65.4	6.8%	$ 71.9	7.5%
Real estate owned	6.2		20.8		21.3		19.6	
Equity interests	11.8		19.6		34.5		26.7	
Total portfolio	$ 68.5		$ 93.9		$ 121.2		$ 118.2	
Investments funded	$ 2.6		$ 10.1		$ 18.0		$ 14.4	
Payment-in-kind interest, net of cash collections	$		$ 0.2		$ (0.7)		$ 0.7	
Principal collections related to investment repayments or sales	$ 6.0		$ 16.8		$ 23.4		$ 39.9	

(1) The weighted average yield on the interest-bearing investments is computed as the (a) annual stated interest on accruing loans plus the annual amortization of loan origination fees, original issue discount and market discount on accruing interest-bearing investments less the annual amortization of origination costs, divided by (b) total interest-bearing investments at value. The weighted average yield is computed as of the balance sheet date. Interest-bearing investments for the commercial real estate finance portfolio include all investments except for real estate owned and equity interests.

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At September 30, 2009, Allied Capital had outstanding funding commitments related to the commercial real estate portfolio of $28.4 million.

Managed Funds

In addition to managing its own assets, Allied Capital manages certain funds that also invest in the debt and equity securities of primarily private middle-market companies in a variety of industries and broadly syndicated senior secured loans. In some cases, Allied Capital has invested in the equity of these funds, along with other third parties, from which Allied Capital may earn a current return and/or a future incentive allocation. At September 30, 2009, Allied Capital had eight separate funds under its management for which Allied Capital may earn management or other fees for its services. On October 30, 2009, Allied Capital sold its investment, including its outstanding commitments and the provision of management services, in the SL Fund to Ares Capital and Allied Capital may sell additional Allied Capital Managed Funds.

In the first quarter of 2009, Allied Capital completed the acquisition of the management contracts of three middle-market senior debt CLOs, the Emporia Funds, and certain other related assets for approximately $11 million (subject to post-closing adjustments). The acquired assets are included in other assets in Allied Capital's consolidated balance sheet as of September 30, 2009 and will be amortized over the life of the contracts.

The assets of the Allied Capital Managed Funds at September 30, 2009 and December 31, 2008, and Allied Capital's management fees as of September 30, 2009, were as follows:

($ in millions) Name of Fund	Assets of Allied Capital Managed Funds September 30, 2009	December 31, 2008	Management Fee(2)
SL Fund(3)	$ 921.2	$ 789.8	0.375%
Allied Capital Senior Debt Fund, L.P.	351.4	412.9	1.625%(1)(2)
Knightsbridge CLO 2007-1 Ltd.	500.7	500.6	0.600%
Knightsbridge CLO 2008-1 Ltd.	304.6	304.8	0.600%
Emporia Preferred Funding I, Ltd.	419.8		0.625%(1)
Emporia Preferred Funding II, Ltd.	355.7		0.650%(1)
Emporia Preferred Funding III, Ltd.	406.1		0.650%(1)
AGILE Fund I, LLC	83.5	99.3	(1)
Total Assets	$ 3,343.0	$ 2,107.4	

(1) In addition to the management fees, Allied Capital is entitled to an incentive allocation subject to certain performance benchmarks. There can be no assurance that the incentive allocation will be earned.

(2) Management fees are stated as a percent of assets except for the SD Fund which is stated as a percent of equity capital. The management fee paid by the SD Fund was 2.000% at December 31, 2008 and was reduced to 1.625% effective January 1, 2009 for the 2009 calendar year.

(3) In June 2009, the Unitranche Fund LLC was renamed the Senior Secured Loan Fund LLC. On October 30, 2009, Allied Capital sold its investment, including its commitments and the provision of management services, in the SL Fund to Ares Capital.

A portion of the management fees earned by Allied Capital may be deferred under certain circumstances. Collection of the fees earned is dependent in part on the performance of the relevant fund. Allied Capital may pay a portion of management fees it receives to Callidus for services provided to the SD Fund, the Knightsbridge Funds and the Emporia Funds.

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Allied Capital's responsibilities to the Allied Capital Managed Funds may include investment execution, underwriting and portfolio monitoring services. Each of the Allied Capital Managed Funds may separately invest in the debt or equity of companies in Allied Capital's portfolio and these investments may be senior, pari passu or junior to the debt and equity investments held by Allied Capital. Allied Capital may or may not participate in investments made by the Allied Capital Managed Funds.

During the nine months ended September 30, 2009, Allied Capital sold assets to certain of the Allied Capital Managed Funds for which it received proceeds of $9.7 million and Allied Capital recognized a net realized gain of $6.3 million. During the nine months ended September 30, 2008, Allied Capital sold assets to certain of the Allied Capital Managed Funds, for which it received proceeds of $352.7 million, and Allied Capital recognized realized gains of $2.8 million.

In addition to managing these funds, Allied Capital holds certain investments in the Allied Capital Managed Funds as follows:

($ in millions)		September 30, 2009		December 31, 2008	
Name of Fund	**Investment Description**	**Cost**	**Value**	**Cost**	**Value**
SL Fund(1)	Subordinated Certificates and Equity Interests	$ 165.2	$ 165.0	$ 125.4	$ 125.4
Allied Capital Senior Debt Fund, L.P.	Equity interests	31.8	33.0	31.8	31.8
Knightsbridge CLO 2007-1 Ltd.	Class E Notes and Income Notes	57.4	33.8	59.6	50.1
Knightsbridge CLO 2008-1 Ltd.	Class C Notes, Class D Notes, Class E Notes and Income Notes	53.2	49.2	52.7	52.7
AGILE Fund I, LLC	Equity Interests	0.7	0.4	0.7	0.5
Total		$ 308.3	$ 281.4	$ 270.2	$ 260.5

(1) Allied Capital has committed up to a total of $525.0 million of subordinated certificates to the SL Fund. The SL Fund will be capitalized as investment transactions are completed. On October 30, 2009, Allied Capital sold its investment, including its outstanding commitments and the provision of management services, in the SL Fund to Ares Capital.

Portfolio Asset Quality

Loans and Debt Securities on Non-Accrual Status

In general, interest is not accrued on loans and debt securities if Allied Capital has doubt about interest collection or where the enterprise value of the portfolio company may not support further accrual. In addition, interest may not accrue on loans to portfolio companies that are more than 50% owned by Allied Capital depending on such company's capital requirements. To the extent interest payments are received on a loan that is not accruing interest, Allied Capital may use such payments to reduce its cost basis in the investment in lieu of recognizing interest income.

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At September 30, 2009 and at December 31, 2008 and 2007, loans and debt securities at value not accruing interest for the total investment portfolio were as follows:

($ in millions)	September 30, 2009	December 31, 2008	December 31, 2007
Private finance			
Companies more than 25% owned	$ 194.2	$ 176.1	$ 135.5
Companies 5% to 25% owned	15.3		25.1
Companies less than 5% owned	96.3	151.8	37.1
Commercial real estate finance	9.2	7.7	14.3
Total	$ 315.0	$ 335.6	$ 212.0
Percentage of total portfolio	12.5%	9.6%	4.4%

At September 30, 2009 and December 31, 2008, private finance non-accruals included Allied Capital's senior secured debt in Ciena, which was $102.2 million or 4.1% and $104.9 million or 3.0%, respectively, of the total portfolio at value. The Ciena senior secured loan was acquired in the third quarter of 2008 and was placed on nonaccrual status upon its purchase. At December 31, 2007, private finance non-accruals included Allied Capital's Class A equity interest in Ciena, which was $68.6 million or 1.4% of total portfolio at value. See " Private Finance Ciena Capital LLC" above.

During the nine months ended September 30, 2009, Allied Capital placed certain interest bearing investments in eight portfolio companies on non-accrual; however, non-accruals decreased primarily due to unrealized depreciation. The increase in loans and debt securities not accruing interest as a percentage of the total portfolio as of September 30, 2009, as compared to December 31, 2008, is primarily the result of the overall decrease in the size of the portfolio. During the third quarter of 2009, one new loan was placed on non-accrual status with a fair value of approximately $14.9 million. The remainder of the increase from June 30, 2009 to September 30, 2009 was the result of a net increase in the fair value of loans on non-accrual status.

Loans and Debt Securities Over 90 Days Delinquent

Loans and debt securities greater than 90 days delinquent at value at September 30, 2009 and at December 31, 2008 and 2007 were as follows:

($ in millions)	September 30, 2009	December 31, 2008	December 31, 2007
Private finance	$ 124.8	$ 106.6	$ 139.9
Commercial mortgage loans	4.3	1.4	9.2
Total	$ 129.1	$ 108.0	$ 149.1
Percentage of total portfolio	5.1%	3.1%	3.1%

At September 30, 2009 and December 31, 2008, private finance loans and debt securities over 90 days delinquent included Allied Capital's senior secured debt in Ciena, which was $102.2 million or 4.1% and $104.9 million or 3.0%, respectively, of the total portfolio at value. The Ciena senior secured loan was acquired in the third quarter of 2008 and was placed on nonaccrual status upon its purchase. At December 31, 2007, loans and debt securities over 90 days delinquent included Allied Capital's Class A equity interest in Ciena, which was $68.6 million or 1.4% of total portfolio at value. See " Private Finance Ciena Capital LLC" above.

The increase in loans over 90 days delinquent from June 30, 2009 to September 30, 2009 was due to the addition of two new loans with a fair value of approximately $19.4 million. The remainder of the increase was the result of a net increase in the fair value of loans over 90 days delinquent.

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The amount of the portfolio that is on non-accrual status or greater than 90 days delinquent may vary from period to period primarily resulting from changes in the composition of the portfolio as a result of new investment, repayment and exit activity and changes in investment values. The private equity business is, in part, about working with troubled portfolio companies to improve their businesses and protect Allied Capital's investment. Allied Capital continues to follow its historical practice of working with portfolio companies in order to realize the potential of each investment. Loans and debt securities on non-accrual status and over 90 days delinquent should not be added together as they are two separate measures of portfolio asset quality. Loans and debt securities that are in both categories (i.e., on non-accrual status *and* over 90 days delinquent) totaled $129.1 million, $108.0 million and $149.1 million at September 30, 2009, and December 31, 2008 and 2007, respectively. Allied Capital's assets on non-accrual are higher than its loans over 90 days delinquent primarily due to the effect of loans with payment-in-kind interest. Loans with payment-in-kind interest experience no payment delinquency, but collection of that payment-in-kind interest in the future may be doubtful and Allied Capital may determine that the loan should be placed on non-accrual. Given the severity of this economic recession, Allied Capital would expect that non-accruals and loans over 90 days delinquent may increase in the future.

Other Assets and Other Liabilities

Other assets primarily are composed of fixed assets, prepaid expenses, deferred financing and offering costs and accounts receivable, which includes amounts received in connection with the sale of portfolio companies, including amounts held in escrow, and other receivables from portfolio companies. At September 30, 2009 and December 31, 2008 and 2007, other assets totaled $125.7 million, $122.9 million and $157.9 million, respectively. The decrease since December 31, 2007, was primarily the result of the March 2008 distribution of the assets held in deferred compensation trusts, which totaled $21.1 million at December 31, 2007.

Accounts payable and other liabilities primarily are composed of the liabilities related to accrued interest, bonus and taxes, including excise tax. At September 30, 2009 and December 31, 2008 and 2007, accounts payable and other liabilities totaled $45.1 million, $58.8 million and $153.3 million, respectively. The decrease in accounts payable and other liabilities since year end 2007 was in part the result of the termination of Allied Capital's deferred compensation plans in March 2008, the liability for which totaled $52.5 million at December 31, 2007. In addition, accounts payable and other liabilities at December 31, 2008 were reduced by the payment of liabilities in 2008 related to accrued 2007 bonuses of $40.1 million and excise tax of $16.0 million, offset by an increase in liabilities in 2008 related to accrued bonuses and 2009 performance awards totaling approximately $12.2 million. Accrued interest payable fluctuates from period to period depending on the amount of debt outstanding and the contractual payment dates of the interest on such debt.

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Results of Operations

Comparison of the Three and Nine Months Ended September 30, 2009 and 2008

The following table summarizes Allied Capital's operating results for the three and nine months ended September 30, 2009 and 2008.

(in thousands, except per share amounts)	For the Three Months Ended September 30, 2009 (unaudited)	2008	Change	Percent Change	For the Nine Months Ended September 30, 2009 (unaudited)	2008	Change	Percent Change
Interest and Related Portfolio Income								
Interest and dividends	$ 65,630	$ 112,207	$ (46,577)	(41.5)%	$ 230,017	$ 366,079	$ (136,062)	(37.2)%
Fees and other income	6,808	8,455	(1,647)	(19.5)%	22,233	34,105	(11,872)	(34.8)%
Total interest and related portfolio income	72,438	120,662	(48,224)	(40.0)%	252,250	400,184	(147,934)	(37.0)%
Expenses								
Interest	42,421	35,949	6,472	18.0%	129,023	109,974	19,049	17.3%
Employee	10,905	21,443	(10,538)	(49.1)%	32,939	57,439	(24,500)	(42.7)%
Employee stock options	392	1,477	(1,085)	(73.5)%	2,369	9,531	(7,162)	(75.1)%
Administrative	7,205	14,138	(6,933)	(49.0)%	25,509	36,100	(10,591)	(29.3)%
Impairment of long-lived asset					2,873		2,873	
Total operating expenses	60,923	73,007	(12,084)	(16.6)%	192,713	213,044	(20,331)	(9.5)%
Net investment income before income taxes	11,515	47,655	(36,140)	(75.8)%	59,537	187,140	(127,603)	(68.2)%
Income tax expense (benefit), including excise tax	1,930	2,060	(130)	(6.3)%	4,205	8,141	(3,936)	(48.3)%
Net investment income	9,585	45,595	(36,010)	(79.0)%	55,332	178,999	(123,667)	(69.1)%
Net Realized and Unrealized Gains (Losses)								
Net realized gains (losses)	(5,090)	62,042	(67,132)	*	(158,255)	47,330	(205,585)	*
Net change in unrealized appreciation or depreciation	(27,681)	(425,899)	398,218	*	(380,528)	(687,506)	306,978	*
Total net gains (losses)	(32,771)	(363,857)	331,086	*	(538,783)	(640,176)	101,393	*
Gain on repurchase of debt				*	83,532		83,532	*
Loss on extinguishment of debt	(117,497)		(117,497)	*	(117,497)		(117,497)	*
Net income (loss)	$ (140,683)	$ (318,262)	$ 177,579	55.8%	$ (517,416)	$ (461,177)	$ (56,239)	12.2%
Diluted earnings (loss) per common share	$ (0.79)	$ (1.78)	$ 1.00	55.9%	$ (2.89)	$ (2.70)	$ (0.19)	(7.3)%
Weighted average common shares outstanding diluted	179,054	178,692	362	0.2%	178,815	171,084	7,731	4.5%

*

Comparisons may not be meaningful. Net change in unrealized appreciation or depreciation and net gains (losses) can fluctuate significantly from period to period.

Interest and Related Portfolio Income. Interest and related portfolio income includes interest and dividend income and fees and other income.

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Interest and Dividends.

Interest and dividend income for the three and nine months ended September 30, 2009 and 2008, was composed of the following:

($ in millions)	For the Three Months Ended September 30, 2009	For the Three Months Ended September 30, 2008	For the Nine Months Ended September 30, 2009	For the Nine Months Ended September 30, 2008
Interest				
Private finance loans and debt securities	$ 55.9	$ 95.8	$ 193.8	$ 311.0
Preferred shares/income notes of CLOs	2.3	9.4	11.7	24.8
Subordinated certificates in SL Fund	5.9	2.9	11.8	4.5
Commercial mortgage loans	0.9	0.9	2.7	3.1
Cash, U.S. Treasury bills, money market and other securities	0.0	1.2	0.5	3.6
Total interest	65.0	110.2	220.5	347.0
Dividends	0.6	2.0	9.5	19.1
Total interest and dividends	$ 65.6	$ 112.2	$ 230.0	$ 366.1

The level of interest income, which includes interest paid in cash and in kind, is directly related to the balance of the interest-bearing investment portfolio outstanding during the period multiplied by the weighted average yield. The interest-bearing investments in the portfolio at value and the yield on the interest-bearing investments in the portfolio at September 30, 2009 and 2008, were as follows:

($ in millions)	2009 Value	2009 Yield(1)	2008 Value	2008 Yield(1)
Private finance:				
Loans and debt securities:				
Senior loans	$ 289.4	4.8%	$ 434.9	4.2%
Unitranche debt	374.7	12.2%	579.3	12.0%
Subordinated debt	1,182.9	13.4%	2,062.6	13.1%
Equity securities:				
Preferred shares/income notes of CLOs	84.4	12.1%	218.3	17.1%
Subordinated certificates in SL Fund	165.0	14.0%	114.3	10.3%
Commercial real estate:				
Commercial mortgage loans	50.5	6.9%	51.4	7.4%
Total interest-bearing investments	$ 2,146.9	11.9%	$ 3,460.8	11.9%

(1) The weighted average yield on loans and debt securities is computed as the (a) annual stated interest on accruing loans and debt securities plus the annual amortization of loan origination fees, original issue discount and market discount on accruing loans and debt securities less the annual amortization of loan origination costs, divided by (b) total interest-bearing investments at value. The weighted average yield on the preferred shares/income notes of CLOs is calculated as the (a) effective interest yield on the preferred shares/income notes of CLOs, divided by (b) preferred shares/income notes of CLOs at value. The weighted average yield on the subordinated certificates in the SL Fund is computed as the (a) effective interest yield on the subordinated certificates, divided by (b) total investment at value. This yield excludes any return from the potential future excess cash flows from portfolio earnings available to the subordinated certificate holders and from related structuring fees and management and sourcing fees. See " Fees and Other Income" below. The weighted average yields are computed as of the balance sheet date.

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Interest income has decreased over the 2008 periods primarily as a result of decreases in the aggregate size of the interest-bearing portfolio due to disposition of certain investments as Allied Capital has been selectively selling assets from its portfolio in order to generate capital to repay its indebtedness and de-lever its balance sheet. The amount of subordinated debt in Allied Capital's portfolio, which carries a higher yield than other categories of loans and debt securities, has decreased from $2.1 billion at September 30, 2008 to $1.2 billion at September 30, 2009. Interest income also decreased by approximately $11.4 million due to additional investments being placed on non-accrual status during the nine months ended September 30, 2009. The weighted average yield varies from period to period based on the current stated interest on interest-bearing investments, the yield on interest-bearing investments funded, the yield on amounts repaid, the amount of interest-bearing investments for which interest is not accruing, changes in the value of interest-bearing investments and the mix of interest-bearing investments in the portfolio. Because Allied Capital recently has exited, and in the future intends to exit, several interest-bearing investments in order to accumulate capital for repayment of debt, Allied Capital expects that income from its interest-bearing investments will continue to decrease for the remainder of 2009.

Dividend income results from the dividend yield on preferred equity interests, if any, or the declaration of dividends by a portfolio company on preferred or common equity interests. Dividend income for the nine months ended September 30, 2009, was $9.5 million as compared to $19.1 million for the nine months ended September 30, 2008. Dividend income for the nine months ended September 30, 2008 included a $7.1 million dividend received in connection with the recapitalization of Norwesco, Inc., and $5.4 million of dividends received in connection with the sale of certain portfolio assets to AGILE Fund I, LLC. Dividend income will vary from period to period depending upon the timing and amount of dividends that are declared or paid by a portfolio company on preferred or common equity interests.

Fees and Other Income

Fees and other income primarily include fees related to financial structuring, diligence, transaction services, management and consulting services to portfolio companies, commitments, guarantees and other services and loan prepayment premiums. As a BDC, Allied Capital is required to make significant managerial assistance available to the companies in its investment portfolio. Managerial assistance includes, but is not limited to, management and consulting services related to corporate finance, marketing, human resources, personnel and board member recruiting, business operations, corporate governance, risk management and other general business matters.

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Fees and other income for the three and nine months ended September 30, 2009 and 2008 included fees relating to the following:

($ in millions)	For the Three Months Ended September 30, 2009	2008	For the Nine Months Ended September 30, 2009	2008
Fund management fees(1)	$ 4.4	$ 1.8	$ 11.5	$ 4.0
Management, consulting and other services provided to portfolio companies	1.8	2.9	5.9	8.9
Structuring and diligence	0.0	2.3	1.5	15.8
Commitment, guaranty and other fees from portfolio companies	0.6	1.1	2.4	4.7
Loan prepayment premiums		0.3	0.9	0.6
Other income		0.1		0.1
Total fees and other income	$ 6.8	$ 8.5	$ 22.2	$ 34.1

(1) See " Portfolio and Investment Activity Managed Funds" above.

Fees and other income generally are related to specific transactions or services and therefore may vary substantially from period to period depending on the level of investment activity and types of services provided and the level of assets in Allied Capital Managed Funds for which Allied Capital earns management or other fees.

The increase in fund management fees for the three and nine months ended September 30, 2009 as compared to the three and nine months ended September 30, 2008 was due to an increase in assets under management related to the Allied Capital Managed Funds. The amount of fund management fees is directly based on the amount of assets under management.

On October 30, 2009, Allied Capital sold its interests, including its outstanding commitments and the provision of management services, in the SL Fund to Ares Capital. For the three and nine months ended September 30, 2009, fee income related to the SL Fund was approximately $1.2 million and $4.5 million, respectively.

Despite the increase in assets under management for the three and nine months ended September 30, 2009, fees and other income were lower for the three and nine months ended September 30, 2009 than for the three and nine months ended September 30, 2008 due to the significant decrease in Allied Capital's investment activity.

Loan origination fees that represent yield enhancement on a loan are capitalized and amortized into interest income over the life of the loan.

Structuring and diligence fees included fees earned by Allied Capital in connection with investments made by the SL Fund of $0.0 million and $2.1 million for the three months ended September 30, 2009 and 2008, respectively, and $1.4 million and $9.3 million, for the nine months ended September 30, 2009 and 2008, respectively. See " Managed Funds" above. The remainder of the structuring and diligence fees for 2008 primarily related to the higher level of new investment execution activities in 2008. Because Allied Capital expects new investment activity to continue to be at a low level, Allied Capital expects structuring and diligence fees to be lower for 2009 than for 2008.

Operating Expenses. Operating expenses include interest, employee, employee stock options, administrative expenses and the impairment of a long-lived asset.

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Interest Expense

The fluctuations in interest expense during the three and nine months ended September 30, 2009 and 2008 primarily were attributable to increases in Allied Capital's weighted average cost of debt capital as well as changes in the level of Allied Capital's borrowings under various notes payable and its former revolving line of credit. Allied Capital's contractual borrowing activity and weighted average cost of debt, including fees and debt financing costs, at and for the three and nine months ended September 30, 2009 and 2008, were as follows:

	At and for the Three Months Ended September 30,		At and for the Nine Months Ended September 30,	
($ in millions)	**2009**	**2008**	**2009**	**2008**
Total outstanding debt at par	$ 1,636.5	$ 2,131.0	$ 1,636.5	$ 2,131.0
Average outstanding debt	$ 1,711.8	$ 1,967.2	$ 1,839.0	$ 2,072.8
Weighted average cost(1)	10.7%	6.8%	10.7%	6.8%

(1) The weighted average annual interest cost is computed as the (a) annual stated interest rate on the debt plus the annual amortization of commitment fees, other facility fees and debt financing costs that are recognized into interest expense over the contractual life of the respective borrowings, divided by (b) debt outstanding on the balance sheet date.

On December 30, 2008, Allied Capital amended its former private notes and former revolving line of credit, which increased the stated interest rate on those obligations by 100 basis points. Subsequent to this amendment, events of default occurred on these instruments. Pursuant to the terms of the former revolving credit facility, during the continuance of an event of default, the applicable spread on outstanding borrowings and fees on any letters of credit outstanding under the former revolving credit facility increased by an additional 200 basis points. Pursuant to the private notes, during the continuance of an event of default, the rate of interest borne by the former private notes increased by an additional 200 basis points. During the three and nine months ended September 30, 2009, Allied Capital incurred additional interest expense totaling $3.2 million and $12.0 million, respectively, related to the default interest. On August 28, 2009, Allied Capital completed the restructuring of its private notes and bank facility. The restructuring significantly increases Allied Capital's cost of capital. See " Financial Condition, Liquidity and Capital Resources" below.

In addition, interest expense included interest paid to the IRS related to installment sale gains totaling $1.5 million and $2.0 million for the three months ended September 30, 2009 and 2008, respectively, and $4.9 million and $5.8 million for the nine months ended September 30, 2009 and 2008, respectively. Installment interest expense for the year ended December 31, 2009, is estimated to be approximately $7.8 million. See " Dividends and Distributions" below.

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Employee Expense

Employee expenses for the three and nine months ended September 30, 2009 and 2008 were as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
($ in millions)	**2009**	**2008**	**2009**	**2008**
Salaries and employee benefits(1)	$ 10.9	$ 17.0	$ 32.9	$ 48.1
Individual performance award (IPA)		2.0		6.6
IPA mark to market expense (benefit)				(4.1)
Individual performance bonus (IPB)		2.4		6.8
Total employee expense(2)	$ 10.9	$ 21.4	$ 32.9	$ 57.4
Number of employees at end of period	112	155	112	155

(1) Includes bonuses and performance awards.

(2) Excludes employee stock options expense. See below.

During the second half of 2008, Allied Capital consolidated its investment execution activities to its Washington, D.C. headquarters and its office in New York in an effort to improve its operating efficiencies and reduced Allied Capital's headcount by approximately 50 employees. Allied Capital's employee expense for the first three quarters of 2009 reflects this reduction in headcount. During the third quarter of 2009, Allied Capital further reduced headcount by approximately 22 employees. In connection with this reduction in headcount, Allied Capital incurred approximately $1.6 million of severance expense in the third quarter of 2009.

The quarterly accrual for employee bonuses is based upon an estimate of annual bonuses and is subject to change. The amount of the current year bonuses will be finalized by Allied Capital's compensation committee and the board of directors at the end of the year. Employee bonuses generally are paid after the completion of the fiscal year.

The individual performance awards, or "IPA," and individual performance bonus, or "IPB," were part of an incentive compensation program for certain officers and generally were determined annually at the beginning of each year but could be adjusted throughout the year. In 2008, the IPA was paid in cash in two equal installments during the year. Through December 31, 2007, the IPA amounts were contributed into a trust and invested in Allied Capital common stock. The IPB was distributed in cash to award recipients throughout the year (beginning in February of each respective year) as long as the recipient remained employed by Allied Capital. Allied Capital has not established an IPA or IPB for 2009.

The trusts for the IPA payments were consolidated with Allied Capital's accounts. The common stock was classified as common stock held in deferred compensation trust in Allied Capital's financial statements and the deferred compensation obligation, which represented the amount owed to the employees, was included in other liabilities. Changes in the value of Allied Capital common stock held in the deferred compensation trust were not recognized. However, the liability was marked to market with a corresponding charge or credit to employee compensation expense. In December 2007, Allied Capital's board of directors made a determination that it was in Allied Capital's best interest to terminate its deferred compensation arrangements. Allied Capital's board of director's decision primarily was in response to increased complexity resulting from changes in the regulation of deferred compensation arrangements. Allied Capital's board of directors resolved that the accounts under these arrangements would be distributed to participants in full on March 18, 2008, the termination and

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distribution date, or as soon as was reasonably practicable thereafter, in accordance with the provisions of each of these arrangements.

The accounts under the deferred compensation arrangements totaled $52.5 million at December 31, 2007. The balances on the termination date were distributed to participants in March 2008 subsequent to the termination date, in accordance with the transition rule for payment elections under Section 409A of the Code. Distributions from the plans were made in cash or shares of Allied Capital common stock, net of required withholding taxes. The distribution of the accounts under the deferred compensation arrangements resulted in a tax deduction for 2008, subject to the limitations set by Section 162(m) of the Code for persons subject to such section.

Employee Stock Options Expense

The employee stock options expense for the three and nine months ended September 30, 2009 and 2008 was as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
($ in millions)	**2009**	**2008**	**2009**	**2008**
Employee Stock Option Expense:				
Previously awarded, unvested options as of January 1, 2006	$	$	$	$ 3.9
Options granted on or after January 1, 2006	0.4	1.5	2.4	5.6
Total employee stock option expense	$ 0.4	$ 1.5	$ 2.4	$ 9.5

On March 3, 2009, the compensation committee of Allied Capital's board of directors granted 10.6 million options with an exercise price of $0.73 per share. The options vest in three equal installments on June 30, 2009, June 30, 2010 and June 30, 2011. On May 13, 2009, the compensation committee of Allied Capital's board of directors granted 0.9 million options with an exercise price of $2.63 per share. A total of 55,000 options vested immediately and the remaining options vest as follows: 166,667 on June 30, 2009, 333,333 on April 30, 2010, 180,000 on June 30, 2010 and 180,000 on June 30, 2011.

Allied Capital estimates that the employee-related stock options expense will be approximately $3.4 million, $3.9 million and $4.0 million for the years ended December 31, 2009, 2010, and 2011, respectively. This estimate does not include any expense related to stock option grants after September 30, 2009, as the fair value of those stock options will be determined at the time of grant. This estimate may change if Allied Capital's assumptions related to future option forfeitures change.

Administrative Expense

Administrative expenses include legal and accounting fees, valuation assistance fees, insurance premiums, the cost of leases for Allied Capital's headquarters in Washington, D.C. and its regional offices, portfolio origination and development expenses, travel costs, stock record expenses, directors' fees and stock option expense and various other expenses.

Administrative expenses were $7.2 million and $14.1 million, for the three months ended September 30, 2009 and 2008, respectively, and $25.5 million and $36.1 million for the nine months ended September 30, 2009 and 2008, respectively. Administrative expenses decreased primarily due to a decrease in travel costs and other professional fees.

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Impairment of Long-Lived Asset

In its efforts to reduce overall administrative expenses, Allied Capital sold its corporate aircraft during 2009. The sales price of the aircraft was less than its carrying cost, therefore, Allied Capital recorded an impairment charge of $2.9 million during the quarter ended March 31, 2009.

Loss on Extinguishment of Debt. During the third quarter of 2009, Allied Capital completed a comprehensive restructuring of its private notes and bank facility and recorded a loss on the extinguishment of debt of $117.5 million. In addition to the $11 million of previously deferred unamortized debt costs associated with the private notes and bank facility, Allied Capital incurred and paid costs to the lenders of $146 million and other third party advisory and other fees of approximately $26 million in connection with the restructuring. Approximately $20 million of the restructuring costs were deferred and are being amortized into interest expense over the life of the private notes and bank facility. In addition, Allied Capital recorded approximately $45 million of original issue discount, or "OID," related to the restructuring of the private notes, which is being amortized into interest expense over the life of the private notes. The loss on extinguishment of debt is comprised of the following:

($ in millions)	
Previously deferred unamortized costs	$ 11.3
Fees paid to noteholders/lenders	145.9
Advisory and other fees paid	26.0
Costs deferred and amortizing into interest expense	(20.3)
OID recorded and amortizing into interest expense	(45.4)
Loss on extinguishment of debt	$ 117.5

Gain on Repurchase of Debt. During the nine months ended September 30, 2009, Allied Capital purchased publicly issued notes in the market with a total par value of $134.5 million, which consisted of $80.1 million of Allied Capital's 6.625% Notes due 2011 and $54.4 million of Allied Capital's 6.000% Notes due 2012, for a total cost of $50.3 million. After recognizing the remaining unamortized original issue discount associated with the notes repurchased, Allied Capital recognized a net gain on repurchase of debt of $0.0 million and $83.5 million for the three and nine months ended September 30, 2009, respectively.

Income Tax Expense (Benefit), Including Excise Tax. Income tax expense (benefit) for the three and nine months ended September 30, 2009 and 2008 was as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
($ in millions)	2009	2008	2009	2008
Income tax expense (benefit)	$ 1.9	$ 1.2	$ 4.2	$ 3.0
Excise tax expense(1)		0.9		5.1
Income tax expense (benefit), including excise tax	$ 1.9	$ 2.1	$ 4.2	$ 8.1

(1) While excise tax expense is presented in Allied Capital's consolidated statement of operations as a reduction to net investment income, excise tax relates to both net investment income and net realized gains (losses).

Allied Capital's wholly-owned subsidiary, A.C. Corporation, is a corporation subject to federal and state income taxes and records a benefit or expense for income taxes as appropriate based on its operating results in a given period. Allied Capital did not record an excise tax for the three and nine months ended September 30, 2009. See " Dividends and Distributions" below.

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Realized Gains and Losses. Net realized gains or losses primarily result from the sale of portfolio investments. Net realized gains (losses) for the three and nine months ended September 30, 2009 and 2008 were as follows:

($ in millions)	For the Three Months Ended September 30, 2009	For the Three Months Ended September 30, 2008	For the Nine Months Ended September 30, 2009	For the Nine Months Ended September 30, 2008
Realized gains	$ 14.5	$ 97.5	$ 35.9	$ 135.2
Realized losses	(19.6)	(35.5)	(194.2)	(87.9)
Net realized gains (losses)	$ (5.1)	$ 62.0	$ (158.3)	$ 47.3

When Allied Capital exits an investment and realizes a gain or loss, it makes an accounting entry to reverse any unrealized appreciation or depreciation, respectively, that Allied Capital had previously recorded to reflect the appreciated or depreciated value of the investment.

For the three and nine months ended September 30, 2009 and 2008, Allied Capital reversed previously recorded unrealized appreciation or depreciation when gains or losses were realized or dividends were received as follows:

($ in millions)	For the Three Months Ended September 30, 2009	For the Three Months Ended September 30, 2008	For the Nine Months Ended September 30, 2009	For the Nine Months Ended September 30, 2008
Reversal of previously recorded net unrealized appreciation associated with realized gains	$ (8.9)	$ (80.4)	$ (20.8)	$ (115.1)
Reversal of previously recorded net unrealized appreciation associated with dividends received	(0.4)	(1.6)	(10.8)	(15.1)
Reversal of previously recorded net unrealized depreciation associated with realized losses	18.0	34.8	151.3	80.2
Total reversal	$ 8.7	$ (47.2)	$ 119.7	$ (50.0)

Realized gains for the three months ended September 30, 2009 and 2008 were as follows:

($ in millions)

2009 Portfolio Company	Amount
Private Finance:	
CK Franchising, Inc.	$ 13.6
Other	0.9
Total private finance	14.5
Commercial Real Estate:	
Other	

Total commercial real estate		
Total realized gains	$	14.5

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2008	
Portfolio Company	**Amount**
Private Finance:	
Norwesco, Inc.	$ 86.9
BI Incorporated	7.4
Passport Health Communications, Inc.	1.8
Other	1.3
Total private finance	97.4
Commercial Real Estate:	
Other	0.1
Total commercial real estate	0.1
Total realized gains	$ 97.5

Realized losses for the three months ended September 30, 2009 and 2008 were as follows:

($ in millions)

2009	
Portfolio Company	**Amount**
Private Finance:	
Worldwide Express Operations, LLC	$ 13.0
Baird Capital Partners IV Limited	2.0
Snow Phipps Group, L.P.	1.6
Centre Capital Investors V, L.P.	1.4
Other	1.6
Total private finance	19.6
Commercial Real Estate:	
Real Estate Owned	
Total commercial real estate	
Total realized gains	19.6

2008	
Portfolio Company	**Amount**
Private Finance:	
Pendum, Inc.	$ 34.0
Other	1.5
Total realized losses	$ 35.5

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Realized gains for the nine months ended September 30, 2009 and 2008 were as follows:

($ in million)

2009 Portfolio Company	Amount
Private Finance:	
CK Franchising, Inc.	$ 13.6
Advantage Sales & Marketing, Inc.	6.9
GC-Sun Holdings, LP	6.8
Other	4.4
Total private finance	31.7
Commercial Real Estate:	
Real Estate Owned	4.1
Other	0.1
Total commercial real estate	4.2
Total realized gains	$ 35.9

2008 Portfolio Company	Amount
Private Finance:	
Norwesco, Inc.	$ 97.6
BI Incorporated	7.4
BenefitMall, Inc.	4.9
Advantage Sales & Marketing, Inc.(1)	3.4
Mercury Air Centers, Inc.	3.3
Financial Pacific Company	3.1
Passport Health Communications, Inc.	1.8
Service Champ, Inc.	1.7
Penn Detroit Diesel Allison, LLC	1.4
Coverall North America, Inc.	1.4
Med Assets, Inc.	1.3
CR Holdings, Inc.	1
Other	6.5
Total private finance	134.8
Commercial Real Estate:	
Other	0.4
Total commercial real estate	0.4
Total realized gains	$ 135.2

(1) Includes an additional realized gain of $1.9 million related to the release of escrowed funds from the sale of Allied Capital's majority equity investment in 2006.

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Realized losses for the nine months ended September 30, 2009 and 2008 were as follows:

($ in millions)

2009	
Portfolio Company	**Amount**
Private Finance:	
MHF Logistical Solutions, Inc.	$ 70.7
Advantage Sales & Marketing, Inc.	27.3
Triax Holdings, LLC	22.7
Worldwide Express Operations, LLC	13.0
FCP-BHI Holdings, LLC	8.2
Augusta Sportswear Group, Inc.	6.2
The Hillman Companies, Inc.	5.7
Old Orchard Brands, LLC	4.5
Tank Intermediate Holding Corp.	4.2
Abraxas Corporation	3.5
Pro Mach, Inc.	2.9
Becker Underwood, Inc.	2.8
Baird Capital Partners IV Limited	2.0
Penn Detroit Diesel Allison, LLC	1.7
Snow Phipps Group, L.P.	1.6
Centre Capital Investors V, L.P.	1.4
Huddle House, Inc.	1.3
Summit Energy Services, Inc.	1.3
Other	5.3
Total private finance	186.3
Commercial Real Estate:	
Real Estate Owned	7.9
Other	
Total commercial real estate	7.9
Total realized losses	$ 194.2

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2008	
Portfolio Company	**Amount**
Private Finance:	
Pendum, Inc.	$ 34.0
Creative Group, Inc.	15.6
Crescent Equity Corp-Longview Cable & Data LLC	8.4
Mid-Atlantic Venture Fund IV, L.P.	5.2
WMA Equity Corporation and Affiliates	4.5
Driven Brands, Inc.	1.9
Direct Capital Corporation	1.7
EarthColor, Inc.	1.7
Sweet Traditions, Inc.	1.5
Walker Investment Fund II, LLLP	1.4
Other	9.5
Total private finance	85.4
Commercial Real Estate:	
Other	2.5
Total commercial real estate	2.5
Total realized losses	$ 87.9

During the nine months ended September 30, 2009, Allied Capital focused its efforts on selectively selling assets from its portfolio in order to generate capital to repay indebtedness and de-lever its balance sheet. These asset sales have been completed under distressed conditions in a very difficult market and consequently Allied Capital has realized net losses upon their disposition. For the nine months ended September 30, 2009, Allied Capital sold or had repayments on portfolio investments that generated cash proceeds of $650.8 million.

Realized gains and losses for the nine months ended September 30, 2009 and 2008, included net realized gains of $6.3 million and $2.8 million, respectively (subsequent to post-closing adjustments), from the sales of certain investments to Allied Capital Managed Funds. See " Managed Funds" above.

Change in Unrealized Appreciation or Depreciation. Allied Capital determines the value of each investment in its portfolio on a quarterly basis and changes in value result in unrealized appreciation or depreciation being recognized in Allied Capital's statement of operations. "Value," as defined in Section 2(a)(41) of the Investment Company Act, is (1) the market price for those securities for which a market quotation is readily available and (2) for all other securities and assets, fair value is as determined in good faith by the board of directors. Since there is typically no readily available market value for the investments in its portfolio, Allied Capital values substantially all of its portfolio investments at fair value as determined in good faith by Allied Capital's board of directors in accordance with Allied Capital's valuation policy and the provisions of the Investment Company Act and ASC 820, which includes the codification of FASB Statement No. 157, *Fair Value Measurements* and related interpretations, collectively, the "Statement." Allied Capital determines fair value to be the price that would be received for an investment in a current sale, which assumes an orderly transaction between market participants on the measurement date. At September 30, 2009, portfolio investments recorded at fair value using level 3 inputs (as defined under the Statement) were approximately 88% of Allied Capital's total assets. Because of the inherent uncertainty of determining the fair value of investments that do not have a readily available market quotation in an active market, the fair value of Allied Capital's investments determined in good faith by its board of directors may differ significantly

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from the values that would have been used had a ready market existed for the investments and the differences could be material.

There is no single approach for determining fair value in good faith. As a result, determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment while employing a consistently applied valuation process for the types of investments Allied Capital makes. Unlike banks, Allied Capital is not permitted to provide a general reserve for anticipated loan losses. Instead, Allied Capital is required to specifically value each individual investment on a quarterly basis. Allied Capital will record unrealized depreciation on investments when it determines that the fair value of a security is less than its cost basis and Allied Capital will record unrealized appreciation when it determines that the fair value is greater than its cost basis. Changes in fair value are recorded in Allied Capital's statement of operations as net change in unrealized appreciation or depreciation.

As a BDC, Allied Capital invests in illiquid securities including debt and equity securities of portfolio companies, CLO bonds and preferred shares/income notes, CDO bonds and investment funds. The structure of each debt and equity security is specifically negotiated to enable Allied Capital to protect its investment and maximize its returns. Allied Capital includes many terms governing interest rate, repayment terms, prepayment penalties, financial covenants, operating covenants, ownership parameters, dilution parameters, liquidation preferences, voting rights and put or call rights. Allied Capital's investments may be subject to certain restrictions on resale and generally have no established trading market.

Because of the type of investments that Allied Capital makes and the nature of its business, Allied Capital's valuation process requires an analysis of various factors. Allied Capital's fair value methodology includes the examination of, among other things, the underlying investment performance, financial condition and market changing events that impact valuation.

Valuation Methodology

Allied Capital adopted the standards in ASC Topic 820 on a prospective basis in the first quarter of 2008. These standards require Allied Capital to assume that the portfolio investment is to be sold in the principal market to market participants or, in the absence of a principal market, the most advantageous market, which may be a hypothetical market. Market participants are defined as buyers and sellers in the principal or most advantageous market that are independent, knowledgeable and willing and able to transact. In accordance with the Statement, Allied Capital has considered its principal market or the market in which Allied Capital exits its portfolio investments with the greatest volume and level of activity.

Allied Capital has determined that for its buyout investments, where Allied Capital has control or could gain control through an option or warrant security, both the debt and equity securities of the portfolio investment would exit in the merger and acquisition, or "M&A," market as the principal market, generally through a sale or recapitalization of the portfolio company. Allied Capital believes that the in-use premise of value (as defined in ASC Topic 820), which assumes the debt and equity securities are sold together, is appropriate as this would provide maximum proceeds to the seller. As a result, Allied Capital uses the enterprise value methodology to determine the fair value of these investments. Enterprise value means the entire value of the company to a market participant, including the sum of the values of debt and equity securities used to capitalize the enterprise at a point in time. Enterprise value is determined using various factors, including cash flow from operations of the portfolio company, multiples at which private companies are bought and sold and other pertinent factors, such as recent offers to purchase a portfolio company, recent transactions involving the purchase or sale of the portfolio company's equity securities, liquidation events or other events. Allied Capital allocates the enterprise value to these securities in order of the legal priority of the securities.

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There is no one methodology to determine enterprise value and, in fact, for any one portfolio company, enterprise value is best expressed as a range of fair values. However, Allied Capital must derive a single estimate of enterprise value. To determine the enterprise value of a portfolio company, Allied Capital analyzes the portfolio company's historical and projected financial results. This financial and other information is generally obtained from the portfolio companies and may represent unaudited, projected or pro forma financial information. Allied Capital generally requires portfolio companies to provide annual audited and quarterly unaudited financial statements as well as annual projections for the upcoming fiscal year. Typically in the private equity business, companies are bought and sold based on multiples of EBITDA, cash flow, net income, revenues or, in limited instances, book value. The private equity industry uses financial measures such as EBITDA or EBITDAM (Earnings Before Interest, Taxes, Depreciation, Amortization and, in some instances, Management fees) in order to assess a portfolio company's financial performance and to value a portfolio company. EBITDA and EBITDAM are not intended to represent cash flow from operations as defined by U.S. generally accepted accounting principles and such information should not be considered as an alternative to net income, cash flow from operations or any other measure of performance prescribed by U.S. generally accepted accounting principles. When using EBITDA to determine enterprise value, Allied Capital may adjust EBITDA for non-recurring items. Such adjustments are intended to normalize EBITDA to reflect the portfolio company's earnings power. Adjustments to EBITDA may include compensation to previous owners, acquisition, recapitalization or restructuring related items or one-time non-recurring income or expense items.

In determining a multiple to use for valuation purposes, Allied Capital generally looks to private M&A statistics, the entry multiple for the transaction, public trading multiples or industry practices. In estimating a reasonable multiple, Allied Capital considers not only the fact that its portfolio company may be a private company relative to a peer group of public comparables, but Allied Capital also considers the size and scope of its portfolio company and the specific strengths and weaknesses of the portfolio company. In some cases, the best valuation methodology may be a discounted cash flow analysis based on future projections. If a portfolio company is distressed, a liquidation analysis may provide the best indication of enterprise value.

While Allied Capital typically exits its securities upon the sale or recapitalization of the portfolio company in the M&A market, for investments in portfolio companies where Allied Capital does not have control or the ability to gain control through an option or warrant security, Allied Capital cannot typically control the exit of its investment into its principal market (the M&A market). As a result, in accordance with ASC Topic 820, Allied Capital is required to determine the fair value of these investments assuming a sale of the individual investment (the in-exchange premise of value) in a hypothetical market to a hypothetical market participant. Allied Capital continues to perform an enterprise value analysis for the investments in this category to assess the credit risk of the loan or debt security and to determine the fair value of Allied Capital's equity investment in these portfolio companies. The determined equity values are generally discounted when Allied Capital has a minority ownership position, restrictions on resale, specific concerns about the receptivity of the capital markets to a specific company at a certain time or other factors. For loan and debt securities, Allied Capital performs a yield analysis assuming a hypothetical current sale of the investment. The yield analysis requires Allied Capital to estimate the expected repayment date of the instrument and a market participant's required yield. Allied Capital's estimate of the expected repayment date of a loan or debt security may be shorter than the legal maturity of the instruments as Allied Capital's loans have historically been repaid prior to the maturity date. The yield analysis considers changes in interest rates and changes in leverage levels of the loan or debt security as compared to market interest rates and leverage levels. Assuming the credit quality of the loan or debt security remains stable, Allied Capital will use the value determined by the yield analysis as the fair value for that security. A change in the assumptions that Allied Capital uses to estimate the fair value of its loans and debt securities using the yield analysis could have a material impact on the determination of fair value. If there is deterioration in credit quality or a loan or debt security is in workout status, Allied Capital may consider other factors in determining the fair value of a loan or debt security, including the value attributable to the loan or debt security from the enterprise value of the portfolio company or the proceeds that would be received in a liquidation analysis.

Allied Capital's equity investments in private debt and equity funds are generally valued based on the fund's net asset value, unless other factors lead to a determination of fair value at a different amount. The value of Allied Capital's equity securities in public companies for which quoted prices in an active market are readily available is based on the closing public market price on the measurement date.

The fair value of Allied Capital's CLO/CDO Assets is generally based on a discounted cash flow model that utilizes prepayment, re-investment, loss and ratings assumptions based on historical experience and projected performance, economic factors, the characteristics of the underlying cash flow and comparable yields for similar bonds and preferred shares/ income notes, when available. Allied Capital recognizes unrealized appreciation or depreciation on its CLO/CDO Assets as comparable yields in the market change and/or based on changes in estimated cash flows resulting from changes in prepayment, re-investment, loss or ratings assumptions in the underlying collateral pool or changes in redemption assumptions for the CLO/CDO Assets, if applicable. Allied Capital determines the fair value of its CLO/CDO Assets on an individual security-by-security basis. If Allied Capital were to sell a group of these CLO/CDO Assets in a pool in one or more transactions, the total value received for that pool may be different than the sum of the fair values of the individual assets.

Allied Capital records unrealized depreciation on investments when it determines that the fair value of a security is less than its cost basis and records unrealized appreciation when it determines that the fair value is greater than its cost basis. Because of the inherent uncertainty of valuation, the values determined at the measurement date may differ significantly from the values that would have been used had a ready market existed for the investments and the differences could be material. Additionally, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the values determined at the measurement date.

In accordance with ASC Topic 820 (discussed below), Allied Capital does not consider a transaction price that is associated with a transaction that is not orderly to be indicative of fair value or market participant risk premiums and accordingly would place little, if any, weight on transactions that are not orderly in determining fair value. When considering recent potential or completed transactions, Allied Capital uses judgment in determining if such offers or transactions were pursuant to an orderly process for purposes of determining how much weight is placed on these data points in accordance with the applicable guidelines in ASC Topic 820.

As a participant in the private equity business, Allied Capital invests primarily in private middle-market companies for which there is generally no publicly available information. Because of the private nature of these businesses, there is a need to maintain the confidentiality of the financial and other information that Allied Capital has for the private companies in its portfolio. Allied Capital believes that maintaining this confidence is important, as disclosure of such information could disadvantage its portfolio companies and could put Allied Capital at a disadvantage in attracting new investments. Therefore, Allied Capital does not intend to disclose financial or other information about its portfolio companies, unless required, because Allied Capital believes doing so may put them at an economic or competitive disadvantage, regardless of Allied Capital's level of ownership or control.

Allied Capital works with third-party consultants to obtain assistance in determining fair value for a portion of the private finance portfolio each quarter. Allied Capital works with these consultants to obtain assistance as additional support in the preparation of its internal valuation analysis. In addition, Allied Capital may receive third-party assessments of a particular private finance portfolio company's value in the ordinary course of business, most often in the context of a prospective sale transaction or in the context of a bankruptcy process.

The valuation analysis prepared by management is submitted to Allied Capital's board of directors who is ultimately responsible for the determination of fair value of the portfolio in good faith. Valuation assistance from Duff & Phelps, LLC, or "Duff & Phelps," for Allied Capital's private finance portfolio consisted of certain limited procedures, or "the Procedures," Allied Capital identified and requested them to perform. Based upon the performance of the Procedures on a selection of Allied Capital's final portfolio company valuations, Duff & Phelps concluded that the fair value of those portfolio companies subjected to the Procedures did not appear unreasonable. In addition, Allied Capital also received third-party valuation assistance from other third-party consultants for certain private finance portfolio companies. For the three and nine months ended September 30, 2009 and 2008, Allied Capital received third-party valuation assistance as follows:

	2009			**2008**		
	Q1	**Q2**	**Q3**	**Q1**	**Q2**	**Q3**
Number of private finance portfolio companies reviewed	93	91	78	124	119	128
Percentage of private finance portfolio reviewed at value	94.0%	96.9%	97.8%	94.0%	94.9%	97.2%

Professional fees for third-party valuation assistance were $1.9 million for the year ended December 31, 2008 and are estimated to be approximately $1.3 million for 2009.

Net Change in Unrealized Appreciation or Depreciation

Net change in unrealized appreciation or depreciation for the three and nine months ended September 30, 2009 and 2008 consisted of the following:

	For the Three Months September 30,		**For the Nine Months September 30,**	
($ in millions)	**2009(1)**	**2008(1)**	**2009(1)**	**2008(1)**
Net unrealized appreciation (depreciation)	$ (36.4)	$ (378.7)	$ (500.2)	$ (637.5)
Reversal of previously recorded unrealized appreciation associated with realized gains	(8.9)	(80.4)	(20.8)	(115.1)
Reversal of previously recorded net unrealized appreciation associated with dividends received	(0.4)	(1.6)	(10.8)	(15.1)
Reversal of previously recorded unrealized depreciation associated with realized losses	18.0	34.8	151.3	80.2
Net change in unrealized appreciation or depreciation	$ (27.7)	$ (425.9)	$ (380.5)	$ (687.5)

(1) The net change in unrealized appreciation or depreciation can fluctuate significantly from period to period. As a result, quarterly comparisons may not be meaningful.

Per Share Amounts. All per share amounts included in Management's Discussion and Analysis of Financial Condition and Results of Operations of Allied Capital have been computed using the weighted average common shares used to compute diluted earnings per share, which were 179.1 million and 178.7 million for the three months ended September 30, 2009 and 2008, respectively, and were 178.8 million and 171.1 million for the nine months ended September 30, 2009 and 2008, respectively.

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Comparison of the Years Ended December 31, 2008, 2007 and 2006

The following table summarizes Allied Capital's operating results for the years ended December 31, 2008, 2007 and 2006.

(in thousands, except per share amounts)	**2008**	**2007**	**Change**	**Percent Change**	**2007**	**2006**	**Change**	**Percent Change**
Interest and Related Portfolio Income								
Interest and dividends	$ 457,418	$ 417,576	$ 39,842	10%	$ 417,576	$ 386,427	$ 31,149	8%
Fees and other income	44,826	44,129	697	2%	44,129	66,131	(22,002)	(33)%
Total interest and related portfolio income	502,244	461,705	40,539	9%	461,705	452,558	9,147	2%
Expenses								
Interest	148,930	132,080	16,850	13%	132,080	100,600	31,480	31%
Employee	76,429	89,155	(12,726)	(14)%	89,155	92,902	(3,747)	(4)%
Employee stock options	11,781	35,233	(23,452)	(67)%	35,233	15,599	19,634	126%
Administrative	49,424	50,580	(1,156)	(2)%	50,580	39,005	11,575	30%
Total operating expenses	286,564	307,048	(20,484)	(7)%	307,048	248,106	58,942	24%
Net investment income before income taxes	215,680	154,657	61,023	39%	154,657	204,452	(49,795)	(24)%
Income tax expense, including excise tax	2,506	13,624	(11,118)	(82)%	13,624	15,221	(1,597)	(10)%
Net investment income	213,174	141,033	72,141	51%	141,033	189,231	(48,198)	(25)%
Net Realized and Unrealized Gains (Losses)								
Net realized gains (losses)	(129,418)	268,513	(397,931)	(148)%	268,513	533,301	(264,788)	(50)%
Net change in unrealized appreciation or depreciation	(1,123,762)	(256,243)	(867,519)	*	(256,243)	(477,409)	221,166	*
Total net gains (losses)	(1,253,180)	12,270	(1,265,450)	*	12,270	55,892	(43,622)	*
Net income	$ (1,040,006)	$ 153,303	$ (1,193,309)	(778)%	$ 153,303	$ 245,123	$ (91,820)	(37)%
Diluted earnings per common share	$ (6.01)	$ 0.99	$ (7.00)	(707)%	$ 0.99	$ 1.68	$ (0.69)	(41)%
Weighted average common shares outstanding diluted	172,996	154,687	18,309	12%	154,687	145,599	9,088	6%

*

Net change in unrealized appreciation or depreciation and net gains (losses) can fluctuate significantly from year to year. As a result, comparisons may not be meaningful.

Total Interest and Related Portfolio Income. Total interest and related portfolio income includes interest and dividend income and fees and other income.

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Interest and Dividends

Interest and dividend income for the years ended December 31, 2008, 2007 and 2006 were composed of the following:

($ in millions)	2008	2007	2006
Interest			
Private finance loans and debt securities	$ 393.3	$ 376.1	$ 348.4
Preferred shares/income notes of CLOs	34.1	18.0	11.5
Subordinated certificates in SL Fund(1)	8.3		
Commercial mortgage loans	4.1	6.4	8.3
Cash, U.S. Treasury bills, money market and other securities	4.4	15.1	14.0
Total interest	444.2	415.6	382.2
Dividends	13.2	2.0	4.2
Total interest and dividends	$ 457.4	$ 417.6	$ 386.4

(1) In June 2009, the Unitranche Fund LLC was renamed the SL Fund LLC. On October 30, 2009, Allied Capital sold its investment, including its outstanding commitments and the provision of management services, in the SL Fund to Ares Capital.

The level of interest income, which includes interest paid in cash and in kind, is directly related to the balance of the interest-bearing investment portfolio outstanding during the year multiplied by the weighted average yield. The interest-bearing investments in the portfolio at value and the yield on the interest-bearing investments in the portfolio at December 31, 2008, 2007 and 2006 were as follows:

	2008		2007		2006	
($ in millions)	Value	Yield(1)	Value	Yield(1)	Value	Yield(1)
Private finance:						
Loans and debt securities:						
Senior loans	$ 306.3	5.6%	$ 344.3	7.7%	$ 405.2	8.4%
Unitranche debt	456.4	12.0%	653.9	11.5%	799.2	11.2%
Subordinated debt	1,829.1	12.9%	2,416.4	12.8%	1,980.8	12.9%
Equity securities:						
Preferred shares/income notes of CLOs	179.2	16.4%	203.0	14.6%	97.2	15.5%
Subordinated certificates in SL Fund	125.4	12.0%	0.7	12.4%		
Commercial real estate:						
Commercial mortgage loans	53.5	7.4%	65.4	6.8%	71.9	7.5%
Total interest-bearing investments	$ 2,949.9	12.1%	$ 3,683.7	12.1%	$ 3,354.3	11.9%

(1) The weighted average yield on loans and debt securities is computed as the (a) annual stated interest on accruing loans and debt securities plus the annual amortization of loan origination fees, original issue discount and market discount on accruing loans and debt securities less the annual amortization of loan origination costs, divided by (b) total interest-bearing investments at value. The

weighted average yield on the preferred shares/income notes of CLOs is calculated as the (a) effective interest yield on the preferred shares/income notes of CLOs, divided by (b) preferred shares/income notes of CLOs at value. The weighted average yield on the subordinated certificates in the SL Fund is computed as the (a) annual stated interest, divided by (b) total investment at value. This yield excludes any return from the potential future excess cash flows from portfolio earnings available to the subordinated certificate holders and from related structuring fees and

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management and sourcing fees. See " Fees and Other Income" below. The weighted average yields are computed as of the balance sheet date.

Interest income has increased over the 2006 through 2008 period as a result of increases in the interest-bearing portfolio as a percent of the total portfolio. Interest-bearing investments represented 84%, 77% and 75% of the total portfolio at value at December 31, 2008, 2007 and 2006, respectively. The weighted average yield varies from period to period based on the current stated interest on interest-bearing investments, the yield on interest-bearing investments funded, the yield on amounts repaid, the amount of interest-bearing investments for which interest is not accruing, changes in value of interest-bearing investments and the mix of interest-bearing investments in the portfolio, including the amount of lower-yielding senior or unitranche debt in the portfolio at the end of the period. Allied Capital currently intends to exit several interest-bearing investments in order to accumulate capital for repayment of debt. As a result, Allied Capital expects that income from its interest-bearing investments will decrease in 2009.

Dividend income results from the dividend yield on preferred equity interests, if any, or the declaration of dividends by a portfolio company on preferred or common equity interests. Dividend income for the year ended December 31, 2008 was $13.2 million as compared to $2.0 million for the year ended December 31, 2007. Dividend income for 2008 includes a $3.1 million dividend received in connection with the recapitalization of Norwesco, Inc. and $6.4 million of dividends received in connection with the sale of certain portfolio assets to AGILE Fund I, LLC. Dividend income will vary from period to period depending upon the timing and amount of dividends that are declared or paid by a portfolio company on preferred or common equity interests.

Fees and Other Income

Fees and other income primarily include fees related to financial structuring, diligence, transaction services, management and consulting services to portfolio companies, commitments, guarantees and other services and loan prepayment premiums. As a BDC, Allied Capital is required to make significant managerial assistance available to the companies in its investment portfolio. Managerial assistance includes, but is not limited to, management and consulting services related to corporate finance, marketing, human resources, personnel and board member recruiting, business operations, corporate governance, risk management and other general business matters.

Fees and other income for the years ended December 31, 2008, 2007 and 2006 included fees relating to the following:

($ in millions)	**2008**	**2007**	**2006**
Structuring and diligence	$ 19.2	$ 20.7	$ 37.3
Management, consulting and other services provided to portfolio companies(1)	11.4	9.6	11.1
Commitment, guaranty and other fees from portfolio companies(2)	6.3	9.3	8.8
Fund management fees(3)	6.1	0.5	
Loan prepayment premiums	0.6	3.7	8.8
Gain on prepayment of notes payable(4)	1.1		
Other income	0.1	0.3	0.1
Total fees and other income	$ 44.8	$ 44.1	$ 66.1

(1) 2006 includes $1.8 million in management fees from Advantage prior to its sale on March 29, 2006. 2006 included management fees from Ciena of $1.7 million. Allied Capital did not charge Ciena management fees in 2008, 2007 or in the fourth quarter of 2006. See " Private Finance Ciena Capital LLC" above.

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(2)

Includes guaranty and other fees from Ciena of $0, $5.4 million and $6.1 million for 2008, 2007 and 2006, respectively. See " Private Finance Ciena Capital LLC" above.

(3)

See " Portfolio and Investment Activity Managed Funds" above.

(4)

In December 2008, Allied Capital prepaid private notes at a discount, which resulted in a net gain of $1.1 million. See " Financial Condition, Liquidity and Capital Resources" below.

Fees and other income generally are related to specific transactions or services and, therefore, may vary substantially from year to year depending on the level of investment activity and the types of services provided and the level of assets in Allied Capital Managed Funds for which Allied Capital earns management or other fees. Allied Capital added two new Allied Capital Managed Funds in 2008, which resulted in an increase in fund management fees. Given Allied Capital's outlook for future investment activity for its balance sheet as well as for certain Allied Capital Managed Funds, Allied Capital expects that fee income in the future will reflect lower new investment levels. Loan origination fees that represent yield enhancement on a loan are capitalized and amortized into interest income over the life of the loan.

Structuring and diligence fees for the year ended December 31, 2008 included $10.4 million earned by Allied Capital in connection with investments made by the SL Fund. See " Managed Funds" above. The remainder of the structuring and diligence fees primarily relate to the level of new investment execution activities, which were lower in 2008 than 2007. Private finance investments funded were $1.1 billion for the year ended December 31, 2008, as compared to $1.8 billion and $2.4 billion for the years ended December 31, 2007 and 2006, respectively. Because Allied Capital expects a significant reduction in new investment activity, Allied Capital expects structuring and diligence fees to be lower in 2009.

Loan prepayment premiums for the year ended December 31, 2006, included $5.0 million related to the repayment of Allied Capital's subordinated debt in connection with the sale of its majority equity interest in Advantage in 2006. While the scheduled maturities of private finance and commercial real estate loans generally range from five to ten years, it is not unusual for borrowers to refinance or pay off their debts to Allied Capital ahead of schedule. Therefore, Allied Capital generally structures its loans to require a prepayment premium for the first three to five years of the loan. Accordingly, the amount of prepayment premiums will vary depending on the level of repayments and the age of the loans at the time of repayment. In the current economic environment, Allied Capital would expect loan prepayment premiums to be negligible.

Operating Expenses. Operating expenses include interest, employee, employee stock options and administrative expenses.

Interest Expense

The fluctuations in interest expense during the years ended December 31, 2008, 2007 and 2006 primarily were attributable to changes in the level of Allied Capital's borrowings under various notes payable and its revolving line of credit as well as an increase in Allied Capital's weighted average cost

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of debt capital. Allied Capital's borrowing activity and weighted average cost of debt, including fees and debt financing costs, at and for the years ended December 31, 2008, 2007 and 2006, were as follows:

($ in millions)	2008	2007	2006
Total outstanding debt	$ 1,945.0	$ 2,289.5	$ 1,899.1
Average outstanding debt	$ 2,091.6	$ 1,924.2	$ 1,491.0
Weighted average cost(1)	7.7%	6.5%	6.5%

(1) The weighted average annual interest cost is computed as the (a) annual stated interest rate on the debt plus the annual amortization of commitment fees, other facility fees and debt financing costs that are recognized into interest expense over the contractual life of the respective borrowings, divided by (b) debt outstanding on the balance sheet date.

At the end of the fourth quarter of 2008, Allied Capital amended its private notes and revolving line of credit, which increased the stated interest rate on those obligations by 100 basis points. Subsequent to this amendment, events of default occurred on these instruments. Pursuant to the terms of the revolving credit facility, during the continuance of an event of default, the applicable spread on any borrowings outstanding and fees on any letters of credit outstanding under the revolving credit facility increase by up to an additional 200 basis points. Pursuant to the private notes, during the continuance of an event of default, the rate of interest borne by the private notes increases by an additional 200 basis points. See " Financial Condition, Liquidity and Capital Resources" below.

In addition, interest expense included interest paid to the IRS related to installment sale gains totaling $7.7 million, $5.8 million and $0.9 million for the years ended December 31, 2008, 2007 and 2006, respectively. See " Dividends and Distributions" below.

Employee Expense

Employee expenses for the years ended December 31, 2008, 2007 and 2006 were as follows:

($ in millions)	2008	2007	2006
Salaries and employee benefits	$ 63.2	$ 83.9	$ 73.8
Individual performance award (IPA)	8.5	9.8	8.1
IPA mark to market expense (benefit)	(4.1)	(14.0)	2.9
Individual performance bonus (IPB)	8.8	9.5	8.1
Total employee expense(1)	$ 76.4	$ 89.2	$ 92.9
Number of employees at end of period	152	177	170

(1) Excludes stock options expense. See below.

During the third quarter of 2008, Allied Capital consolidated its investment execution activities to its Washington, D.C. headquarters and its office in New York in an effort to improve Allied Capital's operating efficiencies. As Allied Capital transitioned and consolidated its operations, Allied Capital reduced its headcount by approximately 30 employees in the third quarter of 2008. In January 2009, Allied Capital terminated an additional 20 employees and further consolidated its operations. As a result of these headcount reductions, Allied Capital incurred severance expense of $9.7 million for the year ended December 31, 2008. Severance expense is included in salaries and employee benefits.

During 2008, Allied Capital substantially decreased its bonus pool from $40.1 million in 2007 to $1.0 million in 2008. In addition, Allied Capital accrued $11.2 million in performance awards in 2008 which are included in salaries and employee benefits expense. In lieu of paying these amounts as a 2008 bonus, Allied Capital will pay these amounts in four quarterly installments ending on January 15,

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2010. An employee must be employed on the quarterly payment dates in order to receive the quarterly payment. Allied Capital's Chief Executive Officer, Chief Operating Officer and Chief Financial Officer received no bonus or performance award for 2008. Primarily as a result of the reductions in employee headcount and bonus pool, salaries and employee benefits decreased in 2008 as compared to 2007.

The IPA and IPB are part of an incentive compensation program for certain officers and are generally determined annually at the beginning of each year but may be adjusted throughout the year. In 2008, IPAs were paid in cash in two equal installments during the year. Through December 31, 2007, the IPA amounts were contributed into a trust and invested in Allied Capital common stock. The IPB was distributed in cash to award recipients throughout the year (beginning in February of each respective year) as long as the recipient remained employed by Allied Capital. Allied Capital has not established an IPA or IPB for 2009.

The trusts for the IPA payments were consolidated with Allied Capital's accounts. The common stock was classified as common stock held in deferred compensation trust in Allied Capital's financial statements and the deferred compensation obligation, which represented the amount owed to the employees, was included in other liabilities. Changes in the value of Allied Capital common stock held in the deferred compensation trust were not recognized. However, the liability was marked to market with a corresponding charge or credit to employee compensation expense. On December 14, 2007, Allied Capital's board of directors made a determination that it was in Allied Capital's best interest to terminate its deferred compensation arrangements. Allied Capital's board of director's decision primarily was in response to increased complexity resulting from recent changes in the regulation of deferred compensation arrangements. Allied Capital's board of directors resolved that the accounts under these arrangements would be distributed to participants in full on March 18, 2008, the termination and distribution date, or as soon as was reasonably practicable thereafter, in accordance with the provisions of each of these arrangements.

The accounts under the deferred compensation arrangements totaled $52.5 million at December 31, 2007. The balances on the termination date were distributed to participants in March 2008 subsequent to the termination date, in accordance with the transition rule for payment elections under Section 409A of the Code. Distributions from the plans were made in cash or shares of Allied Capital common stock, net of required withholding taxes. The distribution of the accounts under the deferred compensation arrangements resulted in a tax deduction for 2008, subject to the limitations set by Section 162(m) of the Code for persons subject to such section.

Stock Options Expense

The stock option expense for the years ended December 31, 2008, 2007 and 2006 was as follows:

($ in millions)	**2008**	**2007**	**2006**
Employee Stock Option Expense:			
Options granted:			
Previously awarded, unvested options as of January 1, 2006	$ 3.9	$ 10.1	$ 13.2
Options granted on or after January 1, 2006	7.9	10.7	2.4
Total options granted	11.8	20.8	15.6
Options cancelled in connection with tender offer (see below)		14.4	
Total employee stock option expense	$ 11.8	$ 35.2	$ 15.6

In addition to employee stock option expense, administrative expense included $0.1 million, $0.2 million and $0.2 million for the years ended December 31, 2008, 2007 and 2006, respectively, for options granted to non-officer directors. Options granted to non-officer directors vest on the grant date and, therefore, the full expense is recorded on the grant date.

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Options Cancelled in Connection with Tender Offer

On July 18, 2007, Allied Capital completed a tender offer to its optionees who held vested "in-the-money" stock options as of June 20, 2007, where optionees received an option cancellation payment, or "OCP," equal to the "in-the-money" value of the stock options cancelled determined using a weighted average market price of $31.75 paid one-half in cash and one-half in unregistered shares of Allied Capital common stock. Allied Capital accepted for cancellation 10.3 million vested options held by employees and non-officer directors, which in the aggregate had a weighted average exercise price of $21.50. This resulted in a total option cancellation payment of approximately $105.6 million, of which $52.8 million was paid in cash and $52.8 million was paid through the issuance of 1.7 million unregistered shares of Allied Capital common stock. Allied Capital's stockholders approved the issuance of the shares of Allied Capital common stock in exchange for the cancellation of vested "in-the-money" stock options at Allied Capital's 2006 annual meeting of stockholders. Cash payments to employee optionees were paid net of required payroll and income tax withholdings.

In accordance with the terms of the tender offer, the weighted average market price represented the volume weighted average price of Allied Capital common stock over the fifteen trading days preceding the first day of the offer period, or June 20, 2007. Because the weighted average market price at the commencement of the tender offer on June 20, 2007, was higher than the market price of Allied Capital common stock at the close of the offer on July 18, 2007, SFAS 123R required Allied Capital to record a non-cash employee-related stock option expense of $14.4 million and administrative expense related to stock options cancelled that were held by non-officer directors of $0.4 million. The same amounts were recorded as an increase to additional paid-in capital and, therefore, had no effect on Allied Capital's net asset value. The portion of the OCP paid in cash of $52.8 million reduced Allied Capital's additional paid-in capital and therefore reduced its net asset value. For income tax purposes, Allied Capital's tax deduction resulting from the OCP will be similar to the tax deduction that would have resulted from an exercise of stock options in the market. Any tax deduction resulting from the OCP or an exercise of stock options in the market is limited by Section 162(m) of the Code.

Administrative Expense

Administrative expenses include legal and accounting fees, valuation assistance fees, insurance premiums, the cost of leases for Allied Capital's headquarters in Washington, D.C. and its regional offices, portfolio origination and development expenses, travel costs, stock record expenses, directors' fees and related stock options expense and various other expenses.

($ in millions)	**2008**	**2007**	**2006**
Administrative expenses	$ 48.3	$ 44.8	$ 34.0
Investigation and litigation costs	1.1	5.8	5.0
Total	$ 49.4	$ 50.6	$ 39.0

Administrative expenses for 2008 were $48.3 million, as compared to administrative expenses of $44.8 million for 2007. Administrative expenses in 2007 included costs of $1.4 million incurred to engage a third party to conduct a review of Ciena's internal control systems. See " Private Finance Ciena Capital LLC" above. In addition, administrative expenses included $2.5 million in placement fees related to securing equity commitments to the SD Fund in the second quarter of 2007. Excluding these costs, administrative expenses for 2007 were $40.9 million. The increase from 2007 (excluding these costs) was $7.4 million, which was primarily related to an increase in corporate legal costs of $2.5 million, loss on disposal of fixed assets of $0.9 million and an increase in costs related to investor relations and proxy solicitation of $0.6 million.

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Administrative expenses, excluding certain costs outlined above, were $40.9 million for 2007 as compared to $34.0 million for 2006. The $6.9 million increase from 2006 primarily was due to increased expenses related to directors' fees of $1.6 million, an increase in stock record expenses of $0.7 million due to the increase in Allied Capital's stockholder base, an increase in rent expense of $0.7 million and an increase in costs related to evaluating potential new investments of $0.7 million.

Investigation and litigation costs are difficult to predict and may vary from year to year. See "Business of Allied Capital Legal Proceedings."

Income Tax Expense, Including Excise Tax. Income tax expense for the years ended December 31, 2008, 2007 and 2006 was as follows:

($ in millions)	2008	2007	2006
Income tax expense (benefit)	$ 3.1	$ (2.7)	$ 0.1
Excise tax expense (benefit)(1)	(0.6)	16.3	15.1
Income tax expense, including excise tax	$ 2.5	$ 13.6	$ 15.2

(1) While excise tax expense is presented in Allied Capital's consolidated statement of operations as a reduction to net investment income, excise tax relates to both net investment income and net realized gains.

Allied Capital's wholly owned subsidiary, A.C. Corporation, is a corporation subject to federal and state income taxes and records a benefit or expense for income taxes as appropriate based on its operating results in a given period. Allied Capital met its dividend distribution requirements for the 2008 tax year and, therefore, it did not record an excise tax for the year ended December 31, 2008. See " Dividends and Distributions" below.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes.* This interpretation is effective for fiscal years beginning after December 15, 2006. The adoption of this interpretation did not have a significant effect on Allied Capital's consolidated financial position or its results of operations.

Realized Gains and Losses. Net realized gains or losses primarily result from the sale of equity securities associated with certain private finance investments and the realization of unamortized discount resulting from the sale and early repayment of private finance loans and commercial mortgage loans, offset by losses on investments. Net realized gains (losses) for the years ended December 31, 2008, 2007 and 2006 were as follows:

($ in millions)	2008	2007	2006
Realized gains	$ 150.5	$ 400.5	$ 557.5
Realized losses	(279.9)	(132.0)	(24.2)
Net realized gains (losses)	$ (129.4)	$ 268.5	$ 533.3

When Allied Capital exits an investment and realizes a gain or loss, it makes an accounting entry to reverse any unrealized appreciation or depreciation, respectively, it had previously recorded to reflect the appreciated or depreciated value of the investment. For the years ended December 31, 2008,

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2007 and 2006, Allied Capital reversed previously recorded unrealized appreciation or depreciation when gains or losses were realized as follows:

($ in millions)	2008	2007	2006
Reversal of previously recorded net unrealized appreciation associated with realized gains	$ (119.6)	$ (332.6)	$ (501.5)
Reversal of previously recorded net unrealized appreciation associated with dividends received	(11.5)	(1.1)	
Reversal of previously recorded net unrealized depreciation associated with realized losses	249.9	140.9	22.5
Total reversal	$ 118.8	$ (192.8)	$ (479.0)

Realized gains for the years ended December 31, 2008, 2007 and 2006, were as follows:

($ in millions)

2008 Portfolio Company	Amount
Private Finance:	
Norwesco, Inc.	$ 104.9
BI Incorporated	7.9
BenefitMall, Inc.	4.9
Mercury Air Centers, Inc.	6.0
Advantage Sales and Marketing, Inc.(3)	3.4
Financial Pacific Company	3.1
Passport Health Communications, Inc.	1.8
Service Champ, Inc.	1.7
HMT, Inc.	1.6
Coverall North America, Inc.	1.4
Penn Detroit Diesel Allison, LLC	1.4
Avborne Heavy Maintenance	1.2
MedAssets, Inc.	1.3
Legacy Partners Group, Inc.	1.3
Other	8.2
Total Private Finance	150.1
Commercial Real Estate:	
Other	0.4
Total Commercial Real Estate	0.4
Total realized gains	$ 150.5

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2007	
Portfolio Company	**Amount**
Private Finance:	
Mercury Air Centers, Inc.	$ 262.4
HMT, Inc.	39.9
Healthy Pet Corp.	36.6
Palm Coast Data, LLC	20.0
Woodstream Corporation	14.6
Wear Me Apparel Corporation	6.1
Mogas Energy, LLC	5.7
Tradesmen International, Inc.	3.8
ForeSite Towers, LLC	3.8
Advantage Sales & Marketing, Inc.	3.4
Geotrace Technologies, Inc.	1.1
Other	3.0
Total private finance	400.4
Commercial Real Estate:	
Other	0.1
Total commercial real estate	0.1
Total realized gains	$ 400.5

2006	
Portfolio Company	**Amount**
Private Finance:	
Advantage Sales & Marketing, Inc.(1)	$ 434.4
STS Operating, Inc.	94.8
Oriental Trading Company, Inc.	8.9
Advantage Sales & Marketing, Inc.(2)	4.8
United Site Services, Inc.	3.3
Component Hardware Group, Inc.	2.8
Opinion Research Corporation	1.9
Nobel Learning Communities, Inc.	1.5
MHF Logistical Solutions, Inc.	1.2
The Debt Exchange, Inc.	1.1
Other	1.5
Total private finance	556.2
Commercial Real Estate:	
Other	1.3
Total commercial real estate	1.3
Total realized gains	$ 557.5

(1)

Represents the realized gain on Allied Capital's majority equity investment only. See " Private Finance" above.

(2)
Represents a realized gain on Allied Capital's minority equity investment only. See " Private Finance" above.

(3)
Includes an additional realized gain of $1.9 million related to the release of escrowed funds from the sale of Allied Capital's majority equity investment in 2006.

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Realized losses for the years ended December 31, 2008, 2007 and 2006 were as follows:

($ in millions)

2008	
Portfolio Company	**Amount**
Private Finance:	
Ciena Capital LLC	$ 98.9
Alaris Consulting, LLC	36.0
Pendum, Inc.	34.0
Line-X, Inc.	23.3
Creative Group, Inc.	15.6
Driven Brands, Inc.	10.8
Triview Investments, Inc.	8.6
MedBridge Healthcare LLC	7.6
Garden Ridge Corporation	5.4
Mid-Atlantic Venture Fund IV, L.P.	5.2
WMA Equity Corporation (and affiliates)	4.5
Legacy Partners Group, Inc.	4.3
Direct Capital Corporation	1.7
EarthColor, Inc.	1.7
Crescent Equity Corp. Longview Cable & Data, LLC	1.6
Summit Energy Services, Inc.	1.6
Sweet Traditions, Inc.	1.6
Walker Investment Fund II, LLLP	1.4
United Road Towing	1.3
Other	10.2
Total Private Finance	275.3
Commercial Real Estate:	
Other	4.6
Total commercial real estate	4.6
Total realized losses	$ 279.9

2007	
Portfolio Company	**Amount**
Private Finance:	
Global Communications, LLC	$ 34.3
Jakel, Inc.	24.8
Startec Global Communications, Inc.	20.2
Gordian Group, Inc.	19.3
Powell Plant Farms, Inc.	11.6
Universal Environmental Services, LLC	8.6
PresAir, LLC	6.0
Legacy Partners Group, LLC	5.8
Alaris Consulting, LLC	1.0
Other	0.4
Total realized losses	$ 132.0

Explanation of Responses:

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2006 Portfolio Company	Amount
Private Finance:	
Staffing Partners Holding Company, Inc.	$ 10.6
Acme Paging, L.P.	4.7
Cooper Natural Resources, Inc.	2.2
Aspen Pet Products, Inc.	1.6
Nobel Learning Communities, Inc.	1.4
Other	1.6
Total private finance	22.1
Commercial Real Estate:	
Other	2.1
Total commercial real estate	2.1
Total realized losses	$ 24.2

Realized gains and losses for the year ended December 31, 2008 included a net realized gain totaling $8.3 million (subsequent to post-closing adjustments) from the sale of certain investments to AGILE Fund I, LLC in the first quarter of 2008. In addition, realized losses for the year ended December 31, 2008 included $7.0 million (subsequent to post-closing adjustments) related to the sale of certain venture capital and private equity limited partnership investments to a fund managed by Goldman Sachs. For the year ended December 31, 2008, net realized losses also include net realized losses totaling $7.3 million resulting from the sale of loans and debt securities totaling $216.3 million to the SD Fund and the Knightsbridge Funds. For the year ended December 31, 2007, net realized gains also include net realized gains totaling $1.0 million resulting from the sale of loans and debt securities totaling $224.2 million to the SD Fund. See " Managed Funds" above.

Change in Unrealized Appreciation or Depreciation. Allied Capital determines the value of each investment in its portfolio on a quarterly basis and changes in value result in unrealized appreciation or depreciation being recognized in Allied Capital's statement of operations. Value, as defined in Section 2(a)(41) of the Investment Company Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) for all other securities and assets, fair value is as determined in good faith by the board of directors. Since there is typically no readily available market value for the investments in its portfolio, Allied Capital values substantially all of its portfolio investments at fair value as determined in good faith by Allied Capital's board of directors in accordance with Allied Capital's valuation policy and the provisions of the Investment Company Act and the Statement. Allied Capital determines fair value to be the price that would be received for an investment in a current sale, which assumes an orderly transaction between market participants on the measurement date. At December 31, 2008, portfolio investments recorded at fair value using level 3 inputs (as defined under the Statement) were approximately 94% of Allied Capital's total assets. Because of the inherent uncertainty of determining the fair value of investments that do not have a readily available market quotation in an active market, the fair value of Allied Capital's investments determined in good faith by its board of directors may differ significantly from the values that would have been used had a ready market existed for the investments, and the differences could be material. For a discussion of Allied Capital's valuation methodology, see " Results of Operations Comparison of Three and Nine Months ended September 30, 2009 and 2008 Change in Unrealized Appreciation or Depreciation" and " Results of Operations Comparison of Three and Nine Months ended September 30, 2009 and 2008 Valuation Methodology" above.

The valuation analysis prepared by management is submitted to Allied Capital's board of directors who is ultimately responsible for the determination of fair value of the portfolio in good faith.

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Valuation assistance from Duff & Phelps for Allied Capital's private finance portfolio consisted of the Procedures Allied Capital has identified and requested them to perform. Based upon the performance of the Procedures on a selection of Allied Capital's final portfolio company valuations, Duff & Phelps concluded that the fair value of those portfolio companies subjected to the Procedures did not appear unreasonable. In addition, Allied Capital also received third-party valuation assistance from other third-party consultants for certain private finance portfolio companies. For the years ended December 31, 2008, 2007 and 2006, Allied Capital received third-party valuation assistance as follows:

	2008			
	Q4	**Q3**	**Q2**	**Q1**
Number of private finance portfolio companies reviewed	97	128	119	124
Percentage of private finance portfolio reviewed at value	91.6%	97.2%	94.9%	94.0%

	2007			
	Q4	**Q3**	**Q2**	**Q1**
Number of private finance portfolio companies reviewed	112	135	92	88
Percentage of private finance portfolio reviewed at value	91.1%	92.1%	92.1%	91.8%

	2006			
	Q4	**Q3**	**Q2**	**Q1**
Number of private finance portfolio companies reviewed	81	105	78	78
Percentage of private finance portfolio reviewed at value	82.9%	86.5%	89.6%	87.0%

Professional fees for third-party valuation assistance for the years ended December 31, 2008, 2007 and 2006 were $1.9 million, $1.8 million and $1.5 million, respectively.

Net Change in Unrealized Appreciation or Depreciation

Net change in unrealized appreciation or depreciation for the years ended December 31, 2008, 2007 and 2006 consisted of the following:

($ in millions)	**2008(1)**	**2007(1)**	**2006(1)**
Net unrealized appreciation (depreciation)(2)	$ (1,242.6)	$ (63.4)	$ 1.6
Reversal of previously recorded unrealized appreciation associated with realized gains	(119.6)	(332.6)	(501.5)
Reversal of previously recorded net unrealized appreciation associated with dividends received	(11.5)	(1.1)	
Reversal of previously recorded unrealized depreciation associated with realized losses	249.9	140.9	22.5
Net change in unrealized appreciation or depreciation	$ (1,123.8)	$ (256.2)	$ (477.4)

(1) The net change in unrealized appreciation or depreciation can fluctuate significantly from year to year. As a result, annual comparisons may not be meaningful.

(2) The sale of certain of Allied Capital's portfolio investments to Goldman Sachs that occurred in the first quarter of 2008 provided transaction values for 59 portfolio investments that were used in the December 31, 2007 valuation process.

The primary drivers of the net unrealized depreciation of $1.2 billion related to changes in portfolio value for the year ended December 31, 2008 were (1) additional depreciation of $296.0 million related to Allied Capital's investment in Ciena resulting from the decline in value of

their residual interest assets and other financial assets as discussed below, (2) depreciation on non-buyout debt investments totaling $87.2 million primarily as a result of using a yield analysis, (3) depreciation of $278.7 million on six companies in the consumer products and retail industries, (4) depreciation in Allied Capital's other financial services and asset management portfolio companies and its CLO/CDO Assets, which totaled $254.0 million, (5) depreciation of $110.1 million on four companies in the automotive/RV parts and services industry and (6) decreased enterprise values as a result of the decline in market benchmarks and, in some cases, lower EBITDA generally driven by current economic conditions, including rising oil and food prices.

In the current economic environment, the values of financial assets have declined significantly and it is difficult to predict when the values for financial assets will cease to decrease in value. As a result, Allied Capital may continue to experience further net unrealized depreciation in its portfolio due to declining asset values. In addition, Allied Capital may continue to experience further net unrealized depreciation in its portfolio due to declining values or due to decreased operating performance of its portfolio companies in this difficult economy. Also, Allied Capital may choose to sell assets for proceeds totaling less than fair value in order to generate capital to repay debt.

Valuation of Ciena Capital LLC. Allied Capital's investment in Ciena totaled $547.8 million at cost and $104.9 million at value, which included unrealized depreciation of $442.9 million, at December 31, 2008 and $327.8 million at cost and $68.6 million at value, which included unrealized depreciation of $259.2 million, at December 31, 2007. Net change in unrealized appreciation or depreciation for the year ended December 31, 2008 included a decrease in Allied Capital's investment in Ciena totaling $296.0 million and the reversal of unrealized depreciation of $99.0 million associated with the realized loss on the sale of Allied Capital's Class A equity interests in Ciena. Net change in unrealized appreciation or depreciation related to Allied Capital's investment in Ciena included a net decrease of $174.5 million and $142.3 million for the years ended December 31, 2007 and 2006, respectively. To value its investment at December 31, 2008, Allied Capital continued to consider the effect of Ciena's voluntary filing for bankruptcy protection. See " Private Finance Ciena Capital LLC" above.

Ciena's origination platform has been discontinued and Allied Capital continues to attribute no value to Ciena's enterprise due to the state of the securitization markets, among other factors. Allied Capital valued its investment in Ciena at December 31, 2008 solely based on the estimated net realizable value of Ciena's assets, including the estimated net realizable value of the cash flows generated from Ciena's retained interests in its current servicing portfolio, which includes portfolio servicing fees as well as cash flows from Ciena's equity investments in its securitizations and its interest-only strip. The decrease in value primarily is a result of the continued decline in the fair value of the assets supporting Ciena's retained interests and assets held on Ciena's balance sheet. This decrease primarily is a result of an increase in borrower defaults in the current economic environment and decreasing values for assets. Allied Capital also continued to consider Ciena's current regulatory issues and ongoing investigations and litigation in performing the valuation analysis at December 31, 2008. See " Private Finance Ciena Capital LLC" above.

At December 31, 2008, Allied Capital had standby letters of credit issued under its line of credit of $102.6 million in connection with term securitization transactions completed by Ciena. Allied Capital no longer has any outstanding standby letters of credit issued under its former revolving line of credit. Allied Capital has considered any funding under the letters of credit in the valuation of Ciena at December 31, 2008. See " Financial Condition, Liquidity and Capital Resources" below.

Allied Capital received valuation assistance from Duff & Phelps for its investment in Ciena at December 31, 2008, 2007 and 2006. See " Valuation Methodology" above for further discussion of the third-party valuation assistance Allied Capital received.

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Per Share Amounts. All per share amounts included in Management's Discussion and Analysis of Financial Condition and Results of Operations of Allied Capital have been computed using the weighted average common shares used to compute diluted earnings per share, which were 173.0 million, 154.7 million and 145.6 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Other Matters

Regulated Investment Company Status

Allied Capital has elected to be taxed as a RIC under Subchapter M of the Code. In order to maintain its status as a RIC and obtain RIC tax benefits, Allied Capital must, in general, (1) continue to qualify as a BDC; (2) derive at least 90% of its gross income from dividends, interest, gains from the sale of securities and other specified types of income; (3) meet asset diversification requirements as defined in the Code; and (4) timely distribute to stockholders at least 90% of its annual investment company taxable income (i.e., net ordinary investment income) as defined in the Code.

With respect to taxable realized net long-term capital gains, Allied Capital may choose to (1) distribute, (2) deem to distribute, or (3) retain and pay corporate level tax on such gains.

Allied Capital currently qualifies as a RIC. However, there can be no assurance that Allied Capital will continue to qualify for such treatment in future years.

As long as Allied Capital qualifies as a RIC, it is not taxed on its investment company taxable income or realized net capital gains, to the extent that such taxable income or gains are distributed, or deemed to be distributed, to stockholders on a timely basis. Taxable income includes Allied Capital's taxable interest, dividend and fee income, as well as taxable net capital gains. Taxable income generally differs from net income for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses and generally excludes net unrealized appreciation or depreciation, as gains or losses generally are not included in taxable income until they are realized. In addition, gains realized for financial reporting purposes may differ from gains included in taxable income as a result of Allied capital's election to recognize gains using installment sale treatment, which generally results in the deferment of gains for tax purposes until notes or other amounts, including amounts held in escrow, received as consideration from the sale of investments are collected in cash. Taxable income includes non-cash income, such as payment-in-kind interest and dividends and the amortization of discounts and fees. Cash collections of income resulting from contractual payment-in-kind interest or the amortization of discounts and fees generally occur upon the repayment of the loans or debt securities that include such items. Non-cash taxable income is reduced by non-cash expenses, such as realized losses and depreciation and amortization expense.

Taxable income available for distribution includes investment company taxable income and, to the extent not deemed to be distributed or retained, net long-term capital gains. To the extent that annual taxable income available for distribution exceeds dividends paid or deemed distributed from such taxable income for the year, Allied Capital may carry over the excess taxable income into the next year and such excess income will be available for distribution in the next year as permitted under the Code (see discussion below). Such excess income will be treated under the Code as having been distributed during the prior year for purposes of Allied Capital's qualification for RIC tax treatment for such year. The maximum amount of excess taxable income that Allied Capital may carry over for distribution in the next year under the Code is the total amount of dividends paid in the following year, subject to certain declaration and payment guidelines. Excess taxable income carried over and paid out in the next year is generally subject to a nondeductible 4% excise tax.

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Dividends and Distributions

Allied Capital has elected to be taxed as a RIC under Subchapter M of the Code. As a RIC, Allied Capital is required to distribute substantially all of its investment company taxable income to stockholders through the payment of dividends. In certain circumstances, Allied Capital is restricted in its ability to pay dividends. Each of Allied Capital's private notes and its bank facility contain provisions that limit the amount of dividends Allied Capital can pay. In addition, pursuant to the Investment Company Act, Allied Capital may be precluded from declaring dividends or other distributions to its stockholders unless its asset coverage is at least 200%.

Allied Capital has met its dividend distribution requirements for the 2008 tax year. Allied Capital intends to retain capital in 2009 in order to achieve the 200% asset coverage threshold under the Investment Company Act and currently estimates that it will have no distribution requirement for 2009; therefore, Allied Capital currently does not expect to declare dividends in 2009. In August 2009, Allied Capital completed a restructuring of its bank facility and its private notes. The restructured debt significantly increases Allied Capital's cost of capital. As a result, Allied Capital expects its profitability will be substantially reduced and that it will not be able to pay a cash dividend for an extended period of time. No dividends were paid or declared for the three and nine months ended September 30, 2009. Dividends to common stockholders were $0.65 per share each quarter for the first three quarters of 2008.

Allied Capital currently qualifies as a RIC. However, there can be no assurance that Allied Capital will be able to comply with the RIC requirements to distribute income for the current and future years and Allied Capital may be required to pay a corporate-level income tax.

Total dividends to Allied Capital's common stockholders were $2.60, $2.57 and $2.42, per common share for the years ended December 31, 2008, 2007 and 2006, respectively. An extra cash dividend of $0.07 and $0.05 per common share was declared during each of 2007 and 2006 and was paid to shareholders on December 27, 2007 and January 19, 2007, respectively.

The summary of Allied Capital's taxable income and distributions of such taxable income for the years ended December 31, 2008, 2007 and 2006 is as follows:

($ in millions)	**2008**	**2007**	**2006**
Taxable income(1)	$ 40.4	$ 397.8	$ 601.2
Taxable income earned in prior year and carried forward and distributed in current year	393.3	402.8	156.5
Taxable income earned in current year and carried forward for distribution in next year		(393.3)	(402.8)
Distributions from accumulated earnings	22.8		
Total dividends to common shareholders	$ 456.5	$ 407.3	$ 354.9

(1) See Note 10, "Dividends and Distributions and Taxes" of the notes to Allied Capital's consolidated financial statements for the year ending December 31, 2008 for further information on the differences between net income for book purposes and taxable income.

Allied Capital had cumulative deferred taxable income related to installment sale gains of approximately $218.9 million as of December 31, 2008. These gains were recognized for financial reporting purposes in the respective years they were realized, but are deferred for tax purposes until the notes or other amounts received from the sale of the related investments are collected in cash. See " Other Matters Regulated Investment Company Status" above. To the extent that installment sale gains are deferred for recognition in taxable income, Allied Capital pays interest to the IRS. Installment-related interest expense for the years ended December 31, 2008, 2007 and 2006, was

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$7.7 million, $5.8 million and $0.9 million, respectively. This interest is included in interest expense in Allied Capital's consolidated statement of operations.

Financial Condition, Liquidity and Capital Resources

At September 30, 2009 and December 31, 2008 and 2007, Allied Capital's cash and investments in money market and other securities, total assets, total debt outstanding, total stockholders' equity, debt to equity ratio and asset coverage for senior indebtedness were as follows:

($ in millions)	September 30, 2009	December 31, 2008	2007
Cash and investments in money market and other securities (including money market and other securities: 2009 $90.0; 2008 $0.3, 2007 $201.2)	$ 153.4	$ 50.7	$ 204.8
Total assets	$ 2,840.2	$ 3,722.2	$ 5,214.6
Total debt outstanding	$ 1,636.5	$ 1,945.0	$ 2,289.5
Total shareholders' equity	$ 1,201.3	$ 1,718.4	$ 2,771.8
Debt to equity ratio	1.33	1.13	0.83
Asset coverage ratio(1)	175%	188%	221%

(1) As a BDC, Allied Capital generally is required to maintain a minimum ratio of 200% of total assets to total borrowings in order to incur additional indebtedness, declare dividends or other distributions or repurchase shares of Allied Capital common stock.

At September 30, 2009, Allied Capital's asset coverage ratio was 175%, and it remained precluded under the Investment Company Act from incurring additional indebtedness, declaring dividends or other distributions to its stockholders or repurchasing shares of its common stock until such time as its asset coverage would be at least 200%. In addition, Allied Capital generally is not able to issue and sell its common stock at a price below net asset value per share without the approval of its stockholders. Allied Capital's common stock currently is trading at a price below its net asset value of $6.70 per share as of September 30, 2009.

Allied Capital may continue to engage in a variety of activities as a means to improve its asset coverage ratio and net asset value, which may include but are not limited to: continuing to sell assets to generate capital to retire debt; refinancing or repurchasing, at par or at a discount, its outstanding debt; and foregoing or limiting dividend payments in order to retain capital. Allied Capital also plans to continue to carefully manage its employee and administrative expenses. There can be no assurance that Allied Capital will be able to increase its asset coverage ratio or net asset value.

During the nine months ended September 30, 2009, Allied Capital paid $30.1 million to repurchase certain of its 6.625% Notes due 2011 which had a face value of $80.1 million and $20.2 million to repurchase certain of its 6.000% Notes due 2012 which had a face value of $54.4 million. In the third quarter of 2009, Allied Capital repaid $174 million of its privately issued unsecured notes payable.

During the nine months ended September 30, 2009, Allied Capital sold or had repayments on portfolio investments that generated $650.8 million of cash proceeds. These asset sales have been completed under distressed conditions in a very difficult market and consequently Allied Capital has realized net losses upon their disposition. See " Realized Gains and Losses" above. Allied Capital expects to complete additional asset sales throughout the course of the year and, given the challenging market and Allied Capital's desire to sell assets to generate liquidity, it may incur additional realized losses upon such dispositions. Allied Capital expects that the cash generated from asset sales and repayments will be used to repay indebtedness and provide ongoing liquidity.

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Cash generated from the portfolio includes cash flow from net investment income and net realized gains and principal collections related to investment repayments or sales. Cash flow provided by Allied Capital's operating activities before new investment activity for the nine months ended September 30, 2009 and the years ended December 31, 2008, 2007 and 2006, was as follows:

($ in millions)	September 30, 2009	December 31, 2008	2007	2006
Net cash provided by (used in) operating activities	$ 302.2	$ 298.5	$ (112.2)	$ (597.5)
Add: portfolio investments funded	118.1	1,019.8	1,846.0	2,257.8
Total cash provided by operating activities before new investments	$ 420.3	$ 1,318.3	$ 1,733.8	$ 1,660.3

Allied Capital has generated a substantial amount of cash from its operating activities before new portfolio investments, which includes principal collections from investment repayments and exits, over the past three years. Given the severe economic recession in the United States, Allied Capital believes that its cash flows from investment exits for 2009 will be lower than prior years when the economy was more robust. Allied Capital believes, however, that it will generate sufficient cash flow to fund its operations and meet its scheduled debt service requirements, although there can be no assurance that Allied Capital will generate sufficient cash flow.

At December 31, 2008 and 2007, the value and yield of the cash and investments in money market and other securities were as follows:

	September 30, 2009		December 31, 2008		2007	
($ in millions)	Value	Yield	Value	Yield	Value	Yield
Money market and other securities	$ 90.0	%	$ 0.3	1.7%	$ 201.2	4.6%
Cash	62.7	0.1%	50.4	0.1%	3.6	2.9%
Total	$ 152.7	0.0%	$ 50.7	0.1%	$ 204.8	4.6%

Allied Capital invests otherwise uninvested cash in U.S. government- or agency-issued or guaranteed securities that are backed by the full faith and credit of the United States or in high quality, short-term securities. Allied Capital places its cash with financial institutions and, at times, cash held in checking accounts in financial institutions may be in excess of the Federal Deposit Insurance Corporation insured limit.

Allied Capital evaluates its interest rate exposure on an ongoing basis. Generally, Allied Capital seeks to fund its primarily fixed-rate debt portfolio and its equity portfolio with fixed-rate debt or equity capital. To the extent deemed necessary, Allied Capital may hedge variable and short-term interest rate exposure through interest rate swaps or other techniques.

During the nine months ended September 30, 2008, Allied Capital sold new equity of $402.5 million in public offerings. In addition, for the nine months ended September 30, 2008, stockholders' equity increased through capital share transactions by $4.6 million through the exercise of stock options, the collection of notes receivable from the sale of common stock and the issuance of shares through Allied Capital's dividend reinvestment plan. Stockholders' equity also increased by $26.4 million during the nine months ended September 30, 2008 as a result of the distribution of the Allied Capital common stock held in deferred compensation trusts.

During the years ended December 31, 2008, 2007 and 2006, Allied Capital sold new equity of $402.5 million, $171.3 million and $295.8 million, respectively, in public offerings. In addition, stockholders' equity increased by $5.4 million, $31.5 million and $27.7 million through the exercise of

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stock options, the collection of notes receivable from the sale of common stock and the issuance of shares through Allied Capital's dividend reinvestment plan during the years ended December 31, 2008, 2007 and 2006, respectively. Stockholders' equity also increased by $26.4 million during the year ended December 31, 2008 as a result of the distribution of the Allied Capital common stock held in deferred compensation trusts. For the year ended December 31, 2007, stockholders' equity decreased by $52.8 million for the cash portion of the option cancellation payment made in connection with Allied Capital's tender offer. See " Stock Option Expense" and " Options Cancelled in Connection with Tender Offer." See Note 8, "Employee Compensation Plans," and Note 13, "Financial Highlights" from the notes to Allied Capital's consolidated financial statements for the year ending December 31, 2008 for further detail on the change in stockholders' equity for the periods.

At September 30, 2009 and December 31, 2008 and 2007, Allied Capital had outstanding debt as follows:

	September 30, 2009			December 31,					
				2008			2007		
($ in millions)	Facility Amount	Amount Outstanding at Par	Annual Interest Cost(1)	Facility Amount	Amount Outstanding at Par	Annual Interest Cost(1)	Facility Amount	Amount Outstanding at Par	Annual Interest Cost(1)
Notes payable:									
Privately issued secured notes payable(5)	$ 841.0	$ 841.0(6)	13.8%	$ 1,015.0	$ 1,015.0	7.8%	$ 1,042.2	$ 1,042.2	6.1%
Publicly issued unsecured notes payable	745.5	745.5	6.7%	880.0	880.0	6.7%	880.0	880.0	6.7%
Total notes payable	1,586.5	1,586.5	10.5%	1,895.0	1,895.0	7.3%	1,922.2	1,922.2	6.4%
Bank secured term debt (former revolver)(4)	50.0	50.0	17.0%(2)	632.5	50.0	4.3%(3)	922.5	367.3	5.9%(3)
Total debt	$ 1,636.5	$ 1,636.5	10.7%(3)	$ 2,527.5	$ 1,945.0	7.7%(4)	$ 2,844.7	$ 2,289.5	6.5%(4)

(1) The weighted average annual interest cost is computed as the (a) annual stated interest on the debt, plus the annual amortization of commitment fees, other facility fees and the amortization of debt financing costs and original issue discount that are recognized into interest expense over the contractual life of the respective borrowings, divided by (b) debt outstanding on the balance sheet date.

(2) The annual interest cost reflects the interest rate payable for borrowings under the revolving line of credit in effect at the balance sheet date. In addition to the current interest rate payable, there were annual costs of commitment fees, other facility fees and amortization of debt financing costs of $4.3 million at September 30, 2009, $8.5 million at December 31, 2008 and $3.7 million at December 31, 2007 .

(3) The annual interest cost for total debt includes the annual cost of commitment fees, other facility fees and amortization of debt financing costs on the bank term debt regardless of the amount outstanding on the facility as of the balance sheet date. The annual interest cost reflects the facilities in place on the balance sheet date.

(4) During the three months ended September 30, 2009, the commitments under the facility were reduced to $50.0 million subsequent to the funding of $46.0 million to Ciena securitizations in lieu of draws under letters of credit issued under the facility. At December 31, 2008 and 2007, $460.2 million and $496.7 million, respectively, remained unused on the revolving line of credit, net of amounts committed for standby letters of credit of $122.3 million and $58.5 million, respectively, issued under the credit facility.

(5) In the third quarter of 2009, Allied Capital completed the restructuring of its private notes.

(6)

The notes payable on the consolidated balance sheet are shown net of OID of approximately $42.6 million as of September 30, 2009.

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Debt Restructure

On August 28, 2009, Allied Capital completed a comprehensive restructuring of its private notes, or "the Notes," and its bank facility, or the "Facility." Beginning in January 2009, Allied Capital engaged in discussions with the revolving line of credit lenders, or "the Lenders," and the private noteholders, or "the Noteholders," to seek relief under certain terms of both the Facility and the Notes due to certain covenant defaults. As of December 31, 2008, Allied Capital's asset coverage was less than the 200% then required by the revolving credit facility and the private notes. Asset coverage generally refers to the percentage resulting from assets less accounts payable and other liabilities, divided by total debt.

In connection with the restructuring, Allied Capital granted the Noteholders and the Lenders a pari-passu blanket lien on a substantial portion of its assets, including a substantial portion of the assets of its consolidated subsidiaries.

The financial covenants applicable to the Notes and the Facility were modified as part of the restructuring. The consolidated debt to consolidated shareholders' equity covenant and the capital maintenance covenant were both eliminated. The asset coverage ratio was set at 1.35:1 initially, increasing to 1.4:1 at June 30, 2010 and to 1.55:1 at June 30, 2011 and maintained at that level thereafter. A new covenant, total adjusted assets to secured debt, was set at 1.75:1 initially, increasing to 2.0:1 at June 30, 2010 and to 2.25:1 at June 30, 2011 and maintained at that level thereafter. The ratio of adjusted EBIT to adjusted interest expense was set at 1.05:1 initially, decreasing to 0.95:1 at December 31, 2009, 0.80:1 at March 31, 2010 and 0.75:1 at June 30, 2010. The covenant will then be increased to 0.80:1 on December 31, 2010 and 0.95:1 on December 31, 2011 and maintained at that level thereafter. At September 30, 2009, Allied Capital was in compliance with these financial covenants.

The Notes and Facility impose certain limitations on Allied Capital's ability to incur additional indebtedness, including precluding Allied Capital from incurring additional indebtedness unless the asset coverage of all of its outstanding indebtedness is at least 200%. Pursuant to the Investment Company Act, Allied Capital is not permitted to issue indebtedness unless immediately after such issuance it has asset coverage of all outstanding indebtedness of at least 200%. At September 30, 2009, Allied Capital's asset coverage ratio was 175%, which is less than the 200% threshold. As a result, Allied Capital will not be able to issue additional indebtedness until such time as its asset coverage returns to at least 200%.

Allied Capital is required to apply 50% of all net cash proceeds from asset sales to the repayment of the Notes and 6% of all net cash proceeds from asset sales to the repayment of the Facility, subject to certain conditions and exclusions. In the case of certain events of default, Allied Capital would be required to apply 100% of all net cash proceeds from asset sales to the repayment of its secured lenders. Under the new agreements, subject to a limit and certain liquidity restrictions, Allied Capital may repurchase its public debt; however, Allied Capital is prohibited from repurchasing its common stock and may not pay dividends in excess of the minimum it reasonably believe is required to maintain its tax status as a RIC. In addition, upon the occurrence of a change of control (as defined in the note agreement and credit agreement), the Noteholders have the right to be prepaid in full and Allied Capital is required to repay in full all amounts outstanding under the Facility.

The note agreement and credit agreement provide for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, cross-defaults, bankruptcy events and failure to pay judgments. Certain of these events of default are subject to notice and cure periods or materiality thresholds. Pursuant to the terms of the Notes, the occurrence of an event of default generally permits the holders of more than 50% in principal amount of outstanding Notes to accelerate repayment of all amounts due thereunder. The occurrence of an event of default would generally permit the administrative agent for the lenders under the Facility, or the holders of more than

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51% of the aggregate principal debt outstanding under the Facility, to accelerate repayment of all amounts outstanding thereunder. Pursuant to the Notes, during the continuance of an event of default, the rate of interest applicable to the Notes would increase by 200 basis points. Pursuant to the terms of the Facility, during the continuance of an event of default, the applicable spread on any borrowings outstanding under the Facility would increase by 200 basis points.

In connection with the restructuring, Allied Capital recorded a loss on the extinguishment of debt of $117.5 million. In addition to the $11 million of previously deferred unamortized debt costs associated with the Notes and Facility, Allied Capital incurred and paid costs to the lenders of $146 million and other third party advisory and other fees of approximately $26 million in connection with the restructuring. Approximately $20 million of the restructuring costs were deferred and are being amortized into interest expense over the life of the Notes and Facility. In addition, Allied Capital recorded approximately $45 million of OID related to the restructuring of the Notes, which is being amortized into interest expense over the life of the Notes. After giving effect to the restructuring and the recording of the loss, Allied Capital estimates that the weighted average interest cost, including amortization of the deferred debt cost and OID, for the Notes is approximately 13.75% and for the Facility is approximately 17%. The loss on extinguishment of debt is comprised of the following:

	($ in millions)
Previously deferred unamortized costs	$ 11.3
Fees paid to Noteholders/Lenders	145.9
Advisory and other fees paid	26.0
Costs deferred and amortizing into interest expense	(20.3)
OID recorded and amortizing into interest expense	(45.4)
Loss on extinguishment of debt	$ 117.5

Privately Issued Notes Payable. Allied Capital had $1,015.0 million of Notes outstanding at June 30, 2009. Allied Capital made principal payments on the Notes at and prior to the closing of the restructuring and had $841.0 million of Notes outstanding following the closing of the restructuring.

In connection with the restructuring, the existing Notes were exchanged for three new series of Notes containing the following terms:

($ in millions)	Principal Amount	Maturity Dates	Annual Stated Interest Rate Through December 31, 2009(1)	Annual Stated Interest Rate Beginning January 1, 2010(1)	Annual Stated Interest Rate Beginning January 1, 2011(1)	Annual Stated Interest Rate Beginning January 1, 2012(1)
Series A	$ 253.8	June 15, 2010	8.50%	9.25%	N/A	N/A
Series B	$ 253.8	June 15, 2011	9.00%	9.50%	9.75%	N/A
Series C	$ 333.5	March 31 & April 1, 2012	9.50%	10.00%	10.25%	10.75%

(1) The Notes generally require payment of interest quarterly.

Allied Capital made various cash payments in connection with the restructuring of its Notes. Allied Capital paid an amendment fee at closing of $15.2 million. In addition, Allied Capital paid a make-whole fee of $79.7 million related to a contractual provision in the old Notes. Due to the payment of this make-whole fee, the new Notes have no significant make-whole requirement. Allied Capital also paid a restructuring fee of $50.0 million at closing, which will be applied toward the principal balance of the Notes if the Notes are refinanced in full on or before January 31, 2010.

Bank Facility. At June 30, 2009, Allied Capital had an unsecured revolving line of credit that was due to expire on April 11, 2011. The Facility was restructured from a revolving facility to a term facility maturing on November 13, 2010. Total commitments under the Facility were reduced at closing to

Explanation of Responses:

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$96.0 million from $115.0 million prior to closing. At closing, there were $50.0 million of borrowings and $46.0 million of standby letters of credit, or "LCs," outstanding under the Facility. The $46.0 million of LCs terminated and/or expired prior to September 30, 2009, and the commitments under the Facility were reduced by a commensurate amount. As a result, the total commitment and outstanding balance was $50.0 million at September 30, 2009.

Borrowings under the Facility bear interest at a floating rate of interest, subject to a floor. The floating rate spread increases by 0.5% per annum beginning on January 1, 2010 and continuing through maturity. At closing, the interest rate on the Facility was 8.5% per annum. The Facility requires the payment of a commitment fee equal to 0.50% per annum of the committed amount. In addition, Allied Capital agreed to pay an amendment fee at closing of $1.0 million, and a restructuring fee payable on January 31, 2010 equal to 1.0% of the outstanding borrowings on such date if the Facility remains outstanding. The Facility generally requires payments of interest no less frequently than quarterly.

Publicly Issued Unsecured Notes Payable. At September 30, 2009, Allied Capital had outstanding publicly issued unsecured notes as follows:

($ in millions)	**Amount**	**Maturity Date**
6.625% Notes due 2011	$ 319.9	July 15, 2011
6.000% Notes due 2012	195.6	April 1, 2012
6.875% Notes due 2047	230.0	April 15, 2047
Total	$ 745.5	

The 6.625% Notes due 2011 and the 6.000% Notes due 2012 require payment of interest only semi-annually and all principal is due upon maturity. Allied Capital has the option to redeem these notes in whole or in part, together with a redemption premium, as stipulated in the notes. In addition, Allied Capital may purchase these notes in the market at par or at a discount to the extent permitted by the Investment Company Act. During the nine months ended September 30, 2009, Allied Capital paid $30.1 million to repurchase certain of the 6.625% Notes due 2011 which had a face value of $80.1 million and $20.2 million to repurchase certain of the 6.000% Notes due 2012 which had a face value of $54.4 million. After recognizing the remaining unamortized original issue discount associated with the notes repurchased, Allied Capital recognized a net gain on repurchase of debt of $83.5 million for the nine months ended September 30, 2009.

The 6.875% Notes due 2047 require payment of interest only quarterly and all principal is due upon maturity. These notes are redeemable in whole or in part at any time or from time to time on or after April 15, 2012, at par, and upon the occurrence of certain tax events as stipulated in the notes.

Allied Capital has certain financial and operating covenants that are required by the publicly issued unsecured notes payable. Allied Capital is not permitted to issue indebtedness unless immediately after such issuance it has asset coverage of all outstanding indebtedness of at least 200% as required by the Investment Company Act. At September 30, 2009, Allied Capital's asset coverage ratio was 175%, which is less than the 200% requirement. As a result, under the publicly issued unsecured notes payable, Allied Capital will not be able to issue indebtedness until such time as its asset coverage returns to at least 200%.

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Contractual Obligations. The following table shows Allied Capital's significant contractual obligations for the repayment of debt and payment of other contractual obligations as of September 30, 2009.

	Payments Due By Year						
($ in millions)	**Total**	**2009**	**2010**	**2011**	**2012**	**2013**	**After 2013**
Privately issued secured notes payable	$ 841.0	$	$ 253.7	$ 253.8	$ 333.5	$	$
Publicly issued unsecured notes payable	745.5			319.9	195.6		230.0
Bank secured term debt (former revolver)(1)	50.0		50.0				
Operating leases	11.8	1.2	4.4	1.7	1.7	1.7	1.1
Total contractual obligations	$ 1,648.3	$ 1.2	$ 308.1	$ 575.4	$ 530.8	$ 1.7	$ 231.1

(1) At September 30, 2009, $50.0 million was borrowed on the bank term debt and there were no outstanding standby letters of credit.

Off-Balance Sheet Arrangements

In the ordinary course of business, Allied Capital has issued guarantees and has extended standby letters of credit through financial intermediaries on behalf of certain portfolio companies. Allied Capital generally has issued guarantees and has obtained standby letters of credit under its line of credit for the benefit of counterparties to certain portfolio companies. Under these arrangements, Allied Capital would be required to make payments to third parties if the portfolio companies were to default on their related payment obligations or if the expiration dates of the letters of credit are not extended. The following table shows Allied Capital's guarantees and standby letters of credit that may have the effect of creating, increasing or accelerating Allied Capital's liabilities as of September 30, 2009.

	Amount of Commitment Expiration Per Year						
($ in millions)	**Total**	**2009**	**2010**	**2011**	**2012**	**2013**	**After 2013**
Guarantees	$ 9.1	$ 5.0	$ 3.2	$	$ 0.1	$	$ 0.8
Standby letters of credit(1)							
Total commitments	$ 9.1	$ 5.0	$ 3.2	$	$ 0.1	$	$ 0.8

(1) During the three months ended September 30, 2009, Allied Capital funded $46.0 million of standby letters of credit and the remaining standby letters of credit expired. As part of the debt restructure and subsequent to funding of $46.0 million under the standby letters of credit, the availability on the Facility, which could be used to fund the then outstanding standby letters of credit, was reduced to zero.

In addition, Allied Capital had outstanding commitments to fund investments totaling $543.9 million at September 30, 2009, including $515.5 million related to private finance investments and $28.4 million related to commercial real estate finance investments. Outstanding commitments related to private finance investments included $352.2 million to the SL Fund. On October 30, 2009, Allied Capital sold its investment, including its outstanding commitments and the provision of management services, in the SL Fund to Ares Capital.

Allied Capital intends to fund these commitments with existing cash and through cash flow from operations before new investments although there can be no assurance that Allied Capital will generate sufficient cash flow to satisfy these commitments. Should Allied Capital not be able to satisfy these

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commitments, there could be a material adverse effect on its financial condition, liquidity and results of operations.

Recent Developments

On January 29, 2010, Allied Capital entered into the Credit Agreement pursuant to which Allied Capital obtained the Term Loan. The Term Loan was lead arranged by J.P. Morgan. The proceeds of the Term Loan were used to refinance Allied Capital's existing private notes and bank facility, collectively, the "Existing Private Debt." In connection with entering into the Term Loan, Allied Capital used the proceeds from the Term Loan and cash on hand from asset sales and repayments to repay the Existing Private Debt in full. On January 29, 2010, after giving effect to the refinancing and the full repayment of the Existing Private Debt, Allied Capital had total outstanding debt of $995.5 million and cash and investments in money market and other securities of approximately $128 million.

The Term Loan matures on February 28, 2011. Allied Capital is required to make mandatory repayments of the Term Loan (1) using 56% of all net cash proceeds from asset dispositions, subject to certain conditions and exclusions, (2) using 100% of proceeds from any unsecured debt issuance, (3) using 100% of available cash in excess of $125 million at any month end and (4) to cure any borrowing base deficiencies, as discussed below. In addition, the Term Loan must be repaid in full if at any time the outstanding principal balance is less than or equal to $25 million and the Company's available cash is then equal to or greater than $125 million. The Term Loan generally becomes due and payable in full upon a change of control of Allied Capital; except that, in certain circumstances, the Term Loan may be assumed by Ares Capital in connection with the consummation of the merger.

At Allied Capital's election, borrowings under the Term Loan will generally bear interest at a rate per annum equal to (1) LIBOR plus 4.50% or (2) 2.00% plus the higher of (a) the JPMorgan Chase Bank, N.A. prime rate, (b) the daily one-month LIBOR plus 2.5% and (c) the federal funds effective rate plus 0.5%. In addition to the interest paid on the Term Loan, Allied Capital incurred other fees and costs associated with the repayment and refinancing and will also incur additional exit fees, which increase over the term of the loan, as the Term Loan is repaid.

Consistent with the terms of the Existing Private Debt, Allied Capital has granted the Term Loan lenders a blanket lien on a substantial portion of its assets. Borrowings under the Term Loan are subject to a requirement that the borrowing base (as defined in the Credit Agreement) be greater than 2.5x the outstanding principal balance of the Term Loan at any time such outstanding principal balance is greater than $175 million, and greater than 2.0x at any time such outstanding principal balance is less than or equal to $175 million. If the borrowing base falls below the minimum coverage requirement, Allied Capital is required to make repayments of the Term Loan in an amount sufficient to bring the coverage ratio to the required level.

The Credit Agreement contains various operating covenants applicable to Allied Capital. The Term Loan requires that Allied Capital maintain a ratio of Adjusted EBIT to Adjusted Interest Expense (as such terms are defined in the Credit Agreement) of not less than 0.70:1.0, measured as of the last day of each fiscal quarter as provided in the Credit Agreement. In addition, Allied Capital is precluded from incurring additional indebtedness unless its asset coverage of all outstanding indebtedness is at least 200% and may not pay dividends in excess of the minimum Allied Capital reasonably believes is required to maintain its tax status as a RIC.

The Credit Agreement contains customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, cross-defaults, bankruptcy events and failure to pay judgments. Certain of these events of default are subject to notice and cure periods or materiality thresholds. The occurrence of an event of default would permit the administrative agent for the lenders under the Term Loan, or the holders of more than 51% of the aggregate principal debt outstanding under the Term Loan, to declare the entire unpaid principal balance outstanding due and payable. Pursuant to the terms of the Credit Agreement, during the continuance of an event of default, at the election of the required lenders, the applicable interest on any outstanding principal amount of the Term Loan would increase by 200 basis points.

In addition, from September 30, 2009 through February 2, 2010 Allied Capital has collected additional cash proceeds from asset sales totaling approximately $514 million, including $317 million from the sales of assets to Ares Capital, IHAM and Ivy Hill I.

Critical Accounting Policies

Allied Capital's consolidated financial statements are based on the selection and application of critical accounting policies, which require management to make significant estimates and assumptions. Critical accounting policies are those that are both important to the presentation of Allied Capital's financial condition and results of operations and require management's most difficult, complex or subjective judgments. Allied Capital's critical accounting policies are those applicable to the valuation of investments, certain revenue recognition matters and certain tax matters as discussed below.

Valuation of Portfolio Investments

Allied Capital, as a BDC, has invested in illiquid securities including debt and equity securities of portfolio companies, CLO bonds and preferred shares/income notes, CDO bonds and investment funds. Allied Capital's investments may be subject to certain restrictions on resale and generally have no established trading market. Allied Capital values substantially all of its portfolio investments at fair value as determined in good faith by Allied Capital's board of directors in accordance with Allied Capital's valuation policy and the provisions of the Investment Company Act and ASC Topic 820, which includes the codification of the Statement. Allied Capital determines fair value to be the price that would be received for an investment in a current sale, which assumes an orderly transaction between market participants on the measurement date. Allied Capital's valuation policy considers the fact that no ready market exists for substantially all of the securities in which it invests and that fair value for Allied Capital's investments must typically be determined using unobservable inputs. Allied Capital's valuation policy is intended to provide a consistent basis for determining the fair value of the portfolio.

Allied Capital adopted the standards in ASC Topic 820 on a prospective basis in the first quarter of 2008. These standards require Allied Capital to assume that the portfolio investment is to be sold in the principal market to market participants or, in the absence of a principal market, the most advantageous market, which may be a hypothetical market. Market participants are defined as buyers and sellers in the principal or most advantageous market that are independent, knowledgeable, and willing and able to transact. In accordance with the standards, Allied Capital has considered its principal market, or the market in which Allied Capital exits its portfolio investments with the greatest volume and level of activity.

Allied Capital has determined that for its buyout investments, where Allied Capital has control or could gain control through an option or warrant security, both the debt and equity securities of the portfolio investment would exit in the M&A market as the principal market, generally through a sale or recapitalization of the portfolio company. Allied Capital believes that the in-use premise of value (as defined in ASC Topic 820), which assumes the debt and equity securities are sold together, is appropriate as this would provide maximum proceeds to the seller. As a result, Allied Capital uses the enterprise value methodology to determine the fair value of these investments. Enterprise value means the entire value of the company to a market participant, including the sum of the values of debt and equity securities used to capitalize the enterprise at a point in time. Enterprise value is determined using various factors, including cash flow from operations of the portfolio company, multiples at which private companies are bought and sold and other pertinent factors, such as recent offers to purchase a

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portfolio company, recent transactions involving the purchase or sale of the portfolio company's equity securities, liquidation events or other events. Allied Capital allocates the enterprise value to these securities in order of the legal priority of the securities.

While Allied Capital typically exits its securities upon the sale or recapitalization of the portfolio company in the M&A market, for investments in portfolio companies where Allied Capital does not have control or the ability to gain control through an option or warrant security, Allied Capital cannot typically control the exit of its investment into its principal market (the M&A market). As a result, in accordance with ASC Topic 820, Allied Capital is required to determine the fair value of these investments assuming a sale of the individual investment (the in-exchange premise of value) in a hypothetical market to a hypothetical market participant. Allied Capital continues to perform an enterprise value analysis for the investments in this category to assess the credit risk of the loan or debt security and to determine the fair value of Allied Capital's equity investment in these portfolio companies. The determined equity values are generally discounted when Allied Capital has a minority ownership position, restrictions on resale, specific concerns about the receptivity of the capital markets to a specific company at a certain time or other factors. For loan and debt securities, Allied Capital performs a yield analysis assuming a hypothetical current sale of the investment. The yield analysis requires Allied Capital to estimate the expected repayment date of the instrument and a market participant's required yield. Allied Capital's estimate of the expected repayment date of a loan or debt security may be shorter than the legal maturity of the instruments as Allied Capital's loans have historically been repaid prior to the maturity date. The yield analysis considers changes in interest rates and changes in leverage levels of the loan or debt security as compared to market interest rates and leverage levels. Assuming the credit quality of the loan or debt security remains stable, Allied Capital will use the value determined by the yield analysis as the fair value for that security. A change in the assumptions that Allied Capital uses to estimate the fair value of its loans and debt securities using the yield analysis could have a material impact on the determination of fair value. If there is deterioration in credit quality or a loan or debt security is in workout status, Allied Capital may consider other factors in determining the fair value of a loan or debt security, including the value attributable to the loan or debt security from the enterprise value of the portfolio company or the proceeds that would be received in a liquidation analysis.

Allied Capital's equity investments in private debt and equity funds are generally valued based on the fund's net asset value, unless other factors lead to a determination of fair value at a different amount. The value of Allied Capital's equity securities in public companies for which quoted prices in an active market are readily available is based on the closing public market price on the measurement date.

The fair value of Allied Capital's CLO/CDO Assets is generally based on a discounted cash flow model that utilizes prepayment, re-investment, loss and ratings assumptions based on historical experience and projected performance, economic factors, the characteristics of the underlying cash flow and comparable yields for similar bonds and preferred shares/income notes, when available. Allied Capital recognizes unrealized appreciation or depreciation on its CLO/CDO Assets as comparable yields in the market change and/or based on changes in estimated cash flows resulting from changes in prepayment, re-investment, loss or ratings assumptions in the underlying collateral pool or changes in redemption assumptions for the CLO/CDO Assets, if applicable. Allied Capital determines the fair value of its CLO/CDO Assets on an individual security-by-security basis. If Allied Capital were to sell a group of these CLO/CDO Assets in a pool in one or more transactions, the total value received for that pool may be different than the sum of the fair values of the individual assets.

Allied Capital records unrealized depreciation on investments when it determines that the fair value of a security is less than its cost basis and records unrealized appreciation when it determines that the fair value is greater than its cost basis. Because of the inherent uncertainty of valuation, the values determined at the measurement date may differ significantly from the values that would have been used had a ready market existed for the investments and the differences could be material. Additionally, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the values determined at the measurement date. In accordance with ASC Topic 820 (discussed below), Allied Capital does not consider a transaction price that is associated with a transaction that is not orderly to be indicative of fair value or market participant risk premiums and accordingly would place little, if any, weight on transactions that are not orderly in determining fair value. When considering recent potential or completed transactions, Allied Capital uses judgment in determining if such offers or transactions were pursuant to an orderly process for purposes of determining how much weight is placed on these data points in accordance with the applicable guidelines in ASC Topic 820.

See "Results of Operations Comparison of the Three and Nine Months Ended September 30, 2009 and 2008 Valuation Methodology" above for more discussion on portfolio valuation.

Net Realized Gains or Losses and Net Change in Unrealized Appreciation or Depreciation

Realized gains or losses are measured by the difference between the net proceeds from the repayment or sale and the cost basis of the investment without regard to unrealized appreciation or depreciation previously recognized and include investments charged off during the period, net of recoveries. Net change in unrealized appreciation or depreciation primarily reflects the change in portfolio investment values during the reporting period, including the reversal of previously recorded unrealized appreciation or depreciation when gains or losses are realized. Net change in unrealized appreciation or depreciation also reflects the change in the value of U.S. Treasury bills, when applicable, and depreciation on accrued interest and dividends receivable and other assets where collection is doubtful.

Interest and Dividend Income

Interest income is recorded on an accrual basis to the extent that such amounts are expected to be collected. For loans and debt securities with contractual payment-in-kind interest, which represents contractual interest accrued and added to the loan balance that generally becomes due at maturity, Allied Capital will not accrue payment-in-kind interest if the portfolio company valuation indicates that the payment-in-kind interest is not collectible. In general, interest is not accrued on loans and debt securities if Allied Capital has doubt about interest collection or where the enterprise value of the portfolio company may not support further accrual. Interest may not accrue on loans or debt securities to portfolio companies that are more than 50% owned by Allied Capital depending on such company's capital requirements.

When Allied Capital receives nominal cost warrants or free equity securities (nominal cost equity), it allocates its cost basis in its investment between debt securities and nominal cost equity at the time of origination. At that time, the original issue discount basis of the nominal cost equity is recorded by increasing the cost basis in the equity and decreasing the cost basis in the related debt securities. Loan origination fees, original issue discount and market discount are capitalized and then amortized into interest income using a method that approximates the effective interest method. Upon the prepayment of a loan or debt security, any unamortized loan origination fees are recorded as interest income and any unamortized original issue discount or market discount is recorded as a realized gain.

The weighted average yield on loans and debt securities is computed as the (a) annual stated interest on accruing loans and debt securities plus the annual amortization of loan origination fees, original issue discount and market discount on accruing loans and debt securities less the annual amortization of loan origination costs, divided by (b) total loans and debt securities at value. The weighted average yield is computed as of the balance sheet date.

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Allied Capital recognizes interest income on the CLO preferred shares/income notes using the effective interest method, based on the anticipated yield that is determined using the estimated cash flows over the projected life of the investment. Yields are revised when there are changes in actual or estimated cash flows due to changes in prepayments and/or re-investments, credit losses, ratings or asset pricing. Changes in estimated yield are recognized as an adjustment to the estimated yield over the remaining life of the preferred shares/income notes from the date the estimated yield was changed. CLO and CDO bonds have stated interest rates. The weighted average yield on the CLO/CDO Assets is calculated as the (a) annual stated interest or the effective interest yield on the accruing bonds or the effective yield on the preferred shares/income notes, divided by (b) CLO/CDO Assets at value. The weighted average yields are computed as of the balance sheet date.

Dividend income on preferred equity securities is recorded as dividend income on an accrual basis to the extent that such amounts are expected to be collected and to the extent that Allied Capital has the option to receive the dividend in cash. Dividend income on common equity securities is recorded on the record date for private companies or on the ex-dividend date for publicly traded companies.

Fee Income

Fee income includes fees for loan prepayment premiums, guarantees, commitments and services rendered by Allied Capital to portfolio companies and other third parties such as diligence, structuring, transaction services, management and consulting services and other services. Loan prepayment premiums are recognized at the time of prepayment. Guaranty and commitment fees are generally recognized as income over the related period of the guaranty or commitment, respectively. Diligence, structuring and transaction services fees are generally recognized as income when services are rendered or when the related transactions are completed. Management, consulting and other services fees, including fund management fees, are generally recognized as income as the services are rendered. Fees are not accrued if Allied Capital has doubt about collection of those fees.

Federal and State Income Taxes and Excise Tax

Allied Capital has complied with the requirements of the Code that are applicable to RICs and REIT. Allied Capital and any of its subsidiaries that qualify as a RIC or a REIT intend to distribute or retain through a deemed distribution all of its annual taxable income to stockholders; therefore, Allied Capital has made no provision for income taxes, exclusive of excise taxes, for these entities.

If Allied Capital does not distribute at least 98% of its annual taxable income in the year earned, it will generally be required to pay an excise tax equal to 4% of the amount by which 98% of its annual taxable income exceeds the distributions from such taxable income during the year earned. To the extent that Allied Capital determines that its estimated current year annual taxable income will be in excess of estimated current year dividend distributions from such taxable income, Allied Capital accrues excise taxes on estimated excess taxable income as taxable income is earned using an annual effective excise tax rate. The annual effective excise tax rate is determined by dividing the estimated annual excise tax by the estimated annual taxable income.

Income taxes for A.C. Corporation are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases as well as operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

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Recent Accounting Pronouncements

In September 2006, the FASB issued Statement No. 157, which was primarily codified into ASC Topic 820, defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements.

Allied Capital adopted this statement on a prospective basis beginning in the quarter ended March 31, 2008. The initial adoption of this statement did not have a material effect on Allied Capital's consolidated financial statements.

ASC Topic 820 also includes the codification of *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP 157-4), which was issued by the FASB in April 2009. These provisions provide guidance on how to determine the fair value of assets under ASC Topic 820 in the current economic environment and reemphasize that the objective of a fair value measurement remains an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. These provisions state that a transaction price that is associated with a transaction that is not orderly is not determinative of fair value or market-participant risk premiums and companies should place little, if any, weight (compared with other indications of fair value) on transactions that are not orderly when estimating fair value or market risk premiums.

Allied Capital adopted these provisions of ASC Topic 820 on a prospective basis beginning in the quarter ending March 31, 2009. The adoption of these provisions did not have a material effect on Allied Capital's consolidated financial statements.

Subsequent Events (SFAS 165)

In May 2009, the FASB issued SFAS 165, which was primarily codified into ASC Topic 855, which establishes general standards for reporting events that occur after the balance sheet date, but before financial statements are issued or are available to be issued. This standard requires the disclosure of the date through which an entity has evaluated subsequent events and whether that date represents the date the financial statements were issued or were available to be issued.

Allied Capital adopted these provisions of Topic 855 in the quarter ended June 30, 2009. The adoption of these provisions did not have a material impact on Allied Capital's financial statements.

Accounting for Transfers of Financial Assets (SFAS 166)

In June 2009, the FASB issued SFAS 166, which has not yet been codified. SFAS 166 changes the conditions for reporting a transfer of a portion of a financial asset as a sale and requires additional year-end and interim disclosures. SFAS 166 is effective for fiscal years beginning after November 15, 2009. The implementation of SFAS 166 is not expected to have a material impact on Allied Capital's financial statements.

Amendments to FASB Interpretation No. 46(R)

In June 2009, the FASB issued SFAS 167, which will be codified into ASC Topic 810, *Consolidation*, or "SFAS 167," which amends the guidance on accounting for variable interest entities. SFAS 167 is effective for fiscal years beginning after November 15, 2009 and interim periods within that fiscal year. Allied Capital has not completed the process of evaluating the impact of adopting this standard.

The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (SFAS 168), which was primarily codified into ASC Topic 105, was issued by the FASB in July

2009. This standard establishes the FASB ASC, which will become the source of authoritative U.S. generally accepted accounting principles recognized by the FASB. This standard is effective for the period ending after September 15, 2009. The implementation of this standard is not expected to have a material impact on Allied Capital's financial statements.

Quantitative and Qualitative Disclosure about Market Risk

Allied Capital's business activities contain elements of risk. Allied Capital considers the principal types of market risk to be fluctuations in interest rates. Allied Capital considers the management of risk essential to conducting its businesses. Accordingly, Allied Capital's risk management systems and procedures are designed to identify and analyze its risks, to set appropriate policies and limits and to continually monitor these risks and limits by means of reliable administrative and information systems and other policies and programs.

Because Allied Capital borrows money to make investments, its net investment income is dependent upon the difference between the rate at which Allied Capital borrows funds and the rate at which it invests these funds. As a result, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on Allied Capital's net investment income. In periods of rising interest rates, Allied Capital's cost of funds would increase, which would reduce its net investment income. Allied Capital uses a combination of long-term and short-term borrowings and equity capital to finance its investing activities. Allied Capital has historically used its revolving line of credit as a means to bridge to long-term financing. Allied Capital's long-term fixed-rate investments are financed primarily with long-term fixed-rate debt and equity. Allied Capital may use interest rate risk management techniques in an effort to limit its exposure to interest rate fluctuations. Such techniques may include various interest rate hedging activities to the extent permitted by the Investment Company Act. Allied Capital has analyzed the potential impact of changes in interest rates on interest income net of interest expense.

At December 31, 2008, 85% of Allied Capital's private finance loans and debt securities carried a fixed rate of interest and 15% carried a floating rate of interest. The mix of fixed and variable rate loans and debt securities in the portfolio may vary depending on the level of floating rate senior loans or unitranche debt in the portfolio at a given time.

Assuming that the balance sheet as of December 31, 2008, were to remain constant and no actions were taken to alter the existing interest rate sensitivity, a hypothetical immediate 1% change in interest rates would have affected net income by approximately $7.6 million over a one year horizon. Although management believes that this measure is indicative of Allied Capital's sensitivity to interest rate changes, it does not adjust for potential changes in credit quality, size and composition of the assets on the balance sheet and other business developments that could affect the net increase in net assets resulting from operations or net income. Accordingly, no assurances can be given that actual results would not differ materially from the potential outcome simulated by this estimate.

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SENIOR SECURITIES OF ALLIED CAPITAL

Information about Allied Capital's senior securities is shown in the following tables as of December 31 for the years indicated in the table and as of September 30, 2009, unless otherwise noted. The report of Allied Capital's independent registered public accounting firm, KPMG LLP, on the senior securities table as of December 31, 2008 is attached as an exhibit to this document. The " " indicates information that the SEC expressly does not require to be disclosed for certain types of senior securities.

Class and Year	Total Amount Outstanding Exclusive of Treasury Securities(1)	Asset Coverage Per Unit(2)	Involuntary Liquidating Preference Per Unit(3)	Average Market Value Per Unit(4)
Privately Issued Notes Payable				
1999	$ 419,000,000	$ 2,283	$	N/A
2000	544,000,000	2,445		N/A
2001	694,000,000	2,453		N/A
2002	694,000,000	2,704		N/A
2003	854,000,000	3,219		N/A
2004	981,368,000	2,801		N/A
2005	1,164,540,000	3,086		N/A
2006(5)	1,041,400,000	2,496		N/A
2007(5)	1,042,200,000	2,211		N/A
2008(5)	1,015,000,000	1,883		N/A
September 30, 2009 (unaudited)(7)	840,974,488	1,754		N/A
Publicly Issued Unsecured Notes Payable				
1999	$ 0	$ 0	$	N/A
2000	0	0		N/A
2001	0	0		N/A
2002	0	0		N/A
2003	0	0		N/A
2004	0	0		N/A
2005	0	0		N/A
2006(5)	650,000,000	2,496		$ 1,000
2007(5)	880,000,000	2,211		745
2008(5)	880,000,000	1,883		603
September 30, 2009 (unaudited)(7)	745,544,000	1,754		714
Revolving Lines of Credit/Bank Term Facility				
1999	$ 82,000,000	$ 2,283	$	N/A
2000	82,000,000	2,445		N/A
2001	144,750,000	2,453		N/A
2002	204,250,000	2,704		N/A
2003	0	0		N/A
2004	112,000,000	2,801		N/A
2005	91,750,000	3,086		N/A
2006	207,750,000	2,496		N/A
2007	367,250,000	2,211		N/A
2008	50,000,000	1,883		N/A
September 30, 2009 (unaudited)(7)	50,000,000	1,754		N/A

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Class and Year	Total Amount Outstanding Exclusive of Treasury Securities(1)	Asset Coverage Per Unit(2)	Involuntary Liquidating Preference Per Unit(3)	Average Market Value Per Unit(4)
SBA Debentures(6)				
1999	$ 62,650,000	$ 2,283	$	N/A
2000	78,350,000	2,445		N/A
2001	94,500,000	2,453		N/A
2002	94,500,000	2,704		N/A
2003	94,500,000	3,219		N/A
2004	77,500,000	2,801		N/A
2005	28,500,000	3,086		N/A
2006	0	0		N/A
2007	0	0		N/A
2008	0	0		N/A
September 30, 2009 (unaudited)	0	0		N/A
Overseas Private Investment Corporation Loan				
1999	$ 5,700,000	$ 2,283	$	N/A
2000	5,700,000	2,445		N/A
2001	5,700,000	2,453		N/A
2002	5,700,000	2,704		N/A
2003	5,700,000	3,219		N/A
2004	5,700,000	2,801		N/A
2005	0	0		N/A
2006	0	0		N/A
2007	0	0		N/A
2008	0	0		N/A
September 30, 2009 (unaudited)	0	0		N/A
Auction Rate Reset Note				
1999	$ 0	$ 0	$	N/A
2000	76,598,000	2,445		N/A
2001	81,856,000	2,453		N/A
2002	0	0		N/A
2003	0	0		N/A
2004	0	0		N/A
2005	0	0		N/A
2006	0	0		N/A
2007	0	0		N/A
2008	0	0		N/A
September 30, 2009 (unaudited)	0	0		N/A

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Class and Year	Total Amount Outstanding Exclusive of Treasury Securities(1)	Asset Coverage Per Unit(2)	Involuntary Liquidating Preference Per Unit(3)	Average Market Value Per Unit(4)
Master Repurchase Agreement and Master Loan and Security Agreement				
1999	$ 23,500,000	$ 2,283	$	N/A
2000	0	0		N/A
2001	0	0		N/A
2002	0	0		N/A
2003	0	0		N/A
2004	0	0		N/A
2005	0	0		N/A
2006	0	0		N/A
2007	0	0		N/A
2008	0	0		N/A
September 30, 2009 (unaudited)	0	0		N/A
Redeemable Cumulative Preferred Stock(6)				
1999	$ 1,000,000	$ 225	$ 100	N/A
2000	1,000,000	242	100	N/A
2001	1,000,000	244	100	N/A
2002	1,000,000	268	100	N/A
2003	1,000,000	319	100	N/A
2004	0	0		N/A
2005	0	0		N/A
2006	0	0		N/A
2007	0	0		N/A
2008	0	0		N/A
September 30, 2009 (unaudited)	0	0		N/A
Non-Redeemable Cumulative Preferred Stock(6)				
1999	$ 6,000,000	$ 225	$ 100	N/A
2000	6,000,000	242	100	N/A
2001	6,000,000	244	100	N/A
2002	6,000,000	268	100	N/A
2003	6,000,000	319	100	N/A
2004	0	0		N/A
2005	0	0		N/A
2006	0	0		N/A
2007	0	0		N/A
2008	0	0		N/A
September 30, 2009 (unaudited)	0	0		N/A

(1) Total amount of each class of senior securities outstanding at the end of the period presented.

(2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as Allied Capital's consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by senior securities representing indebtedness. This asset coverage ratio is multiplied by $1,000 to determine the Asset Coverage Per Unit. The asset coverage ratio for a class of senior securities that is preferred stock is calculated as Allied Capital's consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by senior securities representing indebtedness, plus the involuntary liquidation preference of the preferred

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stock (see footnote 3 below). The Asset Coverage Per Unit for preferred stock is expressed in terms of dollar amounts per share.

(3) The amount to which such class of senior security would be entitled upon the involuntary liquidation of Allied Capital in preference to any security junior to it.

(4) Not applicable, except for publicly issued unsecured notes payable, as other senior securities are not registered for public trading. The average market value of the publicly issued unsecured notes payable is calculated as the weighted average face value of the notes. On January 22, 2010, the closing price of Allied Capital's $230 million 6.875% Notes due 2047 was $18.51 per share.

(5) See Note 4 to Allied Capital's consolidated financial statements for the year ended December 31, 2008 for a description of the terms.

(6) Issued by Allied Capital's small business investment company subsidiary to the SBA. These categories of senior securities were not subject to the asset coverage requirements of the Investment Company Act. During 2006, Allied Capital's small business investment company, or "SBIC," subsidiary surrendered its SBIC license and was merged into its parent.

(7) See Note 4 to Allied Capital's consolidated financial statements for the nine-months ending September 30, 2009 for a description of the terms.

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PORTFOLIO COMPANIES OF ALLIED CAPITAL

The following is a listing of each portfolio company or its affiliate, together referred to as "portfolio companies," in which Allied Capital had an equity investment at September 30, 2009. Percentages shown for each class of securities held by Allied Capital represent percentage of the class owned and do not necessarily represent voting ownership or economic ownership. Percentages shown for equity securities other than warrants or options represent the actual percentage of the class of security held before dilution. Percentages shown for warrants and options held represent the percentage of the class of security Allied Capital may own assuming it exercises its warrants or options before dilution.

The portfolio companies are presented in three categories: companies more than 25% owned, which represent portfolio companies where Allied Capital directly or indirectly owns more than 25% of the outstanding voting securities of such portfolio company and, therefore, is deemed controlled by it under the Investment Company Act; companies owned 5% to 25%, which represent portfolio companies where Allied Capital directly or indirectly owns 5% to 25% of the outstanding voting securities of such portfolio company or where it holds one or more seats on the portfolio company's board of directors and, therefore, is deemed to be an affiliated person under the Investment Company Act; and companies less than 5% owned, which represent portfolio companies where Allied Capital directly or indirectly owns less than 5% of the outstanding voting securities of such portfolio company and where it has no other affiliations with such portfolio company. Allied Capital makes available significant managerial assistance to its portfolio companies. It generally receives rights to observe the meetings of its portfolio companies' board of directors and may have one or more voting seats on their boards.

For information relating to the amount and nature of Allied Capital's investments in portfolio companies, see its consolidated statement of investments at September 30, 2009, at pages F-121 to F-129.

Name and Address of Portfolio Company	Nature of its Principal Business	Title of Securities Held by Allied Capital	Percentage of Class Held
PRIVATE FINANCE **Companies More Than 25% Owned**			
AGILE Fund I, LLC(1) 1919 Pennsylvania Ave, N.W. Washington, DC 20006	Private Equity Fund	Equity Interests	0.5%
AllBridge Financial, LLC(1) 13760 Noel Road Suite 1100 Dallas, TX 75240	Real Estate Finance Company	Class A Equity Interests	95.2%
Allied Capital Senior Debt Fund, L.P.(1)(2) 1919 Pennsylvania Ave, N.W. Washington, DC 20006	Private Debt Fund	Class A-1 Limited Partnership Interest	41.0%
Avborne, Inc.(1)(7) PO Box 52-2602 Miami, FL 33152	Aviation Services	Series B Preferred Stock Common Stock	23.5% 27.2%
Avborne Heavy Maintenance, Inc.(1)(7) PO Box 52-2602 Miami, FL 33152	Aviation Services	Common Stock	27.5%
Aviation Properties Corporation(1) 1919 Pennsylvania Avenue, N.W. Washington, DC 20006	Aviation Services	Common Stock	100.0%

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Name and Address of Portfolio Company	Nature of its Principal Business	Title of Securities Held by Allied Capital	Percentage of Class Held
Border Foods, Inc.(1) 4065 J Street SE Deming, NM 88030	Mexican Ingredient & Food Product Manufacturer	Series A Preferred Stock Series A Common Stock Series B Common Stock	100.0% 80.0% 100.0%
Calder Capital Partners, LLC 321 North Clark Street, Suite 1425 Chicago, IL 60654	Private Investment Firm	Equity Interests	100.0%
Callidus Capital Corporation(1)(4) 520 Madison Avenue New York, NY 10022	Asset Manager and Finance Company	Common stock	100.0%
Ciena Capital LLC(1) 1515 Broadway New York, NY 10036	Real-Estate Secured Lender	Class B Equity Interests Class C Equity Interests Equity Interest in Ciena Subsidiary(3)	100.0% 94.9% 20.0%
CitiPostal Inc.(1) 5 North 11th Street Brooklyn, NY 11211	Document Storage and Management	Common Stock	63.1%
Coverall North America, Inc.(1) 5201 Congress Avenue Suite 275 Boca Raton, FL 33487	Corporate Cleaning Service Provider	Common Stock	83.5%
CR Holding, Inc.(1) 141 Venture Boulevard Spartanburg, SC 29306	Household Cleaning Products	Common Stock	75.4%
Crescent Equity Corp.(1)(11) 1919 Pennsylvania Ave, N.W. Washington, DC 20006	Hotel Management Company	Common Stock	86.3%
Direct Capital Corporation(1) 155 Commerce Way Portsmouth, NH 03801	Business Equipment Leasing	Class A Common Stock	58.6%
Financial Pacific Company(1) 3455 South 344th Way Suite 300 Federal Way, WA 98001	Commercial Finance Leasing	Series A Preferred Stock Common Stock	86.3% 85.8%
Hot Light Brands, Inc.(1) 11017 Gravois Industrial Court Dr. Unit C St. Louis, MO 63128	Real Estate Holding Company	Common Stock	100.0%
Hot Stuff Foods, LLC(1) 2930 W. Maple Street Sioux Falls, SD 57118	Foodservice to Convenience Stores	Class B Common Stock Class A Common Stock	95.6% 68.0%
Huddle House, Inc.(1) 5901-B Peachtree-Dunwoody Road NE Suite B450 Atlanta, GA 30328	Restaurant Franchisor	Common Stock	84.0%
IAT Equity, LLC and Affiliates(1) 1305 W. Jackson Pasadena, TX 77506	Industrial Distributor	Equity Interests	100.0%

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Name and Address of Portfolio Company	Nature of its Principal Business	Title of Securities Held by Allied Capital	Percentage of Class Held
Impact Innovations Group, LLC 2500 Northwinds Parkway Suite 200 Alpharetta, GA 30004	Information Technology Services Provider	Equity Interests in Affiliate(5)	50.0%
Insight Pharmaceuticals Corporation 1170 Wheeler Way Suite 150 Langhorne, PA 19047	Marketer of Over-The-Counter Pharmaceuticals	Common Stock	25.5%
Knightsbridge CLO 2007-1 Ltd.(1) 520 Madison Avenue, 27th Floor New York, NY 10022	CLO Fund	Income Notes	85.0%
Knightsbridge CLO 2008-1 Ltd.(1) 520 Madison Avenue, 27th Floor New York, NY 10022	CLO Fund	Income Notes	80.0%
MVL Group, Inc.(1) 1061 E. Indiantown Road Suite 300 Jupiter, FL 33477	Market Research Services	Common Stock	56.1%
Penn Detroit Diesel Allison, LLC(1) 8330 State Road Philadelphia, PA 19136	Distributor of Engines, Transmissions, and Parts	Equity Interests	75.9%
Senior Secured Loan Fund LLC(1)(14) c/o Corporation Service Company 2711Centerville Road, Suite 400 Wilmington, DE 19808	Private Debt Fund	Equity Interests	87.5%
Service Champ, Inc.(1) 180 New Britain Boulevard Chalfont, PA 18914	Wholesale Distributor of Auto Parts	Common Stock	54.8%
Stag-Parkway, Inc.(1) 7095 Tradewater Parkway Atlanta, GA 30336	Recreational Vehicle Parts Distributor	Common Stock	100.0%
Startec Equity, LLC(1) 1919 Pennsylvania Avenue N.W. Washington, DC 20006	Telecommunications Services	Equity Interests	100.0%
Companies 5% to 25% Owned			
10th Street, LLC 5 North 11th Street Brooklyn, NY 11211	Real Estate Holding Company	Equity Interests Option to Purchase Common Stock	10.0% 50.1%
Air Medical Group Holdings LLC 306 Davis Drive P.O. Box 768 West Plains, MO 65775	Air Ambulance Service	Series A Preferred Equity Interests Series B Preferred Equity Interests	5.6% 5.4%
BB&T Capital Partners/Windsor Mezzanine Fund, LLC 101 N. Cherry Street Suite 400 Winston-Salem, NC 27101	Private Equity Fund	Class A Equity Interests(6)	32.6%

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Name and Address of Portfolio Company	Nature of its Principal Business	Title of Securities Held by Allied Capital	Percentage of Class Held
Driven Brands, Inc. 128 South Tryon Street Suite 900 Charlotte, NC 28202	Franchisor of Car Care Centers	Class A Common Stock	6.7%
Multi-Ad Services, Inc. 1720 W. Detweiller Drive Peoria, IL 61615	Marketing Services	Series A Preferred Equity Interests Class A Common Equity Interests	14.4% 8.8%
Pendum Acquisition, Inc. 4600 S. Ulster Street Denver, CO 80237	Outsourced ATM Services Provider	Common Stock	8.9%
Postle Aluminum Company, LLC 511 Pine Creek Court Elkhart, IN 46516	Aluminum Extrusions Distributor and Manufacturer	Class B Equity Interests Class X Equity Interests	86.3% 100.0%
Progressive International Corporation 6111 S. 228th Street Kent, WA 98032	Retail Kitchenware	Series A Redeemable Preferred Stock Class A Common Stock Warrants to Purchase Class A Common Stock	14.3% 1.0% 42.3%
Regency Healthcare Group, LLC 100 Winner's Circle Suite 120 Brentwood, TN 37027	Hospice Services	Class A Equity Interests	7.6%
SGT India Private Limited(1) 5858 Westheimer Road Houston, TX 77057	Software/Business Process Developer	Common Stock	21.8%
Soteria Imaging Services, LLC 9200 Leesgate Road Suite 101 Louisville, KY 40222	Diagnostic Imaging Facilities Operator	Class A Preferred Equity Interests	9.3%
Universal Environmental Services, LLC 411 Dividend Drive Peachtree City, GA 30269	Used Oil Recycling	Preferred Equity Interests	15.0%
Companies Less Than 5% Owned			
Augusta Sportswear Group, Inc. 425 Park West Drive Augusta, GA 30907	Retail Athletic Apparel	Common Stock	1.6%
BenefitMall Holdings, Inc. 4851 LBJ Freeway, Suite 1100 Dallas, TX 75244	Insurance General Agency to Small Businesses	Series B Common Stock(10) Warrant to Purchase Class C Common Stock(10)	84.9% 100.0%
Broadcast Electronics, Inc. 4100 North 24th Street Quincy, IL 62305	Radio Broadcast Equipment and Software Provider	Preferred Shares	12.0%
Callidus Debt Partners CLO Fund III, Ltd.(8) 520 Madison Avenue New York, NY 10022	CLO Fund	Preferred Shares	68.4%
Callidus Debt Partners CLO Fund IV, Ltd.(8) 520 Madison Avenue New York, NY 10022	CLO Fund	Income Notes	38.5%

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Name and Address of Portfolio Company	Nature of its Principal Business	Title of Securities Held by Allied Capital	Percentage of Class Held
Callidus Debt Partners CLO Fund V, Ltd.(8) 520 Madison Avenue New York, NY 10022	CLO Fund	Income Notes	43.1%
Callidus Debt Partners CLO Fund VI, Ltd.(8) 520 Madison Avenue New York, NY 10022	CLO Fund	Income Notes	100.0%
Callidus Debt Partners CLO Fund VII, Ltd.(8) 520 Madison Avenue New York, NY 10022	CLO Fund	Income Notes	50.9%
Callidus MAPS CLO Fund I LLC(8) 520 Madison Avenue New York, NY 10022	CLO Fund	Income Notes	86.5%
Callidus MAPS CLO Fund II, Ltd.(8) 520 Madison Avenue New York, NY 10022	CLO Fund	Income Notes	47.1%
Carlisle Wide Plank Floors, Inc. 1676 Route 9 Stoddard, NH 03464	Wide Plank Wood Flooring	Common Stock	3.3%
Catterton Partners VI, L.P. 599 West Putnam Avenue Greenwich, CT 06830	Private Equity Fund	Limited Partnership Interest	0.6%
Commercial Credit Group, Inc. 121 West Trade Street Suite 2100 Charlotte, NC 28202	Equipment Finance and Leasing	Series A-1 Preferred Stock Series B Preferred Stock Series C Preferred Stock Series D Preferred Stock Warrant to Purchase Common Stock(10)	43.1% 43.1% 86.3% 44.8% 24.4%
Cook Inlet Alternative Risk, LLC 10 British American Boulevard Latham, NY 12110	Management Services	Equity Interests	3.2%
Cortec Group Fund IV, L.P. 200 Park Avenue New York, NY 10166	Private Equity Fund	Limited Partnership Interest	2.5%
Digital VideoStream, LLC 2600 West Olive Avenue, Suite 100 Burbank, CA 91505	Media Post Production	Debt Convertible into Equity Interests	20.8%
DirectBuy Holdings, Inc. 8450 Broadway Merrilville, IN 46410	Franchisor of Consumer Buying Centers	Equity Interests	4.6%
Distant Lands Trading Co. 801 Houser Way North Renton, WA 98055	Provider of Premium Coffee and Coffee Beans	Series A-1 Common Stock Class A Common Stock	8.5% 3.4%
Dryden XVIII Leveraged Loan 2007 Limited Prudential Investment Management Four Gateway Center Newark, NJ 07102	CLO Fund	Income Notes	80.0%
Dynamic India Fund IV International Financial Services Limited IFS Court, Twenty Eight Cybercity, Ebene, Mauritius	Fund Focused on Real Estate in India	Equity Interests	5.4%

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Name and Address of Portfolio Company	Nature of its Principal Business	Title of Securities Held by Allied Capital	Percentage of Class Held
EarthColor, Inc. 249 Pomeroy Road Parsippany, NJ 07054	Full Service Commercial Printer	Class B Common Stock(10) Warrant to Purchase Class C Common Stock(10)	86.3% 100.0%
eCentury Capital Partners, L.P. 2 Wisconsin Circle Suite 700 Chevy Chase, MD 20815	Private Equity Fund	Limited Partnership Interest(6)	25.0%
eInstruction Corporation 308 N. Carroll Blvd. Denton, TX 76201	Provider of Student Response Systems	Class A Common Stock	2.4%
Fidus Mezzanine Capital, L.P. 190 S LaSalle Street Suite 2140 Chicago, IL 60603	Private Equity Fund	Limited Partnership Interest(6)	29.0%
Geotrace Technologies, Inc. 1011 Highway 6 South Suite 220 Houston, TX 77077	Oil and Gas Reservoir Analysis	Warrant to Purchase Preferred Stock Warrant to Purchase Common Stock	7.8% 7.0%
Havco Wood Products LLC 3200 East Outer Road Scott City, MO 63780	Hardwood Flooring Products Manufacturer	Equity Interests	3.9%
Higginbotham Insurance Agency, Inc. 500 W. 13th Street Fort Worth, TX 76102	Insurance Brokerage Firm	Class B Common Stock(10) Warrant to purchase Class C Common Stock(10)	86.3% 100.0%
The Homax Group, Inc. P.O. Box 5643 Bellingham, WA 98227	Supplier of Branded Consumer Products	Preferred A Stock Common Stock Warrant to Purchase Preferred Stock Warrant to Purchase Common Stock	0.1% 0.1% 1.0% 1.0%
Kodiak Fund LP 2107 Wilson Boulevard Suite 400 Arlington, VA 22201	Real Estate Finance Fund	Equity Interests	1.5%
Network Hardware Resale, Inc. 26 Castilian Drive Suite A Santa Barbara, CA 93117	Provider of Pre-Owned Networking Equipment	Debt Convertible into Common Stock	21.8%
Novak Biddle Venture Partners III, L.P. 7501 Wisconsin Avenue East Tower, Suite 1380 Bethesda, MD 20814	Private Equity Fund	Limited Partnership Interest	2.4%
Performant Financial Corporation 333 N. Canyons Pkwy Suite 100 Livermore, CA 94551	Collections and Default Prevention Services	Common Stock	2.2%
Reed Group, Ltd. 10155 Westmoor Drive Suite 210 Westminster, CO 80021	Healthcare Services and Publishing	Class A Equity Interests	4.0%

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Name and Address of Portfolio Company	Nature of its Principal Business	Title of Securities Held by Allied Capital	Percentage of Class Held
S.B. Restaurant Company 14241 Firestone Boulevard Suite 315 La Mirada, CA 90638	Restaurants	Series B Convertible Preferred Stock Warrants to Purchase Series A Common Stock	2.1% 11.5%
Slate Equity, LLC(13) 1919 Pennsylvania Ave, N.W. Washington, DC 20006	Oil and Gas Exploration Services	Equity Interest	0.4%
SPP Mezzanine Funding II, L.P. 11350 Random Hills Road Suite 800 Fairfax, VA 22030	Private Equity Fund	Limited Partnership Interest(6)	42.7%
Summit Energy Services, Inc. 10350 Ormsby Park Place Suite 400 Louisville, KY 40223	Provider of Energy Management and Procurement Services	Common Stock	2.0%
Tappan Wire & Cable Inc. 100 Bradley Parkway Blauvelt, NY 10913	Manufacturer and Distributor of Cable	Class B Common Stock(10) Warrant to Purchase Class C Common Stock(10)	86.3% 100.0%
The Step2 Company, LLC 10010 Aurora-Hudson Road Streetsboro, Ohio 44241	Manufacturer of Plastic Childrens and Home Products	Preferred Equity Interests Common Equity Interests	2.8% 2.8%
TransAmerican Auto Parts, LLC 300 West Artesia Boulevard Compton, CA 90220	Auto Parts and Accessories Retailer and Wholesaler	Preferred Equity Interests Common Equity Interests	1.2% 1.2%
Venturehouse-Cibernet Investors, LLC 509 Seventh Street, N.W. Washington, DC 20004	Third-Party Billing	Equity Interest	3.3%
WMA Equity Corporation and Affiliates(12) 31 West 34th Street, 11th Floor New York, NY 10001	Marketer of Children's Apparel	Common Stock	86.3%
Webster Capital II, L.P. 950 Winter Street Suite 4200 Waltham, MA 02451	Private Equity Fund	Limited Partnership Interest	3.4%
Woodstream Corporation 69 North Locust Street Lititz, PA 17543	Pest Control Manufacturer	Common Stock	3.9%
COMMERCIAL REAL ESTATE FINANCE(9)			
Aquila Binks Forest Development, LLC(1) 15430 Endeavour Drive Jupiter, FL 33478	Real Estate Developer	Equity Interest	50.0%
MGP Park Place Equity, LLC 6901 Rockledge Drive Suite 230 Bethesda, MD 20817	Commercial Real Estate Development	Equity Interest	70.0%

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Name and Address of Portfolio Company	Nature of its Principal Business	Title of Securities Held by Allied Capital	Percentage of Class Held
WSA Commons LLC 400 Broadway Cincinnati, OH 45202	Residential Real Estate Development	Equity Interest	50.0%
WSALD-CEH, LLC(1) 1919 Pennsylvania Ave, N.W. Washington, DC 20006	Commercial Real Estate Developer	Equity Interest	50.0%
WSALD-NPH, LLC(1) 1919 Pennsylvania Ave, N.W. Washington, DC 20006	Commercial Real Estate Developer	Equity Interest	50.0%
Van Ness Hotel, Inc.(1) 1919 Pennsylvania Ave, N.W. Washington, DC 20006	Hotel	Common Stock	100.0%

(1) The portfolio company is deemed to be an affiliated person of Allied Capital under the Investment Company Act because Allied Capital holds one or more seats on the portfolio company's board of directors, is the general partner or is the managing member.

(2) Allied Capital's affiliate holds 100% of the general partnership interests in the SD Fund. See "Management's Discussion and Analysis of Financial Condition and Results of Operations of Allied Capital Portfolio and Investment Activity" above. Allied Capital holds 41.0% of the Class A-1 limited partnership interests in the SD Fund; however, it only owns 25.4% of the total limited partnership interests in the SD Fund. Allied Capital sold these partnership interests to IHAM, a portfolio company of Ares Capital, on December 29, 2009.

(3) Included in "Class C Equity Interests" in Allied Capital's Consolidated Statement of Investments.

(4) Callidus owns 100% (subject to dilution) of Callidus Capital Management, LLC.

(5) The affiliate holds subordinated debt issued by Impact Innovations Group, LLC. Allied Capital made an investment in and exchanged its existing subordinated debt for equity interests in the affiliate.

(6) Limited partnership interests are non-voting.

(7) Avborne, Inc. and Avborne Heavy Maintenance, Inc. are affiliated companies.

(8) Callidus Capital Management, LLC is the manager of the fund (see Note 4 above).

(9) These portfolio companies are included in "Commercial Real Estate Finance Equity Interests" in Allied Capital's Consolidated Statement of Investments.

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

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

(12) WMA Equity Corporation and affiliates hold 25.4% of the equity interests in Wear Me Apparel LLC.

(13) Included in "Other companies" in Allied Capital's Consolidated Statement of Investments.

(14)

Allied Capital sold these equity interests to Ares Capital on October 30, 2009.

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MANAGEMENT OF ALLIED CAPITAL

Allied Capital's board of directors oversees its management. The responsibilities of its board of directors include, among other things, the oversight of Allied Capital's investment activity, the quarterly valuation of Allied Capital's assets and oversight of Allied Capital's financing arrangements and corporate governance activities. Allied Capital's board of directors maintains an executive committee, board investment review committee, audit committee, compensation committee and corporate governance/nominating committee and may establish additional committees from time to time as necessary. The boards of directors of Allied Capital's consolidated subsidiaries are composed of all of Allied Capital's directors.

The management of Allied Capital and its investment portfolio is the responsibility of various corporate committees, including the executive committee, the investment/finance committee, or "IFC," and the special assets sub-committee of the IFC. See " Portfolio Management" below.

Structure of Board of Directors

Allied Capital's board of directors is classified into three approximately equal classes serving three-year terms, with the term of office of only one of the three classes expiring each year. Directors serve until their successors are elected and qualified.

Allied Capital's directors have been divided into two groups interested directors and independent directors. Interested directors are "interested persons" of Allied Capital as defined in the Investment Company Act. Information regarding Allied Capital's board of directors at January 15, 2010, is as follows:

Name	Age	Position	Director Since(1)	Expiration of Term
Interested Directors				
William L. Walton	60	Chairman of the Board	1986	2010
John M. Scheurer	57	Chief Executive Officer and President	2009	2012
Joan M. Sweeney	50	Managing Director and Senior Advisor to the Chief Executive Officer	2004	2010
Robert E. Long	78	Director	1972	2010
Independent Directors				
Ann Torre Bates	51	Director	2003	2012
Brooks H. Browne	60	Director	1990	2010
John D. Firestone	66	Director	1993	2011
Anthony T. Garcia	53	Director	1991	2011
Lawrence I. Hebert	63	Director	1989	2011
Edward J. Mathias	68	Director	2008	2012
Alex J. Pollock	66	Director	2003	2012
Marc F. Racicot	61	Director	2005	2011
Laura W. van Roijen	57	Director	1992	2011

(1) Includes service as a director of any of the predecessor companies of Allied Capital.

Each director has the same address as Allied Capital: 1919 Pennsylvania Avenue, N.W., Washington, D.C. 20006.

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Executive Officers

Information regarding the executive officers of Allied Capital at January 15, 2010, is as follows:

Name	Age	Position
William L. Walton	60	Chairman of the Board
John M. Scheurer	57	Chief Executive Officer and President
Scott S. Binder	55	Managing Director and Head of Special Assets
Miriam G. Krieger	33	Executive Vice President, Chief Compliance Officer and Corporate Secretary
Norma R. Kuntz	33	Executive Vice President and Chief Valuation Officer
R. Dale Lynch	43	Executive Vice President and Director of Capital Markets
Diane E. Murphy	56	Executive Vice President and Director of Human Resources
Penni F. Roll	44	Chief Financial Officer
Daniel L. Russell	44	Managing Director and Head of Private Finance
Joan M. Sweeney	50	Managing Director and Senior Advisor to the Chief Executive Officer
John C. Wellons	38	Executive Vice President and Chief Accounting Officer

Each executive officer has the same address as Allied Capital: 1919 Pennsylvania Avenue, N.W., Washington, D.C. 20006.

Biographical Information

Allied Capital's directors have been divided into two groups interested directors and independent directors. Interested directors are "interested persons" of Allied Capital as defined in the Investment Company Act.

Interested Directors

William L. Walton is the Chairman of the Board and an executive officer of Allied Capital. From 1997 until March 2009, Mr. Walton served as Allied Capital's Chairman, President and Chief Executive Officer. Mr. Walton's previous experience includes serving as a Managing Director of Butler Capital Corporation, as personal investment advisor to William S. Paley, founder of CBS, and as Senior Vice President in Lehman Brothers Kuhn Loeb's Merger and Acquisition Group. He also founded two education service companies Language Odyssey and Success Lab. Mr. Walton currently serves on the boards of directors of the American Enterprise Institute, the U.S. Chamber of Commerce and the Financial Services Roundtable. He is also a member of the Trustees' Council of the National Gallery of Art.

John M. Scheurer is Chief Executive Officer and President of Allied Capital and has been employed by Allied Capital since 1991. During his tenure with Allied Capital, Mr. Scheurer has held several leadership positions, most recently as a Managing Director and Head of Commercial Real Estate Finance. Mr. Scheurer also served as President of Allied Capital Commercial Corporation, a predecessor to Allied Capital, from 1993 until 1997.

Joan M. Sweeney is a Managing Director and the Senior Advisor to the Chief Executive Officer. Until May 2009, she served as the Chief Operating Officer of Allied Capital and has been employed by Allied Capital since 1993. Prior to joining Allied Capital, Ms. Sweeney was employed by Ernst & Young, Coopers & Lybrand and the Division of Enforcement of the SEC.

Robert E. Long has been the Chief Executive Officer and a director of GLB Group, Inc., an investment management firm, since 1997 and President of Ariba GLB Asset Management, Inc., the parent company of GLB Group, Inc., since 2005. He has been the Chairman of Emerald City Radio Partners, LLC since 1997. Mr. Long was the President of Business News Network, Inc. from 1995 to

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1998, the Chairman and Chief Executive Officer of Southern Starr Broadcasting Group, Inc. from 1991 to 1995 and a director and the President of Potomac Asset Management, Inc. from 1983 to 1991. Mr. Long is a director of AmBase Corporation, CSC Scientific, Inc. and Advanced Solutions International, Inc.

Independent Directors

Ann Torre Bates has been a strategic and financial consultant since 1997. From 1995 to 1997, Ms. Bates served as Executive Vice President, CFO and Treasurer of NHP, Inc., a national real estate services firm. From 1991 to 1995, Ms. Bates was Vice President and Treasurer of US Airways. She currently serves on the boards of Franklin Mutual Series Funds, the Franklin Mutual Recovery Fund, the Franklin Templeton Funds and SLM Corporation (Sallie Mae).

Brooks H. Browne has been a private investor since 2002. Mr. Browne was the President of Environmental Enterprises Assistance Fund from 1993 to 2002 and served as a director from 1991 to 2005. He currently serves as Chairman of the Board for Winrock International, a non-profit organization.

John D. Firestone has been a Partner of Secor Group, a venture capital firm, since 1978. Mr. Firestone has also served as a director of Security Storage Company of Washington, DC, since 1978. He is currently a director of Cuisine Solutions, Inc. and several non-profit organizations.

Anthony T. Garcia has been a faculty member at a private school since March 2008. Previously, Mr. Garcia was a private investor from March 2007 and Vice President of Finance of Kirusa, a developer of mobile services, from January to March 2007. Mr. Garcia was a private investor from 2003 through 2006. Mr. Garcia was Vice President of Finance of Formity Systems, Inc., a developer of software products for business management of data networks, from 2002 through 2003. Mr. Garcia was a private investor from 2000 to 2001, the General Manager of Breen Capital Group, an investor in tax liens, from 1997 to 2000 and a Senior Vice President of Lehman Brothers Inc. from 1985 to 1996.

Lawrence I. Hebert is Chairman of Dominion Advisory Group, LLC and served as Senior Advisor at PNC Bank from 2005 to 2007. He served as a director and President and Chief Executive Officer of Riggs Bank N.A., a subsidiary of Riggs National Corporation, from 2001 to 2005. Mr. Hebert also served as Chief Executive Officer of Riggs National Corporation during 2005 and served as a director of Riggs National Corporation from 1988 to 2005. Mr. Hebert served as a director of Riggs Investment Advisors and Riggs Bank Europe Limited (both indirect subsidiaries of Riggs National Corporation). Mr. Hebert previously served as Vice Chairman from 1983 to 1998, President from 1984 to 1998 and Chairman and Chief Executive Officer from 1998 to 2001 of Allbritton Communications Company.

Edward J. Mathias has served as a Managing Director of The Carlyle Group, a global private equity firm, since 1994. From 1971 to 1993, Mr. Mathias served as Managing Director and Board Member of T. Rowe Price Associates, Inc., an investment management firm. Mr. Mathias presently serves as a Trustee of the University of Pennsylvania and as a member of the Penn Investment Board that oversees the University's endowment. He serves on the Howard Hughes Medical Institute's Investment Advisory Committee. Mr. Mathias is also a director of NexCen Brands, Inc., Victory Acquisition Corp. and Triple Crown Acquisition Corp.

Alex J. Pollock has been a Resident Fellow at the American Enterprise Institute since 2004. He was President and Chief Executive Officer of the Federal Home Loan Bank of Chicago from 1991 to 2004. He currently serves as a director of the CME Group, Great Lakes Higher Education Corporation, the Great Books Foundation and the International Union for Housing Finance.

Marc F. Racicot is an attorney and served as President and Chief Executive Officer of the American Insurance Association from August 2005 until February 2009. Prior to that, he was an attorney at the law firm of Bracewell & Giuliani, LLP from 2001 to 2005. He is a former Governor

(1993 to 2001) and Attorney General (1989 to 1993) of the State of Montana. Mr. Racicot was appointed by President Bush to serve as the Chairman of the Republican National Committee from 2002 to 2003 and he served as Chairman of the Bush/Cheney Re-election Committee from 2003 to 2004. He presently serves on the Board of Directors for Burlington Northern Santa Fe Corporation, Massachusetts Mutual Life Insurance Company and the Board of Visitors for the University of Montana School of Law.

Laura W. van Roijen has been a private investor since 1992. Ms. van Roijen was a Vice President at Citicorp from 1980 to 1990.

Executive Officers Who Are Not Directors

Scott S. Binder, Managing Director and Head of Special Assets, has been employed by Allied Capital since 1997. He served as Chief Valuation Officer from 2003 to 2008. He served as a consultant to Allied Capital from 1991 until 1997. Prior to joining Allied Capital, Mr. Binder formed and was President of Overland Communications Group. He also served as a board member and financial consultant for a public affairs and lobbying firm in Washington, DC. Mr. Binder founded Lonestar Cablevision in 1986, serving as President until 1991. In the early 1980's, Mr. Binder worked for two firms specializing in leveraged lease transactions. From 1976 to 1981, he was employed by Coopers & Lybrand.

Miriam G. Krieger, Executive Vice President, Chief Compliance Officer and Corporate Secretary, has been employed by Allied Capital since March 2008. Prior to joining Allied Capital, Ms. Krieger served as Senior Vice President and Chief Compliance Officer at MCG Capital Corporation from 2006 to 2008 and Vice President and Assistant General Counsel from 2004 to 2006. From 2001 to 2004, she was an associate in the Financial Services Group of the law firm of Sutherland Asbill & Brennan LLP.

Norma R. Kuntz, Executive Vice President and Chief Valuation Officer, has been employed by Allied Capital since 2002 in various financial reporting and valuation functions, most recently as Senior Vice President.

R. Dale Lynch, Executive Vice President and Director of Capital Markets, has been employed by Allied Capital since 2004. Prior to joining Allied Capital, Mr. Lynch was with Lehman Brothers Inc. in the Debt Capital Markets and Equity Research groups from 1997-2004. Prior to joining Lehman Brothers, Mr. Lynch held various investment banking and business development roles at Merrill Lynch and Deutsche Bank.

Diane E. Murphy, Executive Vice President and Director of Human Resources, has been employed by Allied Capital since 2000. Prior to joining Allied Capital, Ms. Murphy was employed by Allfirst Financial from 1982 to 1999 and served in several capacities, including head of the retail banking group in the Greater Washington Metro Region from 1994 to 1996, and served as the senior human resources executive from 1996 to 1999.

Penni F. Roll, Chief Financial Officer, has been employed by Allied Capital since 1995. Ms. Roll is responsible for Allied Capital's financial operations. Prior to joining Allied Capital, Ms. Roll was employed by KPMG LLP in the firm's audit practice.

Daniel L. Russell, Managing Director, has been employed by Allied Capital since 1998. Prior to joining Allied Capital, Mr. Russell was employed by KPMG LLP in the firm's financial services group.

John C. Wellons, Executive Vice President and Chief Accounting Officer, has been employed by Allied Capital since April 2008. Prior to joining Allied Capital, Mr. Wellons was employed by MCG Capital Corporation, where he served as the Chief Accounting Officer from 2004 to April 2008, the Director of Financial Accounting from 2002 to 2004 and in other accounting roles from 2000 to 2002. Prior to this, Mr. Wellons was employed in the audit practice at Ernst & Young from 1996 to 2000.

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Committees of Allied Capital's Board of Directors

The board of directors of Allied Capital has established an executive committee, an audit committee, a compensation committee, a corporate governance/nominating committee and a board investment review committee. From time to time, Allied Capital's board may establish special purpose committees to address particular matters on behalf of the board. The audit committee, compensation committee and corporate governance/nominating committee each operate pursuant to a committee charter. The charter of each Committee is available on Allied Capital's web site at *www.alliedcapital.com* in the Investor Resources section and is also available in print to any stockholder or other interested party who requests a copy. During 2009, Allied Capital's board of directors held 36 board meetings and 38 committee meetings.

The following table indicates the current members of the committees of Allied Capital's board of directors. All of the directors are independent directors, except for Messrs. Walton, Scheurer and Long and Ms. Sweeney, who are "interested persons" as defined in Section 2(a)(19) of the Investment Company Act.

	Executive Committee	Board Investment Review Committee	Audit Committee	Compensation Committee	Corporate Governance/ Nominating Committee
William L. Walton	Chair	Chair(1)			
John M. Scheurer	Member	Member(1)			
Ann Torre Bates		Member	Chair		
Brooks H. Browne	Member	Member	Member	Member	
John D. Firestone		Member		Member	Member
Anthony T. Garcia		Member	Member	Chair	
Lawrence I. Hebert	Member	Member(1)		Member	Chair
Robert E. Long	Member	Member(1)			
Edward J. Mathias	Member	Member		Member	Member
Alex J. Pollock	Member	Member(1)			Member
Marc F. Racicot	Member	Member		Member	Member
Joan M. Sweeney		Member			
Laura W. van Roijen		Member	Member		

(1) Permanent member for 2010.

The Executive Committee

The executive committee has and may exercise those rights, powers and authority that Allied Capital's board of directors from time to time grants to it, except where action by the board is required by statute, an order of the SEC or Allied Capital's charter or bylaws. The executive committee met two times during 2009.

The Board Investment Review Committee

The board investment review committee reviews and approves certain types of investments made by Allied Capital. The board investment review committee is composed of five permanent members, who have been appointed to serve for the year, and three additional members, each of whom serves during at least one quarter during the year on a rotating schedule. The board investment review committee met seven times during 2009.

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The Audit Committee

The audit committee operates pursuant to a charter approved by Allied Capital's board of directors and meets the requirements of Section 3(a)(58)(A) of the Exchange Act. The charter sets forth the responsibilities of the audit committee. The primary function of the audit committee is to serve as an independent and objective party to assist Allied Capital's board of directors in fulfilling its responsibilities for overseeing and monitoring the quality and integrity of Allied Capital's financial statements, the adequacy of Allied Capital's system of internal controls, the review of the independence, qualifications and performance of Allied Capital's independent registered public accounting firm and the performance of Allied Capital's internal audit function. The audit committee met 13 times during 2009. None of the members of the audit committee is an "interested person" of Allied Capital as defined in Section 2(a)(19) of the Investment Company Act, pursuant to the requirements of the rules promulgated by the NYSE. In addition, Allied Capital's board of directors has determined that Ms. Bates and Messrs. Browne and Garcia are "audit committee financial experts" as defined under Item 407(d)(5) of Regulation S-K of the Exchange Act as each meets the requirements of Rule 10A-3 of the Exchange Act.

The Compensation Committee

The compensation committee approves the compensation of Allied Capital's executive officers and reviews the amount of salary and bonus for each of Allied Capital's other officers and employees. In addition, the compensation committee approves stock option grants for Allied Capital's officers under the Stock Option Plan and determines other compensation arrangements for employees. None of the members of the compensation committee is an "interested person" of Allied Capital as defined in Section 2(a)(19) of the Investment Company Act, pursuant to the requirements of the rules promulgated by the NYSE. The compensation committee met ten times during 2009.

The Corporate Governance/Nominating Committee

The corporate governance/nominating committee recommends candidates for election as directors to Allied Capital's board of directors and makes recommendations to the board as to Allied Capital's corporate governance policies. None of the members of the corporate governance/nominating committee is an "interested person" of Allied Capital as defined in Section 2(a)(19) of the Investment Company Act, pursuant to the requirements of the rules promulgated by the NYSE. The corporate governance/nominating committee met six times during 2009.

The corporate governance/nominating committee will consider qualified director nominees recommended by stockholders when such recommendations are submitted to the care of the Corporate Secretary in accordance with Allied Capital's bylaws, corporate governance policy and any other applicable law, rule or regulation regarding director nominations. When submitting a nomination to Allied Capital for consideration, a stockholder must provide certain information that would be required under applicable SEC rules, including the following minimum information for each director nominee: full name, age and address; principal occupation during the past five years; current directorships on publicly held companies and investment companies; number of shares of common stock of Allied Capital owned, if any; and, a written consent of the individual to stand for election if nominated by Allied Capital's board of directors and to serve if elected by the stockholders.

Portfolio Management

The management of Allied Capital and its investment portfolio is the responsibility of various corporate committees, including the executive committee, the IFC and the special assets sub-committee of the IFC. In addition, the board investment review committee approves certain investment decisions.

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Allied Capital's executive committee is responsible for, among other things, strategic direction, evaluation of corporate opportunities and assessment of organizational needs to align with Allied Capital's business model. The executive committee is chaired by John Scheurer, Allied Capital's CEO, and currently includes William Walton, Allied Capital's Chairman of the Board, Penni Roll, Allied Capital's CFO, Scott Binder, a Managing Director and Head of Special Assets, and Daniel Russell, a Managing Director and Head of Private Finance. The composition of the committee may change from time to time.

Allied Capital's IFC is responsible for making investment and asset sale decisions and certain portfolio acquisition and disposition decisions. The IFC is chaired by John Scheurer, Allied Capital's CEO, and currently includes William Walton, Chairman of the Board (vice chairman of the committee), Penni Roll, Allied Capital's CFO, Scott Binder, Managing Director and Head of Special Assets, Robert Monk, Managing Director, Daniel Russell, Managing Director and Head of Private Finance, Susan Mayer, Managing Director, Dale Lynch, Executive Vice President, John Wellons, Chief Accounting Officer and two Principals on a rotating basis. The composition of the committee may change from time to time.

In addition to approval by the IFC, each transaction that represents a commitment equal to or greater than $20 million, every buyout transaction and any other investment that in Allied Capital's judgment demonstrates unusual risk/reward characteristics also requires the approval of the board investment review committee. The board investment review committee is composed of five permanent members, who have been appointed to serve for the year, and three additional members, each of whom serve during at least one quarter during the year on a rotating schedule. See "Committees of Allied Capital's board of directors" above for the current membership.

The special assets sub-committee of the IFC is responsible for review and oversight of the investment portfolio, including reviewing the performance of selected portfolio companies, overseeing portfolio companies in workout status, reviewing and approving certain modifications or amendments to or certain additional investments in existing portfolio companies, reviewing and approving certain actions by portfolio companies whose voting securities are more than 50% owned by Allied Capital, reviewing significant investment-related litigation matters where Allied Capital is a named party, approving related activities and reviewing and approving proxy votes with respect to Allied Capital's portfolio investments.

From time to time Allied Capital will identify investments that require closer monitoring or become workout assets. Allied Capital develops a workout strategy for workout assets and the special assets sub-committee of the IFC gauges Allied Capital's progress against the strategy. The special assets sub-committee is chaired by John Scheurer, Allied Capital's CEO, and currently includes Scott Binder, Managing Director and Head of Special Assets (vice chairman of the committee), William Walton, Chairman of the Board, Penni Roll, Allied Capital's CFO, Daniel Russell, Managing Director and Head of Private Finance, Susan Mayer, Managing Director, and Ralph Blasey, Executive Vice President and Corporate Counsel. The composition of the committee may change from time to time.

Allied Capital is internally managed and its investment professionals manage the investments in Allied Capital's portfolio. These investment professionals have extensive experience in managing investments in private businesses in a variety of industries and are familiar with Allied Capital's approach of lending and investing. Because Allied Capital is internally managed it pays no external investment advisory fees, but instead pays the operating costs associated with employing investment and other professionals.

Compensation

The compensation for the members of Allied Capital's executive committee, IFC and special assets sub-committee of the IFC includes: (1) annual base salary; (2) annual cash bonus; and (3) stock

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options, priced at current market value. In prior years the compensation has also included individual performance award or individual performance bonus.

Compensation for the members of Allied Capital's board investment review committee, with the exception of Messrs. Walton and Scheurer and Ms. Sweeney, consists of: (1) annual retainers; (2) annual committee retainers; and (3) stock options.

The compensation of the members of the executive committee, IFC and special assets sub-committee of the IFC is determined in the same manner as the compensation received by Allied Capital's named executive officers. See " Compensation of Directors and Executive Officers" below for additional information regarding Allied Capital's compensation program and the determination of individual compensation.

Beneficial Ownership

Messrs. Walton and Scheurer and Ms. Sweeney, all members of the board investment review committee, beneficially own shares of Allied Capital common stock with a value of more than $1,000,000, based on the closing price of $4.11 on January 15, 2010. Messrs. Browne, Firestone, Garcia, Hebert, Long, Mathias, Pollock and Racicot and Mmes. Bates and van Roijen, all members of the board investment review committee, beneficially own shares of Allied Capital common stock with a value of $100,001 to $500,000, based on the January 15, 2010 closing price.

Conflicts of Interest

Certain of the members of the board investment review committee, the executive committee, the IFC and the special assets sub-committee of the IFC serve or may serve in an investment management capacity to funds managed by Allied Capital. Specifically, the credit committees and the investment committees of Allied Capital Managed Funds include certain of Allied Capital's officers, who serve in similar roles for Allied Capital. These investment professionals intend to allocate such time and attention as is deemed appropriate and necessary to carry out the operations of the Allied Capital Managed Funds effectively. In this respect, they may experience diversions of their attention from Allied Capital and potential conflicts of interest between their work for Allied Capital and their work for the Allied Capital Managed Funds in the event that the interests of the Allied Capital Managed Funds run counter to Allied Capital's interests. Accordingly, they may have obligations to investors in the Allied Capital Managed Funds, the fulfillment of which might not be in the best interests of Allied Capital or its stockholders.

Compensation of Directors and Executive Officers

Under SEC rules applicable to BDCs, Allied Capital is required to set forth certain information regarding the compensation of certain executive officers and directors. The following tables set forth compensation earned during the year ended December 31, 2009 by all of Allied Capital's directors, Allied Capital's principal executive officer, Allied Capital's principal financial officer and each of the four highest paid executive officers of Allied Capital, collectively, the "named executive officers" or "NEOs," in each capacity in which each NEO served. Certain of the NEOs served as both officers and directors.

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Director Compensation

The following table sets forth compensation that Allied Capital paid during the year ended December 31, 2009 to its directors. Allied Capital's directors have been divided into two groups interested directors and independent directors. Interested directors are "interested persons" as defined in Section 2(a)(19) of the Investment Company Act.

Name	Fees Earned or Paid in Cash	Stock Awards	Option Awards(1)	Non-Equity Incentive Plan Compensation	Change in Pension Value and Non-qualified Deferred Compensation Earnings(3)	All Other Compensation	Total
Interested Directors							
William L. Walton(2)	$	n/a	$	n/a	n/a	$	$
John M. Scheurer(2)	$	n/a	$	n/a	n/a	$	$
Joan M. Sweeney(2)	$	n/a	$	n/a	n/a	$	$
Robert E. Long	$ 190,000	n/a	$ 6,299	n/a	n/a	$	$ 196,299
Independent Directors							
Ann Torre Bates	$ 215,000	n/a	$ 6,299	n/a	n/a	$	$ 221,299
Brooks H. Browne	$ 190,000	n/a	$ 6,299	n/a	n/a	$	$ 196,299
John D. Firestone	$ 190,000	n/a	$ 6,299	n/a	n/a	$	$ 196,299
Anthony T. Garcia	$ 195,000	n/a	$ 6,299	n/a	n/a	$	$ 201,299
Edwin L. Harper(4)	$ 95,000	n/a	$	n/a	n/a	$	$ 95,000
Lawrence I. Hebert	$ 195,000	n/a	$ 6,299	n/a	n/a	$	$ 201,299
John I. Leahy(4)	$ 95,000	n/a	$	n/a	n/a	$	$ 95,000
Edward J. Mathias	$ 190,000	n/a	$ 12,598	n/a	n/a	$	$ 202,598
Alex J. Pollock	$ 190,000	n/a	$ 6,299	n/a	n/a	$	$ 196,299
Marc F. Racicot	$ 190,000	n/a	$ 6,299	n/a	n/a	$	$ 196,299
Guy T. Steuart II(4)	$ 95,000	n/a	$	n/a	n/a	$	$ 95,000
Laura W. van Roijen	$ 190,000	n/a	$ 6,299	n/a	n/a	$	$ 196,299

(1) Reflects the annual grant of 5,000 options or 10,000 options for Mr. Mathias upon his initial election to the board of directors. Options granted vested immediately. The fair value of the options was estimated on the grant date for financial reporting purposes using the Black-Scholes option pricing model and pursuant to the requirements of ASC 718 (previously Statement of Financial Accounting Standards No. 123, *Share-Based Payment* (Revised)), or "SFAS 123R." See Note 2 to Allied Capital's consolidated financial statements for the year ended December 31, 2008 for the assumptions used in determining SFAS 123R values.

(2) Messrs. Walton and Scheurer and Ms. Sweeney did not receive any compensation for serving on Allied Capital's board of directors. See "Summary Compensation Table" below.

(3) There were no above market or preferential earnings on non-qualified deferred compensation plans. See "Non-Qualified Deferred Compensation" below.

(4) Messrs. Harper, Leahy and Steuart retired at the end of their terms, which expired at the conclusion of the 2009 annual meeting of stockholders, which was held on May 13, 2009.

Each non-officer director of Allied Capital receives an annual retainer of $100,000. In addition, each member of each committee receives an annual retainer of $45,000 to attend the meetings of the committee, with a maximum of $90,000 to be paid to any one director for committee retainers. The chair of the compensation committee and the chair of the corporate governance/nominating committee each receives an annual retainer of $5,000 and the chair of the audit committee receives an annual retainer of $25,000. In addition, members who serve on special purpose committees receive $3,000 per meeting. Allied Capital also reimburses directors for expenses related to meeting attendance. Directors who are employees receive no additional compensation for serving on Allied Capital's board of directors or its committees.

Non-officer directors are eligible for stock option awards under the Stock Option Plan pursuant to an exemptive order from the SEC, which was granted in September 1999. The terms of the order

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provided for a one-time grant of 10,000 options to each non-officer director on the date that the order was issued or on the date that any new director is elected by stockholders to Allied Capital's board of directors. Thereafter, each non-officer director will receive 5,000 options each year on the date of the annual meeting of stockholders at the fair market value on the date of grant. See " Stock Option Plan" below. The options granted to Allied Capital's non-officer directors vest immediately.

Executive Compensation

Compensation Discussion and Analysis

Overview of the Compensation Program

Current Market Environment and Merger with Ares Capital. During 2008, the United States and global economies experienced a severe economic recession. A series of unexpected and unprecedented events occurred in rapid succession in the financial services industry that caused uncertainty and stress in the financial markets. These events included the acquisition of Bear Stearns by JPMorgan Chase & Co., the conservatorship of Fannie Mae and Freddie Mac, the bankruptcy of Lehman Brothers Holdings, the acquisition of Merrill Lynch by Bank of America and growing concerns about the viability of AIG, which later culminated in a transaction in which the Federal Reserve acquired most of AIG's equity. Major financial indices declined precipitously, worldwide credit availability became scarce and financial institutions generally became capital and liquidity constrained and struggled to restructure their businesses.

During this period, Allied Capital experienced a lack of access to the equity capital markets. Beginning in June 2008, Allied Capital's common stock began trading at a price below the net asset value per share of its common stock. As a result, Allied Capital has not been able to access the equity capital markets since June 2008. Beginning in the second half of 2008, Allied Capital experienced a significant reduction in its net worth primarily resulting from net unrealized depreciation on its portfolio, which reflected then existing market conditions and performance of certain portfolio companies. At the time, like many other financial firms, Allied Capital's business focus changed from growing its portfolio to harvesting capital from its portfolio to repay its indebtedness and de-lever its balance sheet. As a result, its investing activities were sharply reduced.

In early 2009, Allied Capital determined that its asset coverage ratio as of December 31, 2008 would be less than the 200% required under its bank facility and its private notes. This, in turn, triggered events of default under these instruments. The existence of events of default under its bank facility and its private notes restricted Allied Capital from borrowing or obtaining letters of credit under its bank facility and from making dividends or other distributions to its stockholders. In addition, pursuant to the Investment Company Act, Allied Capital was not permitted to issue indebtedness unless immediately after such issuance it had asset coverage of all outstanding indebtedness of at least 200%. Allied Capital's asset coverage ratio has been below 200% since December 31, 2008.

In early 2009, Allied Capital re-opened discussions with its bank facility lenders and private noteholders to seek relief under certain terms of both its bank facility and its private notes. Allied Capital also engaged a financial advisor in connection with the restructuring of Allied Capital's debt. As Allied Capital continued to pursue a comprehensive restructuring of its private notes and bank facility, it focused on reducing costs and streamlining its organization; building liquidity through selected asset sales; retaining capital by limiting new investment activity and suspending dividend payments; and working with portfolio companies to help them position for growth when the economy recovered.

During this period, Allied Capital explored strategic alternatives, including continuing its existing business on a stand-alone basis with its existing structure, converting to an operating company, agreeing to a large investment by a strategic investor or entering into a business combination with a financial

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services firm. On October 26, 2009, Allied Capital and Ares Capital announced a strategic business combination in which Merger Sub would merge with and into Allied Capital and, immediately thereafter, Allied Capital would merge with and into Ares Capital.

Compensation Philosophy. Allied Capital's compensation and benefits programs have been designed with the goal of providing compensation that is fair, reasonable, competitive and appropriate for market conditions. The intention is to help align the compensation paid to Allied Capital's executive officers with the achievement of certain corporate and executive performance objectives that have been established to achieve the objectives of Allied Capital.

During the second half of 2008, Allied Capital consolidated its investment execution activities to its Washington, D.C. headquarters and its office in New York in an effort to improve operating efficiencies and reduced headcount by approximately 50 employees. During the third quarter of 2009, Allied Capital further reduced headcount by approximately 22 employees. For the nine months ended September 30, 2009, employee expense was $32.9 million, including severance expense related to headcount reduction, as compared to $57.4 million for the nine months ended September 30, 2008. Allied Capital believes that the steps it has taken to reduce employee expense are appropriate in the current market environment. Allied Capital also believes, however, that it is important to retain key officers through the closing date of the merger. As discussed more fully below, Allied Capital's compensation for 2009 was determined with a focus on balancing reductions in employee expense with the importance of retaining employees.

The philosophy of Allied Capital's compensation programs has been based on the following guiding factors:

Achievement of Corporate and Individual Performance Objectives Allied Capital believes that the best way to accomplish alignment of compensation with the interests of its stockholders is to link pay to individual performance and individual contributions to the returns generated for stockholders. Compensation is determined on a discretionary basis and is dependent on the achievement of certain corporate and individual performance objectives that have been established to achieve the long-term objectives of Allied Capital. When individual performance exceeds expectations and performance goals established during the year, pay levels for the individual are expected to be above competitive market levels. When individual performance falls below expectations, pay levels are expected to be below competitive levels.

Competitiveness and Market Alignment Allied Capital's compensation and benefits programs are designed to be competitive with those provided by companies with whom it competes for talent and to be sufficient to attract the best talent from among top performers in its industry. Benefit programs are designed to provide competitive levels of protection and financial security and are not based on performance. As part of its annual review process, the compensation committee reviews the competitiveness of Allied Capital's current compensation levels of its key employees and executives with a third-party compensation consultant against the competitive market and relative to overall corporate performance, including market conditions, during the year. The compensation committee also reviews tally sheets annually, which illustrate all components of compensation for the NEOs who have employment agreements with Allied Capital.

Alignment with Requirements of the Investment Company Act Allied Capital's compensation program must align with the requirements of the Investment Company Act, which imposes certain limitations on the structure of a BDC's compensation program. For example, the Investment Company Act prohibits a BDC from maintaining a stock option plan and a profit sharing arrangement simultaneously. As a result, if a BDC has a stock option plan, it is prohibited from using a carried interest formula, a common form of compensation in the private equity industry, as a form of compensation. Because of these and other similar limitations imposed by the Investment Company Act, the compensation committee is limited as to the type of compensation arrangements that can be utilized in order to attract, retain and motivate employees.

Components of Total Compensation. The compensation committee determined that the compensation packages for 2009 for the NEOs, who are identified in the "Summary Compensation Table" below, should generally consist of an annual base salary, annual discretionary cash bonus and stock options, priced at current market value.

Base Salary. Base salary is designed to attract and retain experienced executives who can drive the achievement of Allied Capital's goals and objectives. While an executive's initial base salary is determined by an assessment of competitive market levels, the factors used in determining changes to base salary include individual performance, changes in role and/or responsibility and changes in the competitive market environment.

Allied Capital has entered into employment agreements with William L. Walton, Allied Capital's Chairman of the Board of Directors, John M. Scheurer, Allied Capital's Chief Executive Officer and President, and Penni F. Roll, Allied Capital's Chief Financial Officer. In addition, Allied Capital has entered into a retention agreement with Joan M. Sweeney, a Managing Director and Senior Advisor to the Chief Executive Officer. These agreements provide for the base salary of each of these executives. See " Employment Agreements" below for information regarding the material terms of these agreements.

Annual Cash Bonus. The annual cash bonus is designed to reward those executives that have achieved certain corporate and individual performance objectives and have contributed to the achievement of certain long-term objectives of Allied Capital and to retain key personnel. The amount of the annual cash bonus is determined by the compensation committee on a discretionary basis. For 2009, Allied Capital accrued $7.5 million in bonuses and $0.3 million in performance awards as compared to $1.0 million in bonuses and $11.2 million in performance awards accrued in 2008. In order to retain key personnel through the closing date of the merger, Allied Capital will pay the 2009 bonuses as retention bonuses on the earlier of April 15, 2010 or the closing date of the merger. An employee must be employed on the payment date in order to receive the retention bonus. Messrs. Walton, Scheurer and Russell and Ms. Roll will receive no performance or retention bonus for 2009. Ms. Sweeney will receive no performance or retention bonus for 2009; however, she is entitled to receive certain bonuses as provided for in her retention agreement. In addition, none of these executives received a bonus or performance award for 2008.

Stock Options. Allied Capital's principal objective in awarding stock options to its officers and directors is to align each optionee's interests with the success of Allied Capital and the financial interests of its stockholders by linking a portion of such optionee's compensation with the performance of Allied Capital's stock and the value delivered to stockholders. In the case of its officers, the compensation committee evaluates a number of criteria, including the past service of each such optionee to Allied Capital, the present and potential contributions of such optionee to the performance of Allied Capital and such other factors as the compensation committee deems relevant in connection with accomplishing the purposes of the Stock Option Plan, including the recipient's current stock holdings, years of service, position with Allied Capital and other factors. The compensation committee does not apply a formula assigning specific weights to any of these factors when making its determination. The compensation committee awards stock options on a subjective basis and such awards depend in each case on the performance of the individual under consideration and, in the case of new hires, their potential performance.

Allied Capital believes that stock option awards are an important form of compensation, particularly in the current economic environment. Stock option awards provide Allied Capital with a form of compensation that directly aligns employee interests with stockholder interests. In addition, stock option awards are granted as a form of long-term compensation designed to retain key personnel while also serving as a non-cash form of compensation to enable Allied Capital to preserve cash. On March 3, 2009, options to purchase 10.6 million shares were granted to 38 officers with an exercise price of $0.73 per share. These options vest ratably on June 30, 2009, June 30, 2010 and June 30, 2011. Many of these options were granted in connection with the retention agreements entered into with several key employees of Allied Capital as an incentive for those key employees to continue to contribute to the success of Allied Capital. On May 13, 2009, options to purchase 0.9 million shares were granted with an exercise price of $2.63 per share. 55,000 of those options were granted to non-employee directors and vested immediately, and the remaining options were granted to employees and vest as follows: 166,667 on June 30, 2009, 333,333 on April 30, 2010, 180,000 on June 30, 2010 and 180,000 on June 30, 2011.

Under the terms of the Stock Option Plan, all outstanding unvested stock options to purchase Allied Capital common stock will become fully vested and exercisable upon completion of the merger. As of January 15, 2010, there were 21,908,523 Allied Capital stock options outstanding under the Stock Option Plan, 12,643,557 of which were vested and 9,264,966 of which were unvested. The NEOs and directors as a group held 7,495,004 Allied Capital stock options of which 3,555,000 Allied Capital stock options were "in-the-money" with a weighted average exercise price of $1.0266 per Allied Capital common share.

Individual Performance Award (IPA) and Individual Performance Bonus (IPB) The IPA and IPB were part of an incentive compensation program for certain officers in prior years and were generally determined annually at the beginning of each year. Allied Capital did not establish an IPA or IPB for 2009 or for 2010 as part of its efforts to reduce employee expense. In 2008, IPAs were paid in cash in two equal installments during the year. The IPB was distributed in cash to award recipients throughout the year.

Employment Agreements and Severance Arrangements. Allied Capital entered into employment agreements in 2004 with Mr. Walton and Ms. Roll. These agreements were reviewed in 2008 and amended to comply with regulatory changes in the Code and to address other tax related matters. Allied Capital entered into an employment agreement with John M. Scheurer in May 2009 in connection with his assuming the role of CEO and President. In connection with the separation of the CEO and Chairman roles effective in March 2009, Mr. Walton entered into an amendment to his employment agreement with Allied Capital. Under that amendment Mr. Walton agreed to serve as a full-time Chairman of the Board with a reduced base salary of $1.1 million. In this capacity, Mr. Walton is an executive officer of Allied Capital responsible for the overall strategic direction of Allied Capital. In addition, Mr. Walton waived any claims he may have had under his employment agreement to resign for "good reason" upon no longer serving as Allied Capital's CEO because the change to Mr. Walton's position had been made at his request. Pursuant to each of these agreements, if the executive's employment is terminated without "cause" during the term of the agreement, the executive will be entitled to severance pay. See " Severance and Change of Control Arrangements Under Employment Agreements" below for more detail. As a result of the merger, each of Messrs. Walton and Scheurer and Ms. Roll will be terminated from Allied Capital without "cause." As a result, payments will be paid to each executive in connection with the merger. For more information regarding the payments and benefits to be paid to Messrs. Walton and Scheurer and Ms. Roll in connection with the merger, see "The Merger Interests of Certain Persons Related to Allied Capital in the Merger."

Retention Agreements. On March 3, 2009, Allied Capital entered into retention agreements with certain key officers who do not have employment agreements with Allied Capital, including Mr. Russell. Allied Capital entered into these agreements because it believes that it is important to retain its key management team through periods of economic uncertainty. Allied Capital believes that having retention agreements in place will also help retain key personnel through the closing date of the merger. Pursuant to these agreements, in the event of a termination, other than for "cause" or if the officer terminates his or her employment for "good reason" within 90 days prior to or 18 months following a "change of control" of Allied Capital, the officer will receive a retention award to be paid in a lump sum six months following the officer's separation from service. The officer would also receive one year of COBRA coverage following the separation from service. In addition, in May 2009, Allied Capital entered into a retention agreement with Ms. Sweeney as a Managing Director and Senior Advisor to the CEO that supercedes a prior employment agreement between Ms. Sweeney and Allied Capital.

For more information regarding the payments and benefits to be paid to these key executives in connection with the merger, see "The Merger Interests of Certain Persons Related to Allied Capital in the Merger."

401(k) Plan. Allied Capital maintains a 401(k) plan, or the "Allied Capital 401(k) Plan." All employees who are at least 21 years of age have the opportunity to contribute pre-tax or after-tax salary deferrals to the Allied Capital 401(k) Plan, up to $16,500 annually for the 2010 plan year, and to direct the investment of these contributions. Plan participants who are age 50 or older during the 2010 plan year are eligible to defer an additional $5,500. The Allied Capital 401(k) Plan includes the Allied Capital Stock Fund, consisting of Allied Capital common stock and cash, among other investment options. Beginning in December 2008, the Allied Capital Stock Fund is no longer available for future contributions; however, participants may maintain any existing investment in the fund. On January 15, 2010, the Allied Capital 401(k) Plan held less than 1% of the outstanding shares of Allied Capital.

For 2009, the Allied Capital 401(k) Plan provided that Allied Capital will match 100% of the first 4% of deferral contributions made by each participant up to the maximum eligible compensation limit, which was $245,000 for 2009. The Allied Capital 401(k) Plan was amended so that beginning in 2010 it no longer provides a match on deferral contributions.

Insurance. Allied Capital makes available to all employees health insurance, dental insurance and group life and disability insurance. Prior to the Sarbanes-Oxley Act of 2002, Allied Capital provided split dollar life insurance arrangements for certain senior officers. Allied Capital subsequently terminated its obligations to pay future premiums with respect to existing split-dollar life insurance arrangements.

Perquisites. Allied Capital provides only limited perquisites such as company-paid parking to certain officers, including its NEOs. Prior to 2009, Allied Capital utilized corporate aircraft for business use in an effort to improve the efficiency of required business travel. Imputed income determined in accordance with IRS requirements is reflected in an NEO's aggregate compensation for income tax purposes for any business trip on which a non-employee family member or guest accompanied the NEO. In connection with its efforts to reduce expenses, Allied Capital significantly reduced the use of its corporate aircraft in 2008 and sold its corporate aircraft in 2009. For compensation disclosure purposes, the value of such travel by non-employee family members or guests is calculated by allocating costs incurred. With respect to travel by non-employee family members or guests, this is computed by allocating direct and indirect expenses, other than depreciation, on a per hour basis. Direct and indirect expenses generally include crew compensation and expenses, fuel, oil, catering expenses, hangar, rent, insurance, landing and similar fees and maintenance costs.

Establishing Compensation Levels

Role of the Compensation Committee. The compensation committee is comprised entirely of independent directors who are also "non-employee directors" as defined in Rule 16b-3 under the Exchange Act and "independent directors" as defined by NYSE rules.

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The compensation committee operates pursuant to a charter that sets forth the mission of the compensation committee and its specific goals and responsibilities. The compensation committee's mission is to evaluate and make recommendations to the Allied Capital board regarding the compensation of the CEO and other executive officers of Allied Capital and their performance relative to their compensation and to assure that they are compensated effectively in a manner consistent with the compensation philosophy discussed earlier, internal equity considerations, competitive practice and the requirements of applicable law and the appropriate regulatory bodies. In addition, the compensation committee evaluates and makes recommendations to the Allied Capital board regarding the compensation of the directors, including their compensation for service on board committees.

The compensation committee's charter reflects these goals and responsibilities and the compensation committee annually reviews and revises its charter as necessary. To assist in carrying out its responsibilities, the compensation committee periodically receives reports and recommendations from management and from a third-party compensation consultant that it selects and retains. The compensation committee may also, from time to time, consult with legal, accounting or other advisors all in accordance with the authority granted to the compensation committee in its charter.

Role of Management. For 2009, the key members of management involved in the compensation process were the Chairman of the Board, the CEO and the Director of Human Resources. Management proposes certain corporate and individual performance objectives for executive management that could be established to achieve the long-term objectives of Allied Capital and used to determine total compensation and these proposals are presented to the compensation committee for review and approval. As discussed above, retention of key personnel was a focus of management and the compensation committee in determining compensation for 2009. Management also participates in the discussion of peer companies to be used to benchmark NEO compensation and recommends the overall funding level for Allied Capital's compensation programs. Management's recommendations are presented to the compensation committee for review and approval.

Role of the Compensation Consultant. It is the practice of Allied Capital's compensation committee annually to retain a third-party compensation consultant to assess the competitiveness of the current and proposed compensation levels of Allied Capital's NEOs in light of competitive market practices. The compensation committee has engaged Ernst & Young LLP's Performance and Reward Practice or its predecessor, or the "compensation consultant," for this purpose for more than five years.

The compensation consultant attends compensation committee meetings, meets with the compensation committee without management present and provides third-party data, advice and expertise on current and proposed executive and director compensation. At the direction of the compensation committee, the compensation consultant prepares an analysis of compensation matters, including positioning of programs in the competitive market, including peer group review, and the design of plans consistent with the compensation committee's compensation philosophy.

Although Ernst & Young LLP provides consulting and other services to Allied Capital, the compensation committee does not believe this compromises the compensation consultant's ability to provide an independent perspective on executive compensation. During 2009, the compensation consultant was paid $71,850 for its services to the compensation committee.

Assessment of Market Data, Peer Comparisons and Benchmarking of Compensation. The compensation consultant assists the compensation committee with the assessment of the compensation practices of comparable companies. Given Allied Capital's structure as a publicly traded, internally managed BDC coupled with the fact that most of Allied Capital's direct competitors are privately held private equity partnerships, specific compensation information with respect to Allied Capital's direct competitors typically is not publicly available. There are a limited number of published survey sources

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that have a primary focus on the private equity industry and that provide annualized information on long-term incentive plans in the industry, which typically take the form of carried interest.

As a part of the annual assessment of compensation, the compensation committee and the compensation consultant typically analyze NEO compensation information relative to a peer group of publicly traded companies, as determined by the compensation committee, including internally managed BDCs, deemed similar to Allied Capital in terms of industry segment, company size and competitive industry and geographic market for executive talent. For 2009, the compensation consultant provided information to the compensation committee in connection with the determination of base salaries for the Chairman of the Board and the Chief Executive Officer following the separation of those two positions. Because no bonuses were paid to NEOs for 2009, a formal comparison to the peer group was not performed.

Allied Capital has historically used a peer group of substantially the same publicly traded companies. For 2008, the peer group was composed of the following nine publicly traded companies in the financial services industry:

Affiliated Managers Group, Inc.	Federated Investors, Inc.
AllianceBernstein Holding L.P.	Friedman, Billings, Ramsey Group, Inc.
American Capital Strategies, Ltd.	iStar Financial, Inc.
CapitalSource Inc.	Legg Mason, Inc.
CIT Group Inc.	

The compensation committee generally benchmarks Allied Capital's compensation for the Chairman, CEO and CFO to the median (50th percentile) through the 75th percentile of competitive market data. However, the compensation committee is unable to benchmark the compensation data of individuals from externally managed companies because no individual compensation data is available.

In prior years, the compensation committee and the compensation consultant also analyzed NEO compensation information relative to published survey data on similarly sized private equity firms and an estimation of aggregate compensation levels paid by externally managed publicly traded BDCs and similar pass-through structures, such as real estate investment trusts.

For 2008 and 2009, the compensation committee and the compensation consultant did not review these additional sources given the changing dynamics of pay practices in these types of organizations. In addition, because survey data is only available with a one-year lag, there was a concern that the market data reflected in the survey sources would overstate current compensation levels, given the current economic conditions.

While comparisons to compensation levels at Allied Capital's peer group is helpful in assessing the overall competitiveness of its executive compensation program, Allied Capital believes that its executive compensation program also must be internally consistent and equitable in order for Allied Capital to achieve its investment objectives and to continue to attract and retain outstanding employees.

The compensation committee considers many factors, including each individual's contribution to Allied Capital that year, to assess internal pay equity. As a result, the compensation of Allied Capital's NEOs may change from year to year.

Review of Tally Sheets. The compensation committee annually reviews tally sheets that illustrate all components of the compensation provided to Allied Capital's NEOs who have employment agreements with Allied Capital, including base salary, performance awards, annual cash bonus, IPAs and IPBs, stock option awards, perquisites and benefits. Furthermore, the compensation committee annually reviews tally sheets prepared by the compensation consultant that illustrate the aggregate amounts that may be paid as the result of certain events of termination under employment agreements including a "change of control" for Messrs. Walton and Scheurer and Ms. Roll. The purpose of these

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tally sheets is to bring together, in one place, all of the elements of actual and potential future compensation for its executives who have employment agreements so that the compensation committee may analyze both the individual elements of compensation as well as the aggregate total amount of actual and projected compensation. The compensation committee also provides a full report of all compensation program components to Allied Capital's board of directors, including the review and discussion of the tally sheets.

In connection with the merger, the compensation committee and the board of directors analyzed the amounts that would be paid as a result of the merger. In connection with the negotiations with respect to the merger, it was determined that amounts to be paid by Allied Capital to certain employees, including its NEOs, under the terms of the employment and retention agreements, would not exceed $30.3 million in the aggregate. As a result, certain executive officers, including NEOs of Allied Capital, agreed to reduce the amount of the payments that otherwise might have been payable to them under the terms of the employment and retention agreements by an aggregate of $4,591,139, of which $3,172,000 has been waived by Mr. Walton. In addition, for Messrs. Walton and Scheurer and Ms. Roll, the amount of bonus compensation paid to each executive is a component of the amount to be paid in connection with the merger. Because none of Messrs. Walton and Scheurer or Ms. Roll received bonus compensation for 2008 and voluntarily suggested they forego any bonus for 2009, the amounts to be paid to each executive in connection with the merger are lower than they would have been had the executive received bonus compensation in either year.

Assessment of Corporate and Individual Performance. The compensation committee considers certain corporate and individual performance measures that have been established to achieve Allied Capital's objectives, including long-term total return to stockholders. As discussed above, in light of the economic challenges facing Allied Capital and the markets generally, Allied Capital took steps to improve operating efficiencies and reduced headcount by approximately 72 employees during 2008 and 2009. Allied Capital believes that the steps it has taken to reduce employee expense are appropriate in the current market environment. Allied Capital also believes, however, that it is important to retain key officers through the closing date of the merger. As a result, Allied Capital's compensation for 2009 was determined with a focus on balancing reductions in employee expense with the importance of retaining employees.

Compensation Determination

In determining the individual compensation for Allied Capital's NEOs, the compensation committee considers the total compensation to be awarded to each NEO and may exercise discretion in determining the portion allocated to the various components of total compensation. There is no pre-determined weighting of any specific components. Allied Capital believes that the focus on total compensation provides the ability to align pay decisions with short- and long-term needs of the business. This approach also allows for the flexibility needed to recognize differences in performance by providing differentiated pay.

Individual compensation levels for NEOs are determined based on individual performance and the achievement of certain corporate and executive performance objectives that have been established to achieve the long-term objectives of Allied Capital. Increases to base salary may be awarded to recognize an executive for assuming additional responsibilities and his/her related performance, to address changes in the external competitive market for a given position or to achieve an appropriate competitive level due to a promotion to a more senior position.

In determining the amount of an executive's variable compensation an annual cash bonus, performance award and stock option award the compensation committee considers the overall funding available for such awards, the executive's performance and the desired mix between the various components of total compensation. Allied Capital does not use a formula-based approach in determining individual awards or weighting between the components. Rather, discretion is exercised in determining the overall total compensation to be awarded to the executive. As a result, the amounts delivered in the form of an annual cash bonus, performance award and stock option award are designed to work together in conjunction with base salary to deliver an appropriate total compensation level to the NEO.

Allied Capital believes that the discretionary design of its variable compensation program supports its overall compensation objectives by allowing for significant differentiation of pay based on individual performance and by providing the flexibility necessary to ensure that pay packages for its NEOs are competitive relative to Allied Capital's market.

Determination of 2009 Compensation for the CEO and other NEOs. The compensation of the CEO and other NEOs is determined based on the achievement of certain corporate and individual performance objectives discussed above. Allied Capital has significantly reduced its compensation expense over the past two years, as discussed above. In addition, in determining any discretionary bonus for 2009, the compensation committee also considered the amounts to be paid to each NEO in connection with the merger, including the value of stock options granted during 2009, which are the only outstanding stock options that are "in-the-money."

Mr. Walton entered into an amendment to his employment agreement which, among other things, provided that Mr. Walton's base salary be reduced to $1,100,000 from $1,703,300, effective March 3, 2009 in connection with the separation of the roles of Chairman of the Board and CEO. Mr. Walton did not receive a bonus or a performance award for 2009 or for 2008, compared to an annual bonus for 2007 of $2,150,000. Mr. Walton received no IPA or IPB for 2009, a reduction from a 2008 IPA of $1,475,000 and a 2008 IPB of $1,475,000. Mr. Walton received a grant of 900,000 stock options in 2009.

Mr. Scheurer entered into an employment agreement in May 2009, in connection with assuming the role of Chief Executive Officer and President, which provides for an annual base salary of $1,100,000 for 2009. Mr. Scheurer did not receive an annual bonus or a performance award for 2009 or 2008, compared to an annual bonus for 2007 of $1,700,000. Mr. Scheurer received no IPA or IPB for 2009, a reduction from a 2008 IPA of $550,000 and a 2008 IPB of $550,000. Mr. Scheurer received a grant of 900,000 stock options in 2009.

Ms. Sweeney entered into a retention agreement in May 2009, which provides for an annual base salary of $1,500,000 as compared to an annual base salary of $1,115,800 for 2008. Pursuant to her retention agreement, Ms. Sweeney is eligible to receive a special retention bonus of $150,000 in May 2010 and $300,000 in May 2011, of which $87,500 was expensed in 2009. Ms. Sweeney did not receive an annual bonus or a performance award for 2009 or 2008, compared to a bonus of $1,300,000 for 2007. Ms. Sweeney received no IPA or IPB for 2009 as compared to a 2008 IPA of $850,000 and a 2008 IPB of $850,000. Ms. Sweeney received a grant of 500,000 stock options in 2009.

For both 2008 and 2009, Ms. Roll was paid an annual base salary of $584,550, compared to $525,000 for 2007. Ms. Roll did not receive an annual bonus or a performance award for 2008 or 2009, compared to an annual bonus for 2007 of $850,000. Ms. Roll received no IPA or IPB in 2009, compared to a 2008 IPA of $350,000 and a 2008 IPB of $350,000. Ms. Roll received a grant of 400,000 stock options in 2009.

For both 2008 and 2009, Mr. Russell was paid an annual base salary of $633,300. Mr. Russell did not receive an annual bonus or a performance award for 2008 or 2009, compared to an annual bonus for 2007 of $2,475,000. Mr. Russell received no IPA or IPB in 2009, compared to a 2008 IPA of $475,000 and a 2008 IPB of $475,000. Mr. Russell received a grant of 800,000 stock options in 2009.

Mr. Long's annual base salary was $716,300 for 2009. Mr. Long received performance award compensation of $250,000 for 2009. He received no IPA or IPB for 2009. Mr. Long received a grant of 800,000 stock options in 2009, of which one-third had vested prior to his departure from Allied Capital.

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Effective September 14, 2009, Mr. Long was no longer employed by Allied Capital. In connection with his departure from Allied Capital, Mr. Long received severance of $643,200, payable in 14 installments beginning October 9, 2009.

Stock Option Practices

Allied Capital's principal objective in awarding stock options to its officers and directors is to align each optionee's interests with the success of Allied Capital and the financial interests of its stockholders by linking a portion of such optionee's compensation with the performance of Allied Capital's stock and the value delivered to stockholders. The compensation committee awards stock options to officers on a subjective basis and such awards depend in each case on the performance of the officer under consideration and, in the case of new hires, their potential performance. Stock options are priced at the closing price of the stock on the date the option is granted. See " Stock Option Plan" below.

Target Ownership Program

During 2006, Allied Capital's board of directors established a target ownership program to encourage share ownership by Allied Capital's senior officers so that the interests of the officers and stockholders are aligned. Target ownership amounts represent the lesser of a multiple of base salary or a specified number of shares. Generally, officers have five years to achieve their target ownership level, which is determined on an individual basis by the compensation committee and adjusted annually to reflect increases in base salary, if any. The compensation committee considers these target ownership levels and each individual's progress toward achieving his or her target ownership in connection with its annual compensation review.

Impact of Regulatory Requirements Tax Deductibility of Pay

Section 162(m) of the Code places a limit of $1,000,000 on the amount of compensation that Allied Capital may deduct in any one year, which applies with respect to certain of its most highly paid executive officers for 2009. There is an exception to the $1,000,000 limitation for performance-based compensation meeting certain requirements. To maintain flexibility in compensating executive officers in a manner designed to promote varying corporate goals, the compensation committee has not adopted a performance-based compensation policy. The total compensation for each of Messrs. Walton, Scheurer and Ms. Sweeney is above the $1,000,000 threshold for 2009; accordingly, for 2009, a portion of their total compensation, including salaries, bonuses and other compensation is not deductible by Allied Capital.

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Summary Compensation Table

The following table sets forth compensation that Allied Capital paid during the years ended December 31, 2009, 2008 and 2007 to its NEOs in each capacity in which each NEO served. Certain of the NEOs served as both officers and directors.

Name and Principal Position	Year	Salary	Bonus(2)	Stock Awards	Option Awards(3)	Non-Equity Incentive Plan Compensation	Change in Pension Value Non-and Qualified Deferred Compensation Earnings(4)	All Other Compensation(5)	Total
William L. Walton,	2009	$ 1,204,007	$	n/a	$ 505,553	n/a	n/a	$ 21,937	$ 1,731,497
Chairman of	2008	1,716,402	2,950,000	n/a	457,242	n/a	n/a	28,503	5,152,147
the Board	2007	1,505,769	5,301,250	n/a	488,229	n/a	n/a	3,658,402	10,953,650
John M. Scheurer,	2009	$ 1,033,281	$	n/a	$ 279,541	n/a	n/a	$ 20,195	$ 1,333,017
Chief Executive	2008	676,158	1,100,000	n/a	289,848	n/a	n/a	19,139	2,085,145
Officer	2007	602,308	2,868,750	n/a	352,941	n/a	n/a	1,308,357	5,132,356
Penni F. Roll,	2009	$ 586,798	$	n/a	$ 249,183	n/a	n/a	$ 14,931	$ 850,912
Chief Financial	2008	589,046	700,000	n/a	388,220	n/a	n/a	14,064	1,691,330
Officer	2007	527,019	1,607,500	n/a	576,854	n/a	n/a	509,089	3,220,462
Daniel L. Russell,	2009	$ 635,736	$	n/a	$ 296,350	n/a	n/a	$ 13,148	$ 945,234
Managing Director	2008	638,171	950,000	n/a	500,007	n/a	n/a	12,528	2,100,706
	2007	550,673	3,506,154	n/a	725,172	n/a	n/a	372,028	5,154,027
Joan M. Sweeney,	2009	$ 1,366,866	$ 87,500	n/a	$ 532,779	n/a	n/a	$ 5,782	$ 1,992,927
Managing Director	2008	1,124,383	$ 1,700,000	n/a	138,612	n/a	n/a	6,716	2,969,711
and Senior Advisor	2007	1,003,846	2,913,750	n/a	366,172	n/a	n/a	1,986,159	6,269,927
to the CEO									
Robert D. Long(1)	2009	$ 504,165	$ 250,000	n/a	$ 276,422	n/a	n/a	$ 722,484	$ 1,753,071
Former Managing									
Director									

(1) Effective September 14, 2009, Mr. Long was no longer employed by Allied Capital.

(2) This column includes annual cash bonus, IPA, IPB, performance awards and for 2007 the excess Allied Capital 401(k) Plan contribution, which represents the excess amount of the 4% employer contribution over the IRS limit of how much an employer may contribute to the Allied Capital 401(k) Plan, which was paid in cash for 2007. For a discussion of these compensation components, see " Compensation Discussion and Analysis" above. IPA and IPB amounts were determined at the beginning of the year and paid throughout the respective year. The following table provides detail as to the composition of the bonus received by each of the NEOs:

	Year	Bonus	IPA	IPB	Performance Award	Excess 401(k) Contribution
Mr. Walton	2009					
	2008		$ 1,475,000	$ 1,475,000		
	2007	$ 2,150,000	$ 1,475,000	$ 1,475,000		$ 201,250
Mr. Scheurer	2009					
	2008		$ 550,000	$ 550,000		
	2007	$ 1,700,000	$ 550,000	$ 550,000		$ 68,750
Ms. Roll	2009					
	2008		$ 350,000	$ 350,000		
	2007	$ 850,000	$ 350,000	$ 350,000		$ 57,500
Mr. Russell	2009					
	2008		$ 475,000	$ 475,000		
	2007	$ 2,475,000	$ 475,000	$ 475,000		$ 81,154
Ms. Sweeney	2009	$ 87,500				
	2008		$ 850,000	$ 850,000		

	2007	$ 1,300,000	$ 750,000	$ 750,000	$ 113,750
Mr. Long	2009	$ 250,000	$	$	

(3)

The following table sets forth the amount included in the "Option Awards" column with respect to prior year awards and the 2009 awards. See Note 2 to Allied Capital's 2008 consolidated financial statements for the assumptions used in determining SFAS 123R values. See the "Grants of Plan-Based Awards" table below for the full fair value of the options granted to NEOs in 2009. The amount recognized for

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financial statement reporting purposes represents the SFAS 123R fair value of options awarded in prior and current years that vested in 2009, which are non-cash expenses.

2009 Non-Cash Expense for Option Awards	SFAS 123R Expenses Included in the Table Attributed to: Prior-Year Awards	2009 Awards
Mr. Walton	$ 450,909	$ 54,644
Mr. Scheurer	$ 224,897	$ 54,644
Ms. Roll	$ 224,897	$ 24,286
Mr. Russell	$ 247,777	$ 48,573
Ms. Sweeney	$ 68,642	$ 464,137
Mr. Long	$ 227,849	$ 48,573

(4)

There were no above market or preferential earnings on non-qualified deferred compensation plans. See "Non-Qualified Deferred Compensation" below.

(5)

"All Other Compensation" is composed of the following:

	Year	Company Contribution to 401(k) Plan	SFAS 123R Expense Related to the OCP(A)	Other(B)
Mr. Walton	2009	$ 9,800		$ 12,137
	2008	$ 9,200		$ 19,303
	2007	$ 11,250	$ 3,612,697	$ 34,455
Mr. Scheurer	2009	$ 9,800		$ 10,395
	2008	$ 9,200		$ 9,939
	2007	$ 11,250	$ 1,287,492	$ 9,615
Ms. Roll	2009	$ 9,800		$ 5,131
	2008	$ 9,200		$ 4,864
	2007	$ 11,250	$ 493,223	$ 4,616
Mr. Russell	2009	$ 9,800		$ 3,348
	2008	$ 9,200		$ 3,328
	2007	$ 11,250	$ 356,667	$ 4,111
Ms. Sweeney	2009			$ 5,782
	2008			$ 6,731
	2007	$ 11,250	$ 1,966,137	$ 8,772
Mr. Long	2009	$ 9,800		$ 712,684

(A)

During 2007, Allied Capital completed a tender offer for vested in-the-money options in exchange for an option cancellation payment, or the "OCP." Because the weighted average market price of Allied Capital common stock at the commencement of the tender offer was higher than the market price at the close of the tender offer, SFAS 123R required Allied Capital to record stock option expense related to the stock options cancelled. This is a non-cash expense deemed to be compensation for financial reporting purposes.

(B)

For 2009 these amounts include perquisites such as group life insurance premiums of $261 for Mr. Long and $348 for each other NEO; the imputed income value of split dollar life insurance arrangements of $4,656, $3,975, $1,663 and $3,614 for Mr. Walton, Mr. Scheurer, Ms. Roll and Ms. Sweeney, respectively; company-paid parking of $3,120, $3,120, $3,120, $3,000, $1,820 and $2,695 for Mr. Walton, Mr. Scheurer, Ms. Roll, Mr. Russell, Ms. Sweeney and Mr. Long, respectively. Mr. Long also received $600 in commuter allowance for 2009. In addition, the amounts for 2009 include $4,013 and $2,952 for Mr. Walton and Mr. Scheurer, respectively, for premiums associated with executive long-term disability insurance. The amount for 2008 includes $7,690 for Mr. Walton and the amounts for 2007 include $23,994 for Mr. Walton, $2,370 for Ms. Sweeney and $1,241 for Mr. Russell related to the allocated costs associated with the travel of non-employee family members or guests when they have accompanied the NEOs on trips for business purposes. The value of this perquisite is different than each NEO's imputed income, which is calculated in accordance with IRS requirements. Allied Capital significantly reduced the use of its corporate aircraft in 2008 and sold its corporate aircraft in 2009. The amount for Mr. Long in 2009 includes $709,128 of severance and other termination benefits payable upon his termination from Allied Capital as of September 14, 2009.

Explanation of Responses:

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Employment Agreements

Allied Capital entered into employment agreements in 2004 with William L. Walton, Allied Capital's Chairman and then CEO, and Penni F. Roll, Allied Capital's CFO. These agreements were amended in 2007 and in 2008 to comply with Section 409A of the Code and to address other tax-related matters. In connection with the separation of the CEO and Chairman roles effective in March 2009, Mr. Walton entered into an amendment to his employment agreement with Allied Capital. Under that amendment, Mr. Walton agreed to serve as a full-time Chairman of the Board with a reduced base salary of $1.1 million. In this capacity, Mr. Walton will be an executive officer of Allied Capital responsible for the overall strategic direction of Allied Capital. In addition, Mr. Walton waived any claims he may have had under his employment agreement to resign for "good reason" upon no longer serving as Allied Capital's CEO because the change to Mr. Walton's position had been made at his request.

The agreements for Mr. Walton and Ms. Roll provide for a three-year term that extends one day at the end of every day during its length, unless either party provides written notice of termination of such extension. In that case, the agreement would terminate three years from such notification.

Each of the employment agreements also includes an indefinite confidentiality and non-disparagement provision, as well as non-solicitation and non-interference covenants that apply during employment and extend for a period of two years following a termination of such employment for any reason (except in the case of disability or the failure to renew the agreement, in which case the period will be one year).

Each agreement specifies each executive's base salary compensation during the term of the agreement. The compensation committee has the right to increase but not decrease the base salary during the term of the employment agreement. In addition, each employment agreement states that the compensation committee may provide, at their sole discretion, an annual cash bonus. This bonus is to be determined with reference to each executive's performance in accordance with performance criteria to be determined by the compensation committee in its sole discretion. Under each agreement, each executive is also eligible to participate in the Stock Option Plan and to receive all other awards and benefits previously granted to such executive, including the payment of life insurance premiums.

The executive has the right to voluntarily terminate employment at any time with 30 days' notice and, in such case, the executive will not receive any severance pay. Among other things, the employment agreements prohibit the solicitation of employees from Allied Capital in the event of an executive's departure for a period of two years. See " Severance and Change of Control Arrangements Under Employment Agreements" below for a discussion of the severance and change of control arrangements set forth in each of these agreements.

Allied Capital entered into an employment agreement with John M. Scheurer in May 2009, in connection with his assuming the roles of CEO and President. Mr. Scheurer's agreement provides for a three-year term. The agreement specifies base salary compensation of $1.1 million during the term of the agreement. Allied Capital's compensation committee has the right to increase but not decrease the base salary during the term of the employment agreement. In addition, Mr. Scheurer's employment agreement states that he is eligible to receive an annual bonus as determined by Allied Capital's board of directors in its sole discretion. Under the agreement, Mr. Scheurer is also eligible to participate in Allied Capital's Stock Option Plan, and to participate in all employee benefit programs that Allied Capital may provide to its other executives subject to the terms of the programs, including the payment of life insurance premiums.

Mr. Scheurer has the right to voluntarily terminate his employment at any time with 30 days' notice and, in such case, he will not receive any severance pay. Among other things, Mr. Scheurer's

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employment agreement prohibits him from hiring employees of Allied Capital for a period of two years following his departure from Allied Capital.

Grants of Plan-Based Awards

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards; Number of Shares of Stock or Units	All Other Option Awards; Number of Securities Underlying Options(1)	Exercise or Base Price of Option Awards	Grant Date Fair Value of Stock and Option Awards
		Threshold	Target	Maximum	Threshold	Target	Maximum				
William L. Walton	3/3/09								900,000	$ 0.73	$ 108,990
John M. Scheurer	3/3/09								900,000	$ 0.73	108,990
Penni F. Roll	3/3/09								400,000	$ 0.73	48,440
Daniel L. Russell	3/3/09								800,000	$ 0.73	96,880
Joan M. Sweeney	5/13/09								500,000	$ 2.63	629,900
Robert D. Long	3/3/09								800,000	$ 0.73	96,880

(1) The options granted on March 3, 2009 vest in three installments on 6/30/09, 6/30/10 and 6/30/11. One third of the options granted on May 13, 2009 vested on 6/30/09 and the remaining two thirds vest on 4/30/10.

Stock Option Plan

The Stock Option Plan is intended to encourage stock ownership in Allied Capital by officers and directors, thus giving them a proprietary interest in Allied Capital's performance, to reward outstanding performance and to provide a means to attract and retain persons of outstanding ability to the service of Allied Capital. The Stock Option Plan was last approved by stockholders in May 2007.

As discussed above, Allied Capital's compensation committee believes that stock-based incentive compensation is a key element of officer and director compensation. The compensation committee's principal objective in awarding stock options to eligible individuals is to align each optionee's interests with the success of Allied Capital and the financial interests of its stockholders by linking a portion of such optionee's compensation with the performance of Allied Capital's stock and the value delivered to stockholders.

Stock options are granted under the Stock Option Plan at a price not less than the prevailing market value at the grant date and will have realizable value only if Allied Capital's stock price increases. The compensation committee determines the amount and features of the stock options, if any, to be awarded to officers. The compensation committee evaluates a number of criteria, including the past service of each such optionee to Allied Capital, the present and potential contributions of such optionee to the success of Allied Capital and such other factors as the compensation committee shall deem relevant in connection with accomplishing the purposes of the Stock Option Plan, including the recipient's current stock holdings, years of service, position with Allied Capital and other factors. The compensation committee does not apply a formula assigning specific weights to any of these factors when making its determination. The compensation committee awards stock options to officers on a subjective basis and such awards depend in each case on the performance of the officer under consideration and, in the case of new hires, their potential performance. Pursuant to the Investment Company Act, options may not be repriced for any participant.

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All rights to exercise options terminate 60 days after an optionee ceases to be (1) a non-officer director, (2) both an officer and a director, if such optionee serves in both capacities or (3) an officer (if such officer is not also a director) of Allied Capital for any reason other than death or total and permanent disability. If an optionee's employment is terminated for any reason other than death or total and permanent disability before expiration of his option and before he has fully exercised it, the optionee has the right to exercise the option during the balance of a 60-day period from the date of termination. If an optionee dies or becomes totally and permanently disabled before expiration of the option without fully exercising it, he or she or the executors or administrators or legatees or distributees of the estate shall, as may be provided at the time of the grant, have the right, within one year after the optionee's death or total and permanent disability, to exercise the option in whole or in part before the expiration of its term.

All outstanding options will become fully vested and exercisable upon a Change of Control. For purposes of the Stock Option Plan, a "Change of Control" means (1) the sale or other disposition of all or substantially all of Allied Capital's assets; or (2) the acquisition, whether directly, indirectly, beneficially (within the meaning of Rule 13d-3 of the Exchange Act) or of record, as a result of a merger, consolidation or otherwise, of securities of Allied Capital representing fifteen percent or more of the aggregate voting power of Allied Capital's then outstanding common stock by any person (within the meaning of Section 13(d) and 14(d) of the Exchange Act), including, but not limited to, any corporation or group of persons acting in concert, other than (a) Allied Capital or its subsidiaries or (b) any employee pension benefit plan (within the meaning of Section 3(2) of the Employee Retirement Income Security Act of 1974) of Allied Capital or its subsidiaries, including a trust established pursuant to any such plan; or (3) the individuals who were members of Allied Capital's board of directors as of the effective date of the Stock Option Plan, or the "Incumbent Board," cease to constitute at least two-thirds of Allied Capital's board of directors; provided, however, that any director appointed by at least two-thirds of the then Incumbent Board or nominated by at least two-thirds of the corporate governance/nominating committee of Allied Capital's board of directors (a majority of the members of the corporate governance/nominating committee are members of the then Incumbent Board or appointees thereof), other than any director appointed or nominated in connection with or as a result of a threatened or actual proxy or control contest, will be deemed to constitute a member of the Incumbent Board. For a discussion of the treatment of stock options as a result of the merger, see "The Merger Interests of Certain Persons Related to Allied Capital in the Merger."

The Stock Option Plan is designed to satisfy the conditions of Section 422 of the Code so that options granted under the Stock Option Plan may qualify as "incentive stock options." To qualify as "incentive stock options," options may not become exercisable for the first time in any year if the number of incentive options first exercisable in that year multiplied by the exercise price exceeds $100,000.

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Outstanding Equity Awards at Fiscal Year-End

The following table sets forth the stock option awards outstanding at December 31, 2009:

	Option Awards					Stock Awards(1)			
Name	**Number of Securities Underlying Unexercised Options Exercisable(2)**	**Number of Securities Underlying Unexercised Options Unexercisable**	**Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options**	**Option Exercise Price**	**Option Expiration Date**	**Number of Shares or Units of Stock That Have Not Vested**	**Market Value of Shares or Units of Stock That Have Not Vested**	**Equity Incentive plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested**	**Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units of Other Rights That Have Not Vested**
William L. Walton	400,000			$ 28.9800	3/11/2014	n/a	n/a	n/a	n/a
	186,000			$ 29.5800	5/15/2014	n/a	n/a	n/a	n/a
	191,667	383,333(3)		$ 22.9600	2/1/2015	n/a	n/a	n/a	n/a
	300,000	600,000(3)		$ 0.7300	3/3/2016	n/a	n/a	n/a	n/a
John M. Scheurer	150,000			$ 28.9800	3/11/2014	n/a	n/a	n/a	n/a
	50,000			$ 27.5100	8/3/2015	n/a	n/a	n/a	n/a
	139,500			$ 29.5800	5/15/2014	n/a	n/a	n/a	n/a
	83,334	166,666		$ 22.9600	2/1/2015	n/a	n/a	n/a	n/a
	300,000	600,000(3)		$ 0.7300	3/3/2016	n/a	n/a	n/a	n/a
Penni F. Roll	122,677			$ 21.5200	12/13/2012	n/a	n/a	n/a	n/a
	200,000			$ 28.9800	3/11/2014	n/a	n/a	n/a	n/a
	200,000			$ 27.5100	8/3/2015	n/a	n/a	n/a	n/a
	139,500			$ 29.5800	5/15/2014	n/a	n/a	n/a	n/a
	83,334	166,666(3)		$ 22.9600	2/1/2015	n/a	n/a	n/a	n/a
	133,334	266,666(3)		$ 0.7300	3/3/2016	n/a	n/a	n/a	n/a
Daniel L. Russell	4,085			$ 21.5900	9/20/2011	n/a	n/a	n/a	n/a
	4,646			$ 21.5200	12/13/2012	n/a	n/a	n/a	n/a
	100,000			$ 28.9800	3/11/2014	n/a	n/a	n/a	n/a
	300,000			$ 27.5100	8/3/2015	n/a	n/a	n/a	n/a
	186,000			$ 29.5800	5/15/2014	n/a	n/a	n/a	n/a
	83,334	166,666(3)		$ 22.9600	2/1/2015	n/a	n/a	n/a	n/a
	266,667	533,333(3)		$ 0.7300	3/3/2016	n/a	n/a	n/a	n/a
Joan M. Sweeney	4,646			$ 21.5200	12/13/2012	n/a	n/a	n/a	n/a
	78,450			$ 28.9800	3/11/2014	n/a	n/a	n/a	n/a
	139,500			$ 29.5800	5/15/2014	n/a	n/a	n/a	n/a
	166,667	333,333(4)		$ 2.6300	5/13/2016	n/a	n/a	n/a	n/a
Robert D. Long	(5)			$		n/a	n/a	n/a	n/a

(1) Allied Capital has not made any stock awards. As a BDC, Allied Capital is prohibited by the Investment Company Act from issuing stock awards except pursuant to a SEC exemptive order. As discussed above, Allied Capital has filed an application seeking exemptive relief to issue restricted stock.

(2)

No stock option awards have been transferred.

(3)
The options granted vest in three installments on 6/30/09, 6/30/10 and 6/30/11.

(4)
One third of the options granted vested on 6/30/09 and the remaining two thirds vest on 4/30/10.

(5)
Effective September 14, 2009, Mr. Long was no longer employed by Allied Capital and, therefore, had no outstanding options as of December 31, 2009.

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Option Exercises and Stock Vested

The following table sets forth information regarding the exercise of stock option awards by NEOs during the year ended December 31, 2009.

		Option Awards		Stock Awards	
Name	Year	Number of Shares Acquired on Exercise	Value Realized on Exercise	Number of Shares Acquired on Vesting	Value Realized on Vesting
William L. Walton	2009			n/a	n/a
John M. Scheurer	2009			n/a	n/a
Penni F. Roll	2009			n/a	n/a
Daniel L. Russell	2009			n/a	n/a
Joan M. Sweeney	2009			n/a	n/a
Robert D. Long	2009	266,667	$ 642,667	n/a	n/a

Equity Compensation Plan Information

The following table sets forth information as of December 31, 2009 with respect to compensation plans under which Allied Capital's equity securities are authorized for issuance:

Plan Category	Number of Securities to be issued upon exercise of outstanding options (a)	Weighted-average exercise price of outstanding options (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by stockholders	21,951,856	$ 15.9464	6,012,495
Equity compensation plans not approved by stockholders			
Total	21,951,856	$ 15.9464	6,012,495

Non-Qualified Deferred Compensation

During 2007, Allied Capital's board of directors determined to terminate the deferred compensation arrangements and the balances were distributed to the participants in March 2008.

Name	Executive Contributions in 2009	Company Contributions in 2009	Aggregate Earnings in 2009	Aggregate Withdrawals/ Distributions in 2009	Aggregate Balance at December 31, 2009
William L. Walton	$	$	$	$	$
John M. Scheurer	$	$	$	$	$
Penni F. Roll	$	$	$	$	$
Daniel L. Russell	$	$	$	$	$
Joan M. Sweeney	$	$	$	$	$
Robert D. Long	$	$	$	$	$

Deferred Compensation Arrangements. In December 2007, Allied Capital's board of directors made a determination that it was in the best interests of Allied Capital to terminate its deferred compensation arrangements. Allied Capital's board of directors' decision was primarily in response to increased complexity resulting from changes in the regulation of deferred compensation arrangements.

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The accounts under the deferred compensation arrangements totaled $52.5 million at December 31, 2007. The balances on the termination date were distributed to participants in March 2008 subsequent to the termination date in accordance with the transition rule for payment elections under Section 409A of the Code. The distributions were made in cash or shares of Allied Capital common stock, net of required withholding taxes.

Severance and Change of Control Arrangements Under Employment Agreements

Allied Capital entered into employment agreements in 2004 with Mr. Walton and Ms. Roll. These agreements were reviewed in 2008 and amended to comply with Section 409A of the Code and to address other tax-related matters. Mr. Walton's employment agreement was also amended in connection with the separation of the Chairman of the Board and CEO roles, effective in March 2009. In May 2009, Allied Capital entered into an employment agreement with Mr. Scheurer.

Mr. Walton's and Ms. Roll's employment agreements each provide for a three-year term that extends one day at the end of every day during its length, unless either party provides written notice of termination of such extension. In that case, the agreement would terminate three years from such notification. Mr. Scheurer's employment agreement provides for a fixed three-year term. Each of these employment agreements provide for certain payments and benefits upon termination of the executive.

As an inducement for Ares Capital and Merger Sub to enter into the merger agreement, Messrs. Walton and Scheurer and Ms. Roll each agreed to waive, contingent on the closing of the merger, a portion of the severance payments they might otherwise have been entitled to receive as a result of the merger. For more information regarding the payments and benefits to be paid to them in connection with the merger, see "The Merger Interests of Certain Persons Related to Allied Capital in the Merger."

By Executive For Good Reason or By Company Without Cause. Pursuant to each of the employment agreements, if the executive resigns without "good reason" or his/her employment is terminated with "cause," the executive will not receive any severance pay. If, however, employment is terminated by Allied Capital without "cause" or by the executive for "good reason," the executive will be entitled to severance pay for a period not to exceed 36 months. Severance pay will include three times the average base salary for the preceding three years, plus three times the average bonus compensation for the preceding three years, plus a lump sum severance amount, plus a cash payment in lieu of certain post-termination health and welfare benefits. Severance payments will generally be paid in a lump sum six months after separation.

Change of Control. In the event of a "change of control," in addition to the severance pay described above, all outstanding options granted to Mr. Walton, Mr. Scheurer and Ms. Roll will vest immediately under the terms of the Stock Option Plan. See " Stock Option Plan" above for the definition of "change of control."

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Death or Disability. If employment is terminated as a result of death or disability (as defined in the executives' employment agreements) and no notice of non-renewal (as described below) has been given, the executive will be entitled to severance pay equal to one times his or her average base salary for the preceding three years, plus one times his or her average bonus compensation for the preceding three years, plus a lump sum severance amount, plus a cash payment in lieu of certain post-termination health and welfare benefits.

Notice of Non-Renewal. If a notice of non-renewal has been given prior to death or disability of Mr. Walton or Ms. Roll, then instead of using a one times multiple of the average base salary and average bonus compensation as described above, the severance amount that relates to base salary and bonus compensation would be calculated using the number of years remaining between the date of the executive's death or disability and the third anniversary of the notice of non-renewal, but in no event less than one year. Any severance relating to disability will be paid in a lump sum six months after separation. Any severance relating to death will be paid in two installments: 75% of such pay will be paid at the time of separation and 25% will be paid on the first anniversary of such separation.

If the term of employment expires in accordance with the agreement after the delivery of a non-renewal notice by either party, the executive would continue to be employed for three years after the notice of non-renewal (unless otherwise terminated under the agreement). At the end of the three-year term, the executive would receive severance pay equal to one times the average base salary for the preceding three years, plus one times the average bonus compensation for the preceding three years, plus a lump sum severance amount, plus the benefits previously described. Severance payments will be paid in a lump sum no earlier than six months after separation.

If any provision of the employment agreements would cause the executive to incur any additional tax under Section 409A of the Code or any regulations or Treasury guidance promulgated thereunder, Allied Capital will reform the provision in a manner that maintains, to the extent possible, the original intent of the applicable provision without violating the provisions of Section 409A of the Code. In addition, in such a situation, Allied Capital will notify and consult with the executives prior to the effective date of any such change.

Severance and Change of Control Arrangements Under Retention Agreements

On March 3, 2009, Allied Capital entered into retention agreements with certain key officers who did not have employment agreements with Allied Capital, including Mr. Russell. Pursuant to these agreements, in the event of a termination, other than for "cause," or if the officer terminates his or her employment for "good reason" within 90 days prior to or 18 months following a "change of control" of Allied Capital, the officer will receive a retention payment to be paid in a lump sum six months following the officer's separation from service. See " Stock Option Plan" above for the definition of "change of control." The officer will also receive one year of health care continuation coverage following the separation from service. In order to receive the retention payment, the officer must execute a binding separation and release agreement. These agreements shall continue in effect until December 31, 2011.

Effective May 19, 2009, Allied Capital entered into a retention agreement with Ms. Sweeney that supersedes a prior employment agreement between Ms. Sweeney and Allied Capital. The retention agreement between Ms. Sweeney and Allied Capital provides for a three-year term during which Ms. Sweeney will serve as Managing Director and Senior Advisor to the CEO and be responsible for advising the CEO on strategic business and management issues. Pursuant to the agreement, Ms. Sweeney has the right to voluntarily terminate her employment at any time with 30 days' notice. If she resigns without "good reason" or her employment is terminated with "cause," she will not receive any severance pay. Among other things, Ms. Sweeney's retention agreement prohibits her from hiring employees of Allied Capital for a period of two years following her departure.

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If her employment is terminated by Allied Capital without "cause" or by Ms. Sweeney for "good reason" (each as defined in her retention agreement) or as a result of death or disability (each as defined in her retention agreement), she (or, in the case of her death, her estate) will be entitled to severance pay, which will include the sum of any amount of base compensation and any special retention bonuses that Ms. Sweeney would have received had her employment continued through the end of the term of the agreement, plus a cash payment in lieu of certain post-termination health and welfare benefits. Severance payments generally will be paid in a lump sum six months after separation.

Ms. Sweeney could receive additional payments under certain circumstances. For information about the payments and benefits to be paid to Ms. Sweeney in connection with the merger, see "The Merger Interests of Certain Persons Related to Allied Capital in the Merger."

As an inducement for Ares Capital and Merger Sub to enter into the merger agreement, certain key executives agreed to waive, contingent on the closing of the merger, a portion of the retention award payments they would otherwise be entitled to receive in connection with the merger. For more information regarding the payments and benefits to be paid to them in connection with the merger, see "The Merger Interests of Certain Persons Related to Allied Capital in the Merger."

Indemnification Agreements

Allied Capital has entered into indemnification agreements with its directors and certain senior officers, including each of the NEOs. The indemnification agreements are intended to provide these directors and senior officers the maximum indemnification permitted under Maryland law and the Investment Company Act. Each indemnification agreement provides that Allied Capital shall indemnify the director or officer who is a party to the agreement, including the advancement of legal expenses, if, by reason of his or her corporate status, he or she is, or is threatened to be, made a party to or a witness in any threatened, pending or completed proceeding, other than a proceeding by or in the right of Allied Capital.

Target Ownership

During 2006, Allied Capital's board of directors established a target ownership program which requires senior officers to achieve and retain certain stock ownership levels commensurate with their positions within Allied Capital. From the inception of the target ownership program in 2006, officers have five years to achieve the required ownership levels. Individuals who are hired or promoted after the implementation of the target ownership program would be required to achieve the target ownership level within the later of five years from the date of hire or three years from the date of promotion to the relevant title. Many of Allied Capital's senior officers already own a substantial number of shares of Allied Capital and few have chosen to sell shares over their tenure at Allied Capital. Allied Capital's board of directors believes that it is in the best interest of stockholders to encourage share ownership by Allied Capital's senior officers so that the interests of officers and stockholders are aligned.

Allied Capital's board of directors has determined target ownership levels for Allied Capital's senior officers, as follows:

Senior Officer	**Multiple of Base Salary**	**Minimum Share Ownership Range**
Chairman of the Board and CEO	5x	250,000 shares
Executive Officers, Managing Directors and Executive Vice Presidents	3x - 4x	21,500 - 130,000 shares
Principals	2x	10,000 - 20,500 shares

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Target ownership amounts represent the lesser of a multiple of base salary or a specified number of shares. Minimum share ownership requirements are determined on an individual basis and may be adjusted by the compensation committee.

Allied Capital's Chairman of the Board, CEO and CFO, as well as certain other senior officers, have met their target ownership levels set forth above. See "Control Persons and Principal Stockholders of Allied Capital."

In addition, pursuant to Allied Capital's corporate governance policy, each non-officer director is required to own $100,000 worth of shares based on market value (excluding stock options) or to have purchased at least $100,000 of shares based on the original cost of purchase. Directors are required to achieve this target ownership level within five years of joining the Allied Capital board or, in the case of those directors who were serving on the board at the time the policy was adopted by the board, by February 2011. Based on the closing price of Allied Capital's common stock on January 15, 2010, all of Allied Capital's directors have achieved this target ownership level.

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CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS OF ALLIED CAPITAL

Allied Capital has procedures in place for the review, approval and monitoring of transactions involving Allied Capital and certain related persons of Allied Capital.

As a BDC, Allied Capital is prohibited by the Investment Company Act from participating in transactions with any persons affiliated with Allied Capital, including, officers, directors and employees of Allied Capital and any person controlling or under common control with Allied Capital, collectively, "Allied Capital affiliates," absent an SEC exemptive order.

In the ordinary course of business, Allied Capital enters into transactions with portfolio companies that may be considered related party transactions. In order to ensure that Allied Capital does not engage in any prohibited transactions with any persons affiliated with Allied Capital, Allied Capital has implemented the following procedures:

- Every proposed transaction must have a completed write-up and a transaction analysis, which should identify all parties to the transaction, including any selling stockholders.

- Each transaction is screened by officers of Allied Capital for any possible affiliations, close or remote, between the proposed portfolio investment, Allied Capital, companies controlled by Allied Capital and any Allied Capital affiliates.

- All Allied Capital affiliates are notified by officers of Allied Capital of any proposed transactions and the parties involved in the transaction and are asked to notify Allied Capital's Corporate Counsel or Chief Compliance Officer or any other officer of Allied Capital who has been designated to serve in this capacity of any proposed transactions, each a, "screening officer."

- A screening officer analyzes all potential affiliations between the proposed portfolio investment, Allied Capital, companies controlled by Allied Capital and any Allied Capital affiliates to determine if prohibited affiliations exist.

- A screening officer obtains the advice of legal counsel whenever there is uncertainty as to whether particular persons involved in a proposed transaction are Allied Capital affiliates.

- A screening officer reviews the terms of each transaction to review whether any affiliated person could receive brokerage commissions that exceed the provisions of the Investment Company Act.

No agreement will be entered into unless and until a screening officer is satisfied that no affiliations prohibited by the Investment Company Act exist or, if such affiliations exist, appropriate actions have been taken to seek review and approval of Allied Capital's board of directors or exemptive relief for such transaction. Allied Capital's board of directors reviews these procedures on an annual basis.

In addition, Allied Capital's Code of Business Conduct, which is annually reviewed and approved by Allied Capital's board of directors and acknowledged in writing by all employees, requires that all employees and directors avoid any conflict, or the appearance of a conflict, between an individual's personal interests and the interests of Allied Capital. Pursuant to the Code of Business Conduct, each employee and director must disclose any conflicts of interest, or actions or relationships that might give rise to a conflict, to Allied Capital's Chief Compliance Officer. In the event that the Chief Compliance Officer is involved in the action or relationship giving rise to the conflict of interest, the individual is directed to disclose the conflict to another member of Allied Capital's senior management team. The corporate governance/nominating committee of Allied Capital's board of directors is charged with monitoring and making recommendations to the Allied Capital's board of directors regarding policies and practices relating to corporate governance. Certain actions or relationships that might give rise to a conflict of interest are reviewed and approved by Allied Capital's board of directors.

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No person serving as a director or executive officer of Allied Capital or any nominee for election as a director at any time since January 1, 2009 has had indebtedness to Allied Capital in excess of $120,000.

As a BDC under the Investment Company Act, Allied Capital is entitled to provide and has provided loans to officers of Allied Capital in connection with the exercise of stock options. All indebtedness outstanding to non-executive officers of Allied Capital as of the date of this document results from loans made by Allied Capital to enable the exercise of stock options. The loans are full recourse against the borrower and have varying terms not exceeding 10 years. The interest rates charged generally reflect the applicable federal rate on the date of the loan. As a result of provisions of the Sarbanes-Oxley Act of 2002, Allied Capital has been prohibited from making new loans to its executive officers since July 30, 2002.

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CONTROL PERSONS AND PRINCIPAL STOCKHOLDERS OF ALLIED CAPITAL

To Allied Capital's knowledge, as of January 15, 2010, there were no persons that owned 25% or more of Allied Capital's outstanding voting securities and no person would be deemed to control Allied Capital, as such term is defined in the Investment Company Act.

The following table sets forth, as of January 15, 2010, each stockholder who owned more than 5% of Allied Capital's outstanding shares of common stock, each director, each named executive officer of Allied Capital and directors and executive officers as a group. Based upon Schedule 13G and other filings with the SEC, no stockholder owned more than 5% of Allied Capital's outstanding shares of common stock as of January 15, 2010. Unless otherwise indicated, Allied Capital believes that each beneficial owner set forth in the table has sole voting and investment power. Certain shares beneficially owned by Allied Capital's directors and executive officers may be held in accounts with third-party brokerage firms, where such shares may from time to time be subject to a security interest for margin credit provided in accordance with such brokerage firm's policies.

Allied Capital's directors are divided into two groups interested directors and independent directors. Interested directors are "interested persons" as defined in Section 2(a)(19) of the Investment Company Act.

Name of Beneficial Owner	Number of Shares Owned Beneficially(1)	Percentage of Class(2)	Dollar Range of Equity Securities Beneficially Owned(3)
Interested Directors			
William L. Walton(4)	2,319,863	1.29%	over $100,000
John M. Scheurer(5)	1,299,407	*	over $100,000
Joan M. Sweeney(6)	1,147,761	*	over $100,000
Robert E. Long(7)	50,435	*	over $100,000
Independent Directors:			
Ann Torre Bates(8)	50,044	*	over $100,000
Brooks H. Browne(9)	104,236	*	over $100,000
John D. Firestone(10)	87,231	*	over $100,000
Anthony T. Garcia(11)	94,083	*	over $100,000
Lawrence I. Hebert(12)	57,500	*	over $100,000
Edward J. Mathias(13)	44,936	*	over $100,000
Alex J. Pollock(14)	53,823	*	over $100,000
Marc F. Racicot(15)	26,338	*	over $100.000
Laura W. van Roijen(16)	93,289	*	over $100,000
Named Executive Officers:			
Penni F. Roll(17)	1,137,879	*	over $100,000
Daniel L. Russell(18)	1,028,605	*	over $100,000
Robert D. Long(19)	424,954	*	over $100,000
All directors and executive officers as a group (22 in number)	10,227,122	5.50%	

* Less than 1%

(1) Beneficial ownership has been determined in accordance with Rule 13d-3 of the Exchange Act.

(2) Based on a total of 179,940,040 shares of Allied Capital common stock issued and outstanding on January 15, 2010 and 6,069,872 shares of Allied Capital common stock issuable upon the exercise of stock options exercisable within 60 days held by each executive officer and non-officer director.

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(3)
Beneficial ownership has been determined in accordance with Rule 16a-1(a)(2) of the Exchange Act.

(4)
Includes 1,209,596 shares owned directly and 1,077,667 options exercisable within 60 days of January 15, 2010. Also includes 14,122 shares allocated to the Allied Capital 401(k) Plan and 15,815 shares held in IRA or Keogh accounts. Of the shares listed, 2,150 are held in margin accounts or otherwise pledged.

(5)
Includes 353,548 shares owned directly and options to purchase 722,834 shares exercisable within 60 days of January 15, 2010. Also includes 150,000 shares held in a trust and 73,025 shares allocated to the Allied Capital 401(k) Plan. Of the shares listed, 353,548 are held in margin accounts or otherwise pledged.

(6)
Includes 728,031 shares owned directly and options to purchase 389,263 shares exercisable within 60 days of January 15, 2010. Also includes 30,467 shares allocated to the Allied Capital 401(k) Plan. Of the shares listed, 158,659 are held in margin accounts or otherwise pledged.

(7)
Includes options to purchase 30,000 shares exercisable within 60 days of January 15, 2010. Of the shares listed, 20,005 are held in margin accounts or otherwise pledged.

(8)
Includes 7,250 shares held in IRA or Keogh accounts, options to purchase 30,000 shares exercisable within 60 days of January 15, 2010 and 7,000 shares held by Ms. Bates' spouse. Also includes 3,499 shares held in a revocable trust and 700 shares held in an IRA account by Ms. Bates' father over which Ms. Bates has power-of-attorney.

(9)
Includes 12,280 shares held in IRA or Keogh accounts, 2,000 shares held by Mr. Browne's spouse and options to purchase 40,000 shares exercisable within 60 days of January 15, 2010. Of the shares listed, 9,500 are held in margin accounts or otherwise pledged.

(10)
Includes 9,415 shares held in IRA or Keogh accounts and includes options to purchase 35,000 shares exercisable within 60 days of January 15, 2010.

(11)
Includes options to purchase 20,000 shares exercisable within 60 days of January 15, 2010.

(12)
Includes 9,529 shares held in IRA or Keogh accounts, 9,000 shares held in a revocable trust and options to purchase 20,000 shares exercisable within 60 days of January 15, 2010.

(13)
Includes 33,000 shares held in IRA or Keogh accounts and includes options to purchase 10,000 shares exercisable within 60 days of January 15, 2010.

(14)
Includes 4,000 shares held in IRA or Keogh accounts, 200 shares held by Mr. Pollock's son in a custodial account for which Mr. Pollock serves as custodian and options to purchase 20,000 shares exercisable within 60 days of January 15, 2010.

(15)
Includes options to purchase 10,000 shares exercisable within 60 days of January 15, 2010.

(16)
Includes 16,224 shares held in IRA or Keogh accounts and options to purchase 50,000 shares exercisable within 60 days of January 15, 2010.

(17)
Includes 236,327 shares owned directly and options to purchase 878,845 shares exercisable within 60 days of January 15, 2010 and 22,707 shares allocated to the Allied Capital 401(k) Plan. Of the shares listed, 1,100 are held in margin accounts or otherwise pledged.

(18)
Includes 83,873 shares owned directly and options to purchase 944,732 shares exercisable within 60 days of January 15, 2010.

(19)
Includes 370,593 shares owned directly and 50,361 shares held in IRA or Keogh accounts and 4,000 shares held in a trust. Effective September 14, 2009, Mr. Long was no longer employed by Allied Capital.

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DESCRIPTION OF ALLIED CAPITAL'S CAPITAL STOCK

The following summary description is based on relevant portions of the Maryland General Corporation Law and Allied Capital's charter and bylaws. This summary is not necessarily complete and Allied Capital urges you to read the applicable provisions of the Maryland General Corporation Law and Allied Capital's charter and bylaws carefully and in their entirety.

Capital Stock

Allied Capital's authorized capital stock consists of 400,000,000 shares, $0.0001 par value per share, all of which has been initially designated as common stock. Allied Capital's board of directors may classify and reclassify any unissued shares of Allied Capital's capital stock by setting or changing in one or more respects the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications, terms or conditions of redemption or other rights of such shares of capital stock.

Common Stock

At February 10, 2010, there were 179,940,040 shares of common stock outstanding and 27,964,351 shares of common stock authorized and reserved for issuance under Allied Capital's amended stock option plan. The following are the outstanding classes of securities of Allied Capital as of February 10, 2010:

	(1) Title of Class	(2) Amount Authorized	(3) Amount Held by Allied Capital or for Allied Capital's Account	(4) Amount Outstanding Exclusive of Amounts Shown Under(3)
Allied Capital	Common Stock	400,000,000		179,940,040

All shares of common stock have equal rights as to earnings, assets, dividends and voting and all outstanding shares of common stock are fully paid and non-assessable. Distributions may be paid to the holders of common stock if and when declared by Allied Capital's board of directors out of funds legally available therefor. Allied Capital common stock has no preemptive, exchange, conversion or redemption rights and is freely transferable, except where their transfer is restricted by federal and state securities law or by contract. In the event of liquidation, dissolution or winding-up of Allied Capital, each share of common stock is entitled to share ratably in all of Allied Capital's assets that are legally available for distributions after payment of all debts and liabilities and subject to any prior rights of holders of preferred stock, if any, then outstanding. Each share of common stock is entitled to one vote on all matters submitted to a vote of stockholders, including the election of directors. Except as provided with respect to any other class or series of capital stock, the holders of Allied Capital common stock will possess exclusive voting power with respect to Allied Capital. There is no cumulative voting in the election of Allied Capital directors, which means that holders of a majority of the shares, if they so choose, could elect all of the Allied Capital directors and holders of less than a majority of the shares would, in that case, be unable to elect any Allied Capital director.

Preferred Stock

Allied Capital's charter authorizes its board of directors to classify and reclassify any unissued shares of stock into other classes or series of stock, including preferred stock. Prior to issuance of shares of each class or series, the board of directors is required by Maryland law and by Allied Capital's charter to set the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each class or series. Thus, Allied Capital's board of directors could authorize the issuance of shares

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of Allied Capital preferred stock with terms and conditions that could have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for holders of Allied Capital common stock or otherwise be in their best interest.

In addition, any issuance of preferred stock must comply with the requirements of the Investment Company Act. The Investment Company Act requires, among other things, that (1) immediately after issuance and before any dividend or other distribution is made with respect to Allied Capital common stock, Allied Capital maintain a coverage ratio of total assets to total senior securities, which include all of Allied Capital's borrowings and any preferred stock it may issue in the future, of at least 200% and (2) the holders of shares of preferred stock, if any are issued, must be entitled as a class to elect two directors at all times and to elect a majority of the directors if dividends on such preferred stock are in arrears by two years or more. The features of preferred stock may be further limited by the requirements applicable to RICs under the Code.

Limitation on Liability of Directors and Officers; Indemnification and Advance of Expenses

Allied Capital has adopted provisions in its charter limiting the liability of its directors and officers for monetary damages. The effect of these provisions in the charter is to eliminate the rights of Allied Capital and its stockholders to recover monetary damages against a director or officer except for liability resulting from (1) actual receipt of an improper benefit or profit in money, property or services or (2) active and deliberate dishonesty established by a final judgment as being material to the cause of action. These provisions do not limit or eliminate the rights of Allied Capital or any stockholder to seek non-monetary relief such as an injunction or rescission in the event of a breach of a director's or officer's duties. These provisions also will not alter the liability of directors or officers under federal securities laws, including the Investment Company Act.

Allied Capital's charter and bylaws require Allied Capital, to the maximum extent permitted by Maryland law and subject to the requirements of the Investment Company Act, to indemnify any present or former director or officer or any individual who, while a director and at Allied Capital's request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee, from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her status as a present or former director or officer and to pay or reimburse their reasonable expenses in advance of final disposition of a proceeding. The charter and bylaws also require Allied Capital to indemnify and advance expenses to any person who served a predecessor of Allied Capital in any of the capacities described above and any of Allied Capital's employees or agents or any employees or agents of Allied Capital's predecessor. In accordance with the Investment Company Act, Allied Capital will not indemnify any person for any liability to which such person would be subject by reason of such person's willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office. In addition, Allied Capital will only indemnify any person in a manner consistent with the SEC's policy regarding any request to hold harmless or indemnify any individual as permitted under Sections 17(h) and 17(i) of the Investment Company Act where liability has not been adjudicated, where the matter has been settled or in a situation involving an advance of attorney's fees or other expenses.

Maryland law requires a corporation (unless its charter provides otherwise, which Allied Capital's charter does not) to indemnify a director or officer who has been successful, on the merits or otherwise, in the defense of any proceeding to which he or she is made a party by reason of his or her service in that capacity. Maryland law permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made or threatened to be made a party by reason of their service in those or other capacities unless it is established that (1) the act or omission of the director or officer was material to the matter giving rise to the proceeding and (a) was committed in bad faith or (b) was the result of active and deliberate dishonesty, (2) the director or officer actually received an improper personal benefit in money, property or services or (3) in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. However, under Maryland law, a Maryland corporation may not indemnify for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis that a personal benefit was improperly received, unless in either case a court orders indemnification, and then only for expenses. In addition, Maryland law permits a corporation to advance reasonable expenses to a director or officer upon the corporation's receipt of (1) a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation and (2) a written undertaking by him or her or on his or her behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the standard of conduct was not met.

Allied Capital has entered into indemnification agreements with its directors and certain of its senior officers. The indemnification agreements provide these directors and senior officers the maximum indemnification permitted under Maryland law and the Investment Company Act.

Certain Anti-Takeover Provisions

Allied Capital's charter and bylaws and certain statutory and regulatory requirements contain certain provisions that could make more difficult the acquisition of Allied Capital by means of a tender offer, a proxy contest or otherwise. These provisions are expected to discourage certain types of coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of Allied Capital to negotiate first with the board of directors. Allied Capital believes that the benefits of these provisions outweigh the potential disadvantages of discouraging such proposals because, among other things, negotiation of such proposals might result in an improvement of their terms; however, such provisions may have the effect of depriving stockholders of an opportunity to sell their shares at a premium over market prices by discouraging a third party from seeking to obtain control of Allied Capital. The description set forth below is intended only to be a summary of certain of Allied Capital's anti-takeover provisions and is qualified in its entirety by reference to Allied Capital's charter and bylaws.

Classified Board of Directors

Allied Capital's bylaws provide for its board of directors to be divided into three classes of directors serving staggered three-year terms, with each class to consist as nearly as possible of one-third of the directors then elected to the board. A classified board may render more difficult a change in control of Allied Capital or removal of incumbent management. Allied Capital believes, however, that the longer time required to elect a majority of a classified board of directors helps to ensure continuity and stability of Allied Capital's management and policies.

Issuance of Preferred Stock

Allied Capital's board of directors, without stockholder approval, has the authority to reclassify authorized but unissued common stock as preferred stock, to set the preferences, conversion or other rights, restrictions, limitations as to dividends or other distributions, qualifications, terms or conditions of redemption or other rights of such preferred stock and to issue such preferred stock. Such stock could be issued with voting, conversion or other rights designed to have an anti-takeover effect.

Number of Directors; Vacancies; Removal

Allied Capital's charter provides that the number of directors will be set only by the board of directors in accordance with Allied Capital's bylaws. Allied Capital's bylaws provide that a majority of

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its entire board of directors may at any time increase or decrease the number of directors. However, unless Allied Capital's bylaws are amended, the number of directors may never be less than three (unless otherwise permitted by law) nor more than fifteen. Any vacancy for any cause other than by reason of an increase in the number of directors may be filled by a majority of the remaining members of the board of directors, even if less than a quorum. Any vacancy occurring by reason of an increase in the number of directors may be filled by action of a majority of the directors constituting the entire board of directors. A director elected by the board of directors to fill a vacancy will serve until the next annual meeting of stockholders and until his successor is elected and qualifies. Stockholders of Allied Capital also have the concurrent power to fill any vacancy resulting from the removal of a director and a director elected by the stockholders to fill a vacancy resulting from the removal of a director will serve for the balance of the term of the removed director.

A director may be removed by stockholders only "with cause" and then only by the affirmative vote of at least a majority of the votes entitled to be cast in the election of directors.

Action by Stockholders

Under the Maryland General Corporation Law, stockholder action can be taken only at an annual or special meeting of stockholders or by unanimous written or electronic consent in lieu of a meeting. These provisions, combined with the requirements of Allied Capital's bylaws regarding the calling of a stockholder-requested special meeting of stockholders discussed below, may have the effect of delaying consideration of a stockholder proposal until the next annual meeting.

Advance Notice Provisions for Stockholder Nominations and Stockholder Proposals

Allied Capital's bylaws provide that with respect to an annual meeting of stockholders, nominations of persons for election to the board of directors and the proposal of business to be considered by stockholders may be made only (1) pursuant to Allied Capital's notice of the meeting, (2) by or at the direction of the board of directors or (3) by a stockholder who is a stockholder of record both at the time of giving the notice required by the bylaws and at the time of the meeting, who is entitled to vote at the meeting and who has complied with the advance notice procedures of the bylaws. With respect to special meetings of stockholders, only the business specified in Allied Capital's notice of the meeting may be brought before the meeting. Nominations of persons for election to the board of directors at a special meeting may be made only (1) pursuant to Allied Capital's notice of the meeting, (2) by or at the direction of the board of directors or (3) provided that the board of directors has determined that directors will be elected at the meeting, by a stockholder who is a stockholder of record both at the time of giving the notice required by the bylaws and at the time of the meeting, who is entitled to vote at the meeting and who has complied with the advance notice provisions of the bylaws.

The purpose of requiring stockholders to give Allied Capital advance notice of nominations and other business is to afford Allied Capital's board of directors a meaningful opportunity to consider the qualifications of the proposed nominees and the advisability of any other proposed business and, to the extent deemed necessary or desirable by Allied Capital's board of directors, to inform stockholders and make recommendations about such qualifications or business, as well as to provide a more orderly procedure for conducting meetings of stockholders. Although Allied Capital's bylaws do not give Allied Capital's board of directors any power to disapprove stockholder nominations for the election of directors or proposals recommending certain action, they may have the effect of precluding a contest for the election of directors or the consideration of stockholder proposals if proper procedures are not followed and of discouraging or deterring a third party from conducting a solicitation of proxies to elect its own slate of directors or to approve its own proposal without regard to whether consideration of such nominees or proposals might be harmful or beneficial to Allied Capital and its stockholders.

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Calling of Special Meetings of Stockholders

Allied Capital's bylaws provide that special meetings of stockholders may be called by Allied Capital's board of directors and certain of Allied Capital's officers. Additionally, Allied Capital's bylaws provide that, subject to the satisfaction of certain procedural and informational requirements by the stockholders requesting the meeting, a special meeting of stockholders will be called by Allied Capital's Corporate Secretary upon the written request of stockholders entitled to cast not less than a majority of all the votes entitled to be cast at such meeting.

Amendments; Supermajority Vote Requirements

Allied Capital's bylaws impose supermajority vote requirements in connection with the amendment by Allied Capital's board of directors of all provisions within Allied Capital's bylaws, including those provisions relating to the classified board of directors, the ability of stockholders to call special meetings and the advance notice provisions for stockholder meetings. Allied Capital's stockholders do not have the power to amend Allied Capital's bylaws.

Under Maryland law, a Maryland corporation generally cannot dissolve, amend its charter, merge, sell all or substantially all of its assets, engage in a share exchange or engage in similar transactions outside the ordinary course of business, unless declared advisable by the board of directors and approved by the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter. However, a Maryland corporation may provide in its charter for approval of these matters by a lesser percentage, but not less than a majority of all of the votes entitled to be cast on the matter. Allied Capital's charter does not provide for a lesser percentage in these situations.

Maryland General Corporation Law

Maryland General Corporation Law contains certain provisions, including the Business Combination Act and the Control Share Acquisition Act, as defined below, that could make more difficult the acquisition of Allied Capital by means of a tender offer, a proxy contest or otherwise. The partial summary of the foregoing statutes contained in this document is not intended to be complete and reference is made to the full text of such statutes for their entire terms.

Business Combination Act

Certain provisions of the Maryland General Corporation Law establish special requirements with respect to "business combinations" between Maryland corporations and "interested stockholders" or affiliates of interested stockholders unless exemptions are applicable, referred to in this document as the "Business Combination Act." Among other things, the Business Combination Act prohibits for a period of five years a merger or other specified transactions between a company and an interested stockholder or an affiliate of an interested stockholder and requires a supermajority vote for such transactions after the end of such five-year period.

"Interested stockholders" are all persons owning beneficially, directly or indirectly, 10% or more of the outstanding voting stock of a Maryland corporation or affiliates or associates of the corporation who, at any time within the two-year period prior to the date in question, were the beneficial owners of 10% or more of the voting power of the then outstanding voting stock of the corporation. "Business combinations" include certain mergers or similar transactions subject to a statutory vote and additional transactions involving transfer of assets or securities in specified amounts to interested stockholders or their affiliates. A person is not an interested stockholder under the statute if the board of directors approved in advance the transaction by which such person otherwise would have become an interested stockholder. However, in approving a transaction, the board of directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board.

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Unless an exemption is available, a "business combination" may not be consummated between a Maryland corporation and an interested stockholder or its affiliates for a period of five years after the date on which the stockholder first became an interested stockholder and thereafter may not be consummated unless recommended by the board of directors of the Maryland corporation and (1) approved by the affirmative vote of at least 80% of the votes entitled to be cast by all holders of outstanding shares of voting stock and two-thirds of the votes entitled to be cast by all holders of outstanding shares of voting stock other than the interested stockholder or its affiliates or associates or (2) among other things, the corporation's stockholders receive a minimum price (as defined in the Business Combination Act) for their shares and the consideration is received in cash or in the same form as previously paid by the interested stockholder for its shares.

A business combination with an interested stockholder that is exempted by the board of directors of a Maryland corporation at any time before an interested stockholder first becomes an interested stockholder is not subject to the five-year moratorium or special voting requirements. Pursuant to the Business Combination Act, Allied Capital's charter provides that the Business Combination Act will not apply to any shares of stock owned by any employee stock ownership plan, incentive stock ownership plan or other similar plan established for directors, officers, employees or affiliates.

Control Share Acquisition Act

The Maryland General Corporation Law imposes limitations on the voting rights of shares acquired in a "control share acquisition." The control share statute defines a "control share acquisition" to mean the acquisition, directly or indirectly, of "control shares" subject to certain exceptions. "Control shares" of a Maryland corporation are defined to be voting shares of stock which, if aggregated with all other shares of stock previously acquired by the acquiror (except solely by virtue of a revocable proxy), would entitle the acquiror to exercise voting power in electing directors within one of the following ranges of voting power:

- one-tenth or more but less than one-third;
- one-third or more but less than a majority; or
- a majority of all voting power.

The requisite stockholder approval must be obtained each time an acquiror crosses one of the thresholds of voting power set forth above. Control shares do not include shares that the acquiring person is entitled to vote as a result of having previously obtained stockholder approval. Control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast by stockholders in the election of directors, excluding shares of stock as to which the acquiring person, officers of the corporation and employees of the corporation who are directors of the corporation are entitled to exercise or direct the exercise of the voting power in the election of the directors.

The control share statute also requires Maryland corporations to hold a special meeting at the request of an actual or proposed control share acquiror generally within 50 days after a request is made with the submission of an "acquiring person statement," but only if the acquiring person:

- gives a written undertaking to pay the expenses of the meeting and, if required by the directors of the issuing corporation, posts a bond for the cost of the meeting; and
- submits definitive financing agreements for the acquisition of the control shares to the extent that financing is not provided by the acquiring person.

In addition, unless the issuing corporation's charter or bylaws provide otherwise, the control share statute provides that the issuing corporation, within certain time limitations, shall have the right to

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redeem control shares (except those for which voting rights have previously been approved) for "fair value" as determined pursuant to the control share statute in the event:

- there is a stockholder vote and the grant of voting rights is not approved; or
- an "acquiring person statement" is not delivered to the target within 10 days following a control share acquisition.

Moreover, unless the issuing corporation's charter or bylaws provide otherwise, the control share statute provides that if, before a control share acquisition occurs, voting rights are accorded to control shares that result in the acquiring person having majority voting power, then all stockholders other than the acquiring person have appraisal rights as provided under the Maryland General Corporation Law. An acquisition of shares may be exempted from the control share statute provided that a charter or bylaw provision is adopted for such purpose prior to the control share acquisition. The Control Share Acquisition Act does not apply to shares acquired in a merger, consolidation or share exchange to which the corporation is a party.

Allied Capital's board of directors has opted out of the Control Share Acquisition Act through an amendment to Allied Capital's bylaws.

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DESCRIPTION OF ARES CAPITAL'S CAPITAL STOCK

As a result of the merger, Allied Capital common stockholders who receive shares of Ares Capital common stock in the merger will become stockholders of Ares Capital. Your rights as stockholders of Ares Capital will be governed by Maryland law and the articles of amendment and restatement, as amended, and the second amended and restated bylaws of Ares Capital. The following description of the material terms of Ares Capital's capital stock, including the common stock to be issued in the merger, reflects the anticipated state of affairs upon completion of the merger. Ares Capital urges you to read the applicable provisions of Maryland law, the articles of amendment and restatement, as amended, and the second amended and restated bylaws of Ares Capital carefully and in their entirety.

Stock

Ares Capital's authorized stock consists of 300,000,000 shares of stock, par value $0.001 per share, all of which are currently designated as common stock. Ares Capital common stock trades on NASDAQ under the symbol "ARCC." On February 10, 2010, the last reported sales price of Ares Capital common stock on NASDAQ was $11.85 per share. There are no outstanding options or warrants to purchase Ares Capital's stock. No stock has been authorized for issuance under any equity compensation plans. Under Maryland law, Ares Capital's stockholders generally are not personally liable for Ares Capital's indebtedness or obligations.

Under Ares Capital's charter, its board of directors is authorized to classify and reclassify any unissued shares of stock into other classes or series of stock and authorize the issuance of shares of stock without obtaining stockholder approval. As permitted by the Maryland General Corporation Law, Ares Capital's charter provides that the board of directors, without any action by Ares Capital's stockholders, may amend the charter from time to time to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that Ares Capital has authority to issue.

Common Stock

All shares of Ares Capital common stock have equal rights as to earnings, assets, dividends and voting and, when they are issued, will be duly authorized, validly issued, fully paid and nonassessable. Distributions may be paid to the holders of Ares Capital common stock if, as and when authorized by Ares Capital's board of directors and declared by Ares Capital out of funds legally available therefor. Shares of Ares Capital common stock have no preemptive, exchange, conversion or redemption rights and are freely transferable, except where their transfer is restricted by federal and state securities laws or by contract.

In the event of a liquidation, dissolution or winding up of Ares Capital, each share of Ares Capital common stock would be entitled to share ratably in all of its assets that are legally available for distribution after Ares Capital pays off all indebtedness and other liabilities and subject to any preferential rights of holders of Ares Capital's preferred stock, if any preferred stock is outstanding at such time.

Each share of Ares Capital common stock is entitled to one vote on all matters submitted to a vote of stockholders, including the election of directors. Except as provided with respect to any other class or series of stock, the holders of Ares Capital common stock will possess exclusive voting power with respect to Ares Capital. There is no cumulative voting in the election of Ares Capital directors, which means that holders of a majority of the outstanding shares of Ares Capital common stock can elect all of Ares Capital's directors and holders of less than a majority of such shares will be unable to elect any Ares Capital director.

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The following are Ares Capital's outstanding classes of capital stock as of February 10, 2010:

(1) Title of Class	(2) Amount Authorized	(3) Amount Held by Registrant or for its Account	(4) Amount Outstanding Exclusive of Amount Shown Under Column (3)
Common Stock	300,000,000		132,902,667

Preferred Stock

Ares Capital's charter authorizes its board of directors to classify and reclassify any unissued shares of stock into other classes or series of stock, including preferred stock. Prior to issuance of shares of each class or series, the board of directors is required by Maryland law and by Ares Capital's charter to set the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each class or series. Thus, Ares Capital's board of directors could authorize the issuance of shares of Ares Capital preferred stock with terms and conditions that could have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for holders of Ares Capital common stock or otherwise be in their best interest.

You should note, however, that any issuance of preferred stock must comply with the requirements of the Investment Company Act. The Investment Company Act requires, among other things, that (1) immediately after issuance and before any dividend or other distribution is made with respect to Ares Capital common stock and before any purchase of common stock is made, such preferred stock together with all other indebtedness and senior securities must not exceed an amount equal to 50% of Ares Capital's total assets after deducting the amount of such dividend, distribution or purchase price, as the case may be, and (2) the holders of shares of preferred stock, if any are issued, must be entitled as a class to elect two directors at all times and to elect a majority of the directors if dividends on such preferred stock are in arrears by two years or more. Certain matters under the Investment Company Act require the separate vote of the holders of any issued and outstanding preferred stock. For example, holders of preferred stock would vote separately from the holders of common stock on a proposal to cease operations as a BDC. Ares Capital believes that the availability for issuance of preferred stock may provide Ares Capital with increased flexibility in structuring future financings and acquisitions.

Limitation on Liability of Directors and Officers; Indemnification and Advance of Expenses

Maryland law permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages except for liability resulting from (1) actual receipt of an improper benefit or profit in money, property or services or (2) active and deliberate dishonesty established by a final judgment as being material to the cause of action. Ares Capital's charter contains such a provision, which eliminates directors' and officers' liability to the maximum extent permitted by Maryland law, subject to the requirements of the Investment Company Act.

Ares Capital's charter authorizes Ares Capital to obligate itself, and Ares Capital's bylaws obligate Ares Capital, to the maximum extent permitted by Maryland law and subject to the requirements of the Investment Company Act, to indemnify any present or former director or officer or any individual who, while a director or officer and at Ares Capital's request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee, from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her service in that capacity and to pay or reimburse their reasonable expenses in advance of final disposition of a proceeding. The charter and bylaws also permit Ares Capital to indemnify and advance expenses to any person who served a predecessor of Ares Capital in any of the capacities described above and any of Ares Capital's employees or agents or any employees or agents of Ares Capital's predecessor. In accordance with the Investment Company Act, Ares Capital will not indemnify any person for any liability to which such person would be subject by reason of such person's willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office.

In addition to the indemnification provided for in Ares Capital's bylaws, Ares Capital has entered into indemnification agreements with each of its current directors and certain of its officers and with members of its investment adviser's investment committee and Ares Capital intends to enter into indemnification agreements with each of its future directors, members of its investment committee and certain of its officers. The indemnification agreements attempt to provide these directors, officers and other persons the maximum indemnification permitted under Maryland law and the Investment Company Act. The agreements provide, among other things, for the advancement of expenses and indemnification for liabilities which such person may incur by reason of his or her status as a present or former director or officer or member of Ares Capital's investment adviser's investment committee in any action or proceeding arising out of the performance of such person's services as a present or former director or officer or member of Ares Capital's investment adviser's investment committee.

Maryland law requires a corporation (unless its charter provides otherwise, which Ares Capital's charter does not) to indemnify a director or officer who has been successful, on the merits or otherwise, in the defense of any proceeding to which he or she is made or threatened to be made a party by reason of his or her service in that capacity. Maryland law permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made or are threatened to be made a party by reason of their service in those or other capacities unless it is established that (1) the act or omission of the director or officer was material to the matter giving rise to the proceeding and (a) was committed in bad faith or (b) was the result of active and deliberate dishonesty, (2) the director or officer actually received an improper personal benefit in money, property or services or (3) in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. However, under Maryland law, a Maryland corporation may not indemnify for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis that a personal benefit was improperly received, unless in either case a court orders indemnification, and then only for expenses. In addition, Maryland law permits a corporation to advance reasonable expenses to a director or officer upon the corporation's receipt of (1) a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation and (2) a written undertaking by him or her or on his or her behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the standard of conduct was not met.

Provisions of the Maryland General Corporation Law and Ares Capital's Charter and Bylaws

The Maryland General Corporation Law and Ares Capital's charter and bylaws contain provisions that could make it more difficult for a potential acquiror to acquire Ares Capital by means of a tender offer, proxy contest or otherwise. These provisions are expected to discourage certain coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of Ares Capital to negotiate first with Ares Capital's board of directors. Ares Capital believes that the benefits of these provisions outweigh the potential disadvantages of discouraging any such acquisition proposals because, among other things, the negotiation of such proposals may improve their terms.

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Classified Board of Directors

Ares Capital's board of directors is divided into three classes of directors serving staggered three-year terms, with the term of office of only one of the three classes expiring each year. A classified board may render a change in control of Ares Capital or removal of Ares Capital's incumbent management more difficult. Ares Capital believes, however, that the longer time required to elect a majority of a classified board of directors helps to ensure the continuity and stability of Ares Capital's management and policies.

Election of Directors

Ares Capital's charter and bylaws provide that the affirmative vote of the holders of a majority of the outstanding shares of stock entitled to vote in the election of directors will be required to elect a director. Pursuant to the charter, Ares Capital's board of directors may amend the bylaws to alter the vote required to elect directors.

Number of Directors; Vacancies; Removal

Ares Capital's charter provides that the number of directors will be set only by the board of directors in accordance with Ares Capital's bylaws. Ares Capital's bylaws provide that a majority of Ares Capital's entire board of directors may at any time increase or decrease the number of directors. However, unless Ares Capital's bylaws are amended, the number of directors may never be less than four nor more than eight. Ares Capital's charter sets forth its election, subject to certain requirements, to be subject to the provision of Subtitle 8 of Title 3 of the Maryland General Corporation Law regarding the filling of vacancies on the board of directors. Accordingly, except as may be provided by the board of directors in setting the terms of any class or series of preferred stock, any and all vacancies on the board of directors may be filled only by the affirmative vote of a majority of the remaining directors in office, even if the remaining directors do not constitute a quorum, and any director elected to fill a vacancy will serve for the remainder of the full term of the directorship in which the vacancy occurred and until a successor is elected and qualifies, subject to any applicable requirements of the Investment Company Act.

Ares Capital's charter provides that a director may be removed only for cause, as defined in its charter, and then only by the affirmative vote of at least two-thirds of the votes entitled to be cast generally in the election of directors.

Action by Stockholders

Under the Maryland General Corporation Law and Ares Capital's charter, stockholder action can be taken only at an annual or special meeting of stockholders or by unanimous written or electronically transmitted consent instead of a meeting. These provisions, combined with the requirements of Ares Capital's bylaws regarding the calling of a stockholder requested special meeting of stockholders discussed below, may have the effect of delaying consideration of a stockholder proposal until the next annual meeting.

Advance Notice Provisions for Stockholder Nominations and Stockholder Proposals

Ares Capital's bylaws provide that with respect to an annual meeting of stockholders, nominations of individuals for election to the board of directors and the proposal of business to be considered by stockholders may be made only (1) pursuant to Ares Capital's notice of the meeting, (2) by or at the direction of the board of directors or (3) by a stockholder who is a stockholder of record both at the time of giving the advance notice required by the bylaws and at the time of the meeting, who is entitled to vote at the meeting in the election of each individual so nominated or on any such other business and who has complied with the advance notice procedures of the bylaws. With respect to special

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meetings of stockholders, only the business specified in Ares Capital's notice of the meeting may be brought before the meeting. Nominations of individuals for election to the board of directors at a special meeting may be made only (1) by or at the direction of the board of directors or (2) provided that the Ares Capital special meeting has been called in accordance with the bylaws for the purpose of electing directors, by a stockholder who is a stockholder of record both at the time of giving the advance notice required by the bylaws and at the time of the meeting, who is entitled to vote at the meeting in the election of each individual so nominated and who has complied with the advance notice provisions of the bylaws.

The purpose of requiring stockholders to give Ares Capital advance notice of nominations and other business is to afford Ares Capital's board of directors a meaningful opportunity to consider the qualifications of the proposed nominees and the advisability of any other proposed business and, to the extent deemed necessary or desirable by Ares Capital's board of directors, to inform stockholders and make recommendations about such qualifications or business, as well as to provide a more orderly procedure for conducting meetings of stockholders. Although Ares Capital's bylaws do not give its board of directors any power to disapprove stockholder nominations for the election of directors or proposals recommending certain action, they may have the effect of precluding a contest for the election of directors or the consideration of stockholder proposals if proper procedures are not followed and of discouraging or deterring a third party from conducting a solicitation of proxies to elect its own slate of directors or to approve its own proposal without regard to whether consideration of such nominees or proposals might be harmful or beneficial to Ares Capital and its stockholders.

Calling of Special Meetings of Stockholders

Ares Capital's bylaws provide that special meetings of stockholders may be called by Ares Capital's board of directors and certain of Ares Capital's officers. Additionally, Ares Capital's bylaws provide that, subject to the satisfaction of certain procedural and informational requirements by the stockholders requesting the meeting, a special meeting of stockholders will be called by the secretary of the corporation to act on any matter that may properly be considered at a meeting of stockholders upon the written request of stockholders entitled to cast not less than a majority of all the votes entitled to be cast at such meeting.

Approval of Extraordinary Corporate Action; Amendment of Charter and Bylaws

Under Maryland law, a Maryland corporation generally cannot dissolve, amend its charter, merge, sell all or substantially all of its assets, engage in a share exchange or engage in similar transactions outside the ordinary course of business, unless approved by the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter. See "Risk Factors Risks Relating to Ares Capital Provisions of the Maryland General Corporation Law and of Ares Capital's charter and bylaws could deter takeover attempts and have an adverse impact on the price of Ares Capital common stock." However, a Maryland corporation may provide in its charter for approval of these matters by a lesser percentage, but not less than a majority of all of the votes entitled to be cast on the matter. Ares Capital's charter generally provides for approval of charter amendments and extraordinary transactions by the stockholders entitled to cast at least a majority of the votes entitled to be cast on the matter. Ares Capital's charter also provides that certain charter amendments and any proposal for Ares Capital's conversion, whether by merger or otherwise, from a closed-end company to an open-end company or any proposal for Ares Capital's liquidation or dissolution requires the approval of the stockholders entitled to cast at least 80 percent of the votes entitled to be cast on such matter. However, if such amendment or proposal is approved by at least two-thirds of Ares Capital's continuing directors (in addition to approval by Ares Capital's board of directors), such amendment or proposal may be approved by a majority of the votes entitled to be cast on such a matter. The "continuing directors" are defined in Ares Capital's charter as its current directors as well as those directors whose nomination for election by the stockholders or whose election by the directors to fill vacancies is approved by a majority of the continuing directors then on the board of directors.

Ares Capital's charter and bylaws provide that the board of directors will have the exclusive power to adopt, alter or repeal any provision of its bylaws and to make new bylaws.

No Appraisal Rights

Except with respect to appraisal rights arising in connection with the Maryland Control Share Acquisition Act discussed below, as permitted by the Maryland General Corporation Law, Ares Capital's charter provides that stockholders will not be entitled to exercise appraisal rights unless a majority of Ares Capital's board of directors determines that such rights will apply, with respect to all or any classes or series of stock, to one or more transactions occurring after the date of such determination in connection with which stockholders would otherwise be entitled to exercise appraisal rights.

Control Share Acquisitions

The Control Share Acquisition Act provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter. Shares owned by the acquiror, by officers or by employees who are directors of the corporation are excluded from shares entitled to vote on the matter. Control shares are voting shares of stock which, if aggregated with all other shares of stock owned by the acquiror or in respect of which the acquiror is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquiror to exercise voting power in electing directors within one of the following ranges of voting power:

- one-tenth or more but less than one-third;
- one-third or more but less than a majority; or
- a majority or more of all voting power.

The requisite stockholder approval must be obtained each time an acquiror crosses one of the thresholds of voting power set forth above. Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A control share acquisition means the acquisition of control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition may compel the board of directors of the corporation to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the shares. The right to compel the calling of a special meeting is subject to the satisfaction of certain conditions, including an undertaking to pay the expenses of the meeting. If no request for a meeting is made, the corporation may itself present the question at any stockholders meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the statute, then the corporation may repurchase for fair value any or all of the control shares, except those for which voting rights have previously been approved. The right of the corporation to repurchase control shares is subject to certain conditions and limitations, including, as provided in Ares Capital's bylaws, compliance with the Investment Company Act, which will prohibit any such repurchase other than in limited circumstances. Fair value is determined, without regard to the absence of voting rights for the control shares, as of the date of the last control share acquisition by the acquiror or of any meeting of stockholders at which the voting rights of the shares are considered and not approved. If voting rights for control shares are approved at a stockholders meeting and the acquiror becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of appraisal rights may not be less than the highest price per share paid by the acquiror in the control share acquisition.

The Control Share Acquisition Act does not apply (1) to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction or (2) to acquisitions approved or exempted by the charter or bylaws of the corporation.

Ares Capital's bylaws contain a provision exempting from the Control Share Acquisition Act any and all acquisitions by any person of Ares Capital's shares of stock. Such provision could also be amended or eliminated at any time in the future. However, Ares Capital will amend its bylaws to be subject to the Control Share Acquisition Act only if the board of directors determines that it would be in Ares Capital's best interests based on its determination that Ares Capital's being subject to the Control Share Acquisition Act does not conflict with the Investment Company Act.

Business Combinations

Under Maryland law, "business combinations" between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested stockholder is defined as:

- any person who beneficially owns 10% or more of the voting power of the corporation's outstanding voting stock; or

- an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding stock of the corporation.

A person is not an interested stockholder under this statute if the board of directors approved in advance the transaction by which such person otherwise would have become an interested stockholder. However, in approving a transaction, the board of directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board.

After the five-year prohibition, any business combination between the corporation and an interested stockholder generally must be recommended by the board of directors of the corporation and approved by the affirmative vote of at least:

- 80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation; and

- two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder.

These super majority vote requirements do not apply if the corporation's common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares.

The statute permits various exemptions from its provisions, including business combinations that are exempted by the board of directors before the time that the interested stockholder becomes an interested stockholder. Ares Capital's board of directors has adopted a resolution that any business combination between Ares Capital and any other person is exempted from the provisions of the Business Combination Act, provided that the business combination is first approved by the board of

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directors, including a majority of the directors who are not "interested persons" as defined in Section 2(a)(19) of the Investment Company Act. This resolution, however, may be altered or repealed in whole or in part at any time. If this resolution is repealed, or the board of directors does not otherwise approve a business combination, the statute may discourage others from trying to acquire control of Ares Capital and increase the difficulty of consummating any offer.

Conflict with the Investment Company Act

Ares Capital's bylaws provide that, if and to the extent that any provision of the Maryland General Corporation Law, including the Control Share Acquisition Act (if Ares Capital amends Ares Capital's bylaws to be subject to such act) and the Business Combination Act, or any provision of Ares Capital's charter or bylaws conflicts with any provision of the Investment Company Act, the applicable provision of the Investment Company Act will control.

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ARES CAPITAL DIVIDEND REINVESTMENT PLAN

Ares Capital has adopted a dividend reinvestment plan that provides for reinvestment of any distributions it declares in cash on behalf of its stockholders, unless a stockholder elects to receive cash as provided below. As a result, if Ares Capital's board of directors authorizes, and Ares Capital declares, a cash dividend, then Ares Capital's stockholders who have not "opted out" of its dividend reinvestment plan will have their cash dividends automatically reinvested in additional shares of its common stock, rather than receiving the cash dividends.

No action is required on the part of a registered stockholder to have their cash dividend reinvested in shares of Ares Capital common stock. A registered stockholder may elect to receive an entire cash dividend in cash by notifying Computershare Trust Company, N.A., the plan administrator and an affiliate of Ares Capital's transfer agent and registrar, in writing so that such notice is received by the plan administrator no later than the record date fixed by the board of directors for dividends to stockholders. The plan administrator will set up an account for shares acquired through the dividend reinvestment plan for each stockholder who has not elected to receive dividends in cash and hold such shares in non-certificated form. Upon request by a stockholder participating in the dividend reinvestment plan, received in writing no later than 10 days prior to the record date, the plan administrator will, instead of crediting fractional shares to the participant's account, issue a check for any fractional share.

Those stockholders whose shares are held by a broker or other financial intermediary may receive dividends in cash by notifying their broker or other financial intermediary of their election.

While Ares Capital generally uses primarily newly issued shares to implement the dividend reinvestment plan (especially if its shares are trading at a premium to net asset value), it may purchase shares in the open market in connection with its obligations under the dividend reinvestment plan. In particular, if Ares Capital's shares are trading at a significant enough discount to net asset value and it is otherwise permitted under applicable law to purchase such shares, Ares Capital intends to purchase shares in the open market in connection with its obligations under its dividend reinvestment plan. The number of shares to be issued to a stockholder is determined by dividing the total dollar amount of the dividend payable to such stockholder by the market price per share of Ares Capital common stock at the close of regular trading on NASDAQ on the valuation date fixed by the board of directors for such dividend. Market price per share on that date will be the closing price for such shares on NASDAQ or, if no sale is reported for such day, at the average of their reported bid and asked prices. The number of shares of Ares Capital common stock to be outstanding after giving effect to payment of the dividend cannot be established until the value per share at which additional shares will be issued has been determined and elections of Ares Capital's stockholders have been tabulated.

There are no brokerage charges or other charges to stockholders who participate in the dividend reinvestment plan. The plan administrator's fees under the plan are paid by Ares Capital. If a participant elects by notice to the plan administrator in advance of termination to have the plan administrator sell part or all of the shares held by the plan administrator in the participant's account and remit the proceeds to the participant, the plan administrator is authorized to deduct a $15 transaction fee plus a $0.12 per share fee from the proceeds.

Stockholders whose cash dividends are reinvested in shares of Ares Capital common stock are subject to the same U.S. federal, state and local tax consequences as are stockholders who elect to receive their dividends in cash. A stockholder's basis for determining gain or loss upon the sale of stock received in a dividend from Ares Capital will be equal to the total dollar amount of the dividend payable to the stockholder. Any stock received on reinvestment of a cash dividend will have a new holding period for tax purposes commencing on the day following the day on which the shares are credited to the U.S. stockholder's account.

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Participants may terminate their accounts under the dividend reinvestment plan by notifying the plan administrator via its website at *www.computershare.com/investor*, by filling out the transaction request form located at bottom of their statement and sending it to the plan administrator at P.O. Box 43078, Providence, RI 02940-3078 or by calling the plan administrator's hotline at 1-800-426-5523.

The dividend reinvestment plan may be terminated by Ares Capital upon notice in writing mailed to each participant at least 30 days prior to any record date for the payment of any dividend by Ares Capital. All correspondence concerning the dividend reinvestment plan should be directed to the plan administrator via the Internet at *www.computershare.com/investor*, by mail at P.O. Box 43078, Providence, RI 02940-3078 or by telephone at 1-800-426-5523.

Additional information about the dividend reinvestment plan may be obtained by contacting the plan administrator via the Internet at *www.computershare.com/investor*, by mail at P.O. Box 43078, Providence, RI 02940-3078 or by telephone at 1-800-426-5523.

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ALLIED CAPITAL DIVIDEND REINVESTMENT PLAN

Allied Capital currently maintains a dividend reinvestment plan that provides for reinvestment of its distributions on behalf of Allied Capital's stockholders by its transfer agent. The dividend reinvestment plan is an "opt in" plan, which means that if Allied Capital's board of directors declares a cash dividend then Allied Capital's stockholders that have not "opted in" to its dividend reinvestment plan will receive cash dividends, rather than reinvesting dividends in additional shares of common stock.

To enroll in the dividend reinvestment plan, each Allied Capital stockholder must complete an enrollment status form and return it to the plan agent. The plan agent shall then automatically reinvest any dividend in additional shares of Allied Capital common stock. Allied Capital stockholders may change their status in the dividend reinvestment plan at any time by contacting Allied Capital's transfer agent and plan administrator in writing.

An Allied Capital stockholder's ability to participate in a dividend reinvestment plan may be limited according to how their shares of common stock are held. A nominee may preclude beneficial owners holding shares in street name from participating in the dividend reinvestment plan. Allied Capital stockholders who wish to participate in a dividend reinvestment plan may need to hold their shares of Allied Capital common stock in their own name. Allied Capital stockholders who hold shares in the name of a nominee should contact the nominee for details.

All distributions to investors who do not participate (or whose nominee elects not to participate) in the Allied Capital dividend reinvestment plan will be paid directly, or through the nominee, to the record holder by or under the discretion of the plan agent. The plan agent is American Stock Transfer and Trust Company, 59 Maiden Lane, New York, New York 10038. Their telephone number is (800) 937-5449.

Under the Allied Capital dividend reinvestment plan, Allied Capital may issue new shares if the issue price of the new shares of Allied Capital common stock is greater than 110% of the last reported net asset value. Alternatively, the plan agent may buy shares of Allied Capital common stock in the market. Allied Capital values newly issued shares of Allied Capital common stock for its dividend reinvestment plan at the average of the reported last sale prices of the outstanding shares of Allied Capital common stock on the last five trading days prior to the payment date of the distribution, but not less than 95% of the opening bid price on such date. The price in the case of shares bought in the market will be the average actual cost of such shares of Allied Capital common stock, including any brokerage commissions. There are no other fees charged to Allied Capital stockholders in connection with the Allied Capital dividend reinvestment plan. Any distributions reinvested under the plan will nevertheless remain taxable to the Allied Capital stockholders.

Additional information about the dividend reinvestment plan may be obtained by contacting the plan agent, American Stock Transfer and Trust Company, by mail at 59 Maiden Lane, New York, New York 10038 or by telephone at 1-800-937-5449.

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COMPARISON OF STOCKHOLDER RIGHTS

The following is a summary of the material differences between the rights of Ares Capital and Allied Capital stockholders. The following discussion is not intended to be complete and is qualified by reference to the articles of amendment and restatement, as amended, and second amended and restated bylaws of Ares Capital and the restated articles of incorporation, as amended, and amended and restated bylaws of Allied Capital and the Maryland General Corporation Law, or the "MGCL." These documents are incorporated by reference in this document and will be sent to stockholders of Allied Capital upon request. See "Where You Can Find More Information."

As Maryland corporations, both Ares Capital and Allied Capital are subject to the MGCL and afford similar rights to their stockholders. Among the material differences between Ares Capital and Allied Capital stockholder rights is that the former generally requires director approval and the affirmative vote of stockholders entitled to cast a majority of the votes entitled to be cast to engage in a merger or similar business transaction, whereas the latter generally requires board approval and an affirmative vote of stockholders entitled to cast two-thirds of the votes entitled to be cast in such an event. Further, the companies vary in the requirements necessary to amend their respective charters, the stockholder vote required in the event of dissolution, the votes necessary for the removal of directors and the filling of board vacancies, as well as the advance notice required for stockholder nominations of directors and other business proposals. For more information, see the table below.

	Rights of Ares Capital Stockholders	Rights of Allied Capital Stockholders
Authorized Stock	Ares Capital is authorized to issue 300,000,000 shares of stock, consisting of 300,000,000 shares of common stock, \$.001 par value per share. Pursuant to the articles of amendment and restatement, as amended, the board of directors may amend the charter to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series without stockholder approval. Ares Capital's charter authorizes its board of directors to classify and reclassify any unissued shares of stock into other classes or series of stock, including preferred stock. On February 10, 2010, there were 132,902,667 shares of common stock issued and outstanding.	Allied Capital is authorized to issue 400,000,000 shares of stock, consisting of 400,000,000 shares of common stock, \$0.0001 par value per share. On February 10, 2010, there were 179,940,040 shares of common stock issued and outstanding. Allied Capital's charter permits its board of directors to classify and reclassify any unissued shares of capital stock by changing its preferences, voting powers, restrictions, limitations as to dividends, qualifications, terms or conditions of redemption or other rights.

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	Rights of Ares Capital Stockholders	Rights of Allied Capital Stockholders
Number of Directors	A majority of the entire board of directors may establish, increase or decrease the number of directors, provided that the number of directors will never be less than four nor more than eight.	A majority of the entire board of directors may establish, increase or decrease the number of directors, provided that the number of directors will never be greater than 15 or fewer than three unless otherwise permitted by law.
Removal of Directors	Subject to the rights of holders of one or more classes or series of subsequently established stock to elect or remove directors, any director or the entire board of directors may be removed from office, but only for cause and by the affirmative vote of the holders of not less than two-thirds of the votes entitled to be cast generally in the election of directors.	Any director or directors may be removed from office with cause by the affirmative vote of a majority of all the votes entitled to be cast generally for the election of directors. Pursuant to Subtitle 8 of Title 3 of the MGCL, Allied Capital's board of directors may elect for Allied Capital to be subject, notwithstanding any contrary provision in its charter or bylaws, to a two-thirds vote requirement for removing a director.

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	Rights of Ares Capital Stockholders	Rights of Allied Capital Stockholders
Vacancies	Pursuant to Subtitle 8 of Title 3 of the MGCL, Ares Capital has elected to provide that any vacancy may be filled only by the affirmative vote of a majority of the remaining directors in office, even if the remaining directors do not constitute a quorum, and any director elected to fill a vacancy will serve for the remainder of the full term of the class in which the vacancy occurred and until a successor is duly elected and qualifies.	Any vacancy for any cause other than by reason of an increase in the number of directors may be filled by a majority of the remaining members of the board of directors. Any vacancy occurring by reason of an increase in the number of directors may be filled by action of a majority of the directors constituting the entire board of directors. A director elected by the board of directors to fill a vacancy will serve until the next annual meeting of stockholders and until his successor is elected and qualified. Stockholders of Allied Capital also have the concurrent power to fill any vacancy resulting from the removal of a director and a director elected by the stockholders to fill a vacancy resulting from the removal of a director will serve for the balance of the term of the removed director. Pursuant to Subtitle 8 of Title 3 of the MGCL, Allied Capital's board of directors may elect for Allied Capital to be subject, notwithstanding any contrary provision in its charter or bylaws, to a requirement that any vacancy be filled only by the remaining directors and for the remainder of the full term of the class of directors in which the vacancy occurred.

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	Rights of Ares Capital Stockholders	Rights of Allied Capital Stockholders
Advance Notice of Director Nominations and New Business	The second amended and restated bylaws of Ares Capital require advance written notice for stockholders to nominate a director or bring other business before a meeting of stockholders. For an annual meeting, a stockholder must deliver notice to the secretary of Ares Capital not earlier than the 150th day and not later than 5:00 p.m., Eastern Time, on the 120th day prior to the first anniversary of the date the proxy statement for the previous year's annual meeting was released to stockholders. However, if the date of the annual meeting is advanced or delayed by more than 30 days from the first anniversary of the date of the previous year's annual meeting, notice by the stockholder must be given not earlier than the 150th day prior to the date of such meeting and not later than 5:00 p.m., Eastern Time, on the later of the 120th day prior to the date of such meeting or the tenth day following the day on which public announcement of the date of such meeting is first made. For a special meeting at which directors are to be elected, a stockholder must deliver notice to the secretary of Ares Capital not earlier than the 150th day prior to the meeting and not later than 5:00 p.m., Eastern Time, on the later of the 120th day prior to the meeting or the tenth day following the day on which public announcement of the date of the meeting is made.	The amended and restated bylaws of Allied Capital require advance written notice for stockholders to nominate a director or bring other business before a meeting of stockholders. For an annual meeting, a stockholder must deliver notice to the secretary of Allied Capital not less than 90 days nor more than 120 days prior to the first anniversary of the date of mailing of the notice for the preceding year's annual meeting. However, if the date of the mailing of the notice for the annual meeting has been changed by more than 30 days from the first anniversary of the date of mailing of the notice for the preceding year's annual meeting, notice must be given no earlier than the 120th day prior to the date of mailing of the notice and no later than the close of business on the later of the 90th day prior to the mailing of the notice for the meeting or the tenth day following the day on which public announcement of the date of mailing of the notice for such meeting is first made. For a special meeting at which directors are to be elected, a stockholder must deliver notice to the secretary of Allied Capital no earlier than the 120th day prior to the meeting and no later than the close of business on the later of the 90th day prior to the meeting or the tenth day following the day on which public announcement of the date of the meeting is made.

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	Rights of Ares Capital Stockholders	Rights of Allied Capital Stockholders
Amendment of Charter	Except as set forth in the following sentence, the Ares Capital charter may be amended only if the amendment is declared advisable by the board of directors and approved by the affirmative vote of stockholders entitled to cast a majority of the votes entitled to be cast on the matter. Certain amendments relating to (1) making the common stock a "redeemable security" or converting Ares Capital, whether by merger or otherwise, from a "closed-end company" to an "open-end company," (2) effecting any liquidation or dissolution, (3) the number, classification and election of directors, (4) the removal of directors and (5) charter amendments and extraordinary actions require the approval of stockholders entitled to cast 80% of the votes entitled to be cast on the matter, unless the amendment is approved by at least two-thirds of continuing directors (in addition to approval by the board of directors), in which case such amendment requires only a majority vote. "Continuing directors" are defined in the Ares Capital charter as the current directors as well as those directors whose nomination for election by the stockholders or whose election by the directors to fill vacancies is approved by a majority of the continuing directors then on the board of directors. The board of directors may amend the Ares Capital charter without stockholder approval to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series.	The Allied Capital charter may be amended only if the amendment is declared advisable by the board of directors and approved by the affirmative vote of stockholders entitled to cast two-thirds of the votes entitled to be cast on the matter.

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	Rights of Ares Capital Stockholders	Rights of Allied Capital Stockholders
Amendment of Bylaws	The board of directors has the exclusive power to adopt, alter or repeal any provision of the second amended and restated bylaws of Ares Capital and to make new bylaws.	The board of directors has the power to make, alter, amend and repeal the amended and restated bylaws of Allied Capital and to make new bylaws, by an affirmative vote of two-thirds of the entire board of directors, provided that notice of the proposal to make, alter, amend or repeal the amended and restated bylaws or to adopt new bylaws was included in the notice of the meeting of the board of directors at which such action takes place.
Mergers, Consolidations and Sale of Assets	Subject to certain exceptions, Ares Capital may merge, consolidate, sell, lease, exchange or otherwise transfer all or substantially all of its assets, engage in a share exchange or engage in similar transactions outside the ordinary course of business only if such transaction is declared advisable by the board of directors and approved by the affirmative vote of stockholders entitled to cast a majority of the votes entitled to be cast on the matter. Notwithstanding the foregoing, a liquidation requires the approval of stockholders entitled to cast 80% of the votes entitled to be cast on the matter, unless the liquidation is approved by at least two-thirds of continuing directors (in addition to approval by the board of directors), in which case such liquidation requires only a majority vote.	Subject to certain exceptions, Allied Capital may merge, consolidate, sell, lease, exchange or otherwise transfer all or substantially all of its assets, engage in a share exchange or engage in similar transactions outside the ordinary course of business only if such transaction is declared advisable by the board of directors and approved by the affirmative vote of stockholders entitled to cast two-thirds of the votes entitled to be cast on the matter.

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	Rights of Ares Capital Stockholders	Rights of Allied Capital Stockholders
Dissolution	Except as set forth in the following sentence, Ares Capital may dissolve only if the dissolution is declared advisable by a majority of the entire board of directors and approved by the affirmative vote of stockholders entitled to cast 80% of the votes entitled to be cast on the matter. If the dissolution is approved by at least two-thirds of continuing directors (in addition to approval by the board of directors), the dissolution will require the approval of stockholders entitled to cast only a majority of the votes entitled to be cast on the matter.	Allied Capital may dissolve only if the dissolution is declared advisable by a majority of the entire board of directors and approved by the affirmative vote of stockholders entitled to cast two-thirds of the votes entitled to be cast on the matter.
Business Combinations with Interested Stockholders	Pursuant to the Maryland Business Combination Act, the board of directors has adopted a resolution exempting any business combination between Ares Capital and any other person from the provisions of the Act, provided that the business combination is first approved by the board of directors.	Pursuant to the Maryland Business Combination Act, the Allied Capital charter provides that the Act shall not apply to any shares of stock owned by any employee stock ownership plan, incentive stock ownership plan or other similar plan established for directors, officers, employees or affiliates.
Appraisal Rights	The Ares Capital charter provides that stockholders will not be entitled to exercise appraisal rights unless a majority of the board of directors determines that appraisal rights will apply, with respect to all or any classes or series of stock, to one or more transactions occurring after the date of such determination in connection with which stockholders would otherwise be entitled to exercise appraisal rights.	The Allied Capital charter does not include a provision regarding stockholder appraisal rights. However, because the Allied Capital stock is listed on the NYSE, stockholders are not entitled to exercise appraisal rights.
Preemptive Rights	Ares Capital does not grant preemptive rights except as provided by the board of directors in setting the terms of classified or reclassified shares of stock or as otherwise provided by contracts.	Allied Capital does not provide for the grant of preemptive rights in connection with its common stock.

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	Rights of Ares Capital Stockholders	Rights of Allied Capital Stockholders
Voting Rights and Required Vote Generally	Ares Capital's charter provides that each share of common stock shall entitle the holder thereof to one vote. The board of directors may reclassify any unissued shares of common stock from time to time into one or more classes or series of stock.	The amended and restated bylaws of Allied Capital provide that each stockholder of record shall be entitled to one vote for each share of capital stock registered in his, her or its name on the books of the corporation, on each matter submitted to a vote at a meeting of stockholders.

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	Rights of Ares Capital Stockholders	Rights of Allied Capital Stockholders
Notice of Stockholders' Meetings	*Annual Meetings*. An annual meeting of the stockholders for the election of directors and the transaction of any business within the powers of Ares Capital is held on the date and at the time set by the board of directors. *Special Meetings*. Any chairman of the board, the president or the board of directors may call a special meeting of the stockholders. Subject to certain conditions, a special meeting of stockholders shall also be called by the secretary to act on any matter that may properly be considered at a meeting of stockholders upon the written request of stockholders entitled to cast not less than a majority of all the votes entitled to be cast at such meeting. *Notice*. Not less than 10 nor more than 90 days before each meeting of stockholders, the secretary will give to each stockholder entitled to vote at such meeting or entitled to notice thereof, notice in writing or by electronic transmission stating the time and place of the meeting and, in the case of a special meeting or as otherwise may be required by any law, the purpose for which the meeting is called, by (1) mail, (2) presenting it to such stockholder personally, (3) leaving it at the stockholder's residence or usual place of business or (4) any other means permitted by Maryland law, including electronic transmission.	*Annual Meetings.* The annual meeting of stockholders of Allied Capital is held each year on a date and at the time set by the board of directors. Written notice of the annual meeting, stating the place, date and time thereof, is given by Allied Capital's secretary to each stockholder entitled to vote at such meeting or to notice thereof not less than 10 (unless a longer period is required by law) nor more than 90 days prior to the meeting. *Special Meetings.* Special meetings may be called by the chairman of Allied Capital's board of directors or the chief executive officer and will be called by the chairman of Allied Capital's board of directors, the chief executive officer or the secretary at the request in writing of a majority of the board of directors. The secretary will call a special meeting at a written request of stockholders entitled to cast not less than a majority of all the votes entitled to be cast at such meeting; the request must state the purpose of the meeting and the matters to be acted upon. If the request is made by a majority of stockholders entitled to vote, the secretary must give notice stating the purpose of the meeting to all stockholders entitled to notice of such meeting. Written notice of a special meeting, stating the place, date and time and the purpose for which the meeting is called, is given to each stockholder entitled to vote at such a special meeting not less than 10 (unless a longer period is required by law) nor more than 90 days prior to the meeting.

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	Rights of Ares Capital Stockholders	Rights of Allied Capital Stockholders
Quorum for Meeting of Stockholders	Ares Capital's bylaws provide that the presence in person or by proxy of the holders of shares of stock of Ares Capital entitled to cast a majority of the votes entitled to be cast (without regard to class) constitute a quorum at any meeting of the stockholders, except with respect to any such matter that, under applicable law, requires approval by a separate vote of one or more classes of stock, in which case the presence in person or by proxy of the holders of shares entitled to cast a majority of the votes entitled to be cast by each such class on such a matter constitutes a quorum.	Allied Capital's bylaws provide that the presence in person or by proxy of stockholders entitled to cast a majority of the votes constitutes a quorum for the transaction of business at all stockholder meetings.
Special Meetings of the Board of Directors	Ares Capital's bylaws provide that special meetings of the board of directors may be called by or at the request of a chairman, the president or a majority of the directors then in office. The person or persons authorized to call special meetings of the board of directors may fix any place as the place for holding any special meeting of the board of directors called by them. The board of directors may provide, by resolution, the time and place for the holding of special meetings of the board of directors without notice other than such resolution.	Allied Capital's bylaws provide that special meetings of the board of directors may be called by the chairman of Allied Capital's board of directors or the chief executive officer on at least 2 days' notice to each director. Special meetings shall be called by the chairman of Allied Capital's board of directors, the chief executive officer or the secretary in like manner and on like notice on the written request of two or more of the directors then in office. Except as otherwise provided, any such notice need not state the purpose or purposes of such meeting.
Classification of Directors	Ares Capital's charter provides that its board of directors is divided into three classes of directors serving staggered three-year terms, with each class to consist as nearly as possible of one-third of the directors then elected to the board.	Allied Capital's bylaws provide that its board of directors is divided into three classes of directors serving staggered three-year terms, with each class to consist as nearly as possible of one-third of the directors then elected to the board.

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	Rights of Ares Capital Stockholders	Rights of Allied Capital Stockholders
Indemnification of Officers and Directors	To the maximum extent permitted by Maryland law and the Investment Company Act, Ares Capital's charter authorizes Ares Capital to obligate itself, and Ares Capital's bylaws obligate it, to indemnify and, without requiring a preliminary determination of the ultimate entitlement to indemnification, pay or reimburse reasonable expenses in advance of final disposition of a proceeding to any individual who (1) is a present or former director or officer of Ares Capital and who is made or threatened to be made a party to such proceeding by reason of his or her service in that capacity or (2) while a director or officer of Ares Capital and at the request of Ares Capital, serves or has served as a director, officer, partner or trustee of another corporation or other enterprise and who is made or threatened to be made a party to such proceeding by reason of his or her service in that capacity. Ares Capital's charter and bylaws permit Ares Capital, with the approval of its board of directors, to provide indemnification and advance of expenses to a person who served a predecessor of Ares Capital in any of the capacities described above and to any employee or agent of Ares Capital or such predecessor. Ares Capital has indemnification agreements in place with its directors and certain of its senior officers and the members of its investment adviser's investment committee.	Allied Capital's charter and bylaws require Allied Capital to the maximum extent permitted by Maryland law and subject to the requirements of the Investment Company Act, to indemnify any present or former director or officer or any individual who, while a director and at Allied Capital's request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee, from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her status as a present or former director or officer and to pay or reimburse their reasonable expenses in advance of final disposition of proceeding. The charter and bylaws also require Allied Capital to indemnify and advance expenses to any person who served a predecessor of Allied Capital in any of the capacities described above and any of Allied Capital's employees or agents or any employees or agents of Allied Capital's predecessor. Allied Capital has indemnification agreements in place with its directors and officers.

REGULATION OF ARES CAPITAL

Ares Capital has elected to be regulated as a BDC under the Investment Company Act and has elected to be treated as a RIC under Subchapter M of the Code. As with other companies regulated by the Investment Company Act, a BDC must adhere to certain substantive regulatory requirements. The Investment Company Act contains prohibitions and restrictions relating to transactions between BDCs and their affiliates (including any investment advisers or sub-advisers), principal underwriters and certain affiliates of those affiliates or underwriters. Among other things, Ares Capital generally cannot invest in any portfolio company in which any of the funds managed by Ares currently has an investment (although Ares Capital may co-invest on a concurrent basis with other funds managed by Ares, subject to compliance with existing regulatory guidance, applicable regulations and Ares Capital's allocation procedures). Some types of co-investments would only be permitted pursuant to an exemptive order from the SEC. Ares Capital has applied for an exemptive order from the SEC that would permit it to co-invest with funds managed by Ares Capital Management. Any such order will be subject to certain terms and conditions. There is no assurance that the application for exemptive relief will be granted by the SEC. Accordingly, Ares Capital cannot assure you that it will be permitted to co-invest with funds managed by Ares. See "Risk Factors Risks Relating to Ares Capital Ares Capital may not replicate Ares' historical success and Ares Capital's ability to enter into transactions with Ares and Ares Capital's other affiliates is restricted." The Investment Company Act also requires that a majority of the directors be persons other than "interested persons," as that term is defined in the Investment Company Act. In addition, the Investment Company Act provides that Ares Capital may not change the nature of its business so as to cease to be, or to withdraw its election as, a BDC unless that change is approved by a majority of its outstanding voting securities. Under the Investment Company Act, the vote of holders of a majority of outstanding voting securities means the vote of the holders of the lesser of: (1) 67% or more of the outstanding shares of Ares Capital common stock present at a meeting or represented by proxy if holders of more than 50% of the shares of Ares Capital common stock are present or represented by proxy or (2) more than 50% of Ares Capital's outstanding shares of common stock.

Ares Capital may invest up to 100% of its assets in securities acquired directly from issuers in privately negotiated transactions. With respect to such securities, Ares Capital may, for the purpose of public resale, be deemed an "underwriter" as that term is defined in the Securities Act. Ares Capital's intention is to not write (sell) or buy put or call options to manage risks associated with the publicly traded securities of Ares Capital's portfolio companies, except that Ares Capital may enter into hedging transactions to manage the risks associated with interest rate and currency fluctuations. However, Ares Capital may purchase or otherwise receive warrants to purchase the common stock of Ares Capital's portfolio companies in connection with acquisition financing or other investment. Similarly, in connection with an acquisition, Ares Capital may acquire rights to require the issuers of acquired securities or their affiliates to repurchase them under certain circumstances. Ares Capital also does not intend to acquire securities issued by any investment company that exceed the limits imposed by the Investment Company Act. Under these limits, Ares Capital generally cannot acquire more than 3% of the voting stock of any investment company (as defined in the Investment Company Act), invest more than 5% of the value of its total assets in the securities of one investment company or invest more than 10% of the value of its total assets in the securities of investment companies in the aggregate. With regard to that portion of Ares Capital's portfolio invested in securities issued by investment companies, it should be noted that such investments might subject Ares Capital's stockholders to additional expenses. None of these are fundamental policies, and they may be changed without stockholder approval.

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Qualifying Assets

A BDC must have been organized and have its principal place of business in the United States and must be operated for the purpose of making investments in the types of securities described in (1), (2) or (3) below. Thus, under the Investment Company Act, a BDC may not acquire any asset other than assets of the type listed in Section 55(a) of the Investment Company Act, which are referred to as qualifying assets, unless, at the time the acquisition is made, qualifying assets represent at least 70% of the company's total assets. The principal categories of qualifying assets relevant to Ares Capital's proposed business are the following:

(1) Securities purchased in transactions not involving any public offering from the issuer of such securities, or from any person who is, or has been during the preceding 13 months, an affiliated person of the issuer, or from any other person, subject to such rules as may be prescribed by the SEC, which issuer (subject to certain limited exceptions):

(A) is an eligible portfolio company, which is defined in the Investment Company Act as any issuer that:

(i) is organized under the laws of, and has its principal place of business in, the United States;

(ii) is not an investment company (other than a small business investment company wholly owned by the BDC) or a company that would be an investment company but for certain exclusions under the Investment Company Act; and

(iii) does not have any class of securities listed on a national securities exchange;

(B) is a company that meets the requirements of (A)(i) and (ii) above, but is not an eligible portfolio company because it has issued a class of securities on a national securities exchange, if:

(i) at the time of the purchase, Ares Capital owns at least 50% of the (a) greatest number of equity securities of such issuer and securities convertible into or exchangeable for such securities; and (b) the greatest amount of debt securities of such issuer, held by Ares Capital at any point in time during the period when such issuer was an eligible portfolio company; and

(ii) Ares Capital is one of the 20 largest holders of record of such issuer's outstanding voting securities; or

(C) is a company that meets the requirements of (A)(i) and (ii) above, but is not an eligible portfolio company because it has issued a class of securities on a national securities exchange, if the aggregate market value of such company's outstanding voting and non-voting common equity is less than $250.0 million.

(2) Securities of any eligible portfolio company that Ares Capital controls.

(3) Securities purchased in a private transaction from a U.S. issuer that is not an investment company or from an affiliated person of the issuer, or in transactions incident thereto, if the issuer is in bankruptcy and subject to reorganization or if the issuer, immediately prior to the purchase of its securities was unable to meet its obligations as they came due without material assistance other than conventional lending or financing arrangements.

(4) Securities of an eligible portfolio company purchased from any person in a private transaction if there is no ready market for such securities and Ares Capital already owns 60% of the outstanding equity of the eligible portfolio company.

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(5) Securities received in exchange for or distributed on or with respect to securities described in (1) through (4) above, or pursuant to the exercise of warrants or rights relating to such securities.

(6) Cash, cash items, U.S. Government securities or high-quality debt securities maturing in one year or less from the time of investment.

Managerial Assistance to Portfolio Companies

In order to count portfolio securities as qualifying assets for the purpose of the 70% test discussed above under "Qualifying Assets," the BDC must either control the issuer of the securities or must offer to make available to the issuer of the securities (other than small and solvent companies described above) significant managerial assistance; except that, where the BDC purchases such securities in conjunction with one or more other persons acting together, one of the other persons in the group may make available such significant managerial assistance (as long as the BDC itself does not make available significant managerial assistance solely in this fashion). Making available significant managerial assistance means, among other things, exercising control over the management or policies of the portfolio company or any arrangement whereby the BDC, through its directors, officers or employees, offers to provide, and, if the offer is accepted, does so provide, significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company.

Temporary Investments

Pending investment in other types of "qualifying assets," as described above, Ares Capital's investments may consist of cash, cash items, U.S. Government securities or high-quality debt securities maturing in one year or less from the time of investment, which are referred to herein, collectively, as "temporary investments," so that 70% of Ares Capital's assets are qualifying assets. Typically, Ares Capital will invest in U.S. Treasury bills or in repurchase agreements, provided that such agreements are fully collateralized by cash or securities issued by the U.S. Government or its agencies. A repurchase agreement involves the purchase by an investor, such as Ares Capital, of a specified security and the simultaneous agreement by the seller to repurchase it at an agreed-upon future date and at a price which is greater than the purchase price by an amount that reflects an agreed-upon interest rate. There is no percentage restriction on the proportion of Ares Capital's assets that may be invested in such repurchase agreements. However, if more than 25% of Ares Capital's total assets constitute repurchase agreements from a single counterparty, Ares Capital would not meet the Diversification Tests in order to qualify as a RIC. Thus, Ares Capital does not intend to enter into repurchase agreements with a single counterparty in excess of this limit. Ares Capital's investment adviser will monitor the creditworthiness of the counterparties with which Ares Capital enters into repurchase agreement transactions.

Indebtedness and Senior Securities

Ares Capital is permitted, under specified conditions, to issue multiple classes of indebtedness and one class of stock senior to Ares Capital common stock if Ares Capital's asset coverage, as defined in the Investment Company Act, is at least equal to 200% immediately after each such issuance. In addition, while any indebtedness and senior securities remain outstanding, Ares Capital must make provisions to prohibit any distribution to Ares Capital's stockholders or the repurchase of such securities or shares unless it meets the applicable asset coverage ratios at the time of the distribution or repurchase. Specifically, Ares Capital may be precluded from declaring dividends or repurchasing shares of Ares Capital common stock unless Ares Capital's asset coverage is at least 200%. Ares Capital may also borrow amounts up to 5% of the value of its total assets for temporary or emergency purposes without regard to asset coverage. For a discussion of the risks associated with leverage, see

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

Code of Ethics

Ares Capital and Ares Capital Management have each adopted a code of ethics pursuant to Rule 17j-1 under the Investment Company Act that establishes procedures for personal investments and restricts certain personal securities transactions. Personnel subject to each code may invest in securities for their personal investment accounts, including securities that may be purchased or held by Ares Capital, so long as such investments are made in accordance with the code's requirements. For information on how to obtain a copy of the code of ethics, see "Where You Can Find More Information."

Proxy Voting Policies and Procedures

SEC-registered advisers that have the authority to vote (client) proxies (which authority may be implied from a general grant of investment discretion) are required to adopt policies and procedures reasonably designed to ensure that the adviser votes proxies in the best interests of its clients. Registered advisers also must maintain certain records on proxy voting. In most cases, Ares Capital invests in securities that do not generally entitle it to voting rights in its portfolio companies. When Ares Capital does have voting rights, it delegates the exercise of such rights to Ares Capital Management. Ares Capital Management's proxy voting policies and procedures are summarized below:

In determining how to vote, officers of Ares Capital's investment adviser consult with each other and other investment professionals of Ares, taking into account the interests of Ares Capital and its investors as well as any potential conflicts of interest. Ares Capital's investment adviser consults with legal counsel to identify potential conflicts of interest. Where a potential conflict of interest exists, Ares Capital's investment adviser may, if it so elects, resolve it by following the recommendation of a disinterested third party, by seeking the direction of the independent directors of Ares Capital or, in extreme cases, by abstaining from voting. While Ares Capital's investment adviser may retain an outside service to provide voting recommendations and to assist in analyzing votes, Ares Capital's investment adviser will not delegate its voting authority to any third party.

An officer of Ares Capital Management keeps a written record of how all such proxies are voted. Ares Capital's investment adviser retains records of (1) proxy voting policies and procedures, (2) all proxy statements received (or it may rely on proxy statements filed on the SEC's EDGAR system in lieu thereof), (3) all votes cast, (4) investor requests for voting information, and (5) any specific documents prepared or received in connection with a decision on a proxy vote. If it uses an outside service, Ares Capital's investment adviser may rely on such service to maintain copies of proxy statements and records, so long as such service will provide a copy of such documents promptly upon request.

Ares Capital's investment adviser's proxy voting policies are not exhaustive and are designed to be responsive to the wide range of issues that may be subject to a proxy vote. In general, Ares Capital's investment adviser votes Ares Capital's proxies in accordance with these guidelines unless: (1) it has determined otherwise due to the specific and unusual facts and circumstances with respect to a particular vote, (2) the subject matter of the vote is not covered by these guidelines, (3) a material conflict of interest is present, or (4) Ares Capital finds it necessary to vote contrary to Ares Capital's

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general guidelines to maximize stockholder value or the best interests of Ares Capital. In reviewing proxy issues, Ares Capital's investment adviser generally uses the following guidelines:

Elections of Directors

In general, Ares Capital's investment adviser will vote in favor of the management-proposed slate of directors. If there is a proxy fight for seats on a portfolio company's board of directors, or Ares Capital's investment adviser determines that there are other compelling reasons for withholding Ares Capital's vote, it will determine the appropriate vote on the matter. Ares Capital's investment adviser may withhold votes for directors when it (1) believes a direct conflict of interest exists between the interests of the director and the stockholders, (2) concludes that the actions of the director are unlawful, unethical or negligent or (3) believes the board is entrenched in or dealing inadequately with performance problems, and/or acting with insufficient independence between the board and management. Finally, Ares Capital's investment adviser may withhold votes for directors of non-U.S. issuers where there is insufficient information about the nominees disclosed in the proxy statement.

Appointment of Auditors

Ares Capital believes that a portfolio company remains in the best position to choose its independent auditors and Ares Capital's investment adviser will generally support management's recommendation in this regard.

Changes in Capital Structure

Changes in a portfolio company's charter or bylaws may be required by state or federal regulation. In general, Ares Capital's investment adviser will cast Ares Capital's votes in accordance with the management on such proposals. However, Ares Capital's investment adviser will consider carefully any proposal regarding a change in corporate structure that is not required by state or federal regulation.

Corporate Restructurings, Mergers and Acquisitions

Ares Capital believes proxy votes dealing with corporate reorganizations are an extension of the investment decision. Accordingly, Ares Capital's investment adviser will analyze such proposals on a case-by-case basis and vote in accordance with its perception of Ares Capital's interests.

Proposals Affecting Stockholder Rights

Ares Capital will generally vote in favor of proposals that give stockholders a greater voice in the affairs of a portfolio company and oppose any measure that seeks to limit such rights. However, when analyzing such proposals, Ares Capital's investment adviser will balance the financial impact of the proposal against any impairment of stockholder rights as well as of Ares Capital's investment in the portfolio company.

Corporate Governance

Ares Capital recognizes the importance of good corporate governance. Accordingly, Ares Capital's investment adviser will generally favor proposals that promote transparency and accountability within a portfolio company.

Anti-Takeover Measures

Ares Capital's investment adviser will evaluate, on a case-by-case basis, any proposals regarding anti-takeover measures to determine the measure's likely effect on stockholder value dilution.

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Stock Splits

Ares Capital's investment adviser will generally vote with management on stock split matters.

Limited Liability of Directors

Ares Capital's investment adviser will generally vote with management on matters that could adversely affect the limited liability of directors.

Social and Corporate Responsibility

Ares Capital's investment adviser will review proposals related to social, political and environmental issues to determine whether they may adversely affect stockholder value. Ares Capital's investment adviser may abstain from voting on such proposals where they do not have a readily determinable financial impact on stockholder value.

Stockholders may obtain information regarding how Ares Capital voted proxies with respect to its portfolio securities during the twelve-month period ended June 30, 2009 free of charge by making a written request for proxy voting information to: Ares Capital Corporation, 2000 Avenue of the Stars, 12th Floor, Los Angeles, California 90067 or by calling Ares Capital collect at (310) 401-4200.

Other

Ares Capital has designated a chief compliance officer and established a compliance program pursuant to the requirements of the Investment Company Act. Ares Capital is periodically examined by the SEC for compliance with the Investment Company Act.

Ares Capital is required to provide and maintain a bond issued by a reputable fidelity insurance company to protect Ares Capital against larceny and embezzlement. Furthermore, as a BDC, Ares Capital is prohibited from protecting any director or officer against any liability to Ares Capital or its stockholders arising from willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person's office.

Compliance with the Sarbanes-Oxley Act of 2002 and NASDAQ Corporate Governance Regulations

The Sarbanes-Oxley Act of 2002 imposes a wide variety of regulatory requirements on publicly-held companies and their insiders. Many of these requirements affect Ares Capital. The Sarbanes-Oxley Act has required Ares Capital to review Ares Capital's policies and procedures to determine whether Ares Capital complies with the Sarbanes-Oxley Act and the regulations promulgated thereunder. Ares Capital will continue to monitor its compliance with all future regulations that are adopted under the Sarbanes-Oxley Act and will take actions necessary to ensure that it is in compliance therewith.

In addition, NASDAQ has adopted various corporate governance requirements as part of its listing standards. Ares Capital believes it is in compliance with such corporate governance listing standards. Ares Capital will continue to monitor its compliance with all future listing standards and will take actions necessary to ensure that it is in compliance therewith.

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CUSTODIAN, TRANSFER AND DIVIDEND PAYING AGENT AND REGISTRAR OF ALLIED CAPITAL

Certain of Allied Capital's securities are held in safekeeping by PNC Bank, N.A., 808 17th Street, N.W., Washington, D.C. 20006. Other securities are held in custody at Chevy Chase Bank, 7501 Wisconsin Avenue, 14th Floor, Bethesda, Maryland 20814, Bank of America, 8300 Greensboro Drive, Suite 620, McLean, Virginia 22102, Union Bank of California, 350 California Street, 6th Floor, San Francisco, CA 94104, M&T Investment Group, 25 South Charles Street MD2-CS57, Baltimore, MD 21201, Branch Banking and Trust Company, 223 West Nash Street, Corporate Trust, 2nd Floor, Wilson, NC 27893 and U.S. Bank, One Federal Street, Third Floor, Boston, MA 02110. American Stock Transfer and Trust Company, 59 Maiden Lane, New York, New York 10038 acts as Allied Capital's transfer, dividend paying and reinvestment plan agent and registrar for its common stock. The Bank of New York, 101 Barclay St., New York, New York acts as Allied Capital's registrar, paying agent and transfer agent for its publicly issued debt securities.

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CUSTODIAN, TRANSFER AND DIVIDEND PAYING AGENT AND REGISTRAR OF ARES CAPITAL

Ares Capital's securities are held under a custody agreement by U.S. Bank National Association. The address of the custodian is Corporate Trust Services, One Federal Street, 3rd Floor, Boston, MA 02110. Computershare Investor Services, LLC acts as Ares Capital's transfer agent, dividend paying agent and registrar. The principal business address of Computershare is 250 Royall Street, Canton, Massachusetts 02021, telephone number: (800) 426-5523.

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BROKERAGE ALLOCATION AND OTHER PRACTICES

Since Ares Capital and Allied Capital generally acquire and dispose of their investments in privately negotiated transactions, they infrequently use brokers in the normal course of business.

In the case of Ares Capital, subject to policies established by its board of directors, its investment adviser, Ares Capital Management, is primarily responsible for the execution of the publicly traded securities portion of its portfolio transactions and the allocation of brokerage commissions. Neither Ares Capital's investment adviser or Allied Capital expects to execute transactions through any particular broker or dealer, but plans to seek to obtain the best net results for Ares Capital or Allied Capital, as the case may be, taking into account such factors as price (including the applicable brokerage commission or dealer spread), size of order, difficulty of execution and operational facilities of the firm and the firm's risk and skill in positioning blocks of securities.

While Ares Capital's investment adviser and Allied Capital generally seek reasonably competitive trade execution costs, they will not necessarily pay the lowest spread or commission available. Subject to applicable legal requirements, they may select a broker based partly upon brokerage or research services provided to Allied Capital, Ares Capital or Ares Capital Management or its other clients. In return for such services, Ares Capital and Allied Capital may pay a higher commission than other brokers would charge if Allied Capital or Ares Capital Management determines in good faith that such commission is reasonable in relation to the services provided.

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LEGAL MATTERS

The validity of Ares Capital common stock to be issued in connection with the merger will be passed upon for Ares Capital by Venable LLP. Certain U.S. federal income tax consequences relating to the merger will also be passed upon for Ares Capital by Proskauer Rose LLP and for Allied Capital by Sullivan & Cromwell LLP.

EXPERTS

The consolidated financial statements of Ares Capital and subsidiaries as of December 31, 2008 and 2007 and for each of the years in the three-year period ended December 31, 2008, and the senior securities table as of December 31, 2008, have been included herein and in the registration statement in reliance upon the reports of KPMG LLP, independent registered public accounting firm, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing.

The consolidated financial statements of Allied Capital and subsidiaries as of December 31, 2008 and 2007, and for each of the years in the three-year period ended December 31, 2008, the related financial statement schedule as of December 31, 2008, and the senior securities table as of December 31, 2008, have been included herein in reliance upon the reports of KPMG LLP, independent registered public accounting firm, located at 2001 M Street, NW, Washington, D.C. 20036, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing. KPMG LLP's report on the consolidated financial statements contains an explanatory paragraph stating the conditions that raise substantial doubt about Allied Capital's ability to continue as a going concern. The report also refers to Allied Capital's adoption, effective January 1, 2008, of SFAS No. 157, *Fair Value Measurements*, and Allied Capital's adoption, effective January 1, 2006, of SFAS No. 123 (Revised 2004), *Share Based Payment*.

With respect to the unaudited interim financial information for the periods ended September 30, 2009 and 2008, included herein, the independent registered public accounting firm has reported that they applied limited procedures in accordance with professional standards for a review of such information. However, their separate report included in Allied Capital's quarterly report on Form 10-Q for the quarter ended September 30, 2009, and included herein, states that they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. The accountants are not subject to the liability provisions of Section 11 of the Securities Act for their report on the unaudited interim financial information because that report is not a "report" or a "part" of the registration statement prepared or certified by the accountants within the meaning of Sections 7 and 11 of the Securities Act.

OTHER MATTERS

Allied Capital

According to Allied Capital's amended and restated bylaws, business to be conducted at a special meeting of stockholders may only be brought before the meeting pursuant to a notice of meeting. No matters other than the matters described in this document are anticipated to be presented for action at the Allied Capital special meeting or at any adjournment or postponement of such special meeting.

Allied Capital will hold a 2010 annual meeting of stockholders only if the merger is not completed. If it is determined that the merger will not be completed as contemplated by the merger agreement, Allied Capital will provide notice of the date fixed for the annual meeting, as well as the deadline for submitting stockholder proposals for such meeting and for having such stockholder proposals included in Allied Capital's proxy statement.

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Ares Capital

According to Ares Capital's second amended and restated bylaws, business to be conducted at a special meeting of stockholders may only be brought before the meeting pursuant to a notice of meeting. No matters other than the matters described in this document are anticipated to be presented for action at the Ares Capital special meeting or at any adjournment or postponement of such special meeting.

STOCKHOLDER NOMINATIONS AND PROPOSALS FOR THE 2010 ANNUAL MEETING

Allied Capital

Any stockholder proposals submitted pursuant to Rule 14a-8 under the Exchange Act for inclusion in Allied Capital's proxy statement and form of proxy for its 2010 annual meeting of stockholders, which will only be held if the merger is not completed, must have been received by Allied Capital on or before November 27, 2009. Such proposals must also comply with the requirements as to form and substance established by the SEC if such proposals are to be included in the proxy statement and form of proxy. Any such proposal should be mailed to: Allied Capital Corporation, 1919 Pennsylvania Avenue, N.W., Washington, D.C. 20006, Attention: Corporate Secretary.

Stockholder proposals or director nominations to be presented at the 2010 annual meeting of stockholders, other than stockholder proposals submitted pursuant to Rule 14a-8 under the Exchange Act, must be delivered to, or mailed and received at, the principal executive offices of Allied Capital not less than 90 days nor more than 120 days in advance of the one year anniversary of the date Allied Capital's proxy statement was released to stockholders in connection with the previous year's annual meeting of stockholders. For its 2010 annual meeting of stockholders, which will only be held if the merger is not completed, Allied Capital must receive such proposals and nominations no earlier than November 27, 2009 and no later than December 27, 2009. If the date of the mailing of the notice for the 2010 annual meeting has been changed by more than 30 calendar days from the first anniversary of the date of mailing of the notice for the previous year's annual meeting, stockholder proposals or director nominations must be received no earlier than the 120^{th} day prior to the date of mailing of the notice and no later than the close of business on the later of the 90^{th} day prior to the mailing of the notice or the 10th day following the day on which public announcement of the date of mailing of the notice for the 2010 annual meeting is first made. Proposals must also comply with the other requirements contained in Allied Capital's bylaws, including supporting documentation and other information. Proxies solicited by Allied Capital will confer discretionary voting authority with respect to these proposals, subject to SEC rules governing the exercise of this authority.

Ares Capital

Stockholders may present proper nominations of candidates for director or other proposals for inclusion in Ares Capital's proxy statement and proxy card for consideration at the next annual meeting of stockholders by submitting such nominations or proposals in writing to the Secretary of Ares Capital in a timely manner, calculated in the manner provided in Rule 14a-8(e) of the Exchange Act, applicable state law and the articles of amendment and restatement of Ares Capital, as amended, and the second amended and restated bylaws of Ares Capital. Ares Capital expects that the 2010 annual meeting of stockholders will be held in May 2010, but the exact date, time and location of such meeting have yet to be determined.

Deadlines for Submitting Stockholder Proposals for Inclusion in Ares Capital's Proxy Statement and Proxy Card

To be considered timely under Rule 14a-8(e) of the Exchange Act for inclusion in Ares Capital's proxy statement and proxy card for a regularly scheduled annual meeting, a stockholder's nomination of a candidate for director or other proposal must be received at Ares Capital's principal executive offices not less than 120 calendar days before the anniversary of the date Ares Capital's proxy statement was released to stockholders for the previous year's annual meeting. Accordingly, a stockholder's nomination of a candidate for director or other proposal must have been received no later than November 9, 2009 in order to be included in Ares Capital's proxy statement and proxy card for the 2010 annual meeting of stockholders.

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Deadlines for Submitting Notice of Stockholder Proposals for Consideration at Ares Capital's Annual Meeting

The deadline for submitting notice of a stockholder's nomination of a candidate for director or other proposal for consideration at the 2010 annual meeting, under the second amended and restated by-laws of Ares Capital is not earlier than the 150th day prior to the first anniversary of the date of release of the proxy statement for the preceding year's annual meeting nor later than 5:00 p.m., Eastern Time, on the 120th day prior to the first anniversary of the date of release of the proxy statement for the preceding year's annual meeting; *provided*, *however*, that in the event that the date of the annual meeting is advanced or delayed by more than 30 days from the anniversary of the date of the preceding year's annual meeting, notice by the stockholder to be timely must be delivered not earlier than the 150th day prior to the date of such annual meeting and not later than 5:00 p.m., Eastern Time, on the later of (1) the 120th day prior to the date of such annual meeting or (2) the tenth day following the day on which public announcement of the date of such meeting is first made. Accordingly, a stockholder's nomination of a candidate for director or other proposal must have been received no earlier than October 10, 2009 and no later than 5:00 p.m., Eastern Time, on November 9, 2009 in order to be considered at the 2010 annual meeting. In order to be considered timely, such notice must have been delivered to the Secretary at the principal executive office of Ares Capital and must have all information required under Section 11 of Article II of the second amended and restated bylaws of Ares Capital.

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STOCKHOLDERS SHARING AN ADDRESS

Only one copy of this document is being delivered to multiple stockholders of Ares Capital and Allied Capital unless they have previously received contrary instructions from one or more of their stockholders. Stockholders who hold shares in "street name" can request further information on householding through their banks, brokers or other holders of record.

On written or oral request to Computershare Investor Services, LLC, Ares Capital's stock transfer agent at 250 Royall Street, Canton, Massachusetts 02021 (800) 426-5523, Ares Capital will deliver promptly a separate copy of this document to a stockholder at a shared address to which a single copy of this document was delivered. Stockholders sharing an address who wish, in the future, to receive separate copies or a single copy of Ares Capital's proxy statements and annual reports should provide written or oral notice to Computershare Investor Services at the address and telephone number set forth above. Holders in "street name" who wish, in the future, to receive separate copies or a single copy of Ares Capital's proxy statements and annual reports, must contact their banks and brokers.

On written or oral request to American Stock Transfer and Trust Company, Allied Capital's stock transfer agent at 59 Maiden Lane, New York, New York 10038 (800) 937-5449, Allied Capital will deliver promptly a separate copy of this document to a stockholder at a shared address to which a single copy of this document was delivered. Stockholders sharing an address who wish, in the future, to receive separate copies or a single copy of Allied Capital's proxy statements and annual reports should provide written or oral notice to American Stock Transfer and Trust Company at the address and telephone number set forth above. Holders in "street name" who wish, in the future, to receive separate copies or a single copy of Allied Capital's proxy statements and annual reports must contact their banks and brokers.

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WHERE YOU CAN FIND MORE INFORMATION

Ares Capital has filed with the SEC a registration statement on Form N-14 (of which this document is a part), together with all amendments and related exhibits, under the Securities Act. The registration statement contains additional information about Ares Capital and the securities being offered by this document.

Allied Capital and Ares Capital are each subject to the informational requirements of the Exchange Act. Accordingly, they must file annual, quarterly and current reports, proxy material and other information with the SEC. You can review and copy such information at the SEC's Public Reference Room at 100 F Street, N.E., Washington D.C. 20549, the SEC's Northeast Regional Office at 3 World Financial Center, Suite 400, New York, NY 10281 and the SEC's Midwest Regional Office at 175 W. Jackson Blvd., Suite 900, Chicago, IL 60604. Such information is also available from the EDGAR database on the SEC's web site at *http://www.sec.gov*. You also can obtain copies of such information, after paying a duplicating fee, by sending a request by e-mail to publicinfo@sec.gov or by writing the SEC's Public Reference Branch, Office of Consumer Affairs and Information Services, Securities and Exchange Commission, Washington, DC 20549. You may obtain information on the operation of the SEC's Public Reference Room by calling the SEC at (202) 551-8090 or (800) SEC-0330.

The information Ares Capital files with the SEC is available free of charge by contacting it at 280 Park Avenue, 22nd Floor, Building East, New York, NY 10017 or by telephone at (212) 750-7300 or on its website at *www.arescapitalcorp.com.* Information contained on Ares Capital's website is not incorporated into this document and you should not consider such information to be part of this document.

The information Allied Capital files with the SEC is available free of charge by contacting it at 1919 Pennsylvania, NW, Washington, D.C. 20006 or by telephone at (202) 721-6100 or on its website at *www.alliedcapital.com.* Information contained on Allied Capital's website is not incorporated into this document and you should not consider such information to be part of this document.

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PRIVACY PRINCIPLES

Ares Capital

Ares Capital is committed to maintaining the privacy of its stockholders and to safeguarding their non-public personal information. The following information is provided to help you understand what personal information it collects, how it protects that information and why, in certain cases, it may share information with select other parties.

Generally, Ares Capital does not receive any non-public personal information relating to its stockholders, although certain non-public personal information of its stockholders may become available to it. The non-public personal information that it may receive falls into the following categories:

- information it receives from stockholders, whether Ares Capital receives it orally, in writing or electronically. This includes stockholders' communications to Ares Capital concerning their investment;

- information about stockholders' transactions and history with Ares Capital; or

- other general information that it may obtain about stockholders, such as demographic and contact information such as a person's address.

Ares Capital does not disclose any non-public personal information about its stockholders or former stockholders to anyone, except:

- to its affiliates (such as its investment adviser and administrator) and their employees that have a legitimate business need for the information;

- to its service providers (such as its accountants, attorneys, custodians, transfer agent, underwriters and proxy solicitors) and their employees, as is necessary to service recordholder accounts or otherwise provide the applicable services;

- to comply with court orders, subpoenas, lawful discovery requests or other legal or regulatory requirements; or

- as allowed or required by applicable law or regulation.

When Ares Capital shares non-public stockholder personal information referred to above, the information is made available for limited business purposes and under controlled circumstances designed to protect its stockholders' privacy. Ares Capital does not permit use of stockholder information for any non-business or marketing purpose, nor does Ares Capital permit third parties to rent, sell, trade or otherwise release or disclose information to any other party.

Ares Capital's service providers, such as its adviser, administrator and transfer agent, are required to maintain physical, electronic and procedural safeguards to protect stockholder non-public personal information; to prevent unauthorized access or use; and to dispose of such information when it is no longer required.

Personnel of affiliates may access stockholder information only for business purposes. The degree of access is based on the sensitivity of the information and on personnel need for the information to service a stockholder's account or comply with legal requirements.

If a stockholder ceases to be a stockholder, Ares Capital will adhere to the privacy policies and practices as described above. Ares Capital may choose to modify its privacy policies at any time. Before it does so, Ares Capital will notify stockholders and provide a description of its privacy policy.

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In the event of a corporate change in control resulting from, for example, a sale to, or merger with, another entity, or in the event of a sale of assets, Ares Capital reserves the right to transfer your non-public personal information to the new party in control or the party acquiring assets.

Allied Capital

Allied Capital is committed to earning and maintaining the trust of its stockholders. The following information explains Allied Capital's privacy policies, including how Allied Capital uses the information about its stockholders that it collects when they become a stockholder, or "Customer Information."

What Kind of Information Allied Capital Collects. Allied Capital's goal is to limit the collection and use of Customer Information to the minimum required to administer its business. When you purchase shares of Allied Capital, Allied Capital's transfer agent collects personal information about you, such as your name, address, social security number or taxpayer identification number.

How Allied Capital Uses this Information. Allied Capital collects Customer Information so that it can send its stockholders annual reports, proxy statements, dividends and other information required by law and to send them information Allied Capital believes may be of interest to them, such as information about Allied Capital's dividend reinvestment plan.

Who Has Access to Customer Information. Except as described below, Allied Capital does not share Customer Information with any person or organization not affiliated with Allied Capital.

The People at Allied Capital. It is Allied Capital's policy that only authorized Allied Capital employees who need to know its stockholders' personal information will have access to it. Allied Capital personnel who violate Allied Capital's privacy policy are subject to disciplinary action.

Service Providers. Allied Capital may disclose Customer Information to companies that provide services on Allied Capital's behalf. These services might include record keeping or data processing. These companies are required to protect Customer Information and to use it only for the purposes for which they received it.

Courts and Government Officials. If required by law, Allied Capital may disclose Customer Information in accordance with a court order or at the request of government regulators. Only that information required by law subpoena, or court order will be disclosed.

How Allied Capital Protects Customer Information. Allied Capital will safeguard, according to strict standards of security and confidentiality, all Customer Information Allied Capital collects. Allied Capital will protect this information using physical, electronic and procedural safeguards that comply with federal and state standards.

Updating Your Information. To help Allied Capital keep your Customer Information up-to-date and accurate, please contact Allied Capital's transfer agent in writing at the address below if there is any change in your personal information.

American Stock Transfer & Trust
59 Maiden Lane, Plaza Level
New York, NY 10038

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ARES CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(dollar amounts in thousands, except per share data)

	As of September 30, 2009 (unaudited)	As of December 31, 2008
ASSETS		
Investments at fair value (amortized cost of $2,245,137 and $2,267,593, respectively)		
Non-controlled/non-affiliate company investments	$ 1,506,376	$ 1,477,492
Non-controlled affiliate company investments	295,787	329,326
Controlled affiliate company investments	165,561	166,159
Total investments at fair value	1,967,724	1,972,977
Cash and cash equivalents	61,469	89,383
Receivable for open trades		3
Interest receivable	21,159	17,547
Other assets	14,729	11,423
Total assets	$ 2,065,081	$ 2,091,333
LIABILITIES		
Debt	$ 767,871	$ 908,786
Management and incentive fees payable	56,527	32,989
Payable for open trades	489	
Accounts payable and accrued expenses	14,750	10,006
Interest and facility fees payable	2,717	3,869
Dividend payable	136	40,804
Total liabilities	842,490	996,454
Commitments and contingencies (Note 6)		
STOCKHOLDERS' EQUITY		
Common stock, par value $.001 per share, 200,000,000 common shares authorized, 109,592,728 and 97,152,820 common shares issued and outstanding, respectively	110	97
Capital in excess of par value	1,505,031	1,395,958
Accumulated undistributed net investment loss	(2,436)	(7,637)
Accumulated net realized loss on investments, foreign currency transactions and extinguishment of debt	(2,397)	(124)
Net unrealized loss on investments and foreign currency transactions	(277,717)	(293,415)
Total stockholders' equity	1,222,591	1,094,879
Total liabilities and stockholders' equity	$ 2,065,081	$ 2,091,333
NET ASSETS PER SHARE	$ 11.16	$ 11.27

See accompanying notes to consolidated financial statements.

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ARES CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS

(dollar amounts in thousands, except per share data)

	For the three months ended		For the nine months ended	
	September 30, 2009 (unaudited)	September 30, 2008 (unaudited)	September 30, 2009 (unaudited)	September 30, 2008 (unaudited)
INVESTMENT INCOME:				
From non-controlled/non-affiliate company investments:				
Interest from investments	$ 49,728	$ 45,425	$ 138,866	$ 118,112
Capital structuring service fees		3,029	1,653	14,175
Interest from cash & cash equivalents	35	325	245	1,314
Dividend income	525	375	1,568	1,246
Management fees	29		29	
Other income	1,501	599	4,198	2,007
Total investment income from non-controlled/non-affiliate company investments	51,818	49,753	146,559	136,854
From non-controlled affiliate company investments:				
Interest from investments	4,916	7,924	17,019	24,668
Capital structuring service fees		281		1,376
Dividend income	148	256	285	522
Management fees	63	188	1,380	564
Other income	140	136	308	379
Total investment income from non-controlled affiliate company investments	5,267	8,785	18,992	27,509
From controlled affiliate company investments:				
Interest from investments	2,255	2,946	7,348	9,126
Capital structuring service fees			194	3,000
Dividend income	1,511	133	1,511	133
Management fees		437	1,286	1,068
Other income	30	13	118	48
Total investment income from controlled affiliate company investments	3,796	3,529	10,457	13,375
Total investment income	60,881	62,067	176,008	177,738
EXPENSES:				
Interest and credit facility fees	5,721	9,535	18,603	26,613
Base management fees	7,508	7,963	22,502	22,729
Incentive management fees	8,227	8,205	23,764	23,713
Professional fees	2,044	1,499	5,749	4,370
Professional fees related to the acquisition of Allied Capital Corporation	1,989		1,989	
Insurance	313	301	988	927
Administrative	809	802	2,905	1,702
Depreciation	167	134	505	338
Directors fees	134	57	370	197
Other	609	869	3,016	2,597
Total expenses	27,521	29,365	80,391	83,186
NET INVESTMENT INCOME BEFORE INCOME TAXES	33,360	32,702	95,617	94,552
Income tax expense (benefit), including excise tax	454	(118)	563	(302)
NET INVESTMENT INCOME	32,906	32,820	95,054	94,854
REALIZED AND UNREALIZED GAINS (LOSSES) ON INVESTMENTS AND FOREIGN CURRENCY TRANSACTIONS:				
Net realized gains (losses):				

Non-controlled/non-affiliate company investments	12,049	2,018	9,887	2,235
Non-controlled affiliate company investments		2,600	(482)	2,601
Controlled affiliate company investments	(13,705)		(13,705)	
Foreign currency transactions		(38)	68	(40)
Net realized gains (losses)	(1,656)	4,580	(4,232)	4,796
Net unrealized gains (losses):				
Non-controlled/non-affiliate company investments	(552)	(52,689)	1,336	(81,283)
Non-controlled affiliate company investments	14,916	(21,354)	3,644	(45,212)
Controlled affiliate company investments	17,699	(4,750)	10,773	(2,117)
Foreign currency transactions	(37)		(55)	7
Net unrealized gains (losses)	32,026	(78,793)	15,698	(128,605)
Net realized and unrealized gains (losses) from investments and foreign currency transactions	30,370	(74,213)	11,466	(123,809)
REALIZED GAIN ON EXTINGUISHMENT OF DEBT			26,543	
NET INCREASE (DECREASE) IN STOCKHOLDERS' EQUITY RESULTING FROM OPERATIONS	$ 63,276	$ (41,393)	$ 133,063	$ (28,955)
BASIC AND DILUTED EARNINGS (LOSS) PER COMMON SHARE (see Note 4)	$ 0.62	$ (0.43)	$ 1.34	$ (0.33)
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING BASIC AND DILUTED (see Note 4)	102,831,909	97,152,820	99,066,652	87,152,501

See accompanying notes to consolidated financial statements.

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ARES CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

As of September 30, 2009 (unaudited)

(dollar amounts in thousands, except per unit data)

Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
Healthcare Services								
American Renal Associates, Inc.	Dialysis provider	Senior secured loan ($1,082 par due 12/2010)	8.5% (Libor + 6.00%/D)	12/14/2005	$ 1,082	$ 1,082	$ 1.00(3)(15)	
		Senior secured loan ($10,401 par due 12/2011)	8.5% (Libor + 6.00%/Q)	12/14/2005	10,401	10,401	$ 1.00(3)(15)	
Capella Healthcare, Inc.	Acute care hospital operator	Junior secured loan ($55,000 par due 2/2016)	13.00%	2/29/2008	55,000	53,350	$ 0.97	
		Junior secured loan ($30,000 par due 2/2016)	13.00%	2/29/2008	30,000	29,100	$ 0.97(2)	
CT Technologies Intermediate Holdings, Inc. and CT Technologies Holdings, LLC(6)	Healthcare analysis services	Preferred stock (7,427 shares)		6/15/2007	7,427	7,055	$ 950.00(4)	
		Common stock (9,679 shares)		6/15/2007	4,000	8,134	$ 840.38(5)	
		Common stock (1,546 shares)		6/15/2007			$ (5)	
DSI Renal, Inc.	Dialysis provider	Senior secured revolving loan ($122 par due 3/2013)	5.30% (Libor + 5.00%/M)	4/4/2006	122	103	$ 0.85	
		Senior secured revolving loan ($3,520 par due 3/2013)	5.30% (Libor + 5.00%/M)	4/4/2006	3,520	2,992	$ 0.85	
		Senior secured revolving loan ($1,120 par due 3/2013)	5.30% (Libor + 5.00%/M)	4/4/2006	1,120	952	$ 0.85	
		Senior secured revolving loan ($1,152 par due 3/2013)	5.30% (Libor + 5.00%/M)	4/4/2006	1,152	979	$ 0.85	
		Senior secured revolving loan ($1,600 par due 3/2013)	5.30% (Libor + 5.00%/M)	4/4/2006	1,600	1,360	$ 0.85	
		Senior secured revolving loan ($2 par due 3/2013)	5.30% (Libor + 5.00%/M)	4/4/2006	2	2	$ 0.85	
		Senior secured revolving loan ($18 par due 3/2013)	5.30% (Libor + 5.00%/M)	4/4/2006	18	15	$ 0.85	
		Senior secured revolving loan ($24 par due 3/2013)	5.30% (Libor + 5.00%/M)	4/4/2006	24	21	$ 0.85	
		Senior secured revolving loan ($54 par due 3/2013)	5.30% (Libor + 5.00%/M)	4/4/2006	54	46	$ 0.85	
		Senior secured revolving loan ($17 par due 3/2013)	5.30% (Libor + 5.00%/M)	4/4/2006	17	14	$ 0.85	

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Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
		Senior secured revolving loan ($20 par due 3/2013)	5.30% (Libor + 5.00%/M)	4/4/2006	20	17	$ 0.85	
		Senior secured revolving loan ($294 par due 3/2013)	5.30% (Libor + 5.00%/M)	4/4/2006	210	250	$ 0.85	
		Senior secured revolving loan ($44 par due 3/2013)	5.30% (Libor + 5.00%/M)	4/4/2006	31	37	$ 0.85	
		Senior secured loan ($17,025 par due 4/2014)	5.30% (Libor + 5.00%/M)	4/4/2006	12,161	14,472	$ 0.85	
		Senior subordinated note ($63,992 par due 4/2014)	16.00% PIK	4/4/2006	63,439	49,263	$ 0.77(2)(4)	
		Senior subordinated note ($13,736 par due 4/2014)	16.00% PIK	4/4/2006	13,675	10,577	$ 0.77(3)(4)	
GG Merger Sub I, Inc.	Drug testing services	Senior secured loan ($11,330 par due 12/2014)	4.30% (Libor + 4.00%/Q)	12/14/2007	10,839	9,744	$ 0.86	
		Senior secured loan ($12,000 par due 12/2014)	4.30% (Libor + 4.00%/Q)	12/14/2007	11,481	10,320	$ 0.86	
HCP Acquisition Holdings, LLC(7)	Healthcare compliance advisory services	Class A units (10,062,095 units)		6/26/2008	10,062	7,194	$ 0.72(5)	
Heartland Dental Care, Inc.	Dental services	Senior subordinated note ($32,717 par due 8/2013)	11.00% Cash, 3.25% PIK	7/31/2008	32,717	32,717	$ 1.00(4)	
Magnacare Holdings, Inc., Magnacare Administrative Services, LLC, and Magnacare, LLC	Healthcare professional provider	Senior subordinated note ($4,623 par due 12/2012)	12.75% Cash, 2.00% PIK	2/9/2009	3,241	4,646	$ 1.00(4)	
MPBP Holdings, Inc., Cohr Holdings, Inc. and MPBP Acquisition Co., Inc.	Healthcare equipment services	Senior secured loan ($997 par due 1/2014)		1/31/2007	512	489	$ 0.49(3)	
		Junior secured loan ($20,000 par due 1/2014)	6.50% (Libor + 6.25%/B)	1/31/2007	20,000	5,000	$ 0.25	
		Junior secured loan ($12,000 par due 1/2014)	6.50% (Libor + 6.25%/B)	1/31/2007	12,000	3,000	$ 0.25(3)	
		Common stock (50,000 shares)		1/31/2007	5,000		(5)	
MWD Acquisition Sub, Inc.	Dental services	Junior secured loan ($5,000 par due 5/2012)	6.49% (Libor + 6.25%/M)	5/3/2007	5,000	4,350	$ 0.87(3)	
OnCURE Medical Corp.	Radiation oncology care provider	Senior secured loan ($3,076 par due 8/2009)	3.75% (Libor + 3.50%/M)	8/18/2006	3,076	2,707	$ 0.88(3)	
		Senior subordinated note ($32,517 par due 8/2013)	11.00% Cash, 1.50% PIK	8/18/2006	32,542	29,288	$ 0.90(4)	
		Common stock (857,143 shares)		8/18/2006	3,000	3,000	$ 3.50(5)	
Passport Health Communications, Inc, Passport Holding Corp. and Prism Holding Corp.	Healthcare technology provider	Senior secured loan ($12,725 par due 5/2014)	10.50% (Libor + 7.50%/M)	5/9/2008	12,725	12,470	$ 0.98(15)	

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Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
		Senior secured loan ($11,746 par due 5/2014)	10.50% (Libor + 7.50%/M)	5/9/2008	11,746	11,511	$ 0.98(3)(15)	
		Series A preferred stock (1,594,457 shares)		7/30/2008	9,900	9,900	$ 6.21(5)	
		Common stock (16,106 shares)		7/30/2008	100	100	$ 6.21(5)	
PG Mergersub, Inc.	Provider of patient surveys, management reports and national databases for the integrated healthcare delivery system	Senior subordinated loan ($4,000 par due 3/2016)	12.50%	3/12/2008	3,935	3,920	$ 0.98	
		Preferred stock (333 shares)		3/12/2008	333	334	$ 1,003.00(5)	
		Common stock (16,667 shares)		3/12/2008	167	167	$ 10.00(5)	
The Schumacher Group of Delaware, Inc.	Outsourced physician service provider	Senior subordinated loan ($30,909 par due 7/2012)	11.13% Cash, 1.00% PIK	7/18/2008	30,909	30,909	$ 1.00(4)	
		Senior subordinated loan ($5,229 par due 7/2012)	11.13% Cash, 1.00% PIK	7/18/2008	5,229	5,229	$ 1.00(4)	
Triad Laboratory Alliance, LLC	Laboratory services	Senior secured loan ($4,282 par due 12/2011)	8.50% (Libor + 5.50%/Q)	12/21/2005	4,116	4,282	$ 1.00(3)(15)	
		Senior subordinated note ($15,534 par due 12/2012)	12.00% Cash, 1.75% PIK	12/21/2005	15,534	15,068	$ 0.97(4)	
VOTC Acquisition Corp.	Radiation oncology care provider	Senior secured loan ($17,329 par due 7/2012)	11.00% Cash, 2.00% PIK	6/30/2008	17,329	17,329	$ 1.00(4)	
		Series E preferred shares (3,888,222 shares)		7/14/2008	8,748	3,800	$ 0.98(5)	
					475,316	417,696		34.16%
Education								
Campus Management Corp. and Campus Management Acquisition Corp.(6)	Education software developer	Senior secured loan ($3,280 par due 8/2013)	13.00 Cash, 3.00% PIK	2/8/2008	3,280	3,280	$ 1.00(16)(4)	
		Senior secured loan ($30,494 par due 8/2013)	13.00 Cash, 3.00% PIK	2/8/2008	30,494	30,494	$ 1.00(2)(16)(4)	
		Senior secured loan ($9,028 par due 8/2013)	10.00% Cash, 3.00% PIK	2/8/2008	9,028	9,028	$ 1.00(16)(4)	
		Preferred stock (493,147 shares)	8.00% PIK	2/8/2008	8,952	12,800	$ 24.33(4)	
ELC Acquisition Corporation	Developer, manufacturer and retailer of educational products	Senior secured loan ($162 par due 11/2012)	3.50% (Libor + 3.25%/M)	11/30/2006	162	154	$ 0.95(3)	
		Junior secured loan ($8,333 par due 11/2013)	7.25% (Libor + 7.00%/M)	11/30/2006	8,333	7,917	$ 0.95(3)	

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Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
Instituto de Banca y Comercio, Inc. Leeds IV Advisors, Inc.(8)	Private school operator	Senior secured revolving loan ($11,730 par due 3/2014)	6.50% (Libor + 4.00%/Q)	3/15/2007	1,232	1,232	$ 1.00(3)(15)	
		Senior secured loan ($11,730 par due 3/2014)	8.50% (Libor + 6.00%/Q)	3/15/2007	11,730	11,730	$ 1.00(3)(15)	
		Senior subordinated loan ($30,644 par due 6/2014)	13.00% Cash, 3.00% PIK	6/4/2008	30,644	30,644	$ 1.00(4)	
		Preferred stock (165,811 shares)		6/4/2008	788	1,883	$ 11.35(5)	
		Preferred stock (140,577 shares)		3/31/2009	668	1,596	$ 12.94(5)	
		Common stock (214,286 shares)		6/4/2008	54	2,433	$ 11.35(5)	
		Common stock (140,577 shares)		3/31/2009	35	1,596	$ 12.94(5)	
Lakeland Finance, LLC	Private school operator	Senior secured note ($30,000 par due 12/2012)	11.50%	12/13/2005	30,000	30,000	$ 1.00	
		Senior secured note ($3,000 par due 12/2012)	11.50%	12/13/2005	3,000	3,000	$ 1.00(2)	
R3 Education, Inc. (formerly known as Equinox EIC Partners, LLC and MUA Management Company)(6)(8)	Medical school operator	Senior secured revolving loan ($1,186 par due 12/2012)	6.25% (Libor + 6.00%/M)	4/3/2007	1,186	1,162	$ 0.98	
		Senior secured loan ($14,113 par due 12/2012)	6.25% (Libor + 6.00%/M)	9/21/2007	14,113	13,830	$ 0.98(2)	
		Senior secured loan ($7,300 par due 12/2012)	6.25% (Libor + 6.00%/M)	4/3/2007	7,275	7,130	$ 0.98(3)	
		Common membership interest (26.27% interest)		9/21/2007	15,800	17,185	(5)	
		Preferred Stock (8,000 shares)			2,000	2,000	$ 250.00(5)	
		Preferred stock (800 shares)			200	200	$ 250.00(5)	
					178,974	189,294		15.48%
Beverage, Food and Tobacco								
3091779 Nova Scotia Inc.(8)	Baked goods manufacturer	Junior secured loan (Cdn $14,241 par due 11/2012)	10.00% Cash, 4.00% PIK	11/2/2007	15,047	11,278	$ 0.85(4)(12)	
		Senior secured revolving loan (Cdn $7,338 par due 11/2012)	8.00%	11/2/2007	6,757	7,127	$ 1.00(4)(12)	
		Warrants to purchase 57,545 shares					$ (5)	
Apple & Eve, LLC and US Juice Partners, LLC(6)	Juice manufacturer	Senior secured loan ($24,216 par due 10/2013)	14.50% (Libor + 11.50%/M)	10/5/2007	24,216	23,974	$ 0.99(15)	
		Senior secured loan ($11,870 par due 10/2013)	14.50% (Libor + 11.50%/M)	10/5/2007	11,870	11,752	$ 0.99(15)	

		Senior units (50,000 units)			5,000	3,500	$ 70.00
Best Brands Corporation	Baked goods manufacturer	Senior secured loan ($13,135 par due 12/2012)	7.51% (Libor + 7.25%M)	2/15/2008	10,966	13,135	$ 1.00(4)

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Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
		Senior secured loan ($8,759 par due 6/2013)	7.51% (Libor + 7.25%M)	12/14/2006	7,462	8,759	$ 1.00(4)	
		Junior secured loan ($28,692 par due 6/2013)	12.00% Cash, 4.00% PIK	12/14/2006	28,053	28,692	$ 1.00(2)(4)	
		Junior secured loan ($8,611 par due 6/2013)	12.00% Cash, 4.00% PIK	12/14/2006	8,611	8,611	$ 1.00(3)(4)	
		Junior secured loan ($11,733 par due 6/2013)	12.00% Cash, 4.00% PIK	12/14/2006	11,733	11,733	$ 1.00(3)(4)	
Bumble Bee Foods, LLC and BB Co-Invest LP	Canned seafood manufacturer	Senior subordinated loan ($30,756 par due 11/2018)	16.25% (12.00% Cash, 4.25% Optional PIK)	11/18/2008	30,756	30,756	$ 1.00(4)	
		Common stock (4,000 shares)		11/18/2008	4,000	5,700	$ 1,425.00(5)	
Charter Baking Company, Inc.	Baked goods manufacturer	Senior subordinated note ($5,874 par due 2/2013)	13.00% PIK	2/6/2008	5,874	5,874	$ 1.00(2)(4)	
		Preferred stock (6,258 shares)		9/1/2006	2,500	1,725	$ 275.65(5)	
					172,845	172,616		14.12%
Restaurants and Food Services								
ADF Capital, Inc. & ADF Restaurant Group, LLC	Restaurant owner and operator	Senior secured revolving loan ($1,408 par due 11/2013)	6.50% (Libor + 3.5%/Q)	11/27/2006	1,408	1,408	$ 1.00(15)	
		Senior secured revolving loan ($2,010 par due 11/2013)	6.50% (Libor + 3.5% /S)	11/27/2006	2,010	2,010	$ 1.00(4)(15)	
		Senior secured loan ($23,615 par due 11/2012)	12.50% (Libor + 6.50% Cash, 3.00% PIK/Q)	11/27/2006	23,622	23,615	$ 1.00(4)(15)	
		Senior secured loan ($11,069 par due 11/2012)	12.50% (Libor + 6.50% Cash, 3.00% PIK/Q)	11/27/2006	11,069	11,069	$ 1.00(2)(4)(15)	
		Promissory note ($13,105 par due 11/2016)	12.00% PIK	6/1/2006	13,093	13,795	$ 1.05(15)	
		Warrants to purchase 0.61 shares		6/1/2006		4,370	$ (5)	
Encanto Restaurants, Inc.(8)	Restaurant owner and operator	Junior secured loan ($21,368 par due 8/2013)	7.50% Cash, 3.50% PIK	8/16/2006	21,368	20,299	$ 0.95(2)(4)	
		Junior secured loan ($4,070 par due 8/2013)	7.50% Cash, 3.50% PIK	8/16/2006	4,070	3,867	$ 0.95(3)(4)	
OTG Management, Inc.	Airport restaurant operator	Junior secured loan ($15,884 par due 6/2013)	20.50% (Libor + 11.00% Cash, 6.50% PIK/M)	6/19/2008	15,884	15,884	$ 1.05(15)	
		Warrants to purchase up to 88,991 shares of common stock				750	$ 8.43(5)	

	Warrants to purchase up to 9 shares of common stock	$	(5)

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Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
Vistar Corporation and Wellspring Distribution Corp.	Food service distributor	Senior subordinated loan ($43,625 par due 5/2015)	13.50%	5/23/2008	43,625	41,444	$ 0.95	
		Senior subordinated loan ($25,000 par due 5/2015)	13.50%	5/23/2008	25,000	23,750	$ 0.95(2)	
		Senior subordinated loan ($5,000 par due 5/2015)	13.50%	5/23/2008	5,000	4,750	$ 0.95(2)	
		Class A non-voting common stock (1,366,120 shares)		5/23/2008	7,500	3,253	$ 2.38(5)	
					173,649	170,264		13.93%
Financial								
Carador PLC(6)(8)(9)	Investment company	Ordinary shares (7,110,525 shares)		12/15/2006	9,033	2,311	$ 0.38(5)	
CIC Flex, LP(9)	Investment partnership	Limited partnership units (0.69 unit)		9/7/2007	41	41	$ 59,420.29(5)	
Covestia Capital Partners, LP(9)	Investment partnership	Limited partnership interest (47% interest)		6/17/2008	1,059	1,059	(5)	
Firstlight Financial Corporation(6)(9)	Investment company	Senior subordinated loan ($72,894 par due 12/2016)	1.00% PIK	12/31/2006	72,871	54,670	$ 0.75(4)	
		Common stock (10,000 shares)		12/31/2006	10,000		$ (5)	
		Common stock (30,000 shares)		12/31/2006	30,000		$ (5)	
Ivy Hill Asset Management, L.P.		Member interest			3,586	11,088		
Ivy Hill Middle Market Credit Fund, Ltd. (7)(8)(9)	Investment company	Class B deferrable interest notes ($40,000 par due 11/2018)	6.72% (Libor + 6.00%/Q)	11/20/2007	40,000	36,800	$ 0.92	
		Subordinated notes ($15,681 par due 11/2018)		11/20/2007	15,681	14,113	$ 0.90(5)	
Imperial Capital Group, LLC and Imperial Capital Private Opportunities, LP(6)(9)	Investment banking services	Limited partnership interest (80% interest)		5/10/2007	3,094	3,094	(5)	
		Common units (7,710 units)		5/10/2007	14,997	20,000	$ 2,594.03(5)	
		Common units (2,526 units)		5/10/2007	3	3	$ 1.00(5)	
		Common units (315 units)		5/10/2007			$ (5)	
Partnership Capital Growth Fund I, LP(9)	Investment partnership	Limited partnership interest (25% interest)		6/16/2006	2,711	2,711	(5)	
Trivergance Capital Partners, LP(9)	Investment partnership	Limited partnership interest (100% interest)		6/5/2008	1,672	1,672	(5)	
VSC Investors LLC(9)	Investment company	Membership interest (4.63% interest)		1/24/2008	635	635	(5)	
					205,383	148,197		12.12%

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Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
Services Other								
American Residential Services, LLC	Plumbing, heating and air-conditioning services	Junior secured loan ($20,403 par due 4/2015)	10.00% Cash, 2.00% PIK	4/17/2007	20,505	19,685	$ 0.96(2)(4)	
Diversified Collection Services, Inc.	Collections services	Senior secured loan ($10,529 par due 8/2011)	9.50% (Libor + 6.75%/M)	2/2/2005	8,849	10,529	$ 1.00(15)	
		Senior secured loan ($3,747 par due 8/2011)	9.50% (Libor + 6.75%/M)	2/2/2005	3,747	3,747	$ 1.00(3)(15)	
		Senior secured loan ($323 par due 8/2011)	9.50% (Libor + 6.75%/Q)	2/2/2005	272	323	$ 1.00(15)	
		Senior secured loan ($115 par due 8/2011)	9.50% (Libor + 6.75%/Q)	2/2/2005	115	115	$ 1.00(3)(15)	
		Senior secured loan ($1,931 par due 2/2011)	13.75% (Libor + 11.00%/M)	2/2/2005	1,931	1,931	$ 1.00(15)	
		Senior secured loan ($7,492 par due 8/2011)	13.75% (Libor + 11.00%/M)	2/2/2005	7,492	7,492	$ 1.00(15)	
		Preferred stock (14,927 shares)		5/18/2006	169	264	$ 17.69(5)	
		Common stock (114,004 shares)		2/2/2005	295	286	$ 2.51(5)	
GCA Services Group, Inc.	Custodial services	Senior secured loan ($20,865 par due 12/2011)	12.00%	12/15/2006	23,193	23,255	$ 1.00(2)	
		Senior secured loan ($5,000 par due 12/2011)	12.00%	12/15/2006	4,755	4,768	$ 1.00	
		Senior secured loan ($10,346 par due 12/2011)	12.00%	12/15/2006	9,840	9,866	$ 1.00(3)	
Growing Family, Inc. and GFH Holdings, LLC	Photography services	Senior secured revolving loan ($1,513 par due 8/2011)	10.50% (Libor + 3.00% Cash, 4.00% PIK/A)	3/16/2007	1,513	454	$ 0.30(4)(14)(15)	
		Senior secured loan ($11,188 par due 8/2011)	13.00% (Libor + 3.50% Cash, 6.00% PIK/Q)	3/16/2007	11,188	3,356	$ 0.30(4)(14)(15)	
		Senior secured loan ($372 par due 8/2011)	11.25% (Base Rate + 8.00%/A)	3/16/2007	372	111	$ 0.30(4)(14)(15)	
		Senior secured loan ($3,575 par due 8/2011)	15.50% (Libor + 6.00% Cash, 6.00% PIK/Q)	3/16/2007	3,575	1,073	$ 0.30(4)(14)(15)	
		Senior secured loan ($147 par due 8/2011)	15.50% (Libor + 6.00% Cash, 6.00% PIK/Q)	3/16/2007	147	44	$ 0.30(4)(14)(15)	
		Common stock (552,430 shares)		3/16/2007	872		$ (5)	
NPA Acquisition, LLC	Powersport vehicle auction operator	Junior secured loan ($12,000 par due 2/2013)	6.99% (Libor + 6.75%/M)	8/23/2006	12,000	12,000	$ 1.00(3)	
		Common units (1,709 shares)		8/23/2006	1,000	2,300	$ 1,345.82(5)	

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Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
Web Services Company, LLC	Laundry service and equipment provider	Senior secured loan ($4,950 par due 8/2014)	5.30% (Libor + 5.00%/Q)	6/15/2009	4,582	4,802	$ 0.97(4)	
		Senior subordinated loan ($18,103 par due 8/2016)	11.50% Cash, 2.50% PIK	8/29/2008	18,103	17,198	$ 0.95(4)	
		Senior subordinated loan ($25,640 par due 8/2016)	11.50% Cash, 2.50% PIK	8/29/2008	25,640	24,358	$ 0.95(2)(4)	
					160,155	147,957		12.10%
Business Services								
Booz Allen Hamilton, Inc.	Strategy and technology consulting services	Senior secured loan ($743 par due 7/2015)	7.50% (Libor + 4.50%/S)	7/31/2008	728	743	$ 1.00(3)(15)	
		Senior subordinated loan ($22,400 par due 7/2016)	11.00% Cash, 2.00% PIK	7/31/2008	22,196	22,400	$ 1.00(2)(4)(15)	
		Senior subordinated loan ($250 par due 7/2016)	11.00% Cash, 2.00% PIK	7/31/2008	220	250	$ 1.00(2)(4)	
Investor Group Services, LLC(6)	Financial services	Limited liability company membership interest (10.00% interest)		6/22/2006		500	(5)	
Pillar Holdings LLC and PHL Holding Co.(6)	Mortgage services	Senior secured revolving loan ($375 par due 11/2013)	5.80% (Libor + 5.50%/B)	11/20/2007	375	375	$ 1.00	
		Senior secured revolving loan ($938 par due 11/2013)	5.80% (Libor + 5.50%/B)	11/20/2007	938	938	$ 1.00	
		Senior secured loan ($1,875 par due 5/2014)	14.50%	7/31/2008	1,875	1,875	$ 1.00	
		Senior secured loan ($5,500 par due 5/2014)	14.50%	7/31/2008	5,500	5,500	$ 1.00	
		Senior secured loan ($16,902 par due 11/2013)	5.80% (Libor + 5.50%/B)	11/20/2007	16,902	16,902	$ 1.00(2)	
		Senior secured loan ($10,550 par due 11/2013)	5.80% (Libor + 5.50%/B)	11/20/2007	10,550	10,550	$ 1.00(3)	
		Common stock (84.78 shares)		11/20/2007	3,768	7,234	$ 85,105.88(5)	
Primis Marketing Group, Inc. and Primis Holdings, LLC(6)	Database marketing services	Senior subordinated note ($10,222 par due 2/2013)	13.50% Cash, 2.00% PIK	8/24/2006	10,222	511	$ 0.05(4)(14)	
		Preferred units (4,000 units)		8/24/2006	3,600		(5)	
		Common units (4,000,000 units)		8/24/2006	400		(5)	
Prommis Solutions, LLC, E-Default Services, LLC, Statewide Tax and Title Services, LLC & Statewide Publishing Services, LLC (formerly known as MR	Bankruptcy and foreclosure processing services	Senior subordinated note ($26,394 par due 2/2014)	11.50% Cash, 2.00% PIK	2/8/2007	26,394	25,866	$ 0.98(4)	

Processing Holding Corp.)

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Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
		Senior subordinated note ($26,498 par due 2/2014)	11.50% Cash, 2.00% PIK	2/8/2007	26,498	25,968	$ 0.98(2)(4)	
		Preferred stock (30,000 shares)		4/11/2006	3,000	6,221	$ 207.37(5)	
R2 Acquisition Corp.	Marketing services	Common stock (250,000 shares)		5/29/2007	250	250	$ 1.00(5)	
Summit Business Media, LLC	Business media consulting services	Junior secured loan ($10,669 par due 11/2013)	15.00% PIK	8/3/2007	10,276	1,600	$ 0.15(3)(4)(14)	
VSS-Tranzact Holdings, LLC(6)	Management consulting services	Common membership interest (8.51% interest)		10/26/2007	10,000	6,000	(5)	
					153,692	133,683		10.93%
Retail								
Apogee Retail, LLC	For-profit thrift retailer	Senior secured loan ($1,863 par due 3/2012)	5.49% (Libor + 5.25%/M)	3/27/2007	1,863	1,677	$ 0.90	
		Senior secured loan ($2,977 par due 3/2012)	5.49% (Libor + 5.25%/M)	3/27/2007	2,977	2,679	$ 0.90	
		Senior secured loan ($11,296 par due 11/2012)	12.00% Cash, 4.00% PIK	5/28/2008	11,296	11,296	$ 1.00(4)	
		Senior secured loan ($26,738 par due 3/2012)	5.50% (Libor + 5.25%/M)	3/27/2007	26,738	24,065	$ 0.90(2)	
		Senior secured loan ($11,700 par due 3/2012)	5.50% (Libor + 5.25%/M)	3/27/2007	11,700	10,530	$ 0.90(3)	
Dufry AG(8)	Retail newstand operator	Common stock (39,056 shares)		3/28/2008	3,000	2,200	$ 56.33(5)	
Savers, Inc. and SAI Acquisition Corporation	For-profit thrift retailer	Senior subordinated note ($6,044 par due 8/2014)	10.00% Cash, 2.00% PIK	8/8/2006	6,044	5,923	$ 0.98(4)	
		Senior subordinated note ($22,236 par due 8/2014)	10.00% Cash, 2.00% PIK	8/8/2006	22,236	21,792	$ 0.98(2)(4)	
		Common stock (1,170,182 shares)		8/8/2006	4,500	5,840	$ 4.99(5)	
Things Remembered, Inc. and TRM Holdings Corporation	Personalized gifts retailer	Senior secured loan ($4,506 par due 9/2012)	5.5% Cash, 1.00% PIK Option	9/28/2006	4,506	3,154	$ 0.70(3)	
		Senior secured loan ($7,303 par due 9/2012)	5.5% Cash, 1.00% PIK Option	9/28/2006	7,303	5,112	$ 0.70(3)	
		Senior secured loan ($28,402 par due 9/2012)	5.5% Cash, 1.00% PIK Option	9/28/2006	28,402	19,882	$ 0.70(2)	
		Preferred stock (800 shares)		9/28/2006	200		$ (5)	
		Common stock (80 shares)		9/28/2006	1,800		$ (5)	
		Warrants to purchase 858 shares of commons shares		3/19/2009			$ (5)	
		Warrants to purchase 73 shares of Preferred shares		3/19/2009			$ (5)	

	132,565	114,150	9.34%

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Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
Manufacturing								
Arrow Group Industries, Inc.	Residential and outdoor shed manufacturer	Senior secured loan ($5,616 par due 4/2010)	5.28% (Libor + 5.00%/Q)	3/28/2005	5,653	5,223	$ 0.93(3)(15)	
Emerald Performance Materials, LLC	Polymers and performance materials manufacturer	Senior secured loan ($9,018 par due 5/2011)	8.25% (Libor + 4.25%/M)	5/16/2006	9,018	8,657	$ 0.96(3)(15)	
		Senior secured loan ($536 par due 5/2011)	8.25% (Libor + 4.25%/M)	5/16/2006	536	515	$ 0.96(3)(15)	
		Senior secured loan ($156 par due 5/2011)	8.50% (Base + 5.25%/M)	5/16/2006	156	150	$ 0.96(3)(15)	
		Senior secured loan ($1,604 par due 5/2011)	10.00% (Libor + 6.00%/M)	5/16/2006	1,604	1,508	$ 0.94(3)(15)	
		Senior secured loan ($4,900 par due 5/2011)	13.00% Cash, 3.00% PIK	5/16/2006	4,900	4,704	$ 0.96(2)(4)	
Qualitor, Inc.	Automotive aftermarket components supplier	Senior secured loan ($1,743 par due 12/2011)	6.00% (Base Rate + 2.75%/M)	12/29/2004	1,743	1,656	$ 0.95(3)	
		Junior secured loan ($5,000 par due 6/2012)	9.00% (Base Rate + 5.75%/M)	12/29/2004	5,000	4,750	$ 0.95(3)	
Reflexite Corporation(7)	Developer and manufacturer of high-visibility reflective products	Senior subordinated loan ($16,557 par due 2/2015)	12.50% Cash, 5.50% PIK	2/28/2008	16,557	16,557	$ 1.00(4)	
		Common stock (1,821,860 shares)		3/28/2006	27,435	24,898	$ 13.67(5)	
Saw Mill PCG Partners LLC	Precision components manufacturer	Common units (1,000 units)		2/2/2007	1,000		$ (5)	
UL Holding Co., LLC	Petroleum product manufacturer	Senior secured loan ($10,945 par, due 12/2012)	9.34% (Libor + 8.88% /Q)	2/13/2009	10,945	10,726	$ 0.98(5)	
		Senior secured loan ($2,985 par, due 12/2012)	14.00%	2/13/2009	2,985	2,925	$ 0.98(5)	
		Senior secured loan ($2,985 par, due 12/2012)	14.00%	2/13/2009	2,985	2,925	$ 0.98(5)	
		Senior secured loan ($995 par, due 12/2012)	14.00%	2/13/2009	995	975	$ 0.98(5)	
		Senior secured loan ($2,985 par, due 12/2012)	9.35% (Libor + 8.88% / Q)	2/13/2009	2,985	2,925	$ 0.98(5)	
		Common units (50,000 units)		4/25/2008	500	500	$ 10.00(5)	
		Common units (50,000 units)		4/25/2008			$ (5)	
Universal Trailer Corporation(6)	Livestock and specialty trailer manufacturer	Common stock (74,920 shares)		10/8/2004	7,930		$ (5)	
					102,927	89,594		7.33%

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Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
Printing, Publishing and Media								
Canon Communications LLC	Print publications services	Junior secured loan ($11,907 par due 11/2011)	13.75% (Libor + 8.75% Cash, 2.00% PIK/Q)	5/25/2005	11,902	10,121	$ 0.85(2)(4)(15)	
		Junior secured loan ($12,134 par due 11/2011)	13.75% (Base Rate + 8.75% Cash, 2.00% PIK/Q)	5/25/2005	12,130	10,314	$ 0.85(3)(4)(15)	
Courtside Acquisition Corp.	Community newspaper publisher	Senior subordinated loan ($34,295 par due 6/2014)	17.00% PIK	6/29/2007	34,295		$ (4)(14)	
LVCG Holdings LLC(7)	Commercial printer	Membership interests (56.53% interest)		10/12/2007	6,600	1,980	$ (5)	
National Print Group, Inc.	Printing management services	Senior secured revolving loan ($1,826 par due 3/2012)	9.00% (Libor + 6.00%/S)	3/2/2006	1,826	1,114	$ 0.61(15)	
		Senior secured revolving loan ($343 par due 3/2012)	8.25% (Base Rate + 5.00%/M)	3/2/2006	272	166	$ 0.61(15)	
		Senior secured loan ($6,942 par due 3/2012)	16.00% (Base Rate + 9.00 Cash, 4.00% PIK/Q)	3/2/2006	6,888	4,235	$ 0.75(3)(15)(4)	
		Senior secured loan ($1,405 par due 3/2012)	16.00% (Base Rate + 8.00 Cash, 4.00% PIK/M)	3/2/2006	1,128	693	$ 0.75(3)(15)(4)	
		Preferred stock (9,344 shares)		3/2/2006	2,000		$ (5)	
The Teaching Company, LLC and The Teaching Company Holdings, Inc.(11)	Education publications provider	Senior secured loan ($18,000 par due 9/2012)	10.50%	9/29/2006	18,000	18,000	$ 1.00(2)(11)	
		Senior secured loan ($10,000 par due 9/2012)	10.50%	9/29/2006	10,000	10,000	$ 1.00(3)(11)	
		Preferred stock (29,969 shares)	8.00%	9/29/2006	2,997	3,873	$ 129.23(5)	
		Common stock (15,393 shares)		9/29/2006	3	4	$ 0.26(5)	
					108,041	60,500		4.95%
Aerospace & Defense								
AP Global Holdings, Inc.	Safety and security equipment manufacturer	Senior secured loan ($7,813 par due 10/2013)	4.75% (Libor + 4.50%/M)	11/8/2007	7,671	7,110	$ 0.91(3)	
ILC Industries, Inc.	Industrial products provider	Junior secured loan ($12,000 par due 8/2012)	11.50%	6/27/2006	12,000	12,000	$ 1.00(3)	
Thermal Solutions LLC and TSI Group, Inc.	Thermal management and electronics packaging manufacturer	Senior secured loan ($572 par due 3/2011)	4.03% (Libor + 3.75%/Q)	3/28/2005	572	549	$ 0.96(3)	
		Senior secured loan ($2,740 par due 3/2012)	4.53% (Libor + 4.25%/Q)	3/28/2005	2,740	2,494	$ 0.91(3)	
		Senior subordinated notes ($2,730 par due 3/2013)	11.50% Cash, 2.50% PIK	3/21/2006	2,730	2,593	$ 0.97(2)(4)	

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Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
		Senior subordinated notes ($2,150 par due 9/2012)	11.50% Cash, 2.75% PIK	3/28/2005	2,150	2,042	$ 0.97(4)	
		Senior subordinated notes ($3,394 par due 9/2012)	11.50% Cash, 2.75% PIK	3/28/2005	3,394	3,225	$ 0.97(2)(4)	
		Preferred stock (71,552 shares)		3/28/2005	716	716	$ 10.00(5)	
		Common stock (1,460,246 shares)		3/28/2005	15	15	$ 0.01(5)	
Wyle Laboratories, Inc. and Wyle Holdings, Inc.	Provider of specialized engineering, scientific and technical services	Junior secured loan ($16,000 par due 7/2014)	15.00%	1/17/2008	16,000	16,000	$ 1.00	
		Junior secured loan ($12,000 par due 7/2014)	15.00%	1/17/2008	12,000	12,000	$ 1.00(3)	
		Junior Preferred stock (14,655 shares)	10.00% PIK	1/17/2008	1,816	1,455	$ 99.28(4)(5)	
		Senior Preferred stock (775 shares)	8.00% PIK	1/17/2008	96	77	$ 99.35(4)(5)	
		Common stock (151,439 shares)		1/17/2008	188	148	$ 0.98(5)	
					62,088	60,424		4.94%
Consumer Products Non-Durable								
Innovative Brands, LLC	Consumer products and personal care manufacturer	Senior secured loan ($9,059 par due 9/2011)	15.50%	10/12/2006	9,059	9,059	$ 1.00	
		Senior secured loan ($8,362 par due 9/2011)	15.50%	10/12/2006	8,362	8,362	$ 1.00(3)	
Making Memories Wholesale, Inc.(7)	Scrapbooking branded products manufacturer	Senior secured loan ($9,875 par due 8/2014)	10.00% (Libor + 6.50%/Q)	8/21/2009	7,869	9,875	$ 1.00(15)	
		Senior secured loan ($5,042 par due 8/2014)	15.00% (7.50% Cash, 7.50% PIK/Q)	8/21/2009	4,070	3,025	$ 0.60(4)	
		Common stock (100 shares)		8/21/2009			$ (5)	
Shoes for Crews, LLC	Safety footwear and slip-related mat manufacturer	Senior secured loan ($302 par due 7/2010)	5.50% (Base + 2.25%/Q)	10/8/2004	304	302	$ 1.00(3)	
The Thymes, LLC(7)	Cosmetic products manufacturer	Preferred stock (6,283 shares)	8.00% PIK	6/21/2007	6,283	5,654	$ 899.89(4)	
		Common stock (5,400 shares)		6/21/2007			$ (5)	
Wear Me Apparel, LLC(6)	Clothing manufacturer	Senior subordinated notes ($24,110 par due 4/2013)	17.50% PIK	4/2/2007	24,110	18,083	$ 0.75(4)(14)	
		Common stock (10,000 shares)		4/2/2007	10,000		$ (5)	
					70,057	54,360		4.45%

Telecommunications								
American Broadband Communications, LLC and American Broadband Holding Company	Broadband communication services	Senior subordinated loan ($34,004 par due 11/2014)	18.00% (10.00% Cash, 8.00% PIK/Q)	2/8/2008	34,004	34,004	$	1.00(4)

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Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
		Senior subordinated loan ($8,580 par due 11/2014)	18.00% (10.00% Cash, 8.00% PIK/Q)	11/7/2007	8,580	8,580	$ 1.00(4)	
		Warrants to purchase 170 shares		11/7/2007			$ (5)	
					42,584	42,584		3.48%
Environmental Services								
AWTP, LLC	Water treatment services	Junior secured loan ($9,510 par due 12/2012)	11.50% (Base Rate + 8.25%/Q)	12/23/2005	9,510	4,755	$ 0.50(4)(14)	
		Junior secured loan ($4,172 par due 12/2012)	11.50% (Base Rate + 8.25%/Q)	12/23/2005	4,172	2,086	$ 0.50(3)(4)(14)	
Mactec, Inc.	Engineering and environmental services	Class B-4 stock (16 shares)		11/3/2004			$ (5)	
		Class C stock (5,556 shares)		11/3/2004		150	$ 27.00(5)	
Sigma International Group, Inc.	Water treatment parts manufacturer	Junior secured loan ($4,000 par due 10/2013)	15.00% (Libor + 7.00%/Q)	10/11/2007	4,000	2,800	$ 0.70(3)(15)	
		Junior secured loan ($1,833 par due 10/2013)	15.00% (Libor + 7.00%/Q)	10/11/2007	1,833	1,283	$ 0.70(2)(15)	
		Junior secured loan ($2,750 par due 10/2013)	15.00% (Libor + 7.00%/Q)	11/1/2007	2,750	1,925	$ 0.70(2)(15)	
		Junior secured loan ($6,000 par due 10/2013)	15.00% (Libor + 7.00%/Q)	11/1/2007	6,000	4,200	$ 0.70(3)(15)	
		Junior secured loan ($2,000 par due 10/2013)	15.00% (Libor + 7.00%/Q)	11/6/2007	2,000	1,400	$ 0.70(3)(15)	
		Junior secured loan ($917 par due 10/2013)	15.00% (Libor + 7.00%/Q)	11/6/2007	917	642	$ 0.70(2)(15)	
Waste Pro USA, Inc.	Waste management services	Class A Common Equity (611,614.80 shares)		11/9/2006	12,263	13,263	$ 21.69(4)	
Wastequip, Inc.(6)	Waste management equipment manufacturer	Senior subordinated loan ($13,121 par due 2/2015)	10.00% Cash, 2.00% PIK	2/5/2007	13,030	3,936	$ 0.30(4)	
		Common stock (13,889 shares)		2/2/2007	1,389		$ (5)	
					57,864	36,440		2.98%
Computers and Electronics								
RedPrairie Corporation	Software manufacturer	Junior secured loan ($3,300 par due 1/2013)	6.97% (Libor + 6.50%/Q)	7/13/2006	3,300	3,135	$ 0.95(2)	
		Junior secured loan ($12,000 par due 1/2013)	6.97% (Libor + 6.50%/Q)	7/13/2006	12,000	11,400	$ 0.95(3)	
TZ Merger Sub, Inc.	Computers and Electronics	Senior secured loan ($4,830 par due 07/2015)	7.50% (Libor + 4.50%/Q)	6/15/2009	4,726	4,830	$ 1.00(2)(15)	
X-rite, Incorporated	Artwork software	Junior secured loan ($3,116 par due	14.38% (Libor + 10.38%/Q)	7/6/2006	3,116	3,116	$ 1.00(15)	

manufacturer	7/2013)						
	Junior secured loan ($7,790 par due 7/2013)	14.38% (Libor + 10.38%/Q)	7/6/2006	7,790	7,790	$ 1.00(3)(15)	
				30,932	30,271		2.48%

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Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
Cargo Transport								
The Kenan Advantage Group, Inc.	Fuel transportation provider	Senior subordinated notes ($25,899 par due 12/2013)	9.50% Cash, 3.50% PIK	12/15/2005	25,899	25,381	$ 0.95(2)(4)	
		Senior secured loan ($2,407 par due 12/2011)	3.00% (Libor + 2.75%/M)	12/15/2005	2,407	2,238	$ 0.93(3)	
		Preferred stock (10,984 shares)		12/15/2005	1,098	1,459	$ 132.83(4)(5)	
		Common stock (30,575 shares)		12/15/2005	31	41	$ 1.34(5)	
					29,435	29,119		2.38%
Health Clubs								
Athletic Club Holdings, Inc.	Premier health club operator	Senior secured loan ($1,750 par due 10/2013)	4.74% (Libor + 4.50%/M)	10/11/2007	1,750	1,540	$ 0.88(13)	
		Senior secured loan ($1,000 par due 10/2013)	4.75% (Libor + 4.50%/M)	10/11/2007	1,000	880	$ 0.88(13)	
		Senior secured loan ($11,496 par due 10/2013)	4.75% (Libor + 4.50%/M)	10/11/2007	11,496	10,116	$ 0.88(3)(13)	
		Senior secured loan ($12,495 par due 10/2013)	4.75% (Libor + 4.50%/M)	10/11/2007	12,495	10,996	$ 0.88(2)(13)	
		Senior secured loan ($4 par due 10/2013)	7.75% (Base Rate + 4.50%/Q)	10/11/2007	4	4	$ 0.88(3)(13)	
		Senior secured loan ($5 par due 10/2013)	6.75% (Base Rate + 3.50%/Q)	10/11/2007	5	4	$ 0.88(2)(13)	
					26,750	23,540		1.93
Containers-Packaging								
Industrial Container Services, LLC(6)	Industrial container manufacturer, reconditioner and servicer	Senior secured loan ($681 par due 9/2011)	4.25% (Libor + 4.00%/M)	6/21/2006	661	628	$ 0.95(2)	
		Senior secured loan ($43 par due 9/2011)	4.25% (Libor + 4.00%/M)	6/21/2006	43	41	$ 0.95(3)	
		Senior secured loan ($4926 par due 9/2011)	4.29% (Libor + 4.00%/M)	6/21/2006	4,926	4,680	$ 0.95(2)	
		Senior secured loan ($322 par due 9/2011)	4.29% (Libor + 4.00%/M)	6/21/2006	322	306	$ 0.95(3)	
		Senior secured loan ($6,157 par due 9/2011)	4.28% (Libor + 4.00%/M)	6/21/2006	6,157	5,850	$ 0.95(2)	
		Senior secured loan ($402 par due 9/2011)	4.28% (Libor + 4.00%/M)	6/21/2006	402	382	$ 0.95(3)	
		Senior secured loan ($98 par due 9/2011)	4.25% (Libor + 4.00%/M)	6/21/2006	98	93	$ 0.95(2)	

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Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
		Senior secured loan ($1,495 par due 9/2011)	4.25% (Libor + 4.00%/M)	6/21/2006	1,495	1,420	$ 0.95(3)	
		Common stock (1,800,000 shares)		9/29/2005	1,800	8,550	$ 4.75(5)	
					15,904	21,950		1.80%
Grocery								
Planet Organic Health Corp.(8)	Organic grocery store operator	Junior secured loan ($860 par due 7/2014)	13.00%	7/3/2007	859	817	$ 0.95	
		Junior secured loan ($10,249 par due 7/2014)	13.00%	7/3/2007	10,240	9,737	$ 0.95(3)	
		Senior subordinated loan ($12,341 par due 7/2012)	13.00% Cash, 4.00% PIK	7/3/2007	12,288	9,873	$ 0.80(2)(4)	
					23,387	20,427		1.67%
Consumer Products Durable								
Direct Buy Holdings, Inc. and Direct Buy Investors, LP(6)	Membership-based buying club franchisor and operator	Senior secured loan ($2,281 par due 11/2012)	6.82% (Libor + 6.50%/M)	12/14/2007	2,199	1,710	$ 0.75	
		Partnership interests (19.31% interest)		11/30/2007	10,000	2,500	(5)	
					12,199	4,210		0.34%
Housing Building Materials								
HB&G Building Products	Synthetic and wood product manufacturer	Senior subordinated loan ($8,956 par due 3/2011)	19.0% PIK	10/8/2004	8,984	448	$ 0.05(2)(4)(14)	
		Common stock (2,743 shares)		10/8/2004	753		$ (5)	
		Warrants to purchase 4,464 shares		10/8/2004	653		$ (5)	
					10,390	448		0.04%
					$ 2,245,137	$ 1,967,724		

(1) Other than our investments in HCP Acquisition Holdings, LLC, Ivy Hill Middle Market Credit Fund, Ltd., LVCG Holdings LLC, Making Memories Wholesale, Inc., Reflexite Corporation and The Thymes, LLC, we do not "Control" any of our portfolio companies, as defined in the Investment Company Act. In general, under the Investment Company Act, we would "Control" a portfolio company if we owned more than 25% of its outstanding voting securities and/or had the power to exercise control over the management or policies of such portfolio company. All of our portfolio company investments are subject to legal restrictions on sales which as of September 30, 2009 represented 161% of the Company's net assets.

(2) These assets are owned by the Company's wholly owned subsidiary Ares Capital CP, are pledged as collateral for the CP 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 CP Funding Facility (see Note 7 to the consolidated financial statements). Unless otherwise noted, as of September 30, 2009, all other investments were pledged as collateral for the Revolving Credit Facility (see Note 7 to the consolidated financial statements).

(3)

Pledged as collateral for the ARCC CLO. Unless otherwise noted, as of September 30, 2009, all other investments were pledged as collateral for the Revolving Credit Facility (see Note 7 to the consolidated financial statements).

(4)

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

(5)

Non-income producing at September 30, 2009.

(6)

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

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management agreement). Transactions during the period for the nine months ended September 30, 2009 in which the issuer was an Affiliated company (but not a portfolio company that we "Control") are as follows (in thousands):

Company	Purchases	Redemptions (cost)	Sales (cost)	Interest income	Capital structuring service fees	Dividend Income	Other income	Net realized gains (losses)	Net unrealized gains (losses)
Apple & Eve, LLC and US Juice Partners, LLC	$ 4,500	$ 12,831	$ 5,000	$ 4,045	$	$	$ 26	$	$ 10,423
Carador, PLC	$	$	$	$	$	$ 285	$	$	$ (1,956)
Campus Management Corp. and Campus Management Acquisition Corp.	$	$ 2,309	$ 15,000	$ 4,706	$	$	$ 78	$ (482)	$ 800
CT Technologies Intermediate Holdings, Inc. and CT Technologies Holdings, LLC	$	$	$	$ 778	$	$	$ 9	$	$ 2,380
Direct Buy Holdings, Inc. and Direct Buy Investors LP	$	$	$	$ 97	$	$	$	$	$ (4,000)
Firstlight Financial Corporation	$	$	$	$ 2,789	$	$	$ 1,380	$	$ (11,032)
Imperial Capital Group, LLC	$ 2,210	$	$	$	$	$	$	$	$ 5,003
Industrial Container Services, LLC	$ 6,154	$ 10,349	$	$ 552	$	$	$ 122	$	$ (1,335)
Investor Group Services, LLC	$	$ 750	$	$	$	$	$ 19	$	$
Pillar Holdings LLC and PHL Holding Co.	$	$ 2,936	$	$ 2,180	$	$	$ 25	$	$ 1,967
Primis Marketing Group, Inc. and Primis Holdings, LLC	$	$	$	$	$	$	$	$	$ (511)
R3 Education, Inc.	$ 24,000	$ 31,600	$	$ 697	$	$	$ 29	$	$ 87
VSS-Tranzact Holdings, LLC	$	$	$	$	$	$	$	$	$
Wastequip, Inc.	$	$	$	$ 1,099	$	$	$	$	$ (3,950)
Wear Me Apparel, LLC	$	$	$	$ 75	$	$	$	$	$ 6,027

(7)

As defined in the Investment Company Act, we are an "Affiliated Person" of this portfolio company because we own 5% or more of the portfolio company's outstanding voting securities or we have the power to exercise control over the management or policies of such portfolio company (including through a management agreement). In addition, as defined in the Investment Company Act, we "Control" this portfolio company because we own more than 25% of the portfolio company's outstanding voting securities or we have the power to exercise control over the management or policies of such portfolio company (including through a management agreement). Transactions during the period for the nine months ended September 30, 2009 in which the issuer was both an Affiliated company and a portfolio company that we Control are as follows (in thousands):

Company	Purchases	Redemptions (cost)	Sales (cost)	Interest income	Capital structuring service fees	Dividend Income	Other income	Net realized gains (losses)	Net unrealized gains (losses)
HCP Acquisition Holdings, LLC	$ 1,495	$	$	$	$	$	$	$	$ (801)
Ivy Hill Asset Management, LP	$ 3,816	$	$ 236	$	$	$ 1,511	$	$ 494	$ 7,502
Ivy Hill Middle Market Credit Fund, Ltd.	$	$	$ 131	$ 4,072	$	$	$ 1,265	$	$ 813
LVCG Holdings, LLC	$	$	$	$	$	$	$ 50	$	$ (6,520)
Making Memories Wholesale, Inc.	$ 11,953	$ 100	$ 26,177	$ 181	$	$	$ 1	$ (14,198)	$ 15,111
R3 Education, Inc.	$ 15,613	$ 6,050	$	$ 652	$	$	$ 17	$	$ (3,616)
Reflexite Corporation	$ 7,800	$	$ 2,000	$ 2,067	$ 194	$	$ 71	$	$ (10,603)
The Thymes, LLC	$	$	$	$ 376	$	$	$	$	$ 629

(8)

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

(9)
Non-registered investment company.

(10)
A majority of the variable rate loans to our portfolio companies bear interest at a rate that may be determined by reference to either Libor or an alternate Base Rate (commonly based on the Federal Funds Rate or the Prime Rate), at the borrower's option, which reset annually (A), semi-annually (S), quarterly (Q), bi-monthly (B), monthly (M) or daily (D). For each such loan, we have provided the interest rate in effect at September 30, 2009.

(11)
In addition to the interest earned based on the stated interest rate of this security, we are entitled to receive an additional interest amount of 2.50% on $19.6 million aggregate principal amount of the portfolio company's senior term debt previously syndicated by us.

(12)
Principal amount denominated in Canadian dollars has been translated into U.S. dollars (see Note 2 to the consolidated financial statements).

(13)
In addition to the interest earned based on the stated interest rate of this security, we are entitled to receive an additional interest amount of 2.50% on $25.0 million aggregate principal amount of the portfolio company's senior term debt previously syndicated by us.

(14)
Loan was on non-accrual status as of September 30, 2009.

(15)
Loan includes interest rate floor feature.

(16)
In addition to the interest earned based on the stated interest rate of this security, we are entitled to receive an additional interest amount of 2.98% on $15.0 million aggregate principal amount of the portfolio company's senior term debt previously syndicated by us.

See accompanying notes to consolidated financial statements.

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ARES CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

As of December 31, 2008

(dollar amounts in thousands, except per unit data)

Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
Healthcare Services								
American Renal Associates, Inc.	Dialysis provider	Senior secured loan ($1,443 par due 12/2010)	4.72% (Libor + 3.25%/Q)	12/14/2005	$ 1,443	$ 1,399	$ 0.97(3)	
		Senior secured loan ($180 par due 12/2010)	5.00% (Base Rate + 1.75%/D)	12/14/2005	180	175	$ 0.97(3)	
		Senior secured loan ($5,705 par due 12/2011)	4.72% (Libor + 3.25%/Q)	12/14/2005	5,705	5,534	$ 0.97(3)	
		Senior secured loan ($34 par due 12/2011)	5.00% (Base Rate + 1.75%/D)	12/14/2005	34	33	$ 0.97(3)	
		Senior secured loan ($262 par due 12/2011)	4.72% (Libor + 3.25%/Q)	12/14/2005	262	254	$ 0.97(3)	
		Senior secured loan ($2,620 par due 12/2011)	7.30% (Libor + 3.25% /Q)	12/14/2005	2,620	2,541	$ 0.97(3)	
Capella Healthcare, Inc.	Acute care hospital operator	Junior secured loan ($70,000 par due 2/2016)	13.00%	2/29/2008	70,000	63,000	$ 0.90	
		Junior secured loan ($25,000 par due 2/2016)	13.00%	2/29/2008	25,000	22,500	$ 0.90(2)	
CT Technologies Intermediate Holdings, Inc. and CT Technologies Holdings, LLC(6)	Healthcare analysis services	Preferred stock (7,427 shares)	14.00% PIK	6/15/2007	7,427	7,427	$ 1,000.00(4)	
		Common stock (9,679 shares)		6/15/2007	4,000	5,382	$ 556.05(5)	
		Common stock (1,546 shares)		6/15/2007			$ (5)	

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Company(1)	**Industry**	**Investment**	**Interest(10)**	**Initial Acquisition Date**	**Amortized Cost**	**Fair Value**	**Fair Value Per Unit**	**Percentage of Net Assets**
DSI Renal, Inc.	Dialysis provider	Senior secured revolving loan ($142 par due 3/2013)	6.25% (Base Rate + 3.00%/D)	4/4/2006	142	127	$ 0.89	
		Senior secured revolving loan ($3,520 par due 3/2013)	3.47% (Libor + 3.00%/M)	4/4/2006	3,520	3,168	$ 0.90	
		Senior secured revolving loan ($1,120 par due 3/2013)	3.47% (Libor + 3.00%/M)	4/4/2006	1,120	1,008	$ 0.90	
		Senior secured revolving loan ($1,152 par due 3/2013)	4.50% (Libor + 3.00%/Q)	4/4/2006	1,152	1,037	$ 0.90	
		Senior secured revolving loan ($1,600 par due 3/2013)	4.50% (Libor + 3.00%/Q)	4/4/2006	1,600	1,440	$ 0.90	
		Senior subordinated note ($29,589 par due 4/2014)	12.00% Cash, 2.00% PIK	4/4/2006	29,658	21,896	$ 0.74(4)	
		Senior subordinated note ($26,927 par due 4/2014)	12.00% Cash, 2.00% PIK	4/4/2006	26,971	19,847	$ 0.73(2)(4)	
		Senior subordinated note ($12,211 par due 4/2014)	12.00% Cash, 2.00% PIK	4/4/2006	12,231	9,036	$ 0.74(3)(4)	
GG Merger Sub I, Inc.	Drug testing services	Senior secured loan ($23,330 par due 12/2014)	7.09% (Libor + 4.00%/S)	12/14/2007	22,426	18,938	$ 0.81	
HCP Acquisition Holdings, LLC(7)	Healthcare compliance advisory services	Class A units (8,566,824 units)		6/26/2008	8,567	6,500	$ 0.76(5)	
Heartland Dental Care, Inc.	Dental services	Senior subordinated note ($40,217 par due 8/2013)	11.00% Cash, 3.25% PIK	7/31/2008	40,217	40,217	$ 1.00(4)	
MPBP Holdings, Inc., Cohr Holdings, Inc. and MPBP Acquisition Co., Inc.	Healthcare equipment services	Junior secured loan ($20,000 par due 1/2014)	9.19% (Libor + 6.25%/S)	1/31/2007	20,000	7,000	$ 0.35	
		Junior secured loan ($12,000 par due 1/2014)	9.19% (Libor + 6.25%/S)	1/31/2007	12,000	4,200	$ 0.35(3)	
		Common stock (50,000 shares)		1/31/2007	5,000		$ (5)	
MWD Acquisition Sub, Inc.	Dental services	Junior secured loan ($5,000 par due 5/2012)	8.13% (Libor + 6.25%/M)	5/3/2007	5,000	4,250	$ 0.85(3)	

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Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
OnCURE Medical Corp.	Radiation oncology care provider	Senior subordinated note ($32,176 par due 8/2013)	11.00% Cash, 1.50% PIK	8/18/2006	32,176	28,935	$ 0.90(4)	
		Senior secured loan ($3,083 par due 8/2009)	4.75% (Libor + 3.50%/M)	8/18/2006	3,083	3,000	$ 0.97(3)	
		Common stock (857,143 shares)		8/18/2006	3,000	2,713	$ 3.17(5)	
Passport Health Communications, Inc., Passport Holding Corp. and Prism Holding Corp.	Healthcare technology provider	Senior secured loan ($12,935 par due 5/2014)	10.50% (Libor + 7.50%/S)	5/9/2008	12,935	12,671	$ 0.98(15)	
		Senior secured loan ($11,940 par due 5/2014)	10.50% (Libor + 7.50%/S)	5/9/2008	11,940	11,701	$ 0.98(3)(15)	
		Series A preferred stock (1,594,457 shares)		7/30/2008	9,900	9,902	$ 6.21(5)	
		Common stock (16,106 shares)		7/30/2008	100	100	$ 6.21(5)	
PG Mergersub, Inc.	Provider of patient surveys, management reports and national databases for the integrated healthcare delivery system	Senior subordinated loan ($5,000 par due 3/2016)	12.50%	3/12/2008	4,901	4,750	$ 0.95	
		Preferred stock (333 shares)		3/12/2008	333	333	$ 1,000.00(5)	
		Common stock (16,667 shares)		3/12/2008	167	167	$ 10.00(5)	
The Schumacher Group of Delaware, Inc.	Outsourced physician service provider	Senior subordinated loan ($35,849 par due 7/2012)	11.00% Cash, 2.50% PIK	7/18/2008	35,849	35,849	$ 1.00(4)	
Triad Laboratory Alliance, LLC	Laboratory services	Senior subordinated note ($15,354 par due 12/2012)	12.00% Cash, 1.75% PIK	12/21/2005	15,354	14,894	$ 0.97(4)	
		Senior secured loan ($2,473 par due 12/2011)	4.71% (Libor + 3.25%/Q)	12/21/2005	2,473	2,201	$ 0.89(3)	
VOTC Acquisition Corp.	Radiation oncology care provider	Senior secured loan ($3,068 par due 7/2012)	11.00% Cash, 2.00% PIK	6/30/2008	3,068	3,068	$ 1.00(4)	
		Senior secured loan ($14,000 par due 7/2012)	11.00% Cash, 2.00% PIK	6/30/2008	14,000	14,000	$ 1.00(4)	
		Series E preferred shares (3,888,222 shares)		7/14/2008	8,749	6,561	$ 1.69(5)	
					464,303	397,754		36.33%

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Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
Education								
Campus Management Corp. and Campus Management Acquisition Corp.(6)	Education software developer	Senior secured revolving loan ($2,309 par due 8/2013)	13.00%	2/8/2008	2,309	2,309	$ 1.00	
		Senior secured loan ($19,924 par due 8/2013)	13.00%	2/8/2008	19,924	19,924	$ 1.00	
		Senior secured loan ($25,108 par due 8/2013)	13.00%	2/8/2008	25,108	25,108	$ 1.00(2)	
		Senior secured loan ($12,019 par due 8/2013)	13.00%	2/8/2008	12,019	12,019	$ 1.00	
		Preferred stock (493,147 shares)	8.00% PIK	2/8/2008	8,952	12,000	$ 24.33(4)	
ELC Acquisition Corporation	Developer, manufacturer and retailer of educational products	Senior secured loan ($242 par due 11/2012)	5.45% (Libor + 3.25%/Q)	11/30/2006	243	219	$ 0.90(3)	
		Junior secured loan ($8,333 par due 11/2013)	7.47% (Libor + 7.00%/M)	11/30/2006	8,333	7,500	$ 0.90(3)	
Instituto de Banca y Comercio, Inc.(8)	Private school operator	Senior secured revolving loan ($1,643 par due 3/2014)	5.00% (Libor + 3.00%/Q)	3/15/2007	1,643	1,643	$ 1.00	
		Senior secured loan ($7,500 par due 3/2014)	8.42% (Libor + 5.00%/Q)	3/15/2007	7,500	7,500	$ 1.00	
		Senior secured loan ($7,266 par due 3/2014)	8.42% (Libor + 5.00%/Q)	3/15/2007	7,266	7,266	$ 1.00	
		Senior secured loan ($4,987 par due 3/2014)	8.42% (Libor + 5.00%/Q)	3/15/2007	4,987	4,987	$ 1.00(2)	
		Senior secured loan ($11,820 par due 3/2014)	8.42% (Libor + 5.00%/Q)	3/15/2007	11,820	11,820	$ 1.00(3)	
		Senior subordinated loan ($19,641 par due 6/2014)	10.50% Cash, 3.50% PIK	6/4/2008	19,641	19,641	$ 1.00(4)	
		Promissory note ($429 par due 9/2015)	6.00%	6/4/2008	429	1,714	$ 4.00	
		Preferred stock (214,286 shares)		6/4/2008	1,018	4,072	$ 19.00(5)	
		Common stock (214,286 shares)		6/4/2008	54	214	$ 1.00(5)	
Lakeland Finance, LLC	Private school operator	Senior secured note ($18,000 par due 12/2012)	11.50%	12/13/2005	18,000	16,920	$ 0.94	
		Senior secured note ($15,000 par due 12/2012)	11.50%	12/13/2005	15,000	14,100	$ 0.94(2)	

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Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
R3 Education, Inc. (formerly known as Equinox EIC Partners, LLC and MUA Management Company, Ltd.)(7)(8)	Medical school operator	Senior secured revolving loan ($3,850 par due 12/2012)	8.25% (Base Rate + 5.00%/D)	4/3/2007	3,850	3,773	$ 0.98	
		Senior secured revolving loan ($1,250 par due 12/2012)	8.25% (Base Rate + 5.00%/D)	4/3/2007	1,250	1,225	$ 0.98	
		Senior secured loan ($3,024 par due 12/2012)	6.46% (Libor + 6.00%/M)	4/3/2007	3,024	2,963	$ 0.98(2)	
		Senior secured loan ($14,113 par due 12/2012)	6.46% (Libor + 6.00%/M)	9/21/2007	14,113	13,830	$ 0.98(2)	
		Senior secured loan ($7,350 par due 12/2012)	9.09% (Libor + 6.00%/S)	4/3/2007	7,350	7,203	$ 0.98(3)	
		Common membership interest (26.27% interest)		9/21/2007	15,800	20,785	(5)	
		Preferred stock (800 shares)			200	200	$ 250.00(5)	
					209,833	218,935		20.00%
Restaurants and Food Services								
ADF Capital, Inc. & ADF Restaurant Group, LLC	Restaurant owner and operator	Senior secured revolving loan ($1,381 par due 11/2013)	5.75% (Base Rate + 2.50%/D)	11/27/2006	1,381	1,313	$ 0.95	
		Senior secured revolving loan ($2,005 par due 11/2013)	6.61% (Libor + 3.00% Cash, 0.50% PIK/S)	11/27/2006	2,005	1,905	$ 0.95(4)	
		Senior secured loan ($2 par due 11/2012)	12.00% (Base Rate + 7.5%/D)	11/27/2006	2	2	$ 1.00	
		Senior secured loan ($1 par due 11/2012)	12.00% (Base Rate + 7.5%/D)	11/27/2006	1	1	$ 1.00(3)	
		Senior secured loan ($22,656 par due 11/2012)	11.61% (Libor + 7.50% Cash, 1.00% PIK/S)	11/27/2006	22,912	21,520	$ 0.94(4)	
		Senior secured loan ($992 par due 11/2012)	11.61% (Libor + 7.50% Cash, 1.00% PIK/S)	11/27/2006	992	942	$ 0.95(2)(4)	
		Senior secured loan ($11,081 par due 11/2012)	11.61% (Libor + 7.50% Cash, 1.00% PIK/S)	11/27/2006	11,075	10,529	$ 0.95(3)(4)	
		Promissory note ($12,079 par due 11/2016)	10.00% PIK	6/1/2006	12,067	12,067	$ 1.00(4)	

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Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
		Warrants to purchase 0.61 shares		6/1/2006			$ (5)	
Encanto Restaurants, Inc.(8)	Restaurant owner and operator	Junior secured loan ($21,184 par due 8/2013)	7.50% Cash, ..350% PIK	8/16/2006	21,184	19,084	$ 0.90(2)(4)	
		Junior secured loan ($4,035 par due 8/2013)	7.50% Cash, 3.50% PIK	8/16/2006	4,035	3,635	$ 0.90(3)(4)	
OTG Management, Inc.	Airport restaurant operator	Junior secured loan ($15,312 par due 6/2013)	18.00% (Libor + 11.00% Cash, 4.00% PIK/M)	6/19/2008	15,312	15,312	$ 1.00(4)(15)	
		Warrants to purchase up to 9 shares of common stock					$ (5)	
Vistar Corporation and Wellspring Distribution Corp.	Food service distributor	Senior subordinated loan ($48,625 par due 5/2015)	13.50%	5/23/2008	48,625	46,680	$ 0.96	
		Senior subordinated loan ($25,000 par due 5/2015)	13.50%	5/23/2008	25,000	24,000	$ 0.96(2)	
		Class A non-voting common stock (1,366,120 shares)		5/23/2008	7,500	3,500	$ 2.56(5)	
					172,091	160,490		14.66%
Beverage, Food and Tobacco								
3091779 Nova Scotia Inc.(8)	Baked goods manufacturer	Junior secured loan (Cdn$14,058 par due 11/2012)	11.50% Cash, 1.50% PIK	11/2/2007	14,904	10,961	$ 0.74(4)(12)	
		Warrants to purchase 57,545 shares					$ (5)	
Apple & Eve, LLC and US Juice Partners, LLC(6)	Juice manufacturer	Senior secured revolving loan ($8,000 par due 10/2013)	7.90% (Libor + 6.00%/M)	10/5/2007	8,000	6,400	$ 0.80	
		Senior secured loan ($10,637 par due 10/2013)	6.47% (Libor + 6.00%/M)	10/5/2007	10,637	8,509	$ 0.80	
		Senior secured loan ($19,976 par due 10/2013)	6.47% (Libor + 6.00%/M)	10/5/2007	19,976	15,981	$ 0.80(2)	
		Senior secured loan ($10,805 par due 10/2013)	6.47% (Libor + 6.00%/M)	10/5/2007	10,805	8,644	$ 0.80(3)	
		Senior units (50,000 units)		10/5/2007	5,000	2,500	$ 50.00(5)	

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Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
Best Brands Corporation	Baked goods manufacturer	Senior secured loan ($10,971 par due 12/2012)	10.43% (Libor + 4.50% Cash, 4.50% PIK/M)	2/15/2008	9,501	9,326	$ 0.86(4)	
		Junior secured loan ($4,319 par due 6/2013)	10.00% Cash, 8.00% PIK	12/14/2006	4,307	3,883	$ 0.90(4)	
		Junior secured loan ($26,400 par due 6/2013)	10.00% Cash, 8.00% PIK	12/14/2006	26,308	23,729	$ 0.90(2)(4)	
		Junior secured loan ($12,201 par due 6/2013)	10.00% Cash, 8.00% PIK	12/14/2006	12,164	10,969	$ 0.90(3)(4)	
Bumble Bee Foods, LLC and BB Co-Invest LP	Canned seafood manufacturer	Senior subordinated loan ($40,706 par due 11/2018)	16.25% (12.00% Cash, 4.25% Optional PIK)	11/18/2008	40,706	40,706	$ 1.00(4)	
		Common stock (4,000 shares)		11/18/2008	4,000	4,000	$ 1,000.00(5)	
Charter Baking Company, Inc.	Baked goods manufacturer	Senior subordinated note ($5,547 par due 2/2013)	12.00% PIK	2/6/2008	5,547	5,547	$ 1.00(2)(4)	
		Preferred stock (6,258 shares)		9/1/2006	2,500	2,500	$ 399.49(5)	
					174,355	153,655		14.03%
Services Other								
American Residential Services, LLC	Plumbing, heating and air-conditioning services	Junior secured loan ($20,201 par due 4/2015)	10.00% Cash, 2.00% PIK	4/17/2007	20,201	18,180	$ 0.90(2)(4)	
Diversified Collection Services, Inc.	Collections services	Senior secured loan ($11,809 par due 8/2011)	8.50% (Libor + 5.75%/M)	2/2/2005	9,715	11,219	$ 0.95	
		Senior secured loan ($4,203 par due 8/2011)	8.50% (Libor + 5.75%/M)	2/2/2005	4,209	3,993	$ 0.95(3)	
		Senior secured loan ($1,837 par due 2/2011)	11.25% (Libor + 8.50%/M)	2/2/2005	1,837	1,653	$ 0.90(2)	
		Senior secured loan ($7,125 par due 8/2011)	11.25% (Libor + 8.50%/M)	2/2/2005	7,125	6,412	$ 0.90(3)	
		Preferred stock (14,927 shares)		5/18/2006	169	109	$ 7.30(5)	
		Common stock (114,004 shares)		2/2/2005	295	414	$ 3.63(5)	
GCA Services Group, Inc.	Custodial services	Senior secured loan ($25,000 par due 12/2011)	12.00%	12/15/2006	25,000	25,000	$ 1.00(2)	
		Senior secured loan ($2,965 par due 12/2011)	12.00%	12/15/2006	2,965	2,965	$ 1.00	
		Senior secured loan ($11,186 par due 12/2011)	12.00%	12/15/2006	11,186	11,186	$ 1.00(3)	

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Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
Growing Family, Inc. and GFH Holdings, LLC	Photography services	Senior secured revolving loan ($1,513 par due 8/2011)	11.34% (Libor + 3.00% Cash, 4.00% PIK/Q)	3/16/2007	1,513	756	$ 0.50(4)	
		Senior secured loan ($11,188 par due 8/2011)	13.84% (Libor + 3.50% Cash, 6.00% PIK/Q)	3/16/2007	11,188	5,594	$ 0.50(4)	
		Senior secured loan ($372 par due 8/2011)	5.25% (Libor + 3.50% Cash, 6.00% PIK/Q)	3/16/2007	372	186	$ 0.50	
		Senior secured loan ($3,575 par due 8/2011)	16.34% (Libor + 6.00% Cash, 6.00% PIK/Q)	3/16/2007	3,575	1,788	$ 0.50(4)	
		Senior secured loan ($147 par due 8/2011)	15.50% (Libor + 6.00% Cash, 6.00% PIK/Q)	3/16/2007	147	74	$ 0.50(4)	
		Common stock (552,430 shares)		3/16/2007	872		$ (5)	
NPA Acquisition, LLC	Powersport vehicle auction operator	Junior secured loan ($12,000 par due 2/2013)	8.58% (Libor + 6.75%/M)	8/23/2006	12,000	12,000	$ 1.00(3)	
		Common units (1,709 shares)		8/23/2006	1,000	2,300	$ 1,345.82(5)	
Web Services Company, LLC	Laundry service and equipment provider	Senior subordinated loan ($17,764 par due 8/2016)	11.50% Cash, 2.50% PIK	8/29/2008	17,764	17,231	$ 0.97(4)	
		Senior subordinated loan ($25,160 par due 8/2016)	11.50% Cash, 2.50% PIK	8/29/2008	25,160	24,330	$ 0.97(2)(4)	
					156,293	145,390		13.28%
Financial								
Carador PLC(6)(8)(9)	Investment company	Ordinary shares (7,110,525 shares)		12/15/2006	9,033	4,266	$ 0.60(5)	
CIC Flex, LP(9)	Investment partnership	Limited partnership units (1 unit)		9/7/2007	28	28	$ 28,000.00(5)	
Covestia Capital Partners, LP(9)	Investment partnership	Limited partnership interest (47% interest)		6/17/2008	1,059	1,059	(5)	
Firstlight Financial Corporation(6)(9)	Investment company	Senior subordinated loan ($69,910 par due 12/2016)	10.00% PIK	12/31/2006	69,910	62,919	$ 0.90(4)	
		Common stock (10,000 shares)		12/31/2006	10,000	0	$ (5)	
		Common stock (30,000 shares)		12/31/2006	30,000	0	$ (5)	

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Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
Ivy Hill Middle Market Credit Fund, Ltd. (7)(8)(9)	Investment company	Class B deferrable interest notes ($40,000 par due 11/2018)	8.15% (Libor + 6.00%/Q)	11/20/2007	40,000	36,000	$ 0.90	
		Subordinated notes ($16,000 par due 11/2018)		11/20/2007	16,000	14,400	$ 0.90(5)	
Imperial Capital Group, LLC and Imperial Capital Private Opportunities, LP(6)(9)	Investment banking services	Limited partnership interest (80% interest)		5/10/2007	584	584	$ 1.00(5)	
		Common units (7,710 units)		5/10/2007	14,997	14,997	$ 1,945.14(5)	
		Common units (2,526 units)		5/10/2007	3	3	$ 1.19(5)	
		Common units (315 units)		5/10/2007			$ (5)	
Partnership Capital Growth Fund I, LP(9)	Investment partnership	Limited partnership interest (25% interest)		6/16/2006	2,384	2,384	(5)	
Trivergance Capital Partners, LP(9)	Investment partnership	Limited partnership interest (100% interest)		6/5/2008	723	723	(5)	
VSC Investors LLC(9)	Investment company	Membership interest (4.63% interest)		1/24/2008	302	302	(5)	
					195,023	137,665		12.57%
Business Services								
Booz Allen Hamilton, Inc.	Strategy and technology consulting services	Senior secured loan ($748 par due 7/2015)	7.50% (Libor + 4.50%/S)	7/31/2008	733	658	$ 0.88(3)	
		Senior subordinated loan ($22,400 par due 7/2016)	11.00% Cash, 2.00% PIK	7/31/2008	22,177	19,040	$ 0.85(2)(4)	
Investor Group Services, LLC(6)	Financial services	Senior secured revolving loan ($750 par due 6/2011)	6.97% (Libor + 5.50%/Q)	6/22/2006	750	750	$ 1.00	
		Limited liability company membership interest (10.00% interest)		6/22/2006		500	$ 5,000.00(5)	
Pillar Holdings LLC and PHL Holding Co.(6)	Mortgage services	Senior secured revolving loan ($375 par due 11/2013)	7.53% (Libor + 5.50%/B)	11/20/2007	375	375	$ 1.00	
		Senior secured revolving loan ($938 par due 11/2013)	7.53% (Libor + 5.50%/B)	11/20/2007	938	938	$ 1.00	
		Senior secured loan ($7,375 par due 5/2014)	14.50%	7/31/2008	7,375	7,375	$ 1.00	

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Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
		Senior secured loan ($18,709 par due 11/2013)	7.53% (Libor + 5.50%/B)	11/20/2007	18,709	18,709	$ 1.00(2)	
		Senior secured loan ($11,678 par due 11/2013)	7.53% (Libor + 5.50%/B)	11/20/2007	11,678	11,678	$ 1.00(3)	
		Common stock (85 shares)		11/20/2007	3,768	5,267	$ 61,964.71(5)	
Primis Marketing Group, Inc. and Primis Holdings, LLC(6)	Database marketing services	Senior subordinated note ($10,222 par due 2/2013)	11.00% Cash, 2.50% PIK	8/24/2006	10,222	1,022	$ 0.10(4)(14)	
		Preferred units (4,000 units)		8/24/2006	3,600		$ (5)	
		Common units (4,000,000 units)		8/24/2006	400		$ (5)	
Prommis Solutions, LLC, E-Default Services, LLC, Statewide Tax and Title Services, LLC & Statewide Publishing Services, LLC (formerly known as MR Processing Holding Corp.)	Bankruptcy and foreclosure processing services	Senior subordinated note ($26,007 par due 2/2014)	11.50% Cash, 2.00% PIK	2/8/2007	26,007	24,713	$ 0.95(4)	
		Senior subordinated note ($26,109 par due 2/2014)	11.50% Cash, 2.00% PIK	2/8/2007	26,109	24,810	$ 0.95(2)(4)	
		Preferred stock (30,000 shares)		4/11/2006	3,000	4,000	$ 133.33(5)	
R2 Acquisition Corp.	Marketing services	Common stock (250,000 shares)		5/29/2007	250	250	$ 1.00(5)	
Summit Business Media, LLCv	Business media consulting services	Junior secured loan ($10,000 par due 11/2013)	9.47% (Libor + 7.00%/M)	8/3/2007	10,000	6,000	$ 0.60(3)	
VSS-Tranzact Holdings, LLC(6)	Management consulting services	Common membership interest (8.51% interest)		10/26/2007	10,000	6,000	(5)	
					156,091	132,085		12.06%
Retail								
Apogee Retail, LLC	For-profit thrift retailer	Senior secured revolving loan ($390 par due 3/2012)	7.25% (Base Rate + 4.00%/D)	3/27/2007	390	390	$ 1.00	
		Senior secured loan ($10,960 par due 11/2012)	12.00% Cash, 4.00% PIK	5/28/2008	10,960	10,960	$ 1.00(4)	

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Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
		Senior secured loan ($2,307 par due 3/2012)	8.71% (Libor + 5.25%/S)	3/27/2007	2,307	2,053	$ 0.89	
		Senior secured loan ($24,637 par due 3/2012)	8.71% (Libor + 5.25%/S)	3/27/2007	24,637	21,927	$ 0.89(2)	
		Senior secured loan ($11,790 par due 3/2012)	8.71% (Libor + 5.25%/S)	3/27/2007	11,790	10,493	$ 0.89(3)	
		Senior secured loan ($4,876 par due 3/2012)	7.64% (Libor + 5.25%/Q)	3/27/2007	4,876	4,340	$ 0.89	
Dufry AG(8)	Retail newstand operator	Common stock (39,056 shares)		3/28/2008	3,000	1,050	$ 26.88(5)	
Savers, Inc. and SAI Acquisition Corporation	For-profit thrift retailer	Senior subordinated note ($6,000 par due 8/2014)	10.00% Cash, 2.00% PIK	8/8/2006	6,000	5,700	$ 0.95(4)	
		Senior subordinated note ($22,000 par due 8/2014)	10.00% Cash, 2.00% PIK	8/8/2006	22,000	20,900	$ 0.95(2)(4)	
		Common stock (1,170,182 shares)		8/8/2006	4,500	5,301	$ 4.53(5)	
Things Remembered, Inc. and TRM Holdings Corporation	Personalized gifts retailer	Senior secured loan ($4,506 par due 9/2012)	7.00% (Base Rate + 3.75%/D)	9/28/2006	4,506	3,470	$ 0.77(3)	
		Senior secured loan ($25,192 par due 9/2012)	15.00% (Base Rate + 9.75%/D)	9/28/2006	25,189	18,651	$ 0.74(2)	
		Senior secured loan ($3,095 par due 9/2012)	15.00% (Base Rate + 9.75%/D)	9/28/2006	3,094	2,291	$ 0.74	
		Senior secured loan ($7,273 par due 9/2012)	15.00% (Base Rate + 9.75%/D)	9/28/2006	7,273	5,385	$ 0.74(3)	
		Preferred stock (80 shares)		9/28/2006	1,800		$ (5)	
		Common stock (800 shares)		9/28/2006	200		$ (5)	
					132,522	112,911		10.31%
Environmental Services								
AWTP, LLC	Water treatment services	Junior secured loan ($402 par due 12/2012)	8.97% (Libor + 7.50% Cash, 1.00% PIK/Q)	12/23/2005	402	322	$ 0.80(4)	
		Junior secured loan ($3,018 par due 12/2012)	8.97% (Libor + 7.50% Cash, 1.00% PIK/Q)	12/23/2005	3,018	2,414	$ 0.80(3)(4)	
		Junior secured loan ($805 par due 12/2012)	11.48% (Libor + 7.50% Cash, 1.00% PIK/A)	12/23/2005	805	644	$ 0.80(4)	

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Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
		Junior secured loan ($6,036 par due 12/2012)	11.48% (Libor + 7.50% Cash, 1.00% PIK/A)	12/23/2005	6,036	4,829	$ 0.80(3)(4)	
		Junior secured loan ($402 par due 12/2012)	9.35% (Libor + 7.50% Cash, 1.00% PIK/A)	12/23/2005	402	322	$ 0.80(4)	
		Junior secured loan ($3,018 par due 12/2012)	9.35% (Libor + 7.50% Cash, 1.00% PIK/A)	12/23/2005	3,018	2,414	$ 0.80(3)(4)	
Mactec, Inc.	Engineering and environmental services	Class B-4 stock (16 shares)		11/3/2004			$ 27.00(5)	
		Class C stock (5,556 shares)		11/3/2004		150	$ 27.00(5)	
Sigma International Group, Inc.	Water treatment parts manufacturer	Junior secured loan ($1,833 par due 10/2013)	9.55% (Libor + 7.50%/Q)	10/11/2007	1,833	1,558	$ 0.85(2)	
		Junior secured loan ($4,000 par due 10/2013)	9.55% (Libor + 7.50%/Q)	10/11/2007	4,000	3,400	$ 0.85(3)	
		Junior secured loan ($2,750 par due 10/2013)	7.97% (Libor + 7.50/M)	11/1/2007	2,750	2,338	$ 0.85(2)	
		Junior secured loan ($6,000 par due 10/2013)	7.97% (Libor + 7.50/M)	11/1/2007	6,000	5,100	$ 0.85(3)	
		Junior secured loan ($917 par due 10/2013)	9.40% (Libor + 7.50%/M)	11/6/2007	917	779	$ 0.85(2)	
		Junior secured loan ($2,000 par due 10/2013)	9.40% (Libor + 7.50%/M)	11/6/2007	2,000	1,700	$ 0.85(3)	
Waste Pro USA, Inc.	Waste management services	Senior subordinated loan ($25,000 par due 11/2013)	11.50%	11/9/2006	25,000	25,000	$ 1.00(2)	
		Preferred stock (15,000 shares)	10.00% PIK	11/9/2006	15,000	15,000	$ 1,000.00(4)	
		Warrants to purchase 682,671 shares		11/9/2006		6,827	$ 10.00(5)	
Wastequip, Inc.(6)	Waste management equipment manufacturer	Senior subordinated loan ($12,990 par due 2/2015)	10.00% Cash, 2.00% PIK	2/5/2007	12,990	7,715	$ 0.59(4)	
		Common stock (13,889 shares)		2/2/2007	1,389	131	$ 9.43(5)	
					85,560	80,643		7.37%

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Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
Printing, Publishing and Media								
Canon Communications LLC	Print publications services	Junior secured loan ($11,784 par due 11/2011)	13.00% (Base Rate + 9.75%/D)	5/25/2005	11,784	11,313	$ 0.96(2)(15)	
		Junior secured loan ($12,009 par due 11/2011)	13.00% (Base Rate + 9.75%/D)	5/25/2005	12,009	11,529	$ 0.96(3)(15)	
Courtside Acquisition Corp.	Community newspaper publisher	Senior subordinated loan ($34,295 par due 6/2014)	17.00% PIK	6/29/2007	34,295	3,430	$ 0.10(4)(14)	
LVCG Holdings LLC(7)	Commercial printer	Membership interests (56.53% interest)		10/12/2007	6,600	8,500	(5)	
National Print Group, Inc.	Printing management services	Senior secured revolving loan ($2,736 par due 3/2012)	8.25% (Base Rate + 5.00%/D)	3/2/2006	2,736	2,462	$ 0.90(15)	
		Senior secured loan ($8,623 par due 3/2012)	7.50% (Base Rate + 4.25%/D)	3/2/2006	8,623	7,761	$ 0.90(3)(15)	
		Preferred stock (9,344 shares)		3/2/2006	2,000		$ (5)	
The Teaching Company, LLC and The Teaching Company Holdings, Inc.(11)	Education media provider	Senior secured loan ($18,000 par due 9/2012)	11.70%	9/29/2006	18,000	17,100	$ 0.95(2)	
		Senior secured loan ($10,000 par due 9/2012)	11.70%	9/29/2006	10,000	9,500	$ 0.95(3)	
		Preferred stock (29,969 shares)		9/29/2006	2,997	3,996	$ 133.34(5)	
		Common stock (15,393 shares)		9/29/2006	3	4	$ 0.26(5)	
					109,047	75,595		6.90%
Manufacturing								
Arrow Group Industries, Inc.	Residential and outdoor shed manufacturer	Senior secured loan ($5,616 par due 4/2010)	6.46% (Libor + 5.00%/Q)	3/28/2005	5,647	5,372	$ 0.96(3)(15)	
Emerald Performance Materials, LLC	Polymers and performance materials manufacturer	Senior secured loan ($9,018 par due 5/2011)	8.25% (Libor + 4.25%/A)	5/16/2006	9,018	8,567	$ 0.95(3)(15)	
		Senior secured loan ($626 par due 5/2011)	6.75% (Base Rate + 3.50%/D)	5/16/2006	626	595	$ 0.95(3)(15)	
		Senior secured loan ($536 par due 5/2011)	8.25% (Libor + 4.25%/A)	5/16/2006	536	509	$ 0.95(3)(15)	
		Senior secured loan ($1,523 par due 5/2011)	10.00% (Libor + 6.00%/A)	5/16/2006	1,523	1,447	$ 0.95(3)(15)	

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Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
		Senior secured loan ($81 par due 5/2011)	10.00% (Libor + 6.00%/A)	5/16/2006	81	77	$ 0.95(3)(15)	
		Senior secured loan ($4,537 par due 5/2011)	10.00% Cash, 3.00% PIK	5/16/2006	4,546	4,319	$ 0.95(2)(4)	
		Senior secured loan ($241 par due 5/2011)	10.00% Cash, 3.00% PIK	5/16/2006	241	229	$ 0.95(2)(4)	
Qualitor, Inc.	Automotive aftermarket components supplier	Senior secured loan ($1,756 par due 12/2011)	5.46% (Libor + 4.00%/Q)	12/29/2004	1,752	1,664	$ 0.95(3)	
		Senior secured loan ($5 par due 12/2011)			5	5	$ 1.00(3)	
		Junior secured loan ($5,000 par due 6/2012)	8.46% (Libor + 7.00%/Q)	12/29/2004	5,000	4,750	$ 0.95(3)	
Reflexite Corporation(7)	Developer and manufacturer of high-visibility reflective products	Senior subordinated loan ($10,253 par due 2/2015)	11.00% Cash, 3.00% PIK	2/28/2008	10,253	10,253	$ 1.00(4)	
		Common stock (1,821,860 shares)		3/28/2006	27,435	35,500	$ 19.49(5)	
Saw Mill PCG Partners LLC	Precision components manufacturer	Common units (1,000 units)		2/2/2007	1,000		$ (5)	
UL Holding Co., LLC	Petroleum product manufacturer	Common units (50,000 units)		4/25/2008	500	750	$ 15.00(5)	
		Common units (50,000 units)		4/25/2008			$ (5)	
Universal Trailer Corporation(6)	Livestock and specialty trailer manufacturer	Common stock (74,920 shares)		10/8/2004	7,930		$ (5)	
					76,093	74,037		6.76%
Aerospace & Defense								
AP Global Holdings, Inc.	Safety and security equipment manufacturer	Senior secured loan ($7,898 par due 10/2013)	4.97% (Libor + 4.50%/M)	11/8/2007	7,799	7,121	$ 0.90(3)	
ILC Industries, Inc.	Industrial products provider	Junior secured loan ($12,000 par due 8/2012)	11.50%	6/27/2006	12,000	12,000	$ 1.00(3)	
Thermal Solutions LLC and TSI Group, Inc.	Thermal management and electronics packaging manufacturer	Senior secured loan ($871 par due 3/2011)	3.92% (Libor + 3.50%/M)	3/28/2005	871	836	$ 0.96(3)	
		Senior secured loan ($2,765 par due 3/2012)	4.42% (Libor + 4.00%/M)	3/28/2005	2,765	2,461	$ 0.89(3)	

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Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
		Senior subordinated notes ($2,117 par due 9/2012)	11.50% Cash, 2.75% PIK	3/28/2005	2,117	2,043	$ 0.97(4)	
		Senior subordinated notes ($3,342 par due 9/2012)	11.50% Cash, 2.75% PIK	3/28/2005	3,342	3,225	$ 0.96(2)(4)	
		Senior subordinated notes ($2,679 par due 3/2013)	11.50% Cash, 2.50% PIK	3/21/2006	2,679	2,599	$ 0.97(2)(4)	
		Preferred stock (71,552 shares)		3/28/2005	716	716	$ 10.00(5)	
		Common stock (1,460,246 shares)		3/28/2005	15	15	$ 0.01(5)	
Wyle Laboratories, Inc. and Wyle Holdings, Inc.	Provider of specialized engineering, scientific and technical services	Junior secured loan ($16,000 par due 7/2014)	8.96% (Libor + 7.50%/Q)	1/17/2008	16,000	15,200	$ 0.95	
		Junior secured loan ($12,000 par due 7/2014)	8.96% (Libor + 7.50%/Q)	1/17/2008	12,000	11,400	$ 0.95(3)	
		Common stock (246,279 shares)		1/17/2008	2,100	1,680	$ 6.82(5)	
					62,404	59,296		5.42%
Consumer Products Non-Durable								
Innovative Brands, LLC	Consumer products and personal care manufacturer	Senior secured loan ($9,901 par due 9/2011)	14.50%	10/12/2006	9,901	9,901	$ 1.00	
		Senior secured loan ($9,139 par due 9/2011)	14.50%	10/12/2006	9,139	9,139	$ 1.00(3)	
Making Memories Wholesale, Inc.(6)	Scrapbooking branded products manufacturer	Senior secured loan ($21,509 par due 3/2011)	10.00% (Base Rate + 5.00%/D)	5/5/2005	11,953	12,087	$ 0.56(14)	
		Senior subordinated loan ($10,465 par due 5/2012)	12.00% Cash, 4.00% PIK	5/5/2005	10,465		$ (4)(14)	
		Preferred stock (4,259 shares)		5/5/2005	3,759		$ (5)	
Shoes for Crews, LLC	Safety footwear and slip-related mat manufacturer	Senior secured revolving loan ($1,000 par due 7/2010)	5.25% (Base Rate + 2.00%/D)	10/8/2004	1,000	1,000	$ 1.00	
		Senior secured loan ($572 par due 7/2010)	5.31% (Libor + 3.50%/S)	10/8/2004	572	572	$ 1.00(3)	
		Senior secured loan ($88 par due 7/2010)	4.96% (Libor + 3.50%/Q)	10/8/2004	88	88	$ 1.00(3)	

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Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
The Thymes, LLC(7)	Cosmetic products manufacturer	Preferred stock (6,283 shares)	8.00% PIK	6/21/2007	6,283	5,026	$ 799.94(4)	
		Common stock (5,400 shares)		6/21/2007			$ (5)	
Wear Me Apparel, LLC(6)	Clothing manufacturer	Senior subordinated notes ($23,985 par due 4/2013)	17.50% PIK	4/2/2007	24,035	12,055	$ 0.50(4)(14)	
		Common stock (10,000 shares)		4/2/2007	10,000		$ (5)	
					87,195	49,868		4.55%
Telecommunications								
American Broadband Communications, LLC and American Broadband Holding Company	Broadband communication services	Senior subordinated loan ($32,048 par due 11/2014)	10.00% Cash, 6.00% PIK	2/8/2008	32,048	32,048	$ 1.00(4)	
		Senior subordinated loan ($8,087 par due 11/2014)	10.00% Cash, 6.00% PIK	11/7/2007	8,087	8,087	$ 1.00(4)	
		Warrants to purchase 170 shares		11/7/2007			$ (5)	
					40,135	40,135		3.67%
Cargo Transport								
The Kenan Advantage Group, Inc.	Fuel transportation provider	Senior subordinated notes ($25,266 par due 12/2013)	9.50% Cash, 3.50% PIK	12/15/2005	25,260	24,000	$ 0.95(2)(4)	
		Senior secured loan ($2,426 par due 12/2011)	4.46% (Libor + 3.00%/Q)	12/15/2005	2,425	2,183	$ 0.90(3)	
		Preferred stock (10,984 shares)	8.00% PIK	12/15/2005	1,371	1,732	$ 157.68(4)(5)	
		Common stock (30,575 shares)		12/15/2005	31	41	$ 1.34(5)	
					29,087	27,956		2.55%
Containers-Packaging								
Industrial Container Services, LLC(6)	Industrial container manufacturer, reconditioner and servicer	Senior secured revolving loan ($1,198 par due 9/2011)	5.75% (Base Rate + 2.50%/D)	6/21/2006	1,198	1,198	$ 1.00	
		Senior secured revolving loan ($1,239 par due 9/2011)	4.47% (Libor + 4.00%/M)	6/21/2006	1,239	1,239	$ 1.00	
		Senior secured loan ($42 par due 9/2011)	4.47% (Libor + 4.00%/B)	9/30/2005	42	42	$ 1.00(2)	
		Senior secured loan ($516 par due 9/2011)	4.46% (Libor + 4.00%/M)	6/21/2006	516	516	$ 1.00(2)	
		Senior secured loan ($7,902 par due 9/2011)	4.46% (Libor + 4.00%/M)	6/21/2006	7,902	7,902	$ 1.00(3)	

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Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
		Senior secured loan ($85 par due 9/2011)	5.20% (Libor + 4.00%/M)	6/21/2006	85	85	$ 1.00(2)	
		Senior secured loan ($1,309 par due 9/2011)	5.20% (Libor + 4.00%/M)	6/21/2006	1,309	1,309	$ 1.00(3)	
		Senior secured loan ($263 par due 9/2011)	5.20% (Libor + 4.00%/M)	6/21/2006	263	263	$ 1.00(2)	
		Senior secured loan ($4,028 par due 9/2011)	5.20% (Libor + 4.00%/M)	6/21/2006	4,028	4,028	$ 1.00(3)	
		Senior secured loan ($105 par due 9/2011)	5.88% (Libor + 4.00%/M)	6/21/2006	105	105	$ 1.00(2)	
		Senior secured loan ($1,611 par due 9/2011)	5.88% (Libor + 4.00%/M)	6/21/2006	1,611	1,611	$ 1.00(3)	
		Common stock (1,800,000 shares)		9/29/2005	1,800	9,100	$ 5.06(5)	
					20,098	27,398		2.50%
Computers and Electronics								
RedPrairie Corporation	Software manufacturer	Junior secured loan ($3,300 par due 1/2013)	9.21% (Libor + 6.50%/Q)	7/13/2006	3,300	2,970	$ 0.90(2)	
		Junior secured loan ($12,000 par due 1/2013)	9.21% (Libor + 6.50%/Q)	7/13/2006	12,000	10,800	$ 0.90(3)	
X-rite, Incorporated	Color management solutions provider	Junior secured loan ($3,098 par due 7/2013)	13.63% (Libor + 10.38%/D)	7/6/2006	3,098	3,098	$ 1.00(15)	
		Junior secured loan ($7,744 par due 7/2013)	13.63% (Libor + 10.38%/D)	7/6/2006	7,744	7,744	$ 1.00(3)(15)	
					26,142	24,612		2.25%
Health Clubs								
Athletic Club Holdings, Inc.(13)	Premier health club operator	Senior secured loan ($1,000 par due 10/2013)	4.97% (Libor + 4.5%/M)	10/11/2007	1,000	880	$ 0.88	
		Senior secured loan ($1,750 par due 10/2013)	8.88% (Libor + 4.5%/S)	10/11/2007	1,750	1,540	$ 0.88	
		Senior secured loan ($12,486 par due 10/2013)	5.01% (Libor + 4.5%/M)	10/11/2007	12,486	10,988	$ 0.88(2)	
		Senior secured loan ($11,487 par due 10/2013)	5.01% (Libor + 4.5%/M)	10/11/2007	11,487	10,109	$ 0.88(3)	
		Senior secured loan ($14 par due 10/2013)	6.75% (Base Rate + 3.50/D)	10/11/2007	14	12	$ 0.86(2)	
		Senior secured loan ($13 par due 10/2013)	6.75% (Base Rate + 3.50/D)	10/11/2007	13	11	$ 0.85(3)	
					26,750	23,540		2.07%

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Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
Grocery								
Planet Organic Health Corp.(8)	Organic grocery store operator	Junior secured loan ($860 par due 7/2014)	6.01% (Libor + 5.50%/M)	7/3/2007	860	817	$ 0.95	
		Junior secured loan ($10,250 par due 7/2014)	6.01% (Libor + 5.50%/M)	7/3/2007	10,250	9,738	$ 0.95(3)	
		Senior subordinated loan ($10,900 par due 7/2012)	11.00% Cash, 2.00% PIK	7/3/2007	10,900	9,845	$ 0.90(2)(4)	
					22,010	20,400		1.86%
Consumer Products Durable								
Direct Buy Holdings, Inc. and Direct Buy Investors, LP(6)	Membership-based buying club franchisor and operator	Senior secured loan ($2,281 par due 11/2012)	4.97% (Libor + 4.50%/B)	12/14/2007	2,189	1,861	$ 0.82	
		Partnership interests (19.31% interest)		11/30/2007	10,000	6,500	(5)	
					12,189	8,361		0.76%
Housing Building Materials								
HB&G Building Products	Synthetic and wood product manufacturer	Senior subordinated loan ($8,956 par due 3/2011)	13.00% Cash, 6.00% PIK	10/8/2004	8,966	2,251	$ 0.25(2)(4)(14)	
		Common stock (2,743 shares)		10/8/2004	753		$ (5)	
		Warrants to purchase 4,464 shares		10/8/2004	653		$ (5)	
					10,372	2,251		0.00%
Total					$ 2,267,593	$ 1,972,977		

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(1) Other than our investments in R3 Education, Inc., HCP Acquisition Holdings, LLC, Ivy Hill Middle Market Credit Fund, Ltd., LVCG Holdings LLC, Reflexite Corporation and The Thymes, LLC, we do not "Control" any of our portfolio companies, as defined in the Investment Company Act. In general, under the Investment Company Act, we would "Control" a portfolio company if we owned more than 25% of its outstanding voting securities and/or had the power to exercise control over the management or policies of such portfolio company. All of our portfolio company investments are subject to legal restrictions on sales which as of December 31, 2008 represented 180% of the Company's net assets.

(2) These assets are owned by the Company's wholly owned subsidiary Ares Capital CP, are pledged as collateral for the CP 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 CP Funding Facility (see Note 7 to the consolidated financial statements).

(3) Pledged as collateral for the ARCC CLO. Unless otherwise noted, all other investments are pledged as collateral for the Revolving Credit Facility (see Note 7 to the consolidated financial statements).

(4)

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

(5)

Non-income producing at December 31, 2008.

(6)

As defined in the Investment Company Act, we are an "Affiliate" of this portfolio company because we own 5% or more of the portfolio company's outstanding voting securities or we have the power to exercise control over the management or policies of such portfolio company (including through a

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management agreement). Transactions during the period for the year ended December 31, 2008 in which the issuer was an Affiliate (but not a portfolio company that we "Control") are as follows (in thousands):

Company	Purchases	Redemptions (cost)	Sales (cost)	Interest income	Capital structuring service fees	Dividend income	Other income	Net realized gains (losses)	Net unrealized gains (losses)
Apple & Eve, LLC and US Juice Partners, LLC	$ 11,500	$ 10,814	$	$ 4,634	$	$	$ 43	$ 40	$ (12,383)
Carador, PLC	$	$	$	$	$	$ 825	$	$	$ (3,479)
Campus Management Corp. and Campus Management Acquisition Corp.	$ 69,193	$ 1,768	$	$ 5,367	$ 1,540	$	$ 112	$	$ 3,048
CT Technologies Intermediate Holdings, Inc. and CT Technologies Holdings, LLC	$ 4,719	$ 56,822	$	$ 2,573	$	$	$ 340	$ 100	$ 1,382
Daily Candy, Inc.	$	$ 11,872	$ 10,806	$ 735	$	$	$	$ 1,208	$
Direct Buy Holdings, Inc. and Direct Buy Investors LP	$	$ 219	$	$ 192	$	$	$	$ 9	$ (3,828)
Firstlight Financial Corporation	$	$	$	$ 5,854	$	$	$ 750	$	$ (36,991)
Imperial Capital Group, LLC	$ 584	$	$	$	$	$	$	$	$
Industrial Container Services, LLC	$ 6,939	$ 16,677	$	$ 1,710	$	$	$ 120	$	$ 4,100
Investor Group Services, LLC	$ 1,250	$ 1,500	$	$ 24	$	$	$ 55	$	$ 500
Making Memories Wholesale, Inc	$ 5,942	$ 1,114	$	$ 199	$	$	$	$	$ (6,668)
Pillar Holdings LLC and PHL Holding Co.	$ 15,807	$ 600	$ 31,865	$ 3,404	$ 281	$	$ 167	$	$ 1,500
Primis Marketing Group, Inc. and Primis Holdings, LLC	$	$	$	$	$	$	$	$	$ (7,565)
Universal Trailer Corporation	$	$	$	$	$	$	$	$	$ (700)
VSS-Tranzact Holdings, LLC	$	$	$	$	$	$	$	$	$ (4,000)
Wastequip, Inc.	$	$	$	$ 1,424	$	$	$	$	$ (3,318)
Wear Me Apparel, LLC	$	$	$	$ 2,416	$	$	$ 13	$	$ (14,055)

(7)

As defined in the Investment Company Act, we are an "Affiliate" of this portfolio company because we own 5% or more of the portfolio company's outstanding voting securities or we have the power to exercise control over the management or policies of such portfolio company (including through a management agreement). In addition, as defined in the Investment Company Act, we "Control" this portfolio company because we own more than 25% of the portfolio company's outstanding voting securities or we have the power to exercise control over the management or policies of such portfolio company (including through a management agreement). Transactions during the period for the year ended December 31, 2008 in which the issuer was both an Affiliate and a portfolio company that we Control are as follows (in thousands):

Company	Purchases	Redemptions (cost)	Sales (cost)	Interest income	Capital structuring service fees	Dividend income	Other income	Net realized gains (losses)	Net unrealized gains (losses)
HCP Acquisition Holdings, LLC	$ 8,567	$	$	$	$	$	$	$	$ (2,067)
Ivy Hill Middle Market Credit Fund, Ltd.	$	$	$	$ 5,427	$	$	$ 1,528	$	$ (5,600)
LVCG Holdings, LLC	$	$	$	$	$	$	$ 100	$	$ (1,900)
R3 Education, Inc.	$ 62,600	$ 69,089	$	$ 3,521	$ 2,900	$	$ 65	$	$ 4,393
Reflexite Corporation	$ 10,239	$	$	$ 928	$ 100	$	$ 10	$	$ (19,166)
The Thymes, LLC	$	$	$ 1,450	$ 544	$	$ 133	$	$	$ (1,257)

(8)

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

(9)

Non-registered investment company.

(10)

A majority of the variable rate loans to our portfolio companies bear interest at a rate that may be determined by reference to either Libor or an alternate Base Rate (commonly based on the Federal Funds Rate or the Prime Rate), at the borrower's option, which reset annually (A), semi-annually (S), quarterly (Q), bi-monthly (B), monthly (M) or daily (D). For each such loan, we have provided the interest rate in effect at December 31, 2008.

(11)

In addition to the interest earned based on the stated interest rate of this security, we are entitled to receive an additional interest amount of 2.50% on $22.2 million aggregate principal amount of the portfolio company's senior term debt previously syndicated by us.

(12)
Principal amount denominated in Canadian dollars has been translated into U.S. dollars (see Note 2 to the consolidated financial statements).

(13)
In addition to the interest earned based on the stated interest rate of this security, we are entitled to receive an additional interest amount of 2.50% on $25.0 million aggregate principal amount of the portfolio company's senior term debt previously syndicated by us.

(14)
Loan was on non-accrual status as of December 31, 2008.

(15)
Loan includes interest rate floor feature.

See accompanying notes to consolidated financial statements.

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ARES CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

For the Nine Months Ended September 30, 2009 (unaudited)

(dollar amounts in thousands, except per share data)

	Common Stock						
	Shares	Amount	Capital in Excess of Par Value	Accumulated Undistributed Net Investment Income (Loss)	Accumulated Undistributed Net Realized Gain (Loss) on Investments, Foreign Currency Transactions and Extinguishment of Debt	Net Unrealized Gain (Loss) on Investments and Foreign Currency Transactions	Total Stockholders' Equity
Balance at December 31, 2008	97,152,820	$ 97	$ 1,395,958	$ (7,637)	(124)	$ (293,415)	$ 1,094,879
Issuances of common stock from add-on offerings (net of offering and underwriting costs)	12,439,908	13	109,073				109,086
Net increase in stockholders' equity resulting from operations				95,054	22,311	15,698	133,063
Dividends declared ($1.12 per share)				(88,581)	(24,584)		(113,165)
Purchase of shares in connection with dividend reinvestment plan				(1,272)			(1,272)
Balance at September 30, 2009	109,592,728	$ 110	$ 1,505,031	$ (2,436)	$ (2,397)	$ (277,717)	$ 1,222,591

See accompanying notes to consolidated financial statements.

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ARES CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

(dollar amounts in thousands)

	For the nine months ended September 30, 2009 (unaudited)	For the nine months ended September 30, 2008 (unaudited)
OPERATING ACTIVITIES:		
Net increase (decrease) in stockholders' equity resulting from operations	$ 133,063	$ (28,955)
Adjustments to reconcile net increase (decrease) in stockholders' equity resulting from operations:		
Realized gain on extinguishment of debt	(26,543)	
Net realized losses (gains) from investments	4,232	(4,796)
Net unrealized losses (gains) from investments and foreign currency transactions	(15,698)	128,605
Net accretion of discount on securities	(1,640)	(1,217)
Increase in accrued payment-in-kind dividends and interest	(33,021)	(22,614)
Amortization of debt issuance costs	3,251	1,237
Depreciation	505	338
Proceeds from sale and redemption of investments	267,381	393,628
Purchase of investments	(218,843)	(814,694)
Changes in operating assets and liabilities:		
Interest receivable	1,227	8,661
Other assets	(1,052)	(1,926)
Management and incentive fees payable	23,538	12,142
Accounts payable and accrued expenses	4,845	1,648
Interest and facility fees payable	(1,152)	(940)
Net cash provided by (used in) operating activities	140,093	(328,883)
FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock	109,086	259,801
Borrowings on debt	246,700	685,000
Repayments on credit facility payable	(362,678)	(463,500)
Credit facility financing costs	(6,010)	(2,936)
Dividends paid in cash	(155,105)	(109,215)
Net cash (used in) provided by financing activities	(168,007)	369,150
CHANGE IN CASH AND CASH EQUIVALENTS	(27,914)	40,267
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	89,383	21,142
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 61,469	$ 61,409
Supplemental Information:		
Interest paid during the period	$ 15,053	$ 25,685
Taxes paid during the period	$ 660	$ 1,601
Dividends declared during the period	$ 113,165	$ 112,137

See accompanying notes to consolidated financial statements.

Explanation of Responses:

ARES CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2009 (unaudited)

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

1. ORGANIZATION

Ares Capital Corporation (the "Company" or "ARCC" or "we") is a specialty finance company that is a closed-end, non-diversified management investment company incorporated in Maryland. We have elected to be regulated as a business development company under the Investment Company Act of 1940 (the "Investment Company Act"). We were incorporated on April 16, 2004 and were initially funded on June 23, 2004. On October 8, 2004, we completed our initial public offering (the "IPO"). On the same date, we commenced substantial investment operations.

The Company has elected to be treated as a regulated investment company, or a "RIC", under subchapter M of the Internal Revenue Code of 1986, as amended (the "Code") and operates in a manner so as to qualify for the tax treatment applicable to RICs. Our investment objective is to generate both current income and capital appreciation through debt and equity investments. We invest primarily in first and second lien senior loans and mezzanine debt, which in some cases includes an equity component like warrants, and, to a lesser extent, in equity investments in private middle market companies.

We are externally managed by Ares Capital Management LLC (the "investment adviser"), an affiliate of Ares Management LLC ("Ares Management"), an independent international investment management firm. Ares Operations LLC ("Ares Administration" or the "administrator"), an affiliate of Ares Management, provides the administrative services necessary for us to operate.

Interim financial statements are prepared in accordance with generally accepted accounting principles in the United States ("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, 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, 2009.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Cash and Cash Equivalents

Cash and cash equivalents include short-term, liquid investments in a money market fund. Cash and cash equivalents are carried at cost which approximates fair value.

Concentration of Credit Risk

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

As part of the valuation process, we may take into account the following types of factors, if relevant, in determining the fair value of our investments: the enterprise value of a portfolio company (an estimate of the total fair value of the portfolio company's debt and equity), the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison of the portfolio company's securities to publicly traded securities, changes in the interest rate environment and the credit markets generally that may affect the price at which similar investments may be made in the future and other relevant factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we use 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, based on the input of our management and audit committee and independent valuation firms under a valuation policy and a consistently applied valuation process. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of 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 may realize significantly less than the value at which we have recorded it.

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

With respect to investments for which market quotations are not readily available, 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 valuation conclusions are then documented and discussed by our management.

The audit committee of our board of directors reviews these preliminary valuations, as well as the input of independent valuation firms with respect to the valuations of approximately 50% (based on value) of our portfolio companies without readily available market quotations.

The board of directors discusses valuations and determines the fair value of each investment in our portfolio without a readily available market quotation in good faith based on the input of our management and audit committee and independent valuation firms.

Effective January 1, 2008, the Company adopted Accounting Standards Codification ("ASC") 820-10 (previously Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("SFAS 157")), which expands the application of fair value accounting for investments (see Note 8 to the consolidated financial statements).

Interest Income Recognition

Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis. Discounts and premiums on securities purchased are accreted/amortized over the life of the respective security using the effective yield method. The amortized cost of investments represents the original cost adjusted for the accretion of discounts and amortization of premiums.

Loans are generally placed on non-accrual status when principal or interest payments are past due 30 days or more or when there is reasonable doubt that principal or interest will be collected. Accrued interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment regarding collectability. Non-accrual loans are restored to accrual status when past due principal and interest is paid and, in management's judgment, are likely to remain current. The Company may make exceptions to this if the loan has sufficient collateral value and is in the process of collection. As of September 30, 2009, seven loans or 5.3% of total investments at amortized cost (or 1.7% at fair value), were placed on non-accrual status. As of December 31, 2008, six loans or 4.4% of total investments at amortized cost (or 1.6% at fair value), were placed on non-accrual status.

Payment-in-Kind Interest

The Company has loans in its portfolio that contain payment-in-kind ("PIK") provisions. The PIK interest, computed at the contractual rate specified in each loan agreement, is added to the principal balance of the loan and recorded as interest income. To maintain the Company's status as a RIC, this non-cash source of income must be paid out to stockholders in the form of dividends even though the Company has not yet collected the cash. For the three and nine months ended September 30, 2009, $10,825 and $33,021, respectively, in PIK income was recorded. For the three and nine months ended September 30, 2008, $9,735 and $22,614, respectively, in PIK income was recorded.

Capital Structuring Service Fees and Other Income

The Company's investment adviser seeks to provide assistance to our portfolio companies in connection with the Company's investments and in return the Company may receive fees for capital structuring services. These fees are generally only available to the Company as a result of the

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

Other income includes fees for asset management, consulting, loan guarantees, commitments, 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) Market value of investment securities, other assets and liabilities at the exchange rates prevailing at the end of the period.

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

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

Accounting for Derivative Instruments

The Company does not utilize hedge accounting and marks its derivatives to market through operations.

Offering Expenses

The Company's offering costs, excluding underwriters fees, are charged against the proceeds from equity offerings when received. For the nine months ended September 30, 2009, and September 30, 2008, the Company incurred approximately $806 and $1,414 of offering costs, respectively.

Debt Issuance Costs

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

U.S. Federal Income Taxes

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

Depending on the level of taxable income earned in a tax year, we may choose to carry forward taxable income in excess of current year dividend distributions 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 taxable income is earned. For the three months ended September 30, 2009, no amount was recorded for U.S. Federal excise tax. For the nine months ended September 30, 2009, a net benefit of $30 was recorded for U.S. Federal excise tax. For the three months ended September 30, 2008, the Company recorded a benefit of $135 for U.S. Federal excise tax. For the nine months ended September 30, 2008, the Company recorded a benefit of approximately $434 for U.S. Federal excise tax.

Certain of our wholly owned subsidiaries are subject to U.S. Federal and state income taxes. For the three and nine months ended September 30, 2009, we recorded tax expenses of approximately $454 and $593, respectively, for these subsidiaries. For the three and nine months ended September 30, 2008, we recorded tax provisions of approximately $17 and $132, respectively, for these subsidiaries.

Dividends

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

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

Use of Estimates in the Preparation of Financial Statements

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

New Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board ("FASB") issued ASC 860 (previously SFAS No. 166, *Accounting for Transfer of Financial Assets*, which amends the guidance in SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*). It eliminates the qualifying special-purpose entities ("QSPEs") concept, creates more stringent conditions for reporting a transfer of a portion of a financial asset as a sale, clarifies the derecognition criteria, revises how retained interests are initially measured, and removes the guaranteed mortgage securitization recharacterization provisions. ASC 860 requires additional year-end and interim disclosures for public and nonpublic companies that are similar to the disclosures required by FSP FAS 140-4 and FIN 46(R)-8. ASC 860 is effective as of the beginning of a company's first fiscal year that begins after November 15, 2009 (January 1, 2010 for calendar year-end companies), and for subsequent interim and annual reporting periods. ASC 860's disclosure requirements must be applied to transfers that occurred before and after its effective date. Early adoption is prohibited. We are currently evaluating the effect that the provisions of ASC 860 may have on our financial condition and results of operations.

In June 2009, FASB issued ASC 810 (previously SFAS No. 167, *Amendments to FASB Interpretation No. 46(R),* which amends the guidance in FASB Interpretation No. ("FIN") 46(R), *Consolidation of Variable Interest Entities*). It requires reporting entities to evaluate former QSPEs for consolidation, changes the approach to determining the primary beneficiary of a variable interest entity (a "VIE") from a quantitative assessment to a qualitative assessment designed to identify a controlling financial interest, and increases the frequency of required reassessments to determine whether a company is the primary beneficiary of a VIE. It also clarifies, but does not significantly change, the characteristics that identify a VIE. ASC 810 requires additional year-end and interim disclosures for public and non-public companies that are similar to the disclosures required by FSP FAS 140-4 and FIN 46(R)-8, *Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities.* ASC 810 is effective as of the beginning of a company's first fiscal year that begins after November 15, 2009 (January 1, 2010 for calendar year-end companies), and for subsequent interim and annual reporting periods. All QSPE's and entities currently subject to FIN 46(R) will need to be reevaluated under the amended consolidation requirements as of the beginning of the first annual reporting period that begins after November 15, 2009. Early adoption is prohibited. We are currently evaluating the effect that the provisions of ASC 810 may have on our financial condition and results of operations.

In June 2009, FASB issued ASC 2005, (previously SFAS NO. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles ("GAAP") a replacement of FASB Statement No. 162 ("Codification")*). This Codification will become the source of authoritative U.S. GAAP recognized by FASB to be applied by nongovernmental entities. Once the Codification is in effect, all of its content will carry the same level of authority, effectively superseding SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. In other words, the GAAP hierarchy will be modified to include only two levels of GAAP: authoritative and nonauthoritative. The Codification is not intended to change GAAP, but it will change the way GAAP is organized and presented. The Codification is effective for financial statements issued for interim and annual periods ending after September 15, 2009. In order to ease the transition to the Codification, the Company has provided the Codification cross-reference alongside the references to the standards issued and adopted prior to the adoption of the Codification.

3. AGREEMENTS

Investment Advisory and Management Agreement

The Company is party to an investment advisory and management agreement (the "investment advisory and management agreement") with Ares Capital Management. Subject to the overall supervision of our board of directors, Ares Capital Management provides investment advisory services to the Company. For providing these services, Ares Capital Management receives a fee from us, consisting of two components a base management fee and an incentive fee. The base management fee is calculated at an annual rate of 1.5% based on the average value of our total assets (other than cash or cash equivalents but including assets purchased with borrowed funds) at the end of the two most recently completed calendar quarters. The base management fee is payable quarterly in arrears.

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

Pre-incentive fee net investment income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Because of the structure of the incentive fee, it is possible that we may pay an incentive fee in a quarter where we incur a loss. For example, if we receive pre-incentive fee net investment income in excess of the hurdle rate (as defined below) for a quarter, we will pay the applicable incentive fee even if we have incurred a loss in that quarter due to realized and/or unrealized capital losses. Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets (defined as total assets less indebtedness and before taking into account any incentive fees payable during the period) at the end of the immediately preceding calendar quarter, is compared to a fixed "hurdle rate" of 2.00% per quarter. If market interest rates rise, we may be able to invest our funds in debt instruments that provide for a higher return, which would increase our pre-incentive fee net investment income and make it easier for our investment adviser to surpass the fixed hurdle rate and receive an incentive fee based on such net investment income. Our pre-incentive fee net investment income used to calculate this part of the incentive fee is also included in the amount of our total assets (other than cash and cash equivalents but including assets purchased with borrowed funds) used to calculate the 1.5% base management fee.

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

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

100% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.50% in any calendar quarter. We refer to this portion of our pre-incentive fee net investment income (which exceeds the hurdle rate but is less than 2.50%) as the "catch-up" provision. The "catch-up" is meant to provide our investment adviser with 20% of the pre-incentive fee net investment income as if a hurdle rate did not apply if this net investment income exceeds 2.50% in any calendar quarter; and

20% of the amount of our pre-incentive fee net investment income, if any, that exceeds 2.50% in any calendar quarter.

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

The second part of the incentive fee, the "Capital Gains Fee", is determined and payable in arrears as of the end of each calendar year (or, upon termination of the investment advisory and management agreement, as of the termination date), and is calculated at the end of each applicable year by subtracting (a) the sum of our cumulative aggregate realized capital losses and aggregate unrealized capital depreciation from (b) our cumulative aggregate realized capital gains, in each case calculated from October 8, 2004. If such amount is positive at the end of such year, then the Capital Gains Fee for such year is equal to 20.0% of such amount, less the aggregate amount of Capital Gains Fees paid in all prior years. If such amount is negative, then there is no Capital Gains Fee for such year.

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

The cumulative aggregate realized capital losses are calculated as the sum of the amounts by which (a) the net sales price of each investment in 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.

We defer cash payment of any incentive fee otherwise earned by the investment adviser if during the most recent four full calendar quarter period ending on or prior to the date such payment is to be made the sum of (a) the aggregate distributions to the stockholders of the Company and (b) the change in net assets (defined as total assets less indebtedness and before taking into account any incentive fees payable during the period) is less than 8.0% of our net assets at the beginning of such period. These calculations were appropriately pro rated during the first three calendar quarters following October 8, 2004 and are adjusted for any share issuances or repurchases.

For the three and nine months ended September 30, 2009, we incurred $7,508 and $22,502, respectively, in base management fees and $8,227 and $23,764, respectively, in incentive management fees related to pre-incentive fee net investment income. For the three and nine months ended September 30, 2009, we accrued no incentive management fees related to realized capital gains. As of September 30, 2009, $56,527 was unpaid and included in management and incentive fees payable in the accompanying consolidated balance sheet. Included in this $56,527 was $49,019 in incentive management fees related to the fifteen months ended September 30, 2009 that have been deferred pursuant to the investment advisory and management agreement.

For the three and nine months ended September 30, 2008, we incurred $7,963 and $22,729, respectively, in base management fees and $8,205 and $23,713, respectively, in incentive management fees related to pre-incentive fee net investment income. For the three and nine months ended September 30, 2008, we accrued no incentive management fees related to net realized capital gains.

Administration Agreement

We are also party to a separate administration agreement, the "administration agreement," with our administrator, Ares Administration. Our board of directors approved the continuation of our administration agreement on May 4, 2009, which extended the term of the agreement until June 1, 2010. Pursuant to the administration agreement, Ares Administration furnishes us with office equipment and clerical, bookkeeping and record keeping services. Under the administration agreement, Ares Administration also performs, or oversees the performance of, our required administrative services, which include, among other things, being responsible for the financial records that we are required to maintain and preparing reports to our stockholders and reports filed with the SEC. In addition, Ares Administration assists us in determining and publishing our net asset value, oversees the preparation and filing of our tax returns and the printing and dissemination of reports to our stockholders, and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. Under the administration agreement, Ares Administration also provides, on our behalf, managerial assistance to those portfolio companies to which we are required to provide such assistance. Payments under the administration agreement are equal to an amount based upon our allocable portion of Ares Administration's overhead in performing its obligations under the administration agreement, including our allocable portion of the cost of our officers (including our chief compliance officer, chief financial officer, secretary and treasurer) and their respective staffs. The administration agreement may be terminated by either party without penalty upon 60-days' written notice to the other party.

For the three and nine months ended September 30, 2009, we incurred $809 and $2,905, respectively, in administrative fees. As of September 30, 2009, $809 was unpaid and included in accounts payable and accrued expenses in the accompanying consolidated balance sheet.

For the three and nine months ended September 30, 2008, we incurred $802 and $1,702, respectively, in administrative fees.

4. EARNINGS PER SHARE

The following information sets forth the computations of basic and diluted net increase in stockholders' equity per share resulting from the operations for the three and nine months ended September 30, 2009:

	Three months ended September 30, 2009	Nine months ended September 30, 2009
Numerator for basic and diluted net increase in stockholders' equity resulting from operations per share:	$ 63,276	$ 133,063
Denominator for basic and diluted net increase in stockholders' equity resulting from operations per share:	102,831,909	99,066,652
Basic and diluted net increase in stockholders' equity resulting from operations per share:	$ 0.62	$ 1.34

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The following information sets forth the computations of basic and diluted net increase in stockholders' equity per share resulting from operations for the three and nine months ended September 30, 2008:

		Three months ended September 30, 2008		Nine months ended September 30, 2008
Numerator for basic and diluted net increase in stockholders' equity resulting from operations per share:	$	(41,393)	$	(28,955)
Denominator for basic and diluted net increase in stockholders' equity resulting from operations per share:		97,152,820		87,152,501
Basic and diluted net increase in stockholders' equity resulting from operations per share:	$	(0.43)	$	(0.33)

In accordance with ASC 260-10 (previously SFAS No. 128, Earnings per Share), the weighted average shares of common stock outstanding used in computing basic and diluted net increase in stockholders' equity resulting from operations per share for the three and nine months ended September 30, 2008 has been adjusted retroactively by a factor of 1.02% to recognize the bonus element associated with rights to acquire shares of common stock that we issued to stockholders of record as of March 24, 2008 in connection with a transferable rights offering.

5. INVESTMENTS

Under the Investment Company Act, we are required to separately identify non-controlled investments where we own more than 5% of a portfolio company's outstanding voting securities as "affiliated companies." In addition, under the Investment Company Act, we are required to separately identify investments where we own more than 25% of a portfolio company's outstanding voting securities as "control affiliated companies." We had no existing control relationship with any of the portfolio companies identified as "affiliated companies" or "control affiliated companies" prior to making the indicated investment.

For the three months ended September 30, 2009, the Company funded $49.4 million aggregate principal amount of senior term debt and $16.4 million of investments in equity securities.

In addition, for the three months ended September 30, 2009, $26.5 million aggregate principal amount of senior term debt was redeemed. Additionally, $17.0 million aggregate principal amount of senior term debt, $43.5 million of senior subordinated debt and $18.9 million of equity were sold.

As of September 30, 2009, investments and cash and cash equivalents consisted of the following:

		Amortized Cost		Fair Value
Cash and cash equivalents	$	61,469	$	61,469
Senior term debt		1,152,456		1,058,988
Senior subordinated debt		722,424		606,365
Equity securities		314,576		251,458
Collateralized loan obligations		55,681		50,913
Total	$	2,306,606	$	2,029,193

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As of December 31, 2008, investments and cash and cash equivalents consisted of the following:

	Amortized Cost	Fair Value
Cash and cash equivalents	$ 89,383	$ 89,383
Senior term debt	1,165,460	1,055,089
Senior subordinated debt	737,072	619,491
Equity securities	309,061	247,997
Collateralized loan obligations	56,000	50,400
Total	$ 2,356,976	$ 2,062,360

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

The industrial and geographic compositions of our portfolio at fair value at September 30, 2009 and December 31, 2008 were as follows:

	September 30, 2009	December 31, 2008
Industry		
Health Care	19.5%	20.2%
Education	9.6	11.1
Beverage/Food/Tobacco	8.7	7.8
Restaurants and Food Services	8.6	8.1
Other Services	7.5	7.4
Financial	7.5	7.0
Business Services	6.8	6.7
Retail	5.8	5.7
Manufacturing	4.6	3.8
Computers/Electronics	3.3	1.2
Printing/Publishing/Media	3.1	3.8
Aerospace and Defense	3.1	3.0
Consumer Products	3.0	3.0
Telecommunications	2.2	2.0
Environmental Services	1.9	4.1
Cargo Transport	1.5	1.4
Health Clubs	1.2	1.2
Containers/Packaging	1.1	1.4
Grocery	1.0	1.0
Homebuilding	0.0	0.1
Total	100.0%	100.0%

	September 30, 2009	December 31, 2008
Geographic Region		
Mid-Atlantic	22.5%	21.0%
Midwest	21.9	20.6
Southeast	20.6	22.2
West	18.2	18.3
International	13.1	14.1
Northeast	3.7	3.8
Total	100.0%	100.0%

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6. COMMITMENTS AND CONTINGENCIES

As of September 30, 2009 and December 31, 2008, the Company had the following commitments to fund various revolving senior secured and subordinated loans:

	September 30, 2009	December 31, 2008
Total revolving commitments	$ 295,400	$ 419,000
Less: funded commitments	(90,400)	(139,600)
Total unfunded commitments	205,000	279,400
Less: commitments substantially at discretion of the Company	(10,000)	(32,400)
Less: unavailable commitments due to borrowing base or other covenant restriction	(89,000)	(64,500)
Total net adjusted unfunded revolving commitments	$ 106,000	$ 182,500

Of the total commitments as of September 30, 2009, $174,200 extend beyond the maturity date of our Revolving Credit Facility (as defined in Note 7). Additionally, $104,400 of the total commitments, or $6,500 of the net adjusted unfunded commitments, are scheduled to expire in 2009. Included within the total commitments as of September 30, 2009 are commitments to issue up to $24,300 in standby letters of credit through a financial intermediary on behalf of certain portfolio companies. Under these arrangements, the Company would be required to make payments to third parties if the portfolio companies were to default on their related payment obligations. As of September 30, 2009, the Company had $21,400 in standby letters of credit issued and outstanding on behalf of the portfolio companies, of which no amounts were recorded as a liability on the balance sheet as they are considered in the valuation of the investments in the portfolio company. Of these letters of credit, $400 expire on January 31, 2010, $200 expire on February 28, 2010, $3,700 expire on March 31, 2010, $8,100 expire on July 31, 2010 and $9,000 expire on September 30, 2010. These letters of credit may be extended under substantially similar terms for additional one-year terms at the Company's option until the Revolving Credit Facility, under which the letters of credit were issued, matures on December 28, 2010.

As of September 30, 2009 and December 31, 2008, the Company was subject to subscription agreements to fund equity investments in private equity investment partnerships, substantially all at the discretion of the Company, as follows:

	September 30, 2009	December 31, 2008
Total private equity commitments	$ 428,300	$ 428,300
Total unfunded private equity commitments	$ 419,100	$ 423,600

7. BORROWINGS

In accordance with the Investment Company Act, with certain limited exceptions, we are only allowed to borrow amounts such that our asset coverage, as defined in the Investment Company Act, is at least 200% after such borrowing. As of September 30, 2009, our asset coverage for borrowed amounts was 259%.

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Our debt obligations consisted of the following as of September 30, 2009 and December 31, 2008:

	September 30, 2009		December 31, 2008	
	Outstanding	Total Available(1)	Outstanding	Total Available(1)
CP Funding Facility	$ 223,027	$ 223,027	$ 114,300	$ 350,000
Revolving Credit Facility	271,091	525,000	480,486	510,000
CP Funding II Facility		200,000		
Debt Securitization	273,753	273,753	314,000	314,000
	$ 767,871	$ 1,221,780	$ 908,786	$ 1,174,000

(1) Subject to borrowing base and leverage restrictions.

The weighted average interest rate of all our debt obligations as of September 30, 2009 and December 31, 2008 was 2.02% and 3.03%, respectively.

CP Funding Facility

In October 2004, we formed Ares Capital CP Funding LLC ("Ares Capital CP"), a wholly owned subsidiary of the Company, through which we established a revolving facility, referred to as the "CP Funding Facility," that, as amended, allowed Ares Capital CP to issue up to $350,000 of variable funding certificates ("VFC"). On May 7, 2009, the Company and Ares Capital CP entered into an amendment that, among other things, converted the CP Funding Facility from a revolving facility to an amortizing facility, extended the maturity from July 21, 2009 to May 7, 2012, reduced the availability from $350,000 to $225,000 (with a reduction in the outstanding balance required by each of December 31, 2010 and December 31, 2011) and decreased the advance rates applicable to certain types of eligible loans. In addition, the interest rate charged on the CP Funding Facility was increased from the commercial paper rate plus 2.50% to the commercial paper, Eurodollar or adjusted Eurodollar rate, as applicable, plus 3.50% and the commitment fee requirement was removed. The Company also paid a renewal fee of 1.25% of the total facility amount, or $2,813. As of September 30, 2009, there was $223,027 outstanding under the CP Funding Facility and the Company continues to be in compliance with all of the limitations and requirements of the CP Funding Facility. As of December 31, 2008, there was $114,300 outstanding under the CP Funding Facility.

The CP Funding Facility is secured by all of the assets held by Ares Capital CP, which as of September 30, 2009 consisted of 36 investments.

The interest charged on the VFC is payable quarterly and is based on either the commercial paper, Eurodollar or adjusted Eurodollar rate. As of September 30, 2009, the rate in effect was one month LIBOR, which was 0.25%. As of December 31, 2008, the rate in effect was the commercial paper rate which was 2.3271%. For the three and nine months ended September 30, 2009, the average interest rates (i.e. rate in effect plus the spread) were 3.77% and 3.62%, respectively. For the three and nine months ended September 30, 2009, the average outstanding balances were $223,345 and $165,172, respectively. For the three and nine months ended September 30, 2008, the average interest rates (i.e. rate in effect plus the spread) were 4.98% and 4.55%, respectively. For the three and nine months ended September 30, 2008, the average outstanding balances were $65,058 and $82,370, respectively.

For the three and nine months ended September 30, 2009, the interest expense incurred on the CP Funding Facility was $2,151 and $4,632, respectively. For the three and nine months ended September 30, 2008, the interest expense incurred on the CP Funding Facility was $1,105 and $2,429, respectively. Cash paid for interest expense during the nine months ended September 30, 2009 and 2008 was $4,349 and $2,653, respectively.

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Prior to May 7, 2009, the Company was required to pay a commitment fee for any unused portion of the CP Funding Facility equal to 0.5% per annum for any unused portion of the CP Funding Facility. Prior to July 22, 2008, the commitment fee was 0.125% per annum calculated based on an amount equal to $200,000 less the borrowings outstanding under the CP Funding Facility. For the three and nine months ended September 30, 2009, the commitment fees incurred on the CP Funding Facility were $0 and $444, respectively. For the three and nine months ended September 30, 2008, the commitment fees incurred on the CP Funding Facility were $260 and $351, respectively.

Revolving Credit Facility

In December 2005, we entered into a senior secured revolving credit facility referred to as "Revolving Credit Facility", under which, as amended, the lenders have agreed to extend credit to the Company in an aggregate principal amount not exceeding $525,000 at any one time outstanding. The Revolving Credit Facility expires on December 28, 2010 and with certain exceptions is secured by substantially all of the assets in our portfolio (other than investments held by Ares Capital CP under the CP Funding Facility and those held as a part of the Debt Securitization, discussed below) which as of September 30, 2009 consisted of 167 investments.

The Revolving Credit Facility also includes an "accordion" feature that allows us to increase the size of the Revolving Credit Facility to a maximum of $765,000 under certain circumstances. The Revolving Credit Facility also includes usual and customary events of default for senior secured revolving credit facilities of this nature. As of September 30, 2009, there was $271,091 outstanding under the Revolving Credit Facility and the Company continues to be in compliance with all of the limitations and requirements of the Revolving Credit Facility. As of December 31, 2008, there was $480,486 outstanding under the Revolving Credit Facility.

The interest charged under the Revolving Credit Facility is generally based on LIBOR (one, two, three or six month) plus 1.00%. As of September 30, 2009, the one, two, three and six month LIBOR were 0.25%, 0.25%, 0.29% and 0.63%, respectively. As of December 31, 2008, the one, two, three and six month LIBOR were 0.44%, 1.10%, 1.43% and 1.75%, respectively. For the three and nine months ended September 30, 2009, the average interest rate was 1.95% and 2.13%, respectively, the average outstanding balance was $328,600 and $414,121, respectively, and the interest expense incurred was $1,605 and $6,617, respectively. For the three and nine months ended September 30, 2008, the average interest rate was 3.77% and 4.28%, respectively, the average outstanding balance was $485,497 and $413,387, respectively, and the interest expense incurred was $2,595 and $6,534, respectively. Cash paid for interest expense during the nine months ended September 30, 2009 and 2008 was $7,944 and $13,963, respectively. The Company is also required to pay a commitment fee of 0.20% for any unused portion of the Revolving Credit Facility. For the three and nine months ended September 30, 2009, the commitment fee incurred was $90 and $133, respectively. For the three and nine months ended September 30, 2008, the commitment fee incurred was $179 and $436, respectively.

The amount available for borrowing under the Revolving Credit Facility is reduced by any standby letters of credit issued through the Revolving Credit Facility. As of September 30, 2009 and December 31, 2008, the Company had $21,900 and $16,700, respectively, in standby letters of credit issued through the Revolving Credit Facility.

As of September 30, 2009, the Company had a non-U.S. borrowing on the Revolving Credit Facility denominated in Canadian dollars. As of September 30, 2009 and December 31, 2008, unrealized appreciation on this borrowing was $1,759 and $3,365, respectively.

CP Funding II Facility

On July 21, 2009, we entered into an agreement with Wachovia Bank N.A. ("Wachovia") to establish a new revolving facility (the "CP Funding II Facility") whereby Wachovia agreed to extend

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credit to us in an aggregate principal amount not exceeding $200,000 at any one time outstanding. The CP Funding II Facility is scheduled to expire on July 21, 2012 (plus two one-year extension options, subject to mutual consent) and the interest charged on the CP Funding II Facility is based on LIBOR plus 4.00%. As of September 30, 2009, there were no amounts outstanding on the CP Funding II Facility. For the three and nine months ended September 30, 2009, there was no interest expense incurred. We are also required to pay a commitment fee on any unused portion of the CP Funding II Facility of between 0.50% and 2.50% depending on the usage level and paid a structuring fee of 1.5% of the total facility amount, or $3,000. For the three and nine months ended September 30, 2009, the commitment fee incurred was $200.

Debt Securitization

In July 2006, through our wholly owned subsidiary, ARCC CLO 2006 LLC ("ARCC CLO"), we completed a $400,000 debt securitization (the "Debt Securitization") and issued approximately $314,000 principal amount of asset-backed notes (including $50,000 of revolving notes, all of which were drawn down as of September 30, 2009) (the "CLO Notes") to third parties that were secured by a pool of middle market loans that have been purchased or originated by the Company. The CLO Notes are included in the September 30, 2009 consolidated balance sheet. We retained approximately $86,000 of aggregate principal amount of certain BBB and non-rated securities in the Debt Securitization (the "Retained Notes"). During the nine months ended September 30, 2009, we repurchased, in several open market transactions, $34,790 of CLO Notes consisting of $14,000 of the Class B and $20,790 of the Class C notes for a total purchase price of $8,247. As a result of these purchases, we recognized a $26,543 gain on the extinguishment of debt and as of September 30, 2009, we held an aggregate principal amount of $120,790 of CLO Notes, in total. The CLO Notes mature on December 20, 2019, and, as of September 30, 2009, there is $273,753 outstanding under the Debt Securitization (excluding the Retained Notes). The blended pricing of the CLO Notes, excluding fees, is approximately 3-month LIBOR plus 27 basis points.

The classes, amounts, ratings and interest rates (expressed as a spread to 3-month LIBOR) of the CLO Notes are as follows:

Class	Amount	Rating (S&P/Moody's)	LIBOR Spread (basis points)
A-1A	$ 73,157	AAA/Aaa	25
A-1A VFN	48,772(1)	AAA/Aaa	28
A-1B	14,000	AAA/Aa2	37
A-2A	72,614	AAA/Aaa	22
A-2B	33,000	AAA/Aa1	35
B	9,000	AA/A1	43
C	23,210	A/Baa3	70
Total	$ 273,753		

(1) Revolving class, all of which was drawn as of September 30, 2009.

As of September 30, 2009, there were 54 investments securing the notes. The interest charged under the Debt Securitization is based on 3-month LIBOR, which as of September 30, 2009 was 0.29% and as of December 31, 2008 was 1.43%. For the three and nine months ended September 30, 2009, the effective average interest rate was 1.04% and 1.44%, respectively, the average outstanding balance was $278,617 and $285,924, respectively, and the interest expense incurred was $726 and $3,082, respectively. For the three and nine months ended September 30, 2008, the effective average interest rate was 3.30% and 3.77%, respectively, and the interest expense incurred was $2,612 and $8,877, respectively. Cash paid for interest expense during the nine months ended September 30, 2009 and

2008 was $3,210 and $9,068, respectively. The Company is also required to pay a commitment fee of 0.175% for any unused portion of the Class A-1A VFN Notes. There were no commitment fees incurred for the three and nine months ended September 30, 2009 and 2008 on these notes.

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

Effective January 1, 2008, the company adopted ASC 825-10 (previously SFAS No. 159, *the Fair Value Option for Financial Assets and Liabilities*), which provides companies the option to report selected financial assets and liabilities at fair value. ASC 825-10 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to more easily understand the effect of the company's choice to use fair value on its earnings. ASC 825-10 also requires entities to display the fair value of the selected assets and liabilities on the face of the balance sheet. The Company has not elected the ASC 25-10 option to report selected financial assets and liabilities at fair value. As a result, with the exception of the line items entitled "other assets" and "debt," which are reported at cost, all assets and liabilities approximate fair value on the balance sheet. The carrying value of the line items entitled "interest receivable," "receivable for open trades," "payable for open trades," "accounts payable and accrued expenses," "management and incentive fees payable" and "interest and facility fees payable" approximate fair value due to their short maturity.

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

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

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

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

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

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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 may realize significantly less than the value at which we have recorded it.

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

The following table presents fair value measurements of cash and cash equivalents and investments as of September 30, 2009:

	Fair Value Measurements Using			
	Total	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	$ 61,469	$ 61,469	$	$
Investments	$ 1,967,724	$	$ 27,904	$ 1,939,820

The following tables present changes in investments that use Level 3 inputs for the three and nine months ended September 30, 2009:

	Three months ended September 30, 2009
Balance as of June 30, 2009	$ 1,936,436
Net realized and unrealized gains (losses)	28,501
Net purchases, sales or redemptions	(25,117)
Net transfers in and/or out of Level 3	
Balance as of September 30, 2009	$ 1,939,820

	Nine months ended September 30, 2009
Balance as of December 31, 2008	$ 1,862,462
Net realized and unrealized gains (losses)	9,070
Net purchases, sales or redemptions	(17,212)
Net transfers in and/or out of Level 3	85,500
Balance as of September 30, 2009	$ 1,939,820

As of September 30, 2009, the net unrealized loss on the investments that use Level 3 inputs was $270,141.

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Following are the carrying and fair values of our debt instruments as of September 30, 2009 and December 31, 2008. Fair value is estimated by discounting remaining payment using applicable current market rates which take into account changes in the Company's marketplace credit ratings.

	September 30, 2009		December 31, 2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Revolving Credit Facility	$ 271,091	$ 263,000	$ 480,486	$ 462,000
CP Funding Facility	223,027	223,027	114,300	113,000
CP Funding II Facility				
Debt Securitization	273,753	207,000	314,000	148,000
	$ 767,871	$ 693,027	$ 908,786	$ 723,000

9. RELATED PARTY TRANSACTIONS

In accordance with the investment advisory and management agreement, we bear all costs and expenses of the operation of the Company and reimburse the investment adviser for all such costs and expenses incurred in the operation of the Company. For the three and nine months ended September 30, 2009, the investment adviser incurred such expenses totaling $456 and $1,400, respectively. For the three and nine months ended September 30, 2008, the investment adviser incurred such expenses totaling $442 and $1,448, respectively. As of September 30, 2009, $168 was unpaid and included in accounts payable and accrued expenses in the accompanying consolidated balance sheet.

We rent office space directly from a third party pursuant to a lease that expires on February 27, 2011. In addition, we have entered into a sublease agreement with Ares Management whereby Ares Management subleases approximately 25% of certain office space for a fixed rent equal to 25% of the basic annual rent payable by us under this lease, plus certain additional costs and expenses. For the three and nine months ended September 30, 2009, such amounts payable to the Company totaled $67 and $201, respectively. For the three and nine months ended September 30, 2008, such amounts payable to the Company totaled $51 and $171, respectively. As of September 30, 2009, there were no unpaid amounts.

As of September 30, 2009, Ares Investments, an affiliate of Ares Management (the sole member of our investment adviser) owned 2,859,882 shares of the Company's common stock representing approximately 2.6% of the total shares outstanding as of September 30, 2009.

See Notes 3 and 10 for descriptions of other related party transactions.

10. IVY HILL FUNDS

On November 19, 2007, we established a middle market credit fund, Ivy Hill Middle Market Credit Fund, Ltd. ("Ivy Hill I"), which is managed by our affiliate, Ivy Hill Asset Management, L.P. ("IHAM"). IHAM receives a 0.50% management fee on the average total assets of Ivy Hill I as compensation for managing this fund. As of September 30, 2009, the total assets of Ivy Hill I were approximately $372,000. For the three and nine months ended September 30, 2009, the Company earned $17 and $900, respectively, in management fees. For the three and nine months ended September 30, 2008, the Company earned $412 and $992, respectively, in management fees. Ivy Hill I primarily invests in first and second lien bank debt of middle market companies. Ivy Hill I was initially funded with $404,000 of capital, including a $56,000 investment by the Company consisting of $40,000 of Class B notes and $16,000 of subordinated notes. For the three and nine months ended September 30, 2009, the Company earned $1,402 and $4,424, respectively, from its investments in Ivy Hill I. For the three and nine months ended September 30, 2008, the Company earned $1,652 and $4,043, respectively, from its investments in Ivy Hill I.

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Ivy Hill I purchased investments from the Company of $5,000 and $17,980 during the three and nine months ended September 30, 2009, respectively, and may from time to time buy additional investments from the Company. There was a loss of $20 recognized by the Company on these transactions.

On November 5, 2008, the Company established a second middle market credit fund, Ivy Hill Middle Market Credit Fund II, Ltd. ("Ivy Hill II" and, together with Ivy Hill I, the "Ivy Hill Funds"), which is also managed by IHAM. IHAM receives a 0.50% management fee on the average total assets of Ivy Hill II as compensation for managing this fund. Ivy Hill II primarily invests in second lien and subordinated bank debt of middle market companies. Ivy Hill II was established with an initial commitment of $250,000 of subordinated notes, of which $125,000 has been funded, and may grow over time with leverage. Ivy Hill II purchased $27,500 of investments from the Company during the nine months ended September 30, 2009. The Company recorded a loss of $1,388 on these transactions. As of September 30, 2009, the total assets of Ivy Hill II were approximately $144,000. For the three and nine months ended September 30, 2009, the Company earned $12 and $365, respectively, in management fees.

Our affiliate, IHAM, is party to a separate services agreement, referred to herein as the "services agreement," with Ares Capital Management. Pursuant to the services agreement, Ares Capital Management provides IHAM with office facilities, equipment, clerical, bookkeeping and record keeping services, services of investment professionals and others to perform investment advisory, research and related services, services of, and oversight of, custodians, depositories, accountants, attorneys, underwriters and such other persons in any other capacity deemed to be necessary. Under the services agreement, IHAM will reimburse Ares Capital Management for all of the costs associated with such services, including Ares Capital Management's allocable portion of overhead and the cost of its officers and respective staff in performing its obligations under the services agreement. The services agreement may be terminated by either party without penalty upon 60-days' written notice to the other party. For the three and nine months ended September 30, 2009, IHAM incurred such expenses payable to the investment adviser of $0 and $538, respectively. No such expenses were payable for the three and nine months ended September 30, 2008.

In June 2009, because of a shift in activity from being primarily a manager with no dedicated employees and of funds in which the Company has invested debt and equity, to a manager with individuals dedicated to managing an increasing number of third party funds for which the Company has limited or no investment, we concluded that GAAP requires the financial results of IHAM to be reported as a portfolio company in our schedule of investments rather than as a consolidated subsidiary in the Company's financial results. The Company made an initial equity investment of $3,816 into IHAM in June 2009.

For the three months ended September 30, 2009, the Company received a $2,240 distribution from IHAM consisting of $1,510 of dividend income and a $730 return of the Company's investment which resulted in a $494 realized gain. As of September 30, 2009, the Company had an unrealized gain of $7,501 on its investment in IHAM.

11. DERIVATIVE INSTRUMENTS

In October 2008, we entered into a two-year interest rate swap agreement to mitigate our exposure to adverse fluctuations in interest rates for a total notional amount of $75 million. Under the interest rate swap agreement, we will pay a fixed interest rate of 2.985% and receive a floating rate based on the prevailing three-month LIBOR. As of September 30, 2009 and December 31, 2008, the 3-month LIBOR was 0.29% and 1.43%, respectively. For the three and nine months ended September 30, 2009, we recognized $20 in unrealized depreciation and $101 in unrealized appreciation related to this swap agreement. As of September 30, 2009 and December 31, 2008, this swap agreement had a fair value of

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$(2,063) and $(2,164), respectively, which is included in the "accounts payable and other liabilities" in the accompanying consolidated balance sheet.

12. STOCKHOLDERS' EQUITY

On August 19, 2009, we completed a public add-on equity offering (the "August Add-on Offering") of 12,439,908 shares of common stock (including 1,439,908 shares purchased pursuant to the underwriters' over-allotment option) at a price of $9.25 per share, less an underwriting discount totaling approximately $0.42 per share. The shares were offered at a discount from the then most recently determined net asset value per share of $11.21 pursuant to authority granted by our common stockholders at the annual meeting of stockholders held on May 4, 2009. Total proceeds received from the August Add-on Offering, net of underwriters' discount and offering costs, were approximately $109.1 million.

The following table summarizes the total shares issued and proceeds we received net of underwriter, dealer manager and offering costs for the nine months ended September 30, 2009 and 2008 (in millions, except per share data):

	Shares issued	Offering price per share	Proceeds net of dealer manager and offering costs
August 2009 public offering	12.4	$ 9.25	$ 109.1
Total for the nine months ended September 30, 2009	12.4		$ 109.1
April 2008 public offering	24.2	$ 11.00	$ 259.8
Total for the nine months ended September 30, 2008	24.2		$ 259.8

13. DIVIDENDS

The following table summarizes our dividends declared during the nine months ended September 30, 2009 and 2008 (in millions, except per share data):

Date Declared	Record Date	Payment Date	Amount Per Share	Total Amount
August 6, 2009	September 15, 2009	September 30, 2009	$ 0.35	$ 38.4
May 7, 2009	June 15, 2009	June 30, 2009	$ 0.35	$ 34.1
March 2, 2009	March 16, 2009	March 31, 2009	$ 0.42	$ 40.8
Total declared for the nine months ended September 30, 2009			$ 1.12	$ 113.3
August 7, 2008	September 15, 2008	September 30, 2008	$ 0.42	$ 40.8
May 8, 2008	June 16, 2008	June 30, 2008	$ 0.42	$ 40.8
February 28, 2008	March 17, 2008	March 31, 2008	$ 0.42	$ 30.5
Total declared for the nine months ended September 30, 2008			$ 1.26	$ 112.1

During the nine months ended September 30, 2009, as part of the Company's dividend reinvestment plan for our common stockholders, we purchased 1,500,841 shares of our common stock at an average price of $6.86 in the open market in order to satisfy part of the reinvestment portion of our dividends.

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14. FINANCIAL HIGHLIGHTS

The following is a schedule of financial highlights for the nine months ended September 30, 2009 and 2008:

Per Share Data:	For the nine months ended September 30, 2009	September 30, 2008
Net asset value, beginning of period(1)	$ 11.27	$ 15.47
Issuance of common stock	(0.28)	(1.19)
Effect of antidilution	(0.04)	0.14
Net investment income for period(2)	0.96	1.09
Net realized and unrealized gains for period(2)	0.38	(1.42)
Net increase (decrease) in stockholders' equity	1.34	(0.33)
Distributions from net investment income	(1.00)	(1.24)
Distributions from net realized capital gains on securities	(0.13)	(0.02)
Total distributions to stockholders	(1.13)	(1.26)
Net asset value at end of period(1)	$ 11.16	$ 12.83
Per share market value at end of period	$ 11.02	$ 10.43
Total return based on market value(3)	91.94%	(20.10)%
Total return based on net asset value(4)	12.02%	(2.25)%
Shares outstanding at end of period	109,592,728	97,152,820
Ratio/Supplemental Data:		
Net assets at end of period	$ 1,222,591	$ 1,246,182
Ratio of operating expenses to average net assets(5)(6)	9.72%	8.80%
Ratio of net investment income to average net assets(5)(7)	11.49%	10.00%
Portfolio turnover rate(5)	15%	26%

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

(2) Weighted average basic per share data.

(3) For the nine months ended September 30, 2009, the total return based on market value equals the decrease of the ending market value at September 30, 2009 of $11.02 per share over the ending market value at December 31, 2008 of $6.33 per share, plus the declared dividends of $1.12 per share for the nine months ended September 30, 2009, divided by the market value at December 31, 2008. For the nine months ended September 30, 2008, the total return based on market value equals the decrease of the ending market value at September 30, 2008 of $10.43 per share over the ending market value at December 31, 2007 of $14.63 per share, plus the declared dividends of $1.26 per share for the nine months ended September 30, 2008, divided by the market value at December 31, 2007. Total return based on market value is not annualized. The Company's shares fluctuate in value. The Company's performance changes over time and currently may be different than that shown. Past performance is no guarantee of future results.

(4) For the nine months ended September 30, 2009, the total return based on net asset value equals the change in net asset value during the period plus the declared dividends of $1.12 per share for the nine months ended September 30, 2009, divided by the beginning net asset value during the period. For the nine months ended September 30, 2008, the total return based on net asset value equals the change in net asset value during the period plus the declared dividends of $1.26 per share for the nine months ended September 30, 2008, divided by the beginning net asset value during the period. These calculations are adjusted for shares issued in connection with the dividend reinvestment plan and the issuance of common stock in connection with any equity

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offerings. Total return based on net asset value is not annualized. The Company's performance changes over time and currently may be different than that shown. Past performance is no guarantee of future results.

(5)
The ratios reflect an annualized amount.

(6)
For the nine months ended September 30, 2009, the ratio of operating expenses to average net assets consisted of 2.72% of base management fees, 2.87% of incentive management fees, 2.25% of the cost of borrowing and other operating expenses of 1.88%. For the nine months ended September 30, 2008, the ratio of operating expenses to average net assets consisted of 2.40% of base management fees, 2.51% of incentive management fees, 2.81% of the cost of borrowing and other operating expenses of 1.08%. These ratios reflect annualized amounts.

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

15. SUBSEQUENT EVENTS

On October 26, 2009, we entered into a definitive agreement to acquire Allied Capital Corporation ("Allied Capital") in an all stock transaction (the "Allied Acquisition") valued at $648 million, or approximately $3.47 per Allied Capital share as of October 23, 2009. The boards of directors of both companies have each unanimously approved the Allied Acquisition.

Under the terms of the transaction, each Allied Capital stockholder will be entitled to receive 0.325 shares of our common stock for each share of Allied Capital common stock then owned by such stockholder. In connection with the Allied Acquisition, approximately 58.3 million shares of Ares Capital common stock (not including the effect of outstanding in-the money options) will be issued to Allied Capital's existing stockholders, thereby resulting in existing Ares Capital stockholders owning approximately 65% of the combined company and existing Allied Capital stockholders owning approximately 35% of the combined company. Consummation of the Allied Acquisition is subject to Allied Capital stockholder approval, Ares Capital stockholder approval, customary regulatory approvals, certain Ares Capital and Allied Capital lender consents and other closing conditions. The transaction is expected to close by the end of the first quarter of 2010. However, there can be no assurance that the Allied Acquisition will be consummated within this time frame, or at all.

In a separate transaction, on October 30, 2009, we completed our acquisition of Allied Capital's interests in the Senior Secured Loan Fund LLC (the "SL Fund," formerly known as the Unitranche Fund) for $165 million in cash. The SL Fund was formed in December 2007 to invest in "unitranche" loans of middle-market companies and has approximately $3.6 billion of committed capital (approximately $350 million of which would be funded by us), approximately $900 million in aggregate principal amount of which is currently funded.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Ares Capital Corporation:

We have audited the accompanying consolidated balance sheets of Ares Capital Corporation (and subsidiaries) (the Company) as of December 31, 2008 and 2007, including the consolidated schedule of investments as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ares Capital Corporation (and subsidiaries) as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Accounting Oversight Board (United States), Ares Capital Corporation's internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of Treadway Commission, and our report dated March 2, 2009 expressed an unqualified opinion on the effectiveness of Ares Capital Corporation's internal control over financial reporting.

As explained in note 5, the accompanying consolidated financial statements include investments valued at $ 1.97 billion (180 percent of net assets), whose fair values have been estimated by the Board of Directors and management in the absence of readily determinable fair values. Such estimates are based on financial and other information provided by management of its portfolio companies, pertinent market and industry data, as well as input from independent valuation firms. These investments are valued in accordance with Statement of Financial Accounting Standards No. 157, Fair Value Measurements, (SFAS 157), which requires the Company to assume that the portfolio investments are sold in a principal market to market participants. The Company has considered its principal market as the market in which the Company exits it portfolio investments with the greatest volume and level of activity. SFAS 157 specifies a hierarchy of valuation techniques based on whether the inputs to these valuation techniques are observable or unobservable. $1.86 billion of investments at December 31, 2008 are valued based on unobservable inputs. Because such valuations, and particularly valuations of private investments and private companies, are inherently uncertain, they may fluctuate significantly over short periods of time. These determinations of fair value could differ materially from the values that would have been utilized had a ready market for these investments existed.

Los Angeles, California
March 2, 2009

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ARES CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(dollar amounts in thousands, except per share data)

	As of December 31, 2008	As of December 31, 2007
ASSETS		
Investments at fair value (amortized cost of $2,267,593 and $1,795,621, respectively)		
Non-controlled/non-affiliate investments	$ 1,477,492	$ 1,167,200
Non-controlled affiliate company investments	329,326	430,371
Controlled affiliate company investments	166,159	176,631
Total investments at fair value	1,972,977	1,774,202
Cash and cash equivalents	89,383	21,142
Receivable for open trades	3	1,343
Interest receivable	17,547	23,730
Other assets	11,423	8,988
Total assets	$ 2,091,333	$ 1,829,405
LIABILITIES		
Debt	$ 908,786	$ 681,528
Dividend payable	40,804	
Management and incentive fees payable	32,989	13,041
Accounts payable and other liabilities	10,006	5,516
Interest and facility fees payable	3,869	4,769
Total liabilities	996,454	704,854
Commitments and contingencies (Note 7)		
STOCKHOLDERS' EQUITY		
Common stock, par value $.001 per share, 200,000,000 and 100,000,000 common shares authorized, respectively, 97,152,820 and 72,684,090 common shares issued and outstanding, respectively	97	73
Capital in excess of par value	1,395,958	1,136,599
Accumulated undistributed net investment income	(7,637)	7,005
Accumulated net realized gain on sale of investments	(124)	1,471
Net unrealized (depreciation) appreciation on investments	(293,415)	(20,597)
Total stockholders' equity	1,094,879	1,124,551
Total liabilities and stockholders' equity	$ 2,091,333	$ 1,829,405
NET ASSETS PER SHARE	$ 11.27	$ 15.47

See accompanying notes to consolidated financial statements.

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ARES CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS

(dollar amounts in thousands, except per share data)

	For the Year Ended December 31, 2008	For the Year Ended December 31, 2007	For the Year Ended December 31, 2006
INVESTMENT INCOME:			
From non-controlled/non-affiliate company investments:			
Interest from investments	$ 169,519	$ 135,145	$ 85,642
Capital structuring service fees	16,421	12,474	14,634
Interest from cash & cash equivalents	1,625	2,946	2,420
Dividend income	1,621	1,880	2,228
Other income	3,244	1,054	552
Total investment income from non-controlled/non-affiliate company investments	192,430	153,499	105,476
From non-controlled affiliate company investments:			
Interest from investments	28,532	21,413	11,230
Capital structuring service fees	1,821	2,635	1,384
Dividend income	825	1,224	
Management fees	750	750	
Other income	847	381	230
Total investment income from non-controlled affiliate company investments	32,775	26,403	12,844
From controlled affiliate company investments:			
Interest from investments	10,420	5,876	1,459
Capital structuring service fees	3,000	2,899	
Dividend income	133	121	242
Management fees	1,628	45	
Other income	75	30	
Total investment income from controlled affiliate company investments	15,256	8,971	1,701
Total investment income	240,461	188,873	120,021
EXPENSES:			
Interest and credit facility fees	36,515	36,889	18,584
Base management fees	30,463	23,531	13,646
Incentive management fees	31,748	23,522	19,516
Professional fees	5,990	4,907	3,016
Insurance	1,271	1,081	866
Administrative	2,701	997	953
Depreciation	503	410	259
Directors fees	337	280	250
Interest to the Investment Adviser			26
Other	3,693	3,133	1,342
Total expenses	113,221	94,750	58,458
NET INVESTMENT INCOME BEFORE INCOME TAXES	127,240	94,123	61,563
Income tax expense, including excise tax	248	(826)	4,931
NET INVESTMENT INCOME	126,992	94,949	56,632
REALIZED AND UNREALIZED NET GAINS (LOSSES) ON INVESTMENTS AND FOREIGN CURRENCIES:			
Net realized gains (losses):			
Non-controlled/non-affiliate company investments	5,200	2,754	27,569

Non-controlled affiliate company investments		1,357				47
Controlled affiliate company investment				3,808		
Foreign currency transactions		(186)		(18)		
Net realized gains		6,371		6,544		27,616
Net unrealized gains (losses):						
Non-controlled/non-affiliate company investments		(168,570)		(3,388)		(15,554)
Non-controlled affiliate company investments		(82,457)		(34,497)		1,001
Controlled affiliate company investments		(21,797)		27,231		
Foreign currency transactions		6		(7)		
Net unrealized losses		(272,818)		(10,661)		(14,553)
Net realized and unrealized gains (losses) from investments and foreign currencies		(266,447)		(4,117)		13,063
NET (DECREASE) INCREASE IN STOCKHOLDERS' EQUITY RESULTING FROM OPERATIONS	$	(139,455)	$	90,832	$	69,695
BASIC AND DILUTED EARNINGS PER COMMON SHARE (see Note 4)	$	(1.56)	$	1.34	$	1.58
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING (see Note 4)		89,666,243		67,676,498		43,978,853

See accompanying notes to consolidated financial statements.

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ARES CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULE OF INVESTMENTS
As of December 31, 2008
(dollar amounts in thousands, except per unit data)

Company(1)	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
Healthcare Services							
American Renal Associates, Inc.	Senior secured loan ($1,443 par due 12/2010)	4.72% (Libor + 3.25%/Q)	12/14/2005	$ 1,443	$ 1,399	$ 0.97(3)	
	Senior secured loan ($180 par due 12/2010)	5.00% (Base Rate + 1.75%/D)	12/14/2005	180	175	$ 0.97(3)	
	Senior secured loan ($5,705 par due 12/2011)	4.72% (Libor + 3.25%/Q)	12/14/2005	5,705	5,534	$ 0.97(3)	
	Senior secured loan ($34 par due 12/2011)	5.00% (Base Rate + 1.75%/D)	12/14/2005	34	33	$ 0.97(3)	
	Senior secured loan ($262 par due 12/2011)	4.72% (Libor + 3.25%/Q)	12/14/2005	262	254	$ 0.97(3)	
	Senior secured loan ($2,620 par due 12/2011)	7.30% (Libor + 3.25% /Q)	12/14/2005	2,620	2,541	$ 0.97(3)	
Capella Healthcare, Inc.	Junior secured loan ($70,000 par due 2/2016)	13.00%	2/29/2008	70,000	63,000	$ 0.90	
	Junior secured loan ($25,000 par due 2/2016)	13.00%	2/29/2008	25,000	22,500	$ 0.90(2)	
CT Technologies Intermediate Holdings, Inc. and CT Technologies Holdings, LLC(6)	Preferred stock (7,427 shares)	14.00% PIK	6/15/2007	7,427	7,427	$ 1,000.00(4)	
	Common stock (9,679 shares)		6/15/2007	4,000	5,382	$ 556.05(5)	
	Common stock (1,546 shares)		6/15/2007			$ (5)	
DSI Renal, Inc.	Senior subordinated note ($29,589 par due 4/2014)	12.00% Cash, 2.00% PIK	4/4/2006	29,658	21,896	$ 0.74(4)	
	Senior subordinated note ($26,927 par due 4/2014)	12.00% Cash, 2.00% PIK	4/4/2006	26,971	19,847	$ 0.73(2)(4)	
	Senior subordinated note ($12,211 par due 4/2014)	12.00% Cash, 2.00% PIK	4/4/2006	12,231	9,036	$ 0.74(3)(4)	
	Senior secured revolving loan ($142 par due 3/2013)	6.25% (Base Rate + 3.00%/D)	4/4/2006	142	127	$ 0.89	
	Senior secured revolving loan ($3,520 par due 3/2013)	3.47% (Libor + 3.00%/M)	4/4/2006	3,520	3,168	$ 0.90	
	Senior secured revolving loan ($1,120 par due 3/2013)	3.47% (Libor + 3.00%/M)	4/4/2006	1,120	1,008	$ 0.90	
	Senior secured revolving loan ($1,152 par due 3/2013)	4.50% (Libor + 3.00%/Q)	4/4/2006	1,152	1,037	$ 0.90	
	Senior secured revolving loan ($1,600 par due 3/2013)	4.50% (Libor + 3.00%/Q)	4/4/2006	1,600	1,440	$ 0.90	
GG Merger Sub I, Inc.	Senior secured loan ($23,330 par due 12/2014)	7.09% (Libor + 4.00%/S)	12/14/2007	22,426	18,938	$ 0.81	
HCP Acquisition Holdings, LLC(7)	Class A units (8,566,824 units)		6/26/2008	8,567	6,500	$ 0.76(5)	
Heartland Dental Care, Inc.	Senior subordinated note ($40,217 par due 8/2013)	11.00% Cash, 3.25% PIK	7/31/2008	40,217	40,217	$ 1.00(4)	
MPBP Holdings, Inc., Cohr Holdings, Inc. and MPBP Acquisition Co., Inc.	Junior secured loan ($20,000 par due 1/2014)	9.19% (Libor + 6.25%/S)	1/31/2007	20,000	7,000	$ 0.35	
	Junior secured loan ($12,000 par due 1/2014)	9.19% (Libor + 6.25%/S)	1/31/2007	12,000	4,200	$ 0.35(3)	

	Common stock (50,000 shares)		1/31/2007	5,000		$	(5)
MWD Acquisition Sub, Inc.	Junior secured loan ($5,000 par due 5/2012)	8.13% (Libor + 6.25%/M)	5/3/2007	5,000	4,250	$	0.85(3)

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Company(1)	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
OnCURE Medical Corp.	Senior subordinated note ($32,176 par due 8/2013)	11.00% Cash, 1.50% PIK	8/18/2006	32,176	28,935	$ 0.90(4)	
	Senior secured loan ($3,083 par due 8/2009)	4.75% (Libor + 3.50%/M)	8/18/2006	3,083	3,000	$ 0.97(3)	
	Common stock (857,143 shares)		8/18/2006	3,000	2,713	$ 3.17(5)	
Passport Health Communications, Inc., Passport Holding Corp. and Prism Holding Corp.	Senior secured loan ($12,935 par due 5/2014)	10.50% (Libor + 7.50%/S)	5/9/2008	12,935	12,671	$ 0.98	
	Senior secured loan ($11,940 par due 5/2014)	10.50% (Libor + 7.50%/S)	5/9/2008	11,940	11,701	$ 0.98(3)	
	Series A preferred stock (1,594,457 shares)		7/30/2008	9,900	9,902	$ 6.21(5)	
	Common stock (16,106 shares)		7/30/2008	100	100	$ 6.21(5)	
PG Mergersub, Inc.	Senior subordinated loan ($5,000 par due 3/2016)	12.50%	3/12/2008	4,901	4,750	$ 0.95	
	Preferred stock (333 shares)		3/12/2008	333	333	$ 1,000.00(5)	
	Common stock (16,667 shares)		3/12/2008	167	167	$ 10.00(5)	
The Schumacher Group of Delaware, Inc.	Senior subordinated loan ($35,849 par due 7/2012)	11.00% Cash, 2.50% PIK	7/18/2008	35,849	35,849	$ 1.00(4)	
Triad Laboratory Alliance, LLC	Senior subordinated note ($15,354 par due 12/2012)	12.00% Cash, 1.75% PIK	12/21/2005	15,354	14,894	$ 0.97(4)	
	Senior secured loan ($2,473 par due 12/2011)	4.71% (Libor + 3.25%/Q)	12/21/2005	2,473	2,201	$ 0.89(3)	
VOTC Acquisition Corp.	Senior secured loan ($3,068 par due 7/2012)	11.00% Cash, 2.00% PIK	6/30/2008	3,068	3,068	$ 1.00(4)	
	Senior secured loan ($14,000 par due 7/2012)	11.00% Cash, 2.00% PIK	6/30/2008	14,000	14,000	$ 1.00(4)	
	Series E preferred shares (3,888,222 shares)		7/14/2008	8,749	6,561	$ 1.69(5)	
				464,303	397,754		36.33%
Beverage, Food and Tobacco							
3091779 Nova Scotia Inc.(8)	Junior secured loan (Cdn$14,058 par due 11/2012)	11.50% Cash, 1.50% PIK	11/2/2007	14,904	10,961	$ 0.74(4)(12)	
	Warrants to purchase 57,545 shares					$ (5)	
Apple & Eve, LLC and US Juice Partners, LLC(6)	Senior secured revolving loan ($8,000 par due 10/2013)	7.90% (Libor + 6.00%/M)	10/5/2007	8,000	6,400	$ 0.80	
	Senior secured loan ($10,637 par due 10/2013)	6.47% (Libor + 6.00%/M)	10/5/2007	10,637	8,509	$ 0.80	
	Senior secured loan ($19,976 par due 10/2013)	6.47% (Libor + 6.00%/M)	10/5/2007	19,976	15,981	$ 0.80(2)	
	Senior secured loan ($10,805 par due 10/2013)	6.47% (Libor + 6.00%/M)	10/5/2007	10,805	8,644	$ 0.80(3)	
	Senior units (50,000 units)		10/5/2007	5,000	2,500	$ 50.00(5)	
Best Brands Corporation	Senior secured loan ($10,971 par due 12/2012)	10.43% (Libor + 4.50% Cash, 4.50% PIK/M)	2/15/2008	9,501	9,326	$ 0.86(4)	
			12/14/2006	4,307	3,883	$ 0.90(4)	

	Junior secured loan ($4,319 par due 6/2013)	10.00% Cash, 8.00% PIK				
	Junior secured loan ($26,400 par due 6/2013)	10.00% Cash, 8.00% PIK	12/14/2006	26,308	23,729	$ 0.90(2)(4)
	Junior secured loan ($12,201 par due 6/2013)	10.00% Cash, 8.00% PIK	12/14/2006	12,164	10,969	$ 0.90(3)(4)
Bumble Bee Foods, LLC and BB Co-Invest LP	Senior subordinated loan ($40,706 par due 11/2018)	16.25% (12.00% Cash, 4.25% Optional PIK)	11/18/2008	40,706	40,706	$ 1.00(4)
	Common stock (4,000 shares)		11/18/2008	4,000	4,000	$ 1,000.00(5)

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Company(1)	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
Charter Baking Company, Inc.	Senior subordinated note ($5,547 par due 2/2013)	12.00% PIK	2/6/2008	5,547	5,547	$ 1.00(2)(4)	
	Preferred stock (6,258 shares)		9/1/2006	2,500	2,500	$ 399.49(5)	
OTG Management, Inc.	Junior secured loan ($15,312 par due 6/2013)	18.00% (Libor + 11.00% Cash, 4.00% PIK/M)	6/19/2008	15,312	15,312	$ 1.00(4)	
	Warrants to purchase up to 9 shares of common stock					$ (5)	
Vistar Corporation and Wellspring Distribution Corp.	Senior subordinated loan ($48,625 par due 5/2015)	13.50%	5/23/2008	48,625	46,680	$ 0.96	
	Senior subordinated loan ($25,000 par due 5/2015)	13.50%	5/23/2008	25,000	24,000	$ 0.96(2)	
	Class A non-voting common stock (1,366,120 shares)		5/23/2008	7,500	3,500	$ 2.56(5)	
				270,792	243,147		22.21%
Education							
Campus Management Corp. and Campus Management Acquisition Corp.(6)	Senior secured revolving loan ($2,309 par due 8/2013)	13.00%	2/8/2008	2,309	2,309	$ 1.00	
	Senior secured loan ($19,924 par due 8/2013)	13.00%	2/8/2008	19,924	19,924	$ 1.00	
	Senior secured loan ($25,108 par due 8/2013)	13.00%	2/8/2008	25,108	25,108	$ 1.00(2)	
	Senior secured loan ($12,019 par due 8/2013)	13.00%	2/8/2008	12,019	12,019	$ 1.00	
	Preferred stock (493,147 shares)	8.00% PIK	2/8/2008	8,952	12,000	$ 24.33(4)	
ELC Acquisition Corporation	Senior secured loan ($242 par due 11/2012)	5.45% (Libor + 3.25%/Q)	11/30/2006	243	219	$ 0.90(3)	
	Junior secured loan ($8,333 par due 11/2013)	7.47% (Libor + 7.00%/M)	11/30/2006	8,333	7,500	$ 0.90(3)	
Instituto de Banca y Comercio, Inc.(8)	Senior secured revolving loan ($1,643 par due 3/2014)	5.00% (Libor + 3.00%/Q)	3/15/2007	1,643	1,643	$ 1.00	
	Senior secured loan ($7,500 par due 3/2014)	8.42% (Libor + 5.00%/Q)	3/15/2007	7,500	7,500	$ 1.00	
	Senior secured loan ($7,266 par due 3/2014)	8.42% (Libor + 5.00%/Q)	3/15/2007	7,266	7,266	$ 1.00	
	Senior secured loan ($4,987 par due 3/2014)	8.42% (Libor + 5.00%/Q)	3/15/2007	4,987	4,987	$ 1.00(2)	
	Senior secured loan ($11,820 par due 3/2014)	8.42% (Libor + 5.00%/Q)	3/15/2007	11,820	11,820	$ 1.00(3)	
	Senior subordinated loan ($19,641 par due 6/2014)	10.50% Cash, 3.50% PIK	6/4/2008	19,641	19,641	$ 1.00(4)	
	Promissory note ($429 par due 9/2015)	6.00%	6/4/2008	429	1,714	$ 4.00	
	Preferred stock (214,286 shares)		6/4/2008	1,018	4,072	$ 19.00(5)	
	Common stock (214,286 shares)		6/4/2008	54	214	$ 1.00(5)	
Lakeland Finance, LLC	Senior secured note ($18,000 par due 12/2012)	11.50%	12/13/2005	18,000	16,920	$ 0.94	
	Senior secured note ($15,000 par due 12/2012)	11.50%	12/13/2005	15,000	14,100	$ 0.94(2)	

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Company(1)	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
R3 Education, Inc. (formerly known as Equinox EIC Partners, LLC and MUA Management Company, Ltd.)(7)(8)	Senior secured revolving loan ($3,850 par due 12/2012)	8.25% (Base Rate + 5.00%/D)	4/3/2007	3,850	3,773	$ 0.98	
	Senior secured revolving loan ($1,250 par due 12/2012)	8.25% (Base Rate + 5.00%/D)	4/3/2007	1,250	1,225	$ 0.98	
	Senior secured loan ($3,024 par due 12/2012)	6.46% (Libor + 6.00%/M)	4/3/2007	3,024	2,963	$ 0.98(2)	
	Senior secured loan ($14,113 par due 12/2012)	6.46% (Libor + 6.00%/M)	9/21/2007	14,113	13,830	$ 0.98(2)	
	Senior secured loan ($7,350 par due 12/2012)	9.09% (Libor + 6.00%/S)	4/3/2007	7,350	7,203	$ 0.98(3)	
	Common membership interest (26.27% interest)		9/21/2007	15,800	20,785	(5)	
	Preferred stock (800 shares)			200	200	$ 250.00(5)	
				209,833	218,935		20.00%
Services Other							
American Residential Services, LLC	Junior secured loan ($20,201 par due 4/2015)	10.00% Cash, 2.00% PIK	4/17/2007	20,201	18,180	$ 0.90(2)(4)	
Diversified Collection Services, Inc.	Senior secured loan ($11,809 par due 8/2011)	8.50% (Libor + 5.75%/M)	2/2/2005	9,715	11,219	$ 0.95	
	Senior secured loan ($4,203 par due 8/2011)	8.50% (Libor + 5.75%/M)	2/2/2005	4,209	3,993	$ 0.95(3)	
	Senior secured loan ($1,837 par due 2/2011)	11.25% (Libor + 8.50%/M)	2/2/2005	1,837	1,653	$ 0.90(2)	
	Senior secured loan ($7,125 par due 8/2011)	11.25% (Libor + 8.50%/M)	2/2/2005	7,125	6,412	$ 0.90(3)	
	Preferred stock (14,927 shares)		5/18/2006	169	109	$ 7.30(5)	
	Common stock (114,004 shares)		2/2/2005	295	414	$ 3.63(5)	
GCA Services Group, Inc.	Senior secured loan ($25,000 par due 12/2011)	12.00%	12/15/2006	25,000	25,000	$ 1.00(2)	
	Senior secured loan ($2,965 par due 12/2011)	12.00%	12/15/2006	2,965	2,965	$ 1.00	
	Senior secured loan ($11,186 par due 12/2011)	12.00%	12/15/2006	11,186	11,186	$ 1.00(3)	
Growing Family, Inc. and GFH Holdings, LLC	Senior secured revolving loan ($1,513 par due 8/2011)	11.34% (Libor + 3.00% Cash, 4.00% PIK/Q)	3/16/2007	1,513	756	$ 0.50(4)	
	Senior secured loan ($11,188 par due 8/2011)	13.84% (Libor + 3.50% Cash, 6.00% PIK/Q)	3/16/2007	11,188	5,594	$ 0.50(4)	
	Senior secured loan ($372 par due 8/2011)	5.25% (Libor + 3.50% Cash, 6.00% PIK/Q)	3/16/2007	372	186	$ 0.50	
	Senior secured loan ($3,575 par due 8/2011)	16.34% (Libor + 6.00% Cash, 6.00% PIK/Q)	3/16/2007	3,575	1,788	$ 0.50(4)	
	Senior secured loan ($147 par due 8/2011)	15.50% (Libor + 6.00% Cash, 6.00% PIK/Q)	3/16/2007	147	74	$ 0.50(4)	
	Common stock (552,430 shares)		3/16/2007	872		$ (5)	

NPA Acquisition, LLC	Junior secured loan ($12,000 par due 2/2013)	8.58% (Libor + 6.75%/M)	8/23/2006	12,000	12,000	$ 1.00(3)
	Common units (1,709 shares)		8/23/2006	1,000	2,300	$ 1,345.82(5)

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Company(1)	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
Web Services Company, LLC	Senior subordinated loan ($17,764 par due 8/2016)	11.50% Cash, 2.50% PIK	8/29/2008	17,764	17,231	$ 0.97(4)	
	Senior subordinated loan ($25,160 par due 8/2016)	11.50% Cash, 2.50% PIK	8/29/2008	25,160	24,330	$ 0.97(2)(4)	
				156,293	145,390		13.28%
Financial							
Carador PLC(6)(8)(9)	Ordinary shares (7,110,525 shares)		12/15/2006	9,033	4,266	$ 0.60(5)	
CIC Flex, LP(9)	Limited partnership units (1 unit)		9/7/2007	28	28	$ 28,000.00(5)	
Covestia Capital Partners, LP(9)	Limited partnership interest (47% interest)		6/17/2008	1,059	1,059	(5)	
Firstlight Financial Corporation(6)(9)	Senior subordinated loan ($69,910 par due 12/2016)	10.00% PIK	12/31/2006	69,910	62,919	$ 0.90(4)	
	Common stock (10,000 shares)		12/31/2006	10,000	0	$ (5)	
	Common stock (30,000 shares)		12/31/2006	30,000	0	$ (5)	
Ivy Hill Middle Market Credit Fund, Ltd.(7)(8)(9)	Class B deferrable interest notes ($40,000 par due 11/2018)	8.15% (Libor + 6.00%/Q)	11/20/2007	40,000	36,000	$ 0.90	
	Subordinated notes ($16,000 par due 11/2018)		11/20/2007	16,000	14,400	$ 0.90(5)	
Imperial Capital Group, LLC and Imperial Capital Private Opportunities, LP(6)(9)	Limited partnership interest (80% interest)		5/10/2007	584	584	$ 1.00(5)	
	Common units (7,710 units)		5/10/2007	14,997	14,997	$ 1,945.14(5)	
	Common units (2,526 units)		5/10/2007	3	3	$ 1.19(5)	
	Common units (315 units)		5/10/2007			$ (5)	
Partnership Capital Growth Fund I, LP(9)	Limited partnership interest (25% interest)		6/16/2006	2,384	2,384	(5)	
Trivergance Capital Partners, LP(9)	Limited partnership interest (100% interest)		6/5/2008	723	723	(5)	
VSC Investors LLC(9)	Membership interest (4.63% interest)		1/24/2008	302	302	(5)	
				195,023	137,665		12.57%
Business Services							
Booz Allen Hamilton, Inc.	Senior secured loan ($748 par due 7/2015)	7.50% (Libor + 4.50%/S)	7/31/2008	733	658	$ 0.88(3)	
	Senior subordinated loan ($22,400 par due 7/2016)	11.00% Cash, 2.00% PIK	7/31/2008	22,177	19,040	$ 0.85(2)(4)	
Investor Group Services, LLC(6)	Senior secured revolving loan ($750 par due 6/2011)	6.97% (Libor + 5.50%/Q)	6/22/2006	750	750	$ 1.00	
	Limited liability company membership interest (10.00% interest)		6/22/2006		500	$ 5,000.00(5)	

Pillar Holdings LLC and PHL Holding Co.(6)	Senior secured revolving loan ($375 par due 11/2013)	7.53% (Libor + 5.50%/B)	11/20/2007	375	375	$ 1.00
	Senior secured revolving loan ($938 par due 11/2013)	7.53% (Libor + 5.50%/B)	11/20/2007	938	938	$ 1.00
	Senior secured loan ($7,375 par due 5/2014)	14.50%	7/31/2008	7,375	7,375	$ 1.00
	Senior secured loan ($18,709 par due 11/2013)	7.53% (Libor + 5.50%/B)	11/20/2007	18,709	18,709	$ 1.00(2)
	Senior secured loan ($11,678 par due 11/2013)	7.53% (Libor + 5.50%/B)	11/20/2007	11,678	11,678	$ 1.00(3)
	Common stock (85 shares)		11/20/2007	3,768	5,267	$ 61,964.71(5)

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Company(1)	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
Primis Marketing Group, Inc. and Primis Holdings, LLC(6)	Senior subordinated note ($10,222 par due 2/2013)	11.00% Cash, 2.50% PIK	8/24/2006	10,222	1,022	$ 0.10(4)(14)	
	Preferred units (4,000 units)		8/24/2006	3,600		$ (5)	
	Common units (4,000,000 units)		8/24/2006	400		$ (5)	
Prommis Solutions, LLC, E-Default Services, LLC, Statewide Tax and Title Services, LLC & Statewide Publishing Services, LLC (formerly known as MR Processing Holding Corp.)	Senior subordinated note ($26,007 par due 2/2014)	11.50% Cash, 2.00% PIK	2/8/2007	26,007	24,713	$ 0.95(4)	
	Senior subordinated note ($26,109 par due 2/2014)	11.50% Cash, 2.00% PIK	2/8/2007	26,109	24,810	$ 0.95(2)(4)	
	Preferred stock (30,000 shares)		4/11/2006	3,000	4,000	$ 133.33(5)	
R2 Acquisition Corp.	Common stock (250,000 shares)		5/29/2007	250	250	$ 1.00(5)	
Summit Business Media, LLC	Junior secured loan ($10,000 par due 11/2013)	9.47% (Libor + 7.00%/M)	8/3/2007	10,000	6,000	$ 0.60(3)	
VSS-Tranzact Holdings, LLC(6)	Common membership interest (8.51% interest)		10/26/2007	10,000	6,000	(5)	
				156,091	132,085		12.06%
Retail							
Apogee Retail, LLC	Senior secured revolving loan ($390 par due 3/2012)	7.25% (Base Rate + 4.00%/D)	3/27/2007	390	390	$ 1.00	
	Senior secured loan ($10,960 par due 11/2012)	12.00% Cash, 4.00% PIK	5/28/2008	10,960	10,960	$ 1.00(4)	
	Senior secured loan ($2,307 par due 3/2012)	8.71% (Libor + 5.25%/S)	3/27/2007	2,307	2,053	$ 0.89	
	Senior secured loan ($24,637 par due 3/2012)	8.71% (Libor + 5.25%/S)	3/27/2007	24,637	21,927	$ 0.89(2)	
	Senior secured loan ($11,790 par due 3/2012)	8.71% (Libor + 5.25%/S)	3/27/2007	11,790	10,493	$ 0.89(3)	
	Senior secured loan ($4,876 par due 3/2012)	7.64% (Libor + 5.25%/Q)	3/27/2007	4,876	4,340	$ 0.89	
Dufry AG(8)	Common stock (39,056 shares)		3/28/2008	3,000	1,050	$ 26.88(5)	
Savers, Inc. and SAI Acquisition Corporation	Senior subordinated note ($6,000 par due 8/2014)	10.00% Cash, 2.00% PIK	8/8/2006	6,000	5,700	$ 0.95(4)	
	Senior subordinated note ($22,000 par due 8/2014)	10.00% Cash, 2.00% PIK	8/8/2006	22,000	20,900	$ 0.95(2)(4)	
	Common stock (1,170,182 shares)		8/8/2006	4,500	5,301	$ 4.53(5)	
Things Remembered, Inc. and TRM Holdings Corporation	Senior secured loan ($4,506 par due 9/2012)	7.00% (Base Rate + 3.75%/D)	9/28/2006	4,506	3,470	$ 0.77(3)	
	Senior secured loan ($25,192 par due 9/2012)	15.00% (Base Rate + 9.75%/D)	9/28/2006	25,189	18,651	$ 0.74(2)	
			9/28/2006	3,094	2,291	$ 0.74	

	Senior secured loan ($3,095 par due 9/2012)	15.00% (Base Rate + 9.75%/D)						
	Senior secured loan ($7,273 par due 9/2012)	15.00% (Base Rate + 9.75%/D)	9/28/2006	7,273	5,385	$	0.74(3)	
	Preferred stock (80 shares)		9/28/2006	1,800		$	(5)	
	Common stock (800 shares)		9/28/2006	200		$	(5)	
				132,522	112,911			10.31%
Environmental Services								
AWTP, LLC	Junior secured loan ($402 par due 12/2012)	8.97% (Libor + 7.50% Cash, 1.00% PIK/Q)	12/23/2005	402	322	$	0.80(4)	
	Junior secured loan ($3,018 par due 12/2012)	8.97% (Libor + 7.50% Cash, 1.00% PIK/Q)	12/23/2005	3,018	2,414	$	0.80(3)(4)	

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Company(1)	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
	Junior secured loan ($805 par due 12/2012)	11.48% (Libor + 7.50% Cash, 1.00% PIK/A)	12/23/2005	805	644	$ 0.80(4)	
	Junior secured loan ($6,036 par due 12/2012)	11.48% (Libor + 7.50% Cash, 1.00% PIK/A)	12/23/2005	6,036	4,829	$ 0.80(3)(4)	
	Junior secured loan ($402 par due 12/2012)	9.35% (Libor + 7.50% Cash, 1.00% PIK/A)	12/23/2005	402	322	$ 0.80(4)	
	Junior secured loan ($3,018 par due 12/2012)	9.35% (Libor + 7.50% Cash, 1.00% PIK/A)	12/23/2005	3,018	2,414	$ 0.80(3)(4)	
Mactec, Inc.	Class B-4 stock (16 shares)		11/3/2004			$ 27.00(5)	
	Class C stock (5,556 shares)		11/3/2004		150	$ 27.00(5)	
Sigma International Group, Inc.	Junior secured loan ($1,833 par due 10/2013)	9.55% (Libor + 7.50%/Q)	10/11/2007	1,833	1,558	$ 0.85(2)	
	Junior secured loan ($4,000 par due 10/2013)	9.55% (Libor + 7.50%/Q)	10/11/2007	4,000	3,400	$ 0.85(3)	
	Junior secured loan ($2,750 par due 10/2013)	7.97% (Libor + 7.50/M)	11/1/2007	2,750	2,338	$ 0.85(2)	
	Junior secured loan ($6,000 par due 10/2013)	7.97% (Libor + 7.50/M)	11/1/2007	6,000	5,100	$ 0.85(3)	
	Junior secured loan ($917 par due 10/2013)	9.40% (Libor + 7.50%/M)	11/6/2007	917	779	$ 0.85(2)	
	Junior secured loan ($2,000 par due 10/2013)	9.40% (Libor + 7.50%/M)	11/6/2007	2,000	1,700	$ 0.85(3)	
Waste Pro USA, Inc.	Senior subordinated loan ($25,000 par due 11/2013)	11.50%	11/9/2006	25,000	25,000	$ 1.00(2)	
	Preferred stock (15,000 shares)	10.00% PIK	11/9/2006	15,000	15,000	$ 1,000.00(4)	
	Warrants to purchase 682,671 shares		11/9/2006		6,827	$ 10.00(5)	
Wastequip, Inc.(6)	Senior subordinated loan ($12,990 par due 2/2015)	10.00% Cash, 2.00% PIK	2/5/2007	12,990	7,715	$ 0.59(4)	
	Common stock (13,889 shares)		2/2/2007	1,389	131	$ 9.43(5)	
				85,560	80,643		7.37%
Printing, Publishing and Media							
Canon Communications LLC	Junior secured loan ($11,784 par due 11/2011)	13.00% (Base Rate + 9.75%/D)	5/25/2005	11,784	11,313	$ 0.96(2)	
	Junior secured loan ($12,009 par due 11/2011)	13.00% (Base Rate + 9.75%/D)	5/25/2005	12,009	11,529	$ 0.96(3)	
Courtside Acquisition Corp.	Senior subordinated loan ($34,295 par due 6/2014)	17.00% PIK	6/29/2007	34,295	3,430	$ 0.10(4)(14)	
LVCG Holdings LLC(7)	Membership interests (56.53% interest)		10/12/2007	6,600	8,500	(5)	
National Print Group, Inc.	Senior secured revolving loan ($2,736 par due 3/2012)	8.25% (Base Rate + 5.00%/D)	3/2/2006	2,736	2,462	$ 0.90	
			3/2/2006	8,623	7,761	$ 0.90(3)	

	Senior secured loan ($8,623 par due 3/2012)	7.50% (Base Rate + 4.25%/D)					
	Preferred stock (9,344 shares)		3/2/2006	2,000		$ (5)	
The Teaching Company, LLC and The Teaching Company Holdings, Inc.(11)	Senior secured loan ($18,000 par due 9/2012)	11.70%	9/29/2006	18,000	17,100	$ 0.95(2)	
	Senior secured loan ($10,000 par due 9/2012)	11.70%	9/29/2006	10,000	9,500	$ 0.95(3)	
	Preferred stock (29,969 shares)		9/29/2006	2,997	3,996	$ 133.34(5)	
	Common stock (15,393 shares)		9/29/2006	3	4	$ 0.26(5)	
				109,047	75,595		6.90%

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Company(1)	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
Manufacturing							
Arrow Group Industries, Inc.	Senior secured loan ($5,616 par due 4/2010)	6.46% (Libor + 5.00%/Q)	3/28/2005	5,647	5,372	$ 0.96(3)	
Emerald Performance Materials, LLC	Senior secured loan ($9,018 par due 5/2011)	8.25% (Libor + 4.25%/A)	5/16/2006	9,018	8,567	$ 0.95(3)	
	Senior secured loan ($626 par due 5/2011)	6.75% (Base Rate + 3.50%/D)	5/16/2006	626	595	$ 0.95(3)	
	Senior secured loan ($536 par due 5/2011)	8.25% (Libor + 4.25%/A)	5/16/2006	536	509	$ 0.95(3)	
	Senior secured loan ($1,523 par due 5/2011)	10.00% (Libor + 6.00%/A)	5/16/2006	1,523	1,447	$ 0.95(3)	
	Senior secured loan ($81 par due 5/2011)	10.00% (Libor + 6.00%/A)	5/16/2006	81	77	$ 0.95(3)	
	Senior secured loan ($4,537 par due 5/2011)	10.00% Cash, 3.00% PIK	5/16/2006	4,546	4,319	$ 0.95(2)(4)	
	Senior secured loan ($241 par due 5/2011)	10.00% Cash, 3.00% PIK	5/16/2006	241	229	$ 0.95(2)(4)	
Qualitor, Inc.	Senior secured loan ($1,756 par due 12/2011)	5.46% (Libor + 4.00%/Q)	12/29/2004	1,752	1,664	$ 0.95(3)	
	Senior secured loan ($5 par due 12/2011)			5	5	1.00(3)	
	Junior secured loan ($5,000 par due 6/2012)	8.46% (Libor + 7.00%/Q)	12/29/2004	5,000	4,750	$ 0.95(3)	
Reflexite Corporation (7)	Senior subordinated loan ($10,253 par due 2/2015)	11.00% Cash, 3.00% PIK	2/28/2008	10,253	10,253	$ 1.00(4)	
	Common stock (1,821,860 shares)		3/28/2006	27,435	35,500	$ 19.49(5)	
Saw Mill PCG Partners LLC	Common units (1,000 units)		2/2/2007	1,000	0	$ (5)	
UL Holding Co., LLC	Common units (50,000 units)		4/25/2008	500	750	$ 15.00(5)	
	Common units (50,000 units)		4/25/2008			$ (5)	
Universal Trailer Corporation(6)	Common stock (74,920 shares)		10/8/2004	7,930		$ (5)	
				76,093	74,037		6.76%
Restaurants							
ADF Capital, Inc. & ADF Restaurant Group, LLC	Senior secured revolving loan ($1,381 par due 11/2013)	5.75% (Base Rate + 2.50%/D)	11/27/2006	1,381	1,313	$ 0.95	
	Senior secured revolving loan ($2,005 par due 11/2013)	6.61% (Libor + 3.00% Cash, 0.50% PIK/S)	11/27/2006	2,005	1,905	$ 0.95(4)	
	Senior secured loan ($2 par due 11/2012)	12.00% (Base Rate + 7.5%/D)	11/27/2006	2	2	$ 1.00	
	Senior secured loan ($1 par due 11/2012)	12.00% (Base Rate + 7.5%/D)	11/27/2006	1	1	$ 1.00(3)	
	Senior secured loan ($22,656 par due 11/2012)	11.61% (Libor + 7.50% Cash, 1.00% PIK/S)	11/27/2006	22,912	21,520	$ 0.94(4)	
	Senior secured loan ($992 par due 11/2012)	11.61% (Libor + 7.50% Cash, 1.00% PIK/S)	11/27/2006	992	942	$ 0.95(2)(4)	
	Senior secured loan ($11,081 par due 11/2012)	11.61% (Libor + 7.50% Cash, 1.00% PIK/S)	11/27/2006	11,075	10,529	$ 0.95(3)(4)	
		10.00% PIK	6/1/2006	12,067	12,067	$ 1.00(4)	

	Promissory note ($12,079 par due 11/2016)			
	Warrants to purchase 0.61 shares	6/1/2006	$	(5)

Explanation of Responses:

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Company(1)	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
Encanto Restaurants, Inc.(8)	Junior secured loan ($21,184 par due 8/2013)	7.50% Cash, 3.50% PIK	8/16/2006	21,184	19,084	$ 0.90(2)(4)	
	Junior secured loan ($4,035 par due 8/2013)	7.50% Cash, 3.50% PIK	8/16/2006	4,035	3,635	$ 0.90(3)(4)	
				75,654	70,998		6.48%
Aerospace & Defense							
AP Global Holdings, Inc.	Senior secured loan ($7,898 par due 10/2013)	4.97% (Libor + 4.50%/M)	11/8/2007	7,799	7,121	$ 0.90(3)	
ILC Industries, Inc.	Junior secured loan ($12,000 par due 8/2012)	11.50%	6/27/2006	12,000	12,000	$ 1.00(3)	
Thermal Solutions LLC and TSI Group, Inc.	Senior secured loan ($871 par due 3/2011)	3.92% (Libor + 3.50%/M)	3/28/2005	871	836	$ 0.96(3)	
	Senior secured loan ($2,765 par due 3/2012)	4.42% (Libor + 4.00%/M)	3/28/2005	2,765	2,461	$ 0.89(3)	
	Senior subordinated notes ($2,117 par due 9/2012)	11.50% Cash, 2.75% PIK	3/28/2005	2,117	2,043	$ 0.97(4)	
	Senior subordinated notes ($3,342 par due 9/2012)	11.50% Cash, 2.75% PIK	3/28/2005	3,342	3,225	$ 0.96(2)(4)	
	Senior subordinated notes ($2,679 par due 3/2013)	11.50% Cash, 2.50% PIK	3/21/2006	2,679	2,599	$ 0.97(2)(4)	
	Preferred stock (71,552 shares)		3/28/2005	716	716	$ 10.00(5)	
	Common stock (1,460,246 shares)		3/28/2005	15	15	$ 0.01(5)	
Wyle Laboratories, Inc. and Wyle Holdings, Inc.	Junior secured loan ($16,000 par due 7/2014)	8.96% (Libor + 7.50%/Q)	1/17/2008	16,000	15,200	$ 0.95	
	Junior secured loan ($12,000 par due 7/2014)	8.96% (Libor + 7.50%/Q)	1/17/2008	12,000	11,400	$ 0.95(3)	
	Common stock (246,279 shares)		1/17/2008	2,100	1,680	$ 6.82(5)	
				62,404	59,296		5.42%
Consumer Products Non-Durable							
Innovative Brands, LLC	Senior secured loan ($9,901 par due 9/2011)	14.50%	10/12/2006	9,901	9,901	$ 1.00	
	Senior secured loan ($9,139 par due 9/2011)	14.50%	10/12/2006	9,139	9,139	$ 1.00(3)	
Making Memories Wholesale, Inc.(6)	Senior secured loan ($21,509 par due 3/2011)	10.00% (Base Rate + 5.00%/D)	5/5/2005	11,953	12,087	$ 0.56(14)	
	Senior subordinated loan ($10,465 par due 5/2012)	12.00% Cash, 4.00% PIK	5/5/2005	10,465		$ (4)(14)	
	Preferred stock (4,259 shares)		5/5/2005	3,759		$ (5)	
Shoes for Crews, LLC	Senior secured revolving loan ($1,000 par due 7/2010)	5.25% (Base Rate + 2.00%/D)	10/8/2004	1,000	1,000	$ 1.00	
	Senior secured loan ($572 par due 7/2010)	5.31% (Libor + 3.50%/S)	10/8/2004	572	572	$ 1.00(3)	
	Senior secured loan ($88 par due 7/2010)	4.96% (Libor + 3.50%/Q)	10/8/2004	88	88	$ 1.00(3)	

The Thymes, LLC(7)	Preferred stock (6,283 shares)	8.00% PIK	6/21/2007	6,283	5,026	$ 799.94(4)	
	Common stock (5,400 shares)		6/21/2007			$ (5)	
Wear Me Apparel, LLC(6)	Senior subordinated notes ($23,985 par due 4/2013)	17.50% PIK	4/2/2007	24,035	12,055	$ 0.50(4)(14)	
	Common stock (10,000 shares)		4/2/2007	10,000		$ (5)	
				87,195	49,868		4.55%

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Company(1)	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
Telecommunications							
American Broadband Communications, LLC and American Broadband Holding Company	Senior subordinated loan ($32,048 par due 11/2014)	10.00% Cash, 6.00% PIK	2/8/2008	32,048	32,048	$ 1.00(4)	
	Senior subordinated loan ($8,087 par due 11/2014)	10.00% Cash, 6.00% PIK	11/7/2007	8,087	8,087	$ 1.00(4)	
	Warrants to purchase 170 shares		11/7/2007			$ (5)	
				40,135	40,135		3.67%
Cargo Transport							
The Kenan Advantage Group, Inc.	Senior subordinated notes ($25,266 par due 12/2013)	9.50% Cash, 3.50% PIK	12/15/2005	25,260	24,000	$ 0.95(2)(4)	
	Senior secured loan ($2,426 par due 12/2011)	4.46% (Libor + 3.00%/Q)	12/15/2005	2,425	2,183	$ 0.90(3)	
	Preferred stock (10,984 shares)	8.00% PIK	12/15/2005	1,371	1,732	$ 157.68(4)(5)	
	Common stock (30,575 shares)		12/15/2005	31	41	$ 1.34(5)	
				29,087	27,956		2.55%
Containers-Packaging							
Industrial Container Services, LLC(6)	Senior secured revolving loan ($1,198 par due 9/2011)	5.75% (Base Rate + 2.50%/D)	6/21/2006	1,198	1,198	$ 1.00	
	Senior secured revolving loan ($1,239 par due 9/2011)	4.47% (Libor + 4.00%/M)	6/21/2006	1,239	1,239	$ 1.00	
	Senior secured loan ($42 par due 9/2011)	4.47% (Libor + 4.00%/B)	9/30/2005	42	42	$ 1.00(2)	
	Senior secured loan ($516 par due 9/2011)	4.46% (Libor + 4.00%/M)	6/21/2006	516	516	$ 1.00(2)	
	Senior secured loan ($7,902 par due 9/2011)	4.46% (Libor + 4.00%/M)	6/21/2006	7,902	7,902	$ 1.00(3)	
	Senior secured loan ($85 par due 9/2011)	5.20% (Libor + 4.00%/M)	6/21/2006	85	85	$ 1.00(2)	
	Senior secured loan ($1,309 par due 9/2011)	5.20% (Libor + 4.00%/M)	6/21/2006	1,309	1,309	$ 1.00(3)	
	Senior secured loan ($263 par due 9/2011)	5.20% (Libor + 4.00%/M)	6/21/2006	263	263	$ 1.00(2)	
	Senior secured loan ($4,028 par due 9/2011)	5.20% (Libor + 4.00%/M)	6/21/2006	4,028	4,028	$ 1.00(3)	
	Senior secured loan ($105 par due 9/2011)	5.88% (Libor + 4.00%/M)	6/21/2006	105	105	$ 1.00(2)	
	Senior secured loan ($1,611 par due 9/2011)	5.88% (Libor + 4.00%/M)	6/21/2006	1,611	1,611	$ 1.00(3)	
	Common stock (1,800,000 shares)		9/29/2005	1,800	9,100	$ 5.06(5)	
				20,098	27,398		2.50%
Computers and Electronics							
RedPrairie Corporation	Junior secured loan ($3,300 par due 1/2013)	9.21% (Libor + 6.50%/Q)	7/13/2006	3,300	2,970	$ 0.90(2)	
	Junior secured loan ($12,000 par due 1/2013)	9.21% (Libor + 6.50%/Q)	7/13/2006	12,000	10,800	$ 0.90(3)	
X-rite, Incorporated			7/6/2006	3,098	3,098	$ 1.00	

	Junior secured loan ($3,098 par due 7/2013)	13.63% (Libor + 10.38%/D)						
	Junior secured loan ($7,744 par due 7/2013)	13.63% (Libor + 10.38%/D)	7/6/2006	7,744	7,744	$	1.00(3)	
				26,142	24,612			2.25%

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Company(1)	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
Health Clubs							
Athletic Club Holdings, Inc.(13)	Senior secured loan ($1,000 par due 10/2013)	4.97% (Libor + 4.5%/M)	10/11/2007	1,000	880	$ 0.88	
	Senior secured loan ($1,750 par due 10/2013)	8.88% (Libor + 4.5%/S)	10/11/2007	1,750	1,540	$ 0.88	
	Senior secured loan ($12,486 par due 10/2013)	5.01% (Libor + 4.5%/M)	10/11/2007	12,486	10,988	$ 0.88(2)	
	Senior secured loan ($11,487 par due 10/2013)	5.01% (Libor + 4.5%/M)	10/11/2007	11,487	10,109	$ 0.88(3)	
	Senior secured loan ($14 par due 10/2013)	6.75% (Base Rate + 3.50/D)	10/11/2007	14	12	$ 0.86(2)	
	Senior secured loan ($13 par due 10/2013)	6.75% (Base Rate + 3.50/D)	10/11/2007	13	11	$ 0.85(3)	
				26,750	23,540		2.07%
Grocery							
Planet Organic Health Corp.(8)	Junior secured loan ($860 par due 7/2014)	6.01% (Libor + 5.50%/M)	7/3/2007	860	817	$ 0.95	
	Junior secured loan ($10,250 par due 7/2014)	6.01% (Libor + 5.50%/M)	7/3/2007	10,250	9,738	$ 0.95(3)	
	Senior subordinated loan ($10,900 par due 7/2012)	11.00% Cash, 2.00% PIK	7/3/2007	10,900	9,845	$ 0.90(2)(4)	
				22,010	20,400		1.86%
Consumer Products Durable							
Direct Buy Holdings, Inc. and Direct Buy Investors, LP(6)	Senior secured loan ($2,281 par due 11/2012)	4.97% (Libor + 4.50%/B)	12/14/2007	2,189	1,861	$ 0.82	
	Partnership interests (19.31% interest)		11/30/2007	10,000	6,500	(5)	
				12,189	8,361		0.76%
Housing Building Materials							
HB&G Building Products	Senior subordinated loan ($8,956 par due 3/2011)	13.00% Cash, 6.00% PIK	10/8/2004	8,966	2,251	$ 0.25(2)(4)(14)	
	Common stock (2,743 shares)		10/8/2004	753		$ (5)	
	Warrants to purchase 4,464 shares		10/8/2004	653		$ (5)	
				10,372	2,251		0.00%
Total				$ 2,267,593	$ 1,972,977		

(1) Other than our investments in R3 Education, Inc., HCP Acquisition Holdings, LLC, Ivy Hill Middle Market Credit Fund, Ltd., LVCG Holdings LLC, Reflexite Corporation and The Thymes, LLC, we do not "Control" any of our portfolio companies, as defined in the Investment Company Act. In general, under the Investment Company Act, we would "Control" a portfolio company if we owned more than 25% of its outstanding voting securities and/or had the power to exercise control over the management or policies of such portfolio company. All of our portfolio company investments are subject to legal restrictions on sales which as of December 31, 2008 represented 180% of the Company's net assets.

(2)

These assets are owned by the Company's wholly owned subsidiary Ares Capital CP, are pledged as collateral for the CP 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 CP Funding Facility (see Note 8 to the consolidated financial statements).

(3) Pledged as collateral for the ARCC CLO. Unless otherwise noted, all other investments are pledged as collateral for the Revolving Credit Facility (see Note 8 to the consolidated financial statements).

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

(5) Non-income producing at December 31, 2008.

(6) As defined in the Investment Company Act, we are an "Affiliate" of this portfolio company because we own 5% or more of the portfolio company's outstanding voting securities or we have the power to exercise control over the management or policies of such portfolio company (including through a management agreement). Transactions during the period for the year ended December 31, 2008 in which the issuer was an Affiliate (but not a portfolio company that we "Control") are as follows (in thousands):

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Company	Purchases	Redemptions (cost)	Sales (cost)	Interest income	Capital structuring service fees	Dividend income	Other income	Net realized gains/losses	Net unrealized gains/losses
Apple & Eve, LLC and US Juice Partners, LLC	$ 11,500	$ 10,814	$	$ 4,634	$	$	$ 43	$ 40	$ (12,383)
Carador, PLC	$	$	$	$	$	$ 825	$	$	$ (3,479)
Campus Management Corp. and Campus Management Acquisition Corp.	$ 69,193	$ 1,768	$	$ 5,367	$ 1,540	$	$ 112	$	$ 3,048
CT Technologies Intermediate Holdings, Inc. and CT Technologies Holdings, LLC	$ 4,719	$ 56,822	$	$ 2,573	$	$	$ 340	$ 100	$ 1,382
Daily Candy, Inc.	$	$ 11,872	$ 10,806	$ 735	$	$	$	$ 1,208	$
Direct Buy Holdings, Inc. and Direct Buy Investors LP	$	$ 219	$	$ 192	$	$	$	$ 9	$ (3,828)
Firstlight Financial Corporation	$	$	$	$ 5,854	$	$	$ 750	$	$ (36,991)
Imperial Capital Group, LLC	$ 584	$	$	$	$	$	$	$	$
Industrial Container Services, LLC	$ 6,939	$ 16,677	$	$ 1,710	$	$	$ 120	$	$ 4,100
Investor Group Services, LLC	$ 1,250	$ 1,500	$	$ 24	$	$	$ 55	$	$ 500
Making Memories Wholesale, Inc	$ 5,942	$ 1,114	$	$ 199	$	$	$	$	$ (6,668)
Pillar Holdings LLC and PHL Holding Co.	$ 15,807	$ 600	$ 31,865	$ 3,404	$ 281	$	$ 167	$	$ 1,500
Primis Marketing Group, Inc. and Primis Holdings, LLC	$	$	$	$	$	$	$	$	$ (7,565)
Universal Trailer Corporation	$	$	$	$	$	$	$	$	$ (700)
VSS-Tranzact Holdings, LLC	$	$	$	$	$	$	$	$	$ (4,000)
Wastequip, Inc.	$	$	$	$ 1,424	$	$	$	$	$ (3,318)
Wear Me Apparel, LLC	$	$	$	$ 2,416	$	$	$ 13	$	$ (14,055)

(7)

As defined in the Investment Company Act, we are an "Affiliate" of this portfolio company because we own 5% or more of the portfolio company's outstanding voting securities or we have the power to exercise control over the management or policies of such portfolio company (including through a management agreement). In addition, as defined in the Investment Company Act, we "Control" this portfolio company because we own more than 25% of the portfolio company's outstanding voting securities or we have the power to exercise control over the management or policies of such portfolio company (including through a management agreement). Transactions during the period for the year ended December 31, 2008 in which the issuer was both an Affiliate and a portfolio company that we Control are as follows (in thousands):

Company	Purchases	Redemptions (cost)	Sales (cost)	Interest income	Capital structuring service fees	Dividend income	Other income	Net realized gains/losses	Net unrealized gains/losses
HCP Acquisition Holdings, LLC	$ 8,567	$	$	$	$	$	$	$	$ (2,067)
Ivy Hill Middle Market Credit Fund, Ltd.	$	$	$	$ 5,427	$	$	$ 1,528	$	$ (5,600)
LVCG Holdings, LLC	$	$	$	$	$	$	$ 100	$	$ (1,900)
R3 Education, Inc.	$ 62,600	$ 69,089	$	$ 3,521	$ 2,900	$	$ 65	$	$ 4,393
Reflexite Corporation	$ 10,239	$	$	$ 928	$ 100	$	$ 10	$	$ (19,166)
The Thymes, LLC	$	$	$ 1,450	$ 544	$	$ 133	$	$	$ (1,257)

(8)

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

(9)

Non-registered investment company.

(10)

A majority of the variable rate loans to our portfolio companies bear interest at a rate that may be determined by reference to either Libor or an alternate Base Rate (commonly based on the Federal Funds Rate or the Prime Rate), at the borrower's option, which reset annually (A), semi-annually (S), quarterly (Q), bi-monthly (B), monthly (M) or daily (D). For each such loan, we have provided the interest rate in effect at December 31, 2008.

(11)

In addition to the interest earned based on the stated interest rate of this security, we are entitled to receive an additional interest amount of 2.50% on $22.2 million aggregate principal amount of the portfolio company's senior term debt previously syndicated by us.

(12)

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

(13)

In addition to the interest earned based on the stated interest rate of this security, we are entitled to receive an additional interest amount of 2.50% on $25.0 million aggregate principal amount of the portfolio company's senior term debt previously syndicated by us.

(14) Loan was on non-accrual status as of December 31, 2008.

See accompanying notes to consolidated financial statements.

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ARES CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULE OF INVESTMENTS
As of December 31, 2007
(dollar amounts in thousands, except per unit data)

Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
Healthcare Services								
American Renal Associates, Inc.	Dialysis provider	Senior secured loan ($2,131 par due 12/2010)	8.36% (Libor + 3.25%/S)	12/14/05	$ 2,131	$ 2,131	$ 1.00(3)	
		Senior secured loan ($16 par due 12/2011)	8.45% (Libor + 3.25%/Q)	12/14/05	16	16	$ 1.00(3)	
		Senior secured loan ($197 par due 12/2010)	9.00% (Base Rate + 1.75%/D)	12/14/05	197	197	$ 1.00(3)	
		Senior secured loan ($5,770 par due 12/2011)	8.36% (Libor + 3.25%/S)	12/14/05	5,770	5,770	$ 1.00(3)	
		Senior secured loan ($28 par due 12/2011)	9.00% (Base Rate + 1.75%/D)	12/14/05	28	28	$ 1.00(3)	
		Senior secured loan ($262 par due 12/2011)	8.36% (Libor + 3.25%/S)	12/14/05	262	262	$ 1.00(3)	
		Senior secured loan ($2,620 par due 12/2011)	8.48% (Libor + 3.25% /Q)	12/14/05	2,620	2,620	$ 1.00(3)	
Capella Healthcare, Inc.	Acute care hospital operator	Junior secured loan ($19,000 par due 11/2013)	10.34% (Libor + 5.50%/Q)	12/1/05	19,000	19,000	$ 1.00	
		Junior secured loan ($30,000 par due 11/2013)	10.34% (Libor + 5.50%/Q)	12/1/05	30,000	30,000	$ 1.00(2)	
CT Technologies Intermediate Holdings, Inc. and CT Technologies Holdings, LLC(6)	Healthcare information management services	Senior secured revolving loan ($810 par due 3/2012)	10.38% (Libor + 5.00%/Q)	6/15/07	810	810	$ 1.00	
		Senior secured revolving loan ($810 par due 3/2012)	10.25% (Libor + 5.00%/M)	6/15/07	810	810	$ 1.00	
		Senior secured revolving loan ($810 par due 3/2012)	10.15% (Libor + 5.00%/Q)	6/15/07	810	810	$ 1.00	
		Senior secured loan ($13,000 par due 3/2012)	10.38% (Libor + 5.00%/S)	6/15/07	13,000	13,000	$ 1.00	
		Senior secured loan ($4,000 par due 3/2012)	10.38% (Libor + 5.00%/S)	6/15/07	4,000	4,000	$ 1.00(3)	
		Senior secured loan ($6,500 par due 3/2012)	10.25% (Libor + 5.00%/M)	6/15/07	6,500	6,500	$ 1.00	
		Senior secured loan ($2,000 par due 3/2012)	10.25% (Libor + 5.00%/M)	6/15/07	2,000	2,000	$ 1.00(3)	
		Senior secured loan ($19,500 par due	10.15% (Libor + 5.00%/Q)	6/15/07	19,500	19,500	$ 1.00	

	3/2012)					
	Senior secured loan ($6,000 par due 3/2012)	10.15% (Libor + 5.00%/Q)	6/15/07	6,000	6,000	$ 1.00(3)
	Preferred stock (6,000 shares)		6/15/07	6,000	6,000	$ 1,000.00(5)
	Common stock (9,679 shares)		6/15/07	4,000	4,000	$ 413.27(5)

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Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
		Common stock (1,546 shares)		6/15/07			$ (5)	
DSI Renal, Inc.	Dialysis provider	Senior subordinated note ($53,933 par due 4/2014)	12.00% Cash, 2.00% PIK	4/4/06	53,956	53,933	$ 1.00(4)	
		Senior subordinated note ($11,576 par due 4/2014)	12.00% Cash, 2.00% PIK	4/4/06	11,577	11,577	$ 1.00(4)(3)	
		Senior secured revolving loan ($3,360 par due 3/2013)	10.25% (Base Rate + 3.00%/D)	4/4/06	3,360	3,024	$ 0.90	
		Senior secured revolving loan ($1,600 par due 3/2013)	8.19% (Libor + 3.00%/Q)	4/4/06	1,600	1,440	$ 0.90	
		Senior secured revolving loan ($1,440 par due 3/2013)	8.13% (Libor + 3.00%/Q)	4/4/06	1,440	1,298	$ 0.90	
GG Merger Sub I, Inc.	Drug testing services	Senior secured loan ($23,330 par due 12/2014)	9.00% (Libor + 4.00%/S)	12/14/07	22,286	23,330	$ 1.00	
MPBP Holdings, Inc., Cohr Holdings, Inc. and MPBP Acquisition Co., Inc.	Healthcare equipment services	Junior secured loan ($20,000 par due 1/2014)	11.53% (Libor + 6.25%/Q)	1/31/07	20,000	15,000	$ 0.75	
		Junior secured loan ($12,000 par due 1/2014)	11.53% (Libor + 6.25%/Q)	1/31/07	12,000	9,000	$ 0.75(3)	
		Common stock (50,000 shares)		1/31/07	5,000	2,500	$ 50.00(5)	
MWD Acquisition Sub, Inc.	Dental services	Junior secured loan ($5,000 par due 5/2012)	11.57% (Libor + 6.25%/Q)	5/3/07	5,000	5,000	$ 1.00	
OnCURE Medical Corp.	Radiation oncology care provider	Senior subordinated note ($26,055 par due 8/2013)	11.00% Cash, 1.50% PIK	8/18/06	26,056	26,056	$ 1.00(4)	
		Common stock (857,143 shares)		8/18/06	3,000	3,000	$ 3.50(5)	
Triad Laboratory Alliance, LLC	Laboratory services	Senior subordinated note ($15,091 par due 12/2012)	12.00% cash, 1.75% PIK	12/21/05	15,091	15,091	$ 1.00(4)	
		Senior secured loan ($6,860 par due 12/2011)	8.08% (Libor + 3.25%/Q)	12/21/05	6,860	6,174	$ 0.90	
		Senior secured loan ($2,940 par due 12/2011)	8.08% (Libor + 3.25%/Q)	12/21/05	2,940	2,646	$ 0.90(3)	
					313,620	302,523		26.85%

Financial								
Abingdon Investments Limited(6)(8)(9)	Investment company	Ordinary shares (948,500 shares)		12/15/06	9,033	7,745	$	8.17(5)
Firstlight Financial Corporation(6)(9)	Investment company	Senior subordinated loan ($64,927 par due 12/2016)	10.00% PIK	12/31/06	64,944	64,944	$	1.00(4)
		Common stock (10,000 shares)		12/31/06	10,000	7,500	$	750.00(5)
		Common stock (30,000 shares)		12/31/06	30,000	22,500	$	750.00(5)

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Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
Ivy Hill Middle Market Credit Fund, Ltd.(7)(8)(9)	Investment company	Class B deferrable interest notes ($40,000 par due 11/2018)	11.00% (Libor + 6.00%/Q)	11/20/07	40,000	40,000	$ 1.00	
		Subordinated notes ($16,000 par due 11/2018)		11/20/07	16,000	16,000	$ 1.00(5)	
Imperial Capital Group, LLC(6)(9)	Investment banking services	Common units (7,710 units)		5/10/07	14,997	14,997	$ 1,945.16(5)	
		Common units (2,526 units)		5/10/07	3	3	$ 1.00(5)	
		Common units (315 units)		5/10/07			$ 1.00(5)	
Partnership Capital Growth Fund I, L.P.(9)	Investment partnership	Limited partnership interest (25% interest)		6/16/06	1,317	1,317	(5)	
					186,294	175,006		15.53%
Business Services								
Investor Group Services, LLC(16)	Financial services	Senior secured loan ($1,000 par due 6/2011)	12.00%	6/22/06	1,000	1,000	$ 1.00(3)	
		Limited liability company membership interest (10.00% interest)		6/22/06			$ (5)	
Miller Heiman, Inc.	Sales consulting services	Senior secured loan ($1,428 par due 6/2010)	8.31% (Libor + 3.25%/Q)	6/20/05	1,428	1,428	$ 1.00(3)	
		Senior secured loan ($3,977 par due 6/2012)	8.58% (Libor + 3.75%/Q)	6/20/05	3,977	3,977	$ 1.00(3)	
Pillar Holdings LLC and PHL Holding Co.(6)	Mortgage services	Senior secured revolving loan ($500 par due 11/2013)	10.37% (Libor + 5.50%/M)	11/20/07	500	500	$ 1.00	
		Senior secured loan ($55,000 par due 11/2013)	10.33% (Libor + 5.50%/Q)	11/20/07	55,000	55,000	$ 1.00	
		Common stock (97 shares)		11/20/07	4,000	4,000	$ 41,420.73(5)	

Primis Marketing Group, Inc. and Primis Holdings, LLC(6)	Database marketing services	Senior subordinated note ($10,222 par due 2/2013)	11.00% Cash, 2.50% PIK	8/24/06	10,222	8,586	$	0.84(2)(4)(14)
		Preferred units (4,000 units)		8/24/06	3,600		$	(5)
		Common units (4,000,000 units)		8/24/06	400		$	(5)
Prommis Solutions, LLC, E-Default Services, LLC, Statewide Tax and Title Services, LLC & Statewide Publishing Services, LLC (formerly known as MR Processing Holding Corp.)	Bankruptcy and foreclosure processing services	Senior subordinated note ($21,557 par due 2/2014)	11.50% Cash, 2.00% PIK	2/8/07	21,557	21,557	$	1.00(4)
		Senior subordinated note ($29,523 par due 2/2014)	11.50% Cash, 2.00% PIK	2/8/07	29,523	29,523	$	1.00(2)(4)
		Preferred stock (30,000 shares)		4/11/06	3,000	4,500	$	150.00(5)

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Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
R2 Acquisition Corp.	Marketing services	Common stock (250,000 shares)		5/29/07	250	250	$ 1.00(5)	
Summit Business Media, LLC	Business media consulting services	Junior secured loan ($10,000 par due 11/2013)	11.85% (Libor + 7.00%/M)	8/3/07	10,000	10,000	$ 1.00(3)	
VSS-Tranzact Holdings, LLC(6)	Management Consulting Services	Common membership interest (8.51% interest)		10/26/07	10,000	10,000	(5)	
					154,457	150,321		13.34%
Printing, Publishing and Media								
Canon Communications LLC	Print publications services	Junior secured loan ($7,525 par due 11/2011)	11.60% (Libor + 6.75%/M)	5/25/05	7,525	7,525	$ 1.00	
		Junior secured loan ($4,250 par due 11/2011)	11.60% (Libor + 6.75%/M)	5/25/05	4,250	4,250	$ 1.00(2)	
		Junior secured loan ($12,000 par due 11/2011)	11.60% (Libor + 6.75%/M)	5/25/05	12,000	12,000	$ 1.00(3)	
Courtside Acquisition Corp.	Community newspaper publisher	Senior subordinated loan ($32,280 par due 6/2014)	15.00% PIK	6/29/07	32,280	32,280	$ 1.00(4)	
Daily Candy, Inc.(6)	Internet publication provider	Senior secured loan ($497 par due 5/2009)	9.72% (Libor + 5.00%/S)	5/25/06	573	497	$ 1.00	
		Senior secured loan ($11,629 par due 5/2009)	9.72% (Libor + 5.00%/S)	5/25/06	13,399	11,629	$ 1.00(3)	
		Senior secured loan ($6 par due 5/2009)	9.72% (Libor + 5.00%/S)	5/25/06	5	4	$ 1.00	
		Senior secured loan ($107 par due 5/2009)	9.72% (Libor + 5.00%/S)	5/25/06	122	106	$ 1.00(3)	
		Senior secured loan ($3 par due 5/2009)	9.84% (Libor + 5.00%/Q)	5/25/06	3	3	$ 1.00	
		Senior secured loan ($66 par due 5/2009)	9.84% (Libor + 5.00%/Q)	5/25/06	76	66	$ 1.00(3)	
		Common stock (1,250,000 shares)		5/25/06	2,375	4,085	$ 3.27(5)	
		Warrants to purchase 1,381,578 shares		5/25/06	2,625	4,515	$ 3.27(5)	
LVCG Holdings LLC(7)	Commercial printer	Membership interest (56.53% interest)		10/12/07	6,600	6,600	$ 100.00(5)	
National Print Group, Inc.	Printing management services	Senior secured revolving loan ($835 par due 3/2012)	9.75% (Base Rate + 2.50%/D)	3/2/06	834	834	$ 1.00	

	Senior secured revolving loan ($1,370 par due 3/2012)	8.75% (Libor + 3.50%/M)	3/2/06	1,370	1,370	$	1.00
	Senior secured loan ($4,775 par due 3/2012)	8.33% (Libor + 3.50%/Q)	3/2/06	4,775	4,775	$	1.00(3)
	Senior secured loan ($5,111 par due 3/2012)	8.58% (Libor + 3.50%/Q)	3/2/06	5,111	5,111	$	1.00(3)
	Senior secured loan ($406 par due 8/2012)	12.09% (Libor + 7.00%/B)	3/2/06	406	406	$	1.00(3)
	Senior secured loan ($350 par due 8/2012)	11.96% (Libor + 7.00%/Q)	3/2/06	350	350	$	1.00(3)
	Preferred stock (9,344 shares)		3/2/06	2,000	2,000	$	214.04(5)

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Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
The Teaching Company, LLC and The Teaching Company Holdings, Inc.(11)	Education publications provider	Senior secured loan ($28,000 par due 9/2012)	10.50%	9/29/06	28,000	28,000	$ 1.00	
		Preferred stock (29,969 shares)		9/29/06	2,997	3,996	$ 133.33(5)	
		Common stock (15,393 shares)		9/29/06	3	4	$ 0.27(5)	
					127,679	130,406		11.57%
Education								
ELC Acquisition Corporation	Developer, manufacturer and retailer of educational products	Senior secured loan ($2,707 par due 11/2012)	9.18% (Libor + 3.75%/Q)	11/30/06	2,707	2,707	$ 1.00	
		Senior secured loan ($355 par due 11/2012)	9.18% (Libor + 3.75%/Q)	11/30/06	355	355	$ 1.00(3)	
		Junior secured loan ($8,333 par due 11/2013)	12.11% (Libor + 7.00%/Q)	11/30/06	8,333	8,333	$ 1.00(3)	
Equinox EIC Partners, LLC and MUA Management Company, Ltd.(1)(7)	Medical school operator	Senior secured revolving loan ($3,000 par due 12/2012)	11.36% (Libor + 6.00%/Q)	4/3/07	3,000	3,000	$ 1.00	
		Senior secured revolving loan ($3,139 par due 12/2012)	12.75% (Base Rate + 5.00%/D)	4/3/07	3,139	3,139	$ 1.00	
		Senior secured revolving loan ($2,000 par due 12/2012)	12.75% (Base Rate + 5.00%/D)	4/3/07	2,000	2,000	$ 1.00	
		Senior secured revolving loan ($2,000 par due 12/2012)	11.24% (Libor + 6.00%/Q)	4/3/07	2,000	2,000	$ 1.00	
		Senior secured loan ($5,475 par due 12/2012)	10.86% (Libor + 6.00%/Q)	4/3/07	5,475	5,475	$ 1.00	
		Senior secured loan ($14,113 par due 12/2012)	11.11% (Libor + 6.00%/Q)	9/21/07	14,112	14,112	$ 1.00	
		Senior secured loan ($7,450 par due 12/2012)	11.21% (Libor + 6.00%/Q)	4/3/07	7,450	7,450	$ 1.00(3)	
		Common membership interest (26.27% interest)		9/21/07	15,000	15,000	(5)	
Instituto de Banca y Comercio, Inc.(8)	Private school operator	Senior secured revolving loan ($1,125 par due 3/2014)	8.10% (Libor + 3.00%/M)	3/15/07	1,125	1,125	$ 1.00	
		Senior secured loan ($12,378 par due 3/2014)	9.96% (Libor + 5.00%/Q)	3/15/07	12,378	12,378	$ 1.00	

		Senior secured loan ($11,940 par due 3/2014)	9.96% (Libor + 5.00%/Q)	3/15/07	11,940	11,940	$	1.00(3)	
Lakeland Finance, LLC	Private school operator	Senior secured note ($18,000 par due 12/2012)	11.50%	12/13/05	18,000	18,000	$	1.00	
		Senior secured note ($15,000 par due 12/2012)	11.50%	12/13/05	15,000	15,000	$	1.00(2)	
					122,014	122,014			10.83%

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Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
Retail								
Apogee Retail, LLC	For-profit thrift retailer	Senior secured loan ($9,373 par due 3/2012)	10.39% (Libor + 5.25%/S)	3/27/07	9,374	9,374	$ 1.00	
		Senior secured loan ($19,850 par due 3/2012)	10.39% (Libor + 5.25%/S)	3/27/07	19,850	19,850	$ 1.00(2)	
		Senior secured loan ($11,910 par due 3/2012)	10.39% (Libor + 5.25%/S)	3/27/07	11,910	11,910	$ 1.00(3)	
Savers, Inc. and SAI Acquisition Corporation	For-profit thrift retailer	Senior subordinated note ($28,281 par due 8/2014)	10.00% cash, 2.00% PIK	8/8/06	28,281	28,281	$ 1.00(2)(4)	
		Common stock (1,170,182 shares)		8/8/06	4,500	4,500	$ 3.85(5)	
Things Remembered, Inc. and TRM Holdings Corporation	Personalized gifts retailer	Senior secured loan ($4,632 par due 9/2012)	9.95% (Libor + 4.75%/M)	9/28/06	4,632	4,632	$ 1.00(3)	
		Senior secured loan ($120 par due 9/2012)	11.00% (Base Rate + 3.75%/D)	9/28/06	120	120	$ 1.00(3)	
		Senior secured loan ($14,000 par due 9/2012)	11.20% (Libor + 6.00%/M)	9/28/06	14,000	14,000	$ 1.00(2)	
		Senior secured loan ($14,000 par due 9/2012)	11.20% (Libor + 6.00%/M)	9/28/06	14,000	14,000	$ 1.00	
		Senior secured loan ($7,200 par due 9/2012)	11.20% (Libor + 6.00%/M)	9/28/06	7,200	7,200	$ 1.00(3)	
		Preferred stock (80 shares)		9/28/06	1,800	1,800	$ 22,500.00(5)	
		Common stock (800 shares)		9/28/06	200	200	$ 250.00(5)	
					115,867	115,867		10.28%
Beverage, Food and Tobacco								
3091779 Nova Scotia Inc.(12)	Baked goods manufacturer	Junior secured loan (Cdn$14,000 par due 11/2012)	11.50%	11/2/07	14,850	14,021	$ 1.00(12)	
		Warrants to purchase 57,545 shares					$ (5)	
Apple & Eve, LLC and US Juice Partners, LLC(6)	Juice manufacturer	Senior secured revolving loan ($1,846 par due 10/2013)	10.93% (Libor + 6.00%/M)	10/5/07	1,846	1,846	$ 1.00	
		Senior secured revolving loan ($1,000 par due 10/2013)	10.93% (Libor + 6.00%/M)	10/5/07	1,000	1,000	$ 1.00	
		Senior secured loan ($33,915 par due 10/2013)	10.93% (Libor + 6.00%/M)	10/5/07	33,915	33,915	$ 1.00	
				10/5/07	11,970	11,970	$ 1.00(3)	

		Senior secured loan ($11,970 par due 10/2013)	10.93% (Libor + 6.00%/M)					
		Senior units (50,000 units)		10/5/07	5,000	5,000	$	100.00(5)
Best Brands Corporation	Baked goods manufacturer	Junior secured loan ($27,115 par due 6/2013)	17.23% (Libor + 12.00%/Q)	12/14/06	27,115	27,115	$	1.02(2)
		Junior secured loan ($12,168 par due 6/2013)	17.23% (Libor + 12.00%/Q)	12/14/06	12,168	12,168	$	1.02(3)

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Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
Charter Baking Company, Inc.	Baked goods manufacturer	Preferred stock (6,258 shares)		9/1/06	2,500	2,500	$ 399.49(5)	
					110,365	109,536		9.72%
Services Other								
American Residential Services, LLC	Plumbing, heating and air-conditioning services	Junior secured loan ($20,101 par due 4/2015)	10.00% Cash, 2.00% PIK	4/17/07	20,101	20,101	$ 1.00(4)	
Diversified Collection Services, Inc.	Collections services	Senior secured loan ($874 par due 8/2011)	10.60% (Libor + 5.75%/M)	2/2/05	769	761	$ 0.87	
		Senior secured loan ($4,897 par due 8/2011)	10.60% (Libor + 5.75%/M)	2/2/05	4,897	4,260	$ 0.87(3)	
		Senior secured loan ($1,742 par due 2/2011)	13.35% (Libor + 8.50%/M)	2/2/05	1,742	1,359	$ 0.78(2)	
		Senior secured loan ($6,758 par due 8/2011)	13.35% (Libor + 8.50%/M)	2/2/05	6,758	5,271	$ 0.78(3)	
		Preferred stock (14,927 shares)		5/18/06	169		$ (5)	
		Common stock (114,004 shares)		2/2/05	295		$ (5)	
GCA Services Group, Inc.	Custodial services	Senior secured loan ($30,000 par due 12/2011)	12.00%	12/15/06	30,000	30,000	$ 1.00(2)	
		Senior secured loan ($12,000 par due 12/2011)	12.00%	12/15/06	12,000	12,000	$ 1.00(3)	
Growing Family, Inc. and GFH Holdings, LLC	Photography services	Senior secured revolving loan ($500 par due 8/2011)	8.02% (Libor + 3.00%/Q)	3/16/07	500	480	$ 0.96	
		Senior secured revolving loan ($763 par due 8/2011)	8.26% (Libor + 3.00%/Q)	3/16/07	763	732	$ 0.96	
		Senior secured loan ($367 par due 8/2011)	8.56% (Libor + 3.50%/Q)	3/16/07	367	352	$ 0.96	
		Senior secured loan ($9,646 par due 8/2011)	8.56% (Libor + 3.50%/Q)	3/16/07	9,646	9,260	$ 0.96(3)	
		Senior secured loan ($71 par due 8/2011)	8.47% (Libor + 3.50%/Q)	3/16/07	71	68	$ 0.96	
		Senior secured loan ($1,854 par due 8/2011)	8.47% (Libor + 3.50%/Q)	3/16/07	1,854	1,780	$ 0.96(3)	
		Senior secured loan ($3,575 par due 8/2011)	10.97% (Libor + 6.00%/Q)	3/16/07	3,576	3,147	$ 0.88	
		Senior secured loan ($52 par due 8/2011)	10.97% (Libor + 6.00%/Q)	3/16/07	52	46	$ 0.88	

		Common stock (552,430 shares)		3/16/07	872	90	$	0.16(5)	
NPA Acquisition, LLC	Powersport vehicle auction operator	Junior secured loan ($12,000 par due 2/2013)	12.50% (Base Rate + 5.25%/D)	8/23/06	12,000	12,000	$	1.00(3)	
		Common units (1,709 units)		8/23/06	1,000	1,500	$	877.71(5)	
					107,432	103,207			9.16%

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Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
Consumer Products	**Non-Durable**							
Badanco Enterprises, Inc.	Luggage manufacturer	Senior secured revolving loan ($2,150 par due 1/2012)	10.50% (Base Rate + 3.25%/D)	1/24/07	2,150	2,150	$ 1.00	
		Senior secured loan ($313 par due 1/2012)	10.50% (Base Rate + 3.25%/D)	1/24/07	312	312	$ 1.00(3)	
		Senior secured loan ($5,938 par due 1/2012)	9.37% (Libor + 4.50%/M)	1/24/07	5,937	5,937	$ 1.00(3)	
		Senior secured loan ($4,375 par due 1/2012)	9.39% (Libor + 4.50%/B)	1/24/07	4,375	4,375	$ 1.00(3)	
Innovative Brands, LLC	Consumer products and personal care manufacturer	Senior Secured Loan ($12,838 par due 9/2011)	11.13%	10/12/06	12,838	12,838	$ 1.00	
		Senior Secured Loan ($11,880 par due 9/2011)	11.13%	10/12/06	11,880	11,880	$ 1.00(3)	
Making Memories Wholesale, Inc.(6)	Scrapbooking branded products manufacturer	Senior secured loan ($7,125 par due 3/2011)	9.75% (Base Rate + 2.50%/D)	5/5/05	7,125	7,125	$ 1.00(3)	
		Senior subordinated loan ($10,465 par due 5/2012)	12.00% cash, 4.00% PIK	5/5/05	10,465	6,802	$ 0.65(2)(4)(14)	
		Preferred stock (3,759 shares)		5/5/05	3,759		$ (5)	
Shoes for Crews, LLC	Safety footwear and slip-related mats	Senior secured revolving loan ($2,333 par due 7/2010)	9.25% (Base Rate + 2.00%/D)	6/16/06	2,333	2,333	$ 1.00	
		Senior secured loan ($971 par due 7/2010)	7.72% (Libor + 3.00%/S)	10/8/04	971	971	$ 1.00(3)	
		Senior secured loan ($75 par due 7/2010)	9.25% (Base Rate + 2.00%/D)	10/8/04	75	75	$ 1.00(3)	
The Thymes, LLC(7)	Cosmetic products manufacturer	Preferred stock (7,188 shares)	8.00% PIK	6/21/07	7,189	7,189	$ 1,000.02(4)	
		Common stock (6,850 shares)		6/21/07			$ (5)	
Wear Me Apparel, LLC(6)	Clothing manufacturer	Senior subordinated notes ($22,500 par due 4/2013)	12.60% cash, 1.00% PIK	4/2/07	22,559	22,559	$ 1.00(2)(4)	
		Common stock (10,000 shares)		4/2/07	10,000	2,000	$ 200.00(5)	
					101,968	86,546		7.68%
Environmental Services								
AWTP, LLC				12/23/05	1,612	1,612	$ 1.00	

	Water treatment services	Junior secured loan ($1,608 par due 12/2012)	13.43% (Libor + 8.50%/Q)					
		Junior secured loan ($12,061par due 12/2012)	13.43% (Libor + 8.50%/Q)	12/23/05	12,061	12,061	$	1.00(3)
Mactec, Inc.	Engineering and environmental services	Common stock (16 shares)		11/3/04			$	20.78(5)
		Common stock (5,556 shares)		11/3/04		116	$	20.78(5)

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Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
Sigma International Group, Inc.	Water treatment parts manufacturer	Junior secured loan ($1,833 par due 10/13)	12.37% (Libor + 7.50%/Q)	10/11/07	1,834	1,833	$ 1.00	
		Junior secured loan ($4,000 par due 10/13)	12.37% (Libor + 7.50%/Q)	10/11/07	4,000	4,000	$ 1.00(3)	
		Junior secured loan ($2,750 par due 10/13)	12.73% (Libor + 7.50/M)	11/1/07	2,750	2,750	$ 1.00	
		Junior secured loan ($6,000 par due 10/13)	12.73% (Libor + 7.50/M)	11/1/07	6,000	6,000	$ 1.00(3)	
		Junior secured loan ($917 par due 10/13)	12.29% (Libor + 7.50%/S)	11/6/07	917	917	$ 1.00	
		Junior secured loan ($2,000 par due 10/13)	12.29% (Libor + 7.50%/S)	11/6/07	2,000	2,000	$ 1.00(3)	
Waste Pro USA, Inc.	Waste management services	Senior subordinated loan ($25,000 par due 11/2013)	11.50%	11/9/06	25,000	25,000	$ 1.00(2)	
		Preferred stock (15,000 shares)	10.00% PIK	11/9/06	15,000	15,000	$ 1,000.00(4)	
		Warrants to purchase (882,671 shares)		11/9/06		4,000	$ 4.53(5)	
Wastequip, Inc.(6)	Waste management equipment manufacturer	Senior subordinated loan ($12,602 par due 2/2015)	12.00%	2/5/07	12,731	10,211	$ 0.81	
		Common stock (13,889 shares)		2/2/07	1,389	694	$ 50.00(5)	
					85,294	86,194		7.65%
Manufacturing								
Arrow Group Industries, Inc.	Residential and outdoor shed manufacturer	Senior secured loan ($5,616 par due 4/2010)	10.20% (Libor + 5.00%/Q)	3/28/05	5,649	5,616	$ 1.00(3)	
Emerald Performance Materials, LLC	Polymers and performance materials manufacturer	Senior secured loan ($10,164 par due 5/2011)	9.00% (Base Rate + 1.75%/D)	5/16/06	10,164	10,164	$ 1.00(3)	
		Senior secured loan ($1,523 par due 5/2011)	10.75% (Base Rate + 3.50%/D)	5/16/06	1,523	1,523	$ 1.00(3)	
		Senior secured loan ($4,411 par due 5/2011)	13.00%	5/16/06	4,422	4,422	$ 1.00	
Qualitor, Inc.	Automotive aftermarket components supplier	Senior secured loan ($1,775 par due 12/2011)	9.08% (Libor + 4.25%/Q)	12/29/04	1,775	1,775	$ 1.00(3)	
		Junior secured loan ($5,000 par due 6/2012)	12.08% (Libor + 7.25%/Q)	12/29/04	5,000	5,000	$ 1.00(3)	

Reflexite Corporation(7)	Developer and manufacturer of high-visibility reflective products	Common Stock (1,821,860 shares)	3/28/06	27,435	54,666	$	30.01(5)
Saw Mill PCG Partners LLC	Precision components manufacturer	Common units (1,000 units)	2/2/07	1,000	400	$	400.00(5)

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Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
Universal Trailer Corporation(6)	Livestock and specialty trailer manufacturer	Common stock (50,000 shares)		10/8/04	6,425	485	$ 9.69(5)	
		Warrants to purchase 22,208 shares		10/8/04	1,506	215	$ 9.69(5)	
					64,899	84,266		7.48%
Restaurants								
ADF Capital, Inc. & ADF Restaurant Group, LLC	Restaurant owner and operator	Senior secured revolving loan ($2,000 par due 11/2013)	8.88% (Libor + 3.50%/Q)	11/27/06	2,000	2,000	$ 1.00	
		Senior secured revolving loan ($2,237 par due 11/2013)	9.75% (Base Rate + 2.50%/D)	11/27/06	2,237	2,237	$ 1.00	
		Senior secured loan ($19,606 par due 11/2012)	13.88% (Libor + 8.50%/Q)	11/27/06	19,606	19,606	$ 1.00	
		Senior secured loan ($990 par due 11/2012)	13.88% (Libor + 8.50%/Q)	11/27/06	990	990	$ 1.00(2)	
		Senior secured loan ($14,054 par due 11/2012)	13.88% (Libor + 8.50%/Q)	11/27/06	14,054	14,054	$ 1.00(3)	
		Promissory note ($10,713 par due 11/2016)	10.00% PIK	6/1/06	10,713	10,725	$ 1.00(4)	
		Warrants to purchase (.61 shares)		6/1/06			$ (5)	
Encanto Restaurants, Inc.(8)	Restaurant owner and operator	Junior secured loan ($24,352 par due 8/2013)	7.50% Cash, 3.50% PIK	8/16/06	24,352	24,352	$ 1.00(4)	
		Junior secured loan ($1,015 par due 8/2013)	7.50% Cash, 3.50% PIK	8/16/06	1,015	1,015	$ 1.00(3)(4)	
					74,967	74,979		6.66%
Containers Packaging								
Captive Plastics, Inc.	Plastics container manufacturer	Junior secured loan ($3,500 par due 2/2012)	12.34% (Libor + 7.25%/Q)	12/19/05	3,500	3,500	$ 1.00	
		Junior secured loan ($12,000 par due 2/2012)	12.34% (Libor + 7.25%/Q)	12/19/05	12,000	12,000	$ 1.00(3)	
Industrial Container Services, LLC(6)	Industrial container manufacturer, reconditioner and servicer	Senior secured revolving loan ($1,859 par due 9/2011)	10.25% (Base Rate + 3.00%/D)	6/21/06	1,859	1,859	$ 1.00	
		Senior secured revolving loan ($4,130 par due 9/2011)	8.93% (Libor + 4.00%/M)	6/21/06	4,130	4,130	$ 1.00	

	Senior secured loan ($5,897 par due 9/2011)	8.93% (Libor + 4.00%/M)	9/30/05	5,897	5,897	$	1.00	
	Senior secured loan ($990 par due 9/2011)	8.93% (Libor + 4.00%/M)	6/21/06	990	990	$	1.00(2)	
	Senior secured loan ($15,161 par due 9/2011)	8.93% (Libor + 4.00%/M)	6/21/06	15,161	15,161	$	1.00(3)	
	Common stock (1,800,000 shares)		9/29/05	1,800	5,000	$	2.78(5)	
				45,337	48,537			4.31%

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Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
Aerospace & Defense								
AP Global Holdings, Inc.	Safety and security equipment manufacturer	Senior secured loan ($20,000 par due 10/2013)	9.73% (Libor + 4.50%/M)	11/8/07	19,607	20,000	$ 1.00	
ILC Industries, Inc.	Industrial products provider	Junior secured loan ($12,000 par due 8/2012)	11.50%	6/27/06	12,000	12,000	$ 1.00(3)	
Thermal Solutions LLC and TSI Group, Inc.	Thermal management and electronics packaging manufacturer	Senior secured loan ($2,797 par due 3/2012)	10.50% (Base Rate + 3.25%/D)	3/28/05	2,797	2,752	$ 0.98(3)	
		Senior secured loan ($1,182 par due 3/2011)	10.00% (Base Rate + 2.75%/D)	3/28/05	1,182	1,164	$ 0.98(3)	
		Senior subordinated notes ($2,049 par due 9/2012)	11.50% cash, 2.75% PIK	3/28/05	2,068	2,017	$ 0.98(4)	
		Senior subordinated notes ($3,235 par due 9/2012)	11.50% cash, 2.75% PIK	3/28/05	3,237	3,185	$ 0.98(2)(4)	
		Senior subordinated notes ($2,613 par due 3/2013)	11.50% cash, 2.50% PIK	3/21/06	2,613	2,517	$ 0.96(2)(4)	
		Preferred stock (71,552 shares)		3/28/05	716	693	$ 9.69(5)	
		Common stock (1,460,246 shares)		3/28/05	15	14	$ 0.01(5)	
					44,235	44,342		3.94%
Computers and Electronics								
RedPrairie Corporation	Software manufacturer	Junior secured loan ($6,500 par due 1/2013)	11.39% (Libor + 6.50%/Q)	7/13/06	6,500	6,500	$ 1.00	
		Junior secured loan ($12,000 par due 1/2013)	11.39% (Libor + 6.50%/Q)	7/13/06	12,000	12,000	$ 1.00(3)	
X-rite, Incorporated	Artwork software manufacturer	Junior secured loan ($4,800 par due 7/2013)	12.38% (Libor + 7.50%/Q)	7/6/06	4,800	4,800	$ 1.00	
		Junior secured loan ($12,000 par due 7/2013)	12.38% (Libor + 7.50%/Q)	7/6/06	12,000	12,000	$ 1.00(3)	
					35,300	35,300		3.13%
Health Clubs								
Athletic Club Holdings, Inc.(13)	Premier health club operator	Senior secured loan ($29,424 par due 10/2013)	9.63% (Libor + 4.50%/Q)	10/11/07	29,424	29,424	$ 1.00	
		Senior secured loan ($4,488 par due 10/2013)	9.63% (Libor + 4.50%/Q)	10/11/07	4,488	4,488	$ 1.00(3)	

	Senior secured loan ($50 par due 10/2013)	9.47% (Libor + 4.50%/Q)	10/11/07	50	50	$	1.00	
	Senior secured loan ($8 par due 10/2013)	9.47% (Libor + 4.50%/Q)	10/11/07	8	8	$	1.00(3)	
	Senior secured loan ($26 par due 10/2013)	10.75% (Libor + 3.50%/Q)	10/11/07	26	26	$	1.00	
	Senior secured loan ($4 par due 10/2013)	10.75% (Libor + 3.50%/Q)	10/11/07	4	4	$	1.00(3)	
				34,000	34,000			3.02%

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Company(1)	Industry	Investment	Interest(10)	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
Grocery								
Planet Organic Health Corp.(8)	Organic grocery store operator	Senior secured loan ($7,000 par due 7/2014)	10.45% (Libor + 5.50%/Q)	7/3/07	7,000	7,000	$ 1.00	
		Senior secured loan ($10,500 par due 7/2014)	10.45% (Libor + 5.50%/Q)	7/3/07	10,500	10,500	$ 1.00(3)	
		Senior subordinated loan ($9,332 par due 7/2012)	11.00% Cash, 2.00% PIK	7/3/07	9,332	9,332	$ 1.00(4)	
					26,832	26,832		2.38%
Cargo Transport								
The Kenan Advantage Group, Inc.	Fuel transportation provider	Senior subordinated notes ($9,524 par due 12/2013)	9.50% cash, 3.50% PIK	12/15/05	9,524	9,524	$ 1.00(2)(4)	
		Senior secured loan ($2,450 par due 12/2011)	7.58% (Libor + 2.75%/Q)	12/15/05	2,450	2,205	$ 0.90(3)	
		Preferred stock (10,984 shares)		12/15/05	1,098	1,293	$ 117.72(5)	
		Common stock (30,575 shares)		12/15/05	31	36	$ 1.18(5)	
					13,103	13,058		1.16%
Consumer Products Durable								
Direct Buy Holdings, Inc. and Direct Buy Investors LP(6)	Membership-based buying club franchisor and operator from the manufacturer	Senior secured loan ($2,500 par due 11/2012)	9.74% (Libor + 4.50%/M)	12/14/07	2,400	2,400	$ 0.96	
		Partnership interests (19.31% interest)		11/30/07	10,000	10,000	$ 100.00(5)	
					12,400	12,400		1.10%
Housing Building Materials								
HB&G Building Products	Synthetic and wood product manufacturer	Senior subordinated loan ($8,838 par due 3/2011)	13.00% cash, 3.00% PIK	10/8/04	8,826	8,839	$ 1.00(2)(4)	
		Common stock (2,743 shares)		10/8/04	753	377	$ 137.24(5)	
		Warrants to purchase 4,464 shares		10/8/04	653	326	$ 73.09(5)	
					10,232	9,542		0.85%
Telecommunications								
American Broadband Communications, LLC and American	Broadband communication services	Senior subordinated loan ($9,327	8.00% cash, 8.00% PIK	11/7/07	9,327	9,327	$ 1.00(4)	

Broadband Holding Company	par due 11/2014)					
	Warrants to purchase 170 shares	11/7/07			$	(5)
			9,327	9,327		0.83%
Total			$ 1,795,621	$ 1,774,202		

(1) Other than our investments in Equinox EIC Partners, LLC, Ivy Hill Middle Market Credit Fund, Ltd., LVCG Holdings LLC, Reflexite Corporation and The Thymes, LLC, we do not "Control" any of our portfolio companies, as defined in the Investment Company Act. In general, under the Investment Company Act, we would "Control" a portfolio company if we owned more than 25% of its outstanding voting securities and/or had the power to exercise control over the management or policies of such portfolio company. All of our portfolio company investments are subject to legal restriction on sales which as of December 31, 2007 represented 158% of the Company's net assets.

(2) Pledged as collateral for the CP Funding Facility and unless otherwise noted, all other investments are pledged as collateral for the Revolving Credit Facility (see Note 8 to the consolidated financial statements).

(3) Pledged as collateral for the ARCC CLO and unless otherwise noted, all other investments are pledged as collateral for the Revolving Credit Facility (see Note 8 to the consolidated financial statements).

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

(5)
Non-income producing at December 31, 2007.

(6)
As defined in the Investment Company Act, we are an "Affiliate" of this portfolio company because we own 5% or more of the portfolio company's outstanding voting securities. Transactions during the period for the year ended December 31, 2007 in which the issuer was an Affiliate (but not a portfolio company that we "Control") are as follows:

Company	Purchases	Redemptions (cost)	Sales (cost)	Interest income	Capital structuring service fees	Dividend income	Other income	Net realized gains/losses	Net unrealized gains/losses
Abingdon Investments Limited	$	$	$	$	$	$ 1,224	$	$	$ (1,288)
Apple & Eve, LLC and US Juice Partners, LLC	$ 74,846	$ 115	$ 21,000	$ 1,648	$ 1,353	$	$ 13	$	$
CT Technologies Intermediate Holdings, Inc. and CT Technologies Holdings, LLC	$ 135,930	$	$ 72,500	$ 3,571	$ 2,598	$	$ 149	$	$
Daily Candy, Inc.	$	$ 2,569	$ 10,000	3,068	$	$	$	$	$ 2,654
Direct Buy Holdings, Inc. and Direct Buy Investors LP	$ 12,400	$	$	$ 12	$	$	$	$	$
Firstlight Financial Corporation	$ 40,000	$	$	$ 4,944	$ 38	$	$ 750	$	$ (10,000)
Imperial Capital Group, LLC	$ 15,000	$	$	$	$ 300	$ 201	$	$	$
Industrial Container Services, LLC	$ 9,665	$ 9,476	$ 16,000	$ 3,171	$	$	$ 154	$	$ 3,200
Investor Group Services, LLC	$ 400	$ 1,400	$	$ 301	$	$	$ 38	$	$
Pillar Holdings LLC and PHL Holding Co.	$ 59,500	$	$	$ 678	$ 1,056	$	$ 15	$	$
Primis Marketing Group, Inc. and Primis Holdings, LLC	$	$	$	$ 861	$	$	$	$	$ (5,636)
Making Memories Wholesale, Inc.	$	$ 633	$	$ 1,999	$	$	$	$	$ (4,983)
Universal Trailer Corporation	$	$	$	$	$	$	$	$	$ (7,230)
VSS-Tranzact Holdings, LLC	$ 10,000	$	$	$	$	$	$	$	$
Wastequip, Inc.	$ 13,889	$ 27,000	$	$ 1,118	$	$	$	$	$ (3,215)
Wear Me Apparel, LLC	$ 32,500	$	$	$ 2,321	$ 325	$ 63	$ 25	$	$ (8,000)

(7)
As defined in the Investment Company Act, we are an "Affiliate" of this portfolio company because we own 5% or more of the portfolio company's outstanding voting securities or we have the power to exercise control over the management or policies of such portfolio company (including through a management agreement). In addition, as defined in the Investment Company Act, we "Control" this portfolio company because we own more than 25% of the portfolio company's outstanding voting securities or we have the power to exercise control over the management or policies of such portfolio company (including through a management agreement). Transactions during the period for the year ended December 31, 2007 in which the issuer was both an Affiliate and a portfolio company that we Control are as follows:

Company	Purchases	Redemptions (cost)	Sales (cost)	Interest income	Capital structuring service fees	Dividend income	Other income	Net realized gains/losses	Net unrealized gains/losses
Equinox EIC Partners, LLC	$ 94,239	$ 32,270	$ 22,500	$ 3,796	$ 2,734	$	$ 19	$ 3,488	$
Ivy Hill Middle Market Credit Fund, Ltd.	$ 56,000	$	$	$ 501	$	$	$ 45	$	$
LVCG Holdings, LLC	$ 6,600	$	$	$	$	$	$	$	$
Reflexite Corporation	$ 1,752	$ 10,682	$	$ 452	$	$ 121	$	$ 320	$ 27,231
The Thymes, LLC	$ 6,925	$	$ 75	$ 339	$ 165	$	$	$	$

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

(9)
Non-registered investment company.

(10)
A majority of the variable rate loans to our portfolio companies bear interest at a rate that may be determined by reference to either Libor or an alternate Base Rate (commonly based on the Federal Funds Rate or the Prime Rate), at the borrower's option, which reset semi-annually (S), quarterly (Q), bi-monthly (B) monthly (M) or daily (D). For each such loan, we have provided the current interest rate in effect at December 31, 2007.

(11) In addition to the interest earned based on the stated interest rate of this security, we are entitled to receive an additional interest amount of 2.50% on $23.3 million aggregate principal amount of the portfolio company's senior term debt previously syndicated by us.

(12) Principal amount denominated in Canadian dollars has been translated into U.S. dollars (see Note 2).

(13) In addition to the interest earned based on the stated interest rate of this security, we are entitled to receive an additional interest amount of 2.50% on $25.0 million aggregate principal amount of the portfolio company's senior term debt previously syndicated by us.

(14) Loan was on non-accrual status as of December 31, 2007.

See accompanying notes to consolidated financial statements.

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ARES CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(dollar amounts in thousands, except per share data)

	Common Stock		Capital in Excess of Par Value	Accumulated Undistributed Net Investment Income	Accumulated Net Realized Gain on Sale of Investments	Net Unrealized (Depreciation) Appreciation of Investments	Total Stockholders' Equity
	Shares	Amount					
Balance at December 31, 2005	37,909,484	$ 38	$ 559,193	$	$ 5,765	$ 4,617	$ 569,613
Issuance of common stock from add-on offerings (net of offering and underwriting costs)	13,511,250	14	211,739				211,753
Shares issued in connection with dividend reinvestment plan	615,793		10,702				10,702
Net increase in stockholders' equity resulting from operations				56,632	27,616	(14,553)	69,695
Dividend declared ($1.64 per share)				(56,632)	(15,697)		(72,329)
Tax reclassification of stockholders' equity in accordance with generally accepted accounting principles			3,559	7,038	(10,597)		
Balance at December 31, 2006	52,036,527	$ 52	$ 785,193	$ 7,038	$ 7,087	$ (9,936)	$ 789,434
Issuance of common stock from add-on offerings (net of offering and underwriting costs)	19,961,578	20	344,146				344,166
Shares issued in connection with dividend reinvestment plan	685,985	1	11,613				11,614
Net increase in stockholders' equity resulting from operations				94,949	6,544	(10,661)	90,832
Dividend declared ($1.66 per share)				(97,864)	(13,631)		(111,495)
Tax reclassification of stockholders' equity in accordance with generally accepted accounting principles			(4,353)	2,882	1,471		
Balance at December 31, 2007	72,684,090	$ 73	$ 1,136,599	$ 7,005	$ 1,471	$ (20,597)	$ 1,124,551
Issuance of common stock from transferable rights offering (net of offering and dealer manager costs)	24,228,030	24	259,777				259,801
Shares issued in connection with dividend reinvestment plan	240,700		2,922				2,922
Net decrease in stockholders' equity resulting from operations				126,992	6,371	(272,818)	(139,455)
Dividend declared ($1.68 per share)				(145,098)	(7,842)		(152,940)
Tax reclassification of stockholders' equity in accordance with generally accepted accounting principles			(3,340)	3,464	(124)		
Balance at December 31, 2008	97,152,820	$ 97	$ 1,395,958	$ (7,637)	(124)	$ (293,415)	$ 1,094,879

See accompanying notes to consolidated financial statements.

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ARES CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

(dollar amounts in thousands)

	For the Year Ended December 31, 2008	For the Year Ended December 31, 2007	For the Year Ended December 31, 2006
OPERATING ACTIVITIES:			
Net (decrease) increase in stockholders' equity resulting from operations	$ (139,455)	$ 90,832	$ 69,695
Adjustments to reconcile net (decrease) increase in stockholders' equity resulting from operations to net cash used by operating activities:			
Net realized gains from investment and foreign currency transactions	(6,557)	(6,544)	(27,616)
Net unrealized (losses) from investment and foreign currency transactions	272,818	10,661	14,553
Net accretion of discount on securities	(1,307)	(1,266)	(673)
Increase in accrued payment-in-kind dividends and interest	(32,816)	(16,231)	(6,289)
Amortization of debt issuance costs	2,210	1,858	1,822
Depreciation	503	410	259
Proceeds from sale and redemption of investments	497,285	725,181	458,244
Purchases of investments	(925,945)	(1,311,301)	(1,033,016)
Changes in operating assets and liabilities:			
Interest receivable	6,183	(13,609)	(4,293)
Other assets	(2,009)	(917)	(2,336)
Management and incentive fees payable	19,948	556	9,007
Accounts payable and accrued expenses	1,035	3,488	805
Interest and facility fees payable	(900)	2,725	1,731
Interest payable to the Investment Adviser			(154)
Net cash used by operating activities	(309,007)	(514,157)	(518,261)
FINANCING ACTIVITIES:			
Net proceeds from issuance of common stock	259,801	344,166	211,753
Borrowings on debt	951,000	713,350	977,000
Repayments on credit facility payable	(721,200)	(513,000)	(513,000)
Credit facility financing costs	(3,139)	(875)	(5,574)
Underwriting costs payable to the Investment Adviser			(2,475)
Dividends paid in cash	(109,214)	(99,882)	(74,516)
Net cash provided by financing activities	377,248	443,759	593,188
CHANGE IN CASH AND CASH EQUIVALENTS	68,241	(70,398)	74,927
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	21,142	91,540	16,613
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 89,383	$ 21,142	$ 91,540
Supplemental Information:			

Interest paid during the period	$	34,421	$	31,752	$	14,358
Taxes paid during the period	$	1,601	$	1,272	$	4,519
Dividends declared during the period	$	152,940	$	111,495	$	72,329

See accompanying notes to consolidated financial statements.

ARES CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2008

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

1. ORGANIZATION

Ares Capital Corporation (the "Company" or "ARCC" or "we") is a specialty finance company that is a closed-end, non-diversified management investment company incorporated in Maryland. We have elected to be regulated as a business development company under the Investment Company Act of 1940 (the "Investment Company Act"). We were incorporated on April 16, 2004 and were initially funded on June 23, 2004. On October 8, 2004, we completed our initial public offering (the "IPO"). On the same date, we commenced substantial investment operations.

The Company has elected to be treated as a regulated investment company, or a "RIC", under subchapter M of the Internal Revenue Code of 1986, as amended (the "Code") and operates in a manner so as to qualify for the tax treatment applicable to RICs. Our investment objective is to generate both current income and capital appreciation through debt and equity investments. We invest primarily in first and second lien senior loans and mezzanine debt, which in some cases includes an equity component like warrants, and, to a lesser extent, in equity investments in private middle market companies.

We are externally managed by Ares Capital Management LLC (the "investment adviser"), an affiliate of Ares Management LLC ("Ares Management"), an independent international investment management firm. Ares Operations LLC ("Ares Administration" or the "administrator"), an affiliate of Ares Management, provides the administrative services necessary for us to operate (the "Administration Agreement").

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Cash and Cash Equivalents

Cash and cash equivalents include short-term, liquid investments in a money market fund. Cash and cash equivalents are carried at cost which approximates fair value.

Concentration of Credit Risk

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 computed using the specific identification method. Investments for which market quotations are readily available

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

As part of the valuation process, we may take into account the following types of factors, if relevant, in determining the fair value of our investments: the enterprise value of a portfolio company (an estimate of the total fair value of the portfolio company's debt and equity), the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison of the portfolio company's securities to publicly traded securities, changes in the interest rate environment and the credit markets generally that may affect the price at which similar investments may be made in the future and other relevant factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we use 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, based on the input of our management and audit committee and independent valuation firms under a valuation policy and a consistently applied valuation process. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of 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 may realize significantly less than the value at which we have recorded it.

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

With respect to investments for which market quotations are not readily available, 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 valuation conclusions are then documented and discussed by our management.

The audit committee of our board of directors reviews these preliminary valuations, as well as the input of independent valuation firms with respect to the valuations of approximately 50% (based on value) of our portfolio companies without readily available market quotations.

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The board of directors discusses valuations and determines the fair value of each investment in our portfolio without a readily available market quotation in good faith based on the input of our management and audit committee and independent valuation firms.

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("SFAS 157"), which expands the application of fair value accounting for investments (see Note 9 to the consolidated financial statements).

Interest Income Recognition

Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis. Discounts and premiums on securities purchased are accreted/amortized over the life of the respective security using the effective yield method. The amortized cost of investments represents the original cost adjusted for the accretion of discounts and amortization of premiums.

Loans are generally placed on non-accrual status when principal or interest payments are past due 30 days or more or when there is reasonable doubt that principal or interest will be collected. Accrued interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment regarding collectability. Non-accrual loans are restored to accrual status when past due principal and interest is paid and, in management's judgment, are likely to remain current. The Company may make exceptions to this if the loan has sufficient collateral value and is in the process of collection. As of December 31, 2008, 4.4% of total investments at amortized cost (or 1.6% at fair value), were on non-accrual status. As of December 31, 2007, 1.2% of total investments at amortized cost or (0.9% at fair value), were placed on non-accrual status.

Payment-in-Kind Interest

The Company has loans in its portfolio that contain a payment-in-kind ("PIK") provision. The PIK interest, computed at the contractual rate specified in each loan agreement, is added to the principal balance of the loan and recorded as interest income. To maintain the Company's status as a RIC, this non-cash source of income must be paid out to stockholders in the form of dividends, even though the Company has not yet collected the cash. For the years ended December 31, 2008, 2007 and 2006, $32,816, $16,231, and $6,289, respectively, in PIK income were recorded.

Capital Structuring Service Fees and Other Income

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

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Other income includes fees for asset management, consulting, loan guarantees, commitments 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) Market value of investment securities, other assets and liabilities at the exchange rates prevailing at the end of the period.

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

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

Accounting for Derivative Instruments

The Company does not utilize hedge accounting and marks its derivatives to market through operations.

Offering Expenses

The Company's offering costs are charged against the proceeds from equity offerings when received. For the years ended December 31, 2008, 2007 and 2006, the Company incurred approximately $1,414, $900, and $900 in offering costs, respectively.

Debt Issuance Costs

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

U.S. Federal Income Taxes

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

Depending on the level of taxable income earned in a tax year, we may choose to carry forward taxable income in excess of current year dividend distributions 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 taxable income is earned. For the year ended December 31, 2008, a net benefit of $100 was recorded for U.S. federal excise tax. For the years ended December 31, 2007 and 2006, provisions of approximately $100 and $570,

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respectively, were recorded for U.S. federal excise tax. As of December 31, 2008, $550 related to accrued excise tax was unpaid and included in accounts payable on the accompanying consolidated balance sheet.

Certain of our wholly owned subsidiaries are subject to U.S. Federal and state income taxes. For the year ended December 31, 2008, we recorded a tax benefit of approximately $100 for these subsidiaries. For the year ended December 31, 2007, we recorded a tax benefit of approximately $900 for these subsidiaries. For the year ended December 31, 2006, we recorded a tax provision of $4,400 for these subsidiaries.

Dividends

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

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

Use of Estimates in the Preparation of Financial Statements

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

New Accounting Pronouncements

On October 10, 2008, FASB Staff Position No. 157-3 *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*, or "FSP 157-3", was issued. FSP 157-3 provides an illustrative example of how to determine the fair value of a financial asset in an inactive market. FSP 157-3 does not change the fair value measurement principles set forth in SFAS 157 (see Note 9 for a description of SFAS 157). Since adopting SFAS 157 in January 2008, our process for determining the fair value of our investments has been, and continues to be, consistent with the guidance provided in the example in FSP 157-3. As a result, the adoption of FSP 157-3 did not affect our process for determining the fair value of our investments and did not have a material effect on our financial position or results of operations.

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3. AGREEMENTS

Investment Advisory and Management Agreement

The Company is party to an investment advisory and management agreement, the "investment advisory and management agreement" with Ares Capital Management. Subject to the overall supervision of our board of directors, Ares Capital Management provides investment advisory services to the Company. For providing these services, Ares Capital Management receives a fee from us, consisting of two components a base management fee and an incentive fee. The base management fee is calculated at an annual rate of 1.5% based on the average value of our total assets (other than cash or cash equivalents but including assets purchased with borrowed funds) at the end of the two most recently completed calendar quarters. The base management fee is payable quarterly in arrears.

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

Pre-incentive fee net investment income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Because of the structure of the incentive fee, it is possible that we may pay an incentive fee in a quarter where we incur a loss. For example, if we receive pre-incentive fee net investment income in excess of the hurdle rate (as defined below) for a quarter, we will pay the applicable incentive fee even if we have incurred a loss in that quarter due to realized and unrealized capital losses. Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets (defined as total assets less indebtedness and before taking into account any incentive fees payable during the period) at the end of the immediately preceding calendar quarter, is compared to a fixed "hurdle rate" of 2.00% per quarter. If market interest rates rise, we may be able to invest our funds in debt instruments that provide for a higher return, which would increase our pre-incentive fee net investment income and make it easier for our investment adviser to surpass the fixed hurdle rate and receive an incentive fee based on such net investment income. Our pre-incentive fee net investment income used to calculate this part of the incentive fee is also included in the amount of our total assets (other than cash and cash equivalents but including assets purchased with borrowed funds) used to calculate the 1.5% base management fee.

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

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

- 100% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.50% in any calendar quarter. We refer to this portion of our pre-incentive fee net investment income (which exceeds the hurdle rate but is less than 2.50%) as the "catch-up" provision. The "catch-up" is meant to provide our investment adviser with 20% of the pre-incentive fee net

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investment income as if a hurdle rate did not apply if this net investment income exceeds 2.50% in any calendar quarter; and

20% of the amount of our pre-incentive fee net investment income, if any, that exceeds 2.50% in any calendar quarter.

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

The second part of the incentive fee, the "Capital Gains Fee", is determined and payable in arrears as of the end of each calendar year (or upon termination of the investment advisory and management agreement, as of the termination date) and is calculated at the end of each applicable year by subtracting (a) the sum of our cumulative aggregate realized capital losses and aggregate unrealized capital depreciation from (b) our cumulative aggregate realized capital gains, in each case calculated from October 8, 2004. If such amount is positive at the end of such year, then the Capital Gains Fee for such year is equal to 20.0% of such amount, less the aggregate amount of Capital Gains Fees paid in all prior years. If such amount is negative, then there is no Capital Gains Fee for such year.

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

The cumulative aggregate realized capital losses are calculated as the sum of the amounts by which (a) the net sales price of each investment in 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.

We defer cash payment of any incentive fee otherwise earned by the investment adviser if during the most recent four full calendar quarter period ending on or prior to the date such payment is to be made the sum of (a) the aggregate distributions to the stockholders of the Company and (b) the change in net assets (defined as total assets less indebtedness and before taking into account any incentive fees payable during the period) is less than 8.0% of our net assets at the beginning of such period. These calculations were appropriately pro rated during the first three calendar quarters following October 8, 2004 and are adjusted for any share issuances or repurchases.

For the year ended December 31, 2008, we incurred $30,463 in base management fees, $31,748 in incentive management fees related to pre-incentive fee net investment income and no incentive management fees related to realized capital gains. As of December 31, 2008, $32,989 was unpaid and included in "management and incentive fees payable" in the accompanying consolidated balance sheet. Payment of $25,255 in incentive management fees for the year ended December 31, 2008 will be deferred pursuant to the investment advisory and management agreement.

For the year ended December 31, 2007, we incurred $23,531 in base management fees, $23,522 in incentive management fees related to pre-incentive fee net investment income and no incentive management fees related to realized capital gains. As of December 31, 2007, $13,041 was unpaid and included in "management and incentive fees payable" in the accompanying consolidated balance sheet.

For the year ended December 31, 2006, we incurred $13,646 in base management fees, $16,068 in incentive management fees related to pre-incentive fee net investment income and $3,448 in incentive management fees related to realized capital gains.

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Administration Agreement

We are also party to a separate administration agreement, the "administration agreement," with our administrator, Ares Administration. Our board of directors approved the continuation of our administration agreement on May 29, 2008, which extended the term of the agreement until June 1, 2009. Pursuant to the administration agreement, Ares Administration furnishes us with office equipment and clerical, bookkeeping and record keeping services. Under the administration agreement, Ares Administration also performs, or oversees the performance of, our required administrative services, which include, among other things, being responsible for the financial records that we are required to maintain and preparing reports to our stockholders and reports filed with the SEC. In addition, Ares Administration assists us in determining and publishing our net asset value, oversees the preparation and filing of our tax returns and the printing and dissemination of reports to our stockholders, and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. Under the administration agreement, Ares Administration also provides, on our behalf, managerial assistance to those portfolio companies to which we are required to provide such assistance. Payments under the administration agreement are equal to an amount based upon our allocable portion of Ares Administration's overhead in performing its obligations under the administration agreement, including our allocable portion of the cost of our officers (including our chief compliance officer, chief financial officer, secretary and treasurer) and their respective staffs. The administration agreement may be terminated by either party without penalty upon 60-days' written notice to the other party.

For the years ended December 31, 2008, 2007 and 2006, we incurred $2,701, $997, and $953 in administrative fees, respectively. As of December 31, 2008, $999 was unpaid and included in "accounts payable and accrued expenses" in the accompanying consolidated balance sheet.

4. EARNINGS PER SHARE

The following information sets forth the computations of basic and diluted net increase in stockholders' equity per share resulting from the years ended December 31, 2008, 2007 and 2006 (dollar amounts in thousands except share and per share data):

	2008	2007	2006
Numerator for basic and diluted net (decrease) increase in stockholders' equity resulting from operations per share:	$ (139,455)	$ 90,832	$ 69,695
Denominator for basic and diluted net (decrease) increase in stockholders' equity resulting from operations per share:	89,666,243	67,676,498	43,978,853
Basic and diluted net (decrease) increase in stockholders' equity resulting from operations per share:	$ (1.56)	$ 1.34	$ 1.58

In accordance with Statement of Financial Accounting Standards No. 128, Earnings per Share ("SFAS 128"), the weighted average shares of common stock outstanding used in computing basic and diluted net increase in stockholders' equity resulting from operations per share for the years ended December 31, 2008, 2007 and 2006 have been adjusted retroactively by a factor of 1.02% to recognize the bonus element associated with rights to acquire shares of common stock that we issued to stockholders of record as of March 24, 2008 in connection with a rights offering. See Note 13 for more information on the transferable rights offering.

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5. INVESTMENTS

Under the Investment Company Act, we are required to separately identify non-controlled investments where we own more than 5% of a portfolio company's outstanding voting securities as "affiliated companies." In addition, under the Investment Company Act, we are required to separately identify investments where we own more than 25% of a portfolio company's outstanding voting securities as "control affiliated companies." We had no existing control relationship with any of the portfolio companies identified as "affiliated companies" or "control affiliated companies" prior to making the indicated investment.

For the year ended December 31, 2008, the Company funded $529.3 million aggregate principal amount of senior term debt, $336.3 million aggregate principal amount of senior subordinated debt and $60.4 million of investments in equity securities.

In addition, for the year ended December 31, 2008, $345.8 million aggregate principal amount of senior term debt and $19.5 million of senior subordinated debt were redeemed. Additionally, $103.0 million aggregate principal amount of senior term debt, $9.5 million of senior subordinated debt and $7.4 million of investments in equity securities were sold.

As of December 31, 2008, investments and cash and cash equivalents consisted of the following:

	Amortized Cost	Fair Value
Cash and cash equivalents	$ 89,383	$ 89,383
Senior term debt	1,165,460	1,055,089
Senior subordinated debt	737,072	619,491
Equity securities	309,061	247,997
Collateralized debt obligations	56,000	50,400
Total	$ 2,356,976	$ 2,062,360

As of December 31, 2007, investments and cash and cash equivalents consisted of the following:

	Amortized Cost	Fair Value
Cash and cash equivalents	$ 21,142	$ 21,142
Senior term debt	1,087,761	1,063,729
Senior notes	399,843	401,141
Senior subordinated debt	252,017	253,332
Equity securities	56,000	56,000
Total	$ 1,816,763	$ 1,795,344

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

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The industrial and geographic compositions of our portfolio at fair value at December 31, 2008 and December 31, 2007 were as follows:

	As of December 31, 2008	As of December 31, 2007
Industry		
Health Care	20.2%	17.1%
Beverage/Food/Tobacco	12.3	6.2
Education	11.1	6.9
Other Services	7.4	5.8
Financial	7.0	9.9
Business Services	6.7	8.5
Retail	5.7	6.5
Environmental Services	4.1	4.9
Printing/Publishing/Media	3.8	7.3
Manufacturing	3.8	4.7
Restaurants	3.6	4.2
Aerospace and Defense	3.0	2.5
Consumer Products	3.0	5.6
Telecommunications	2.0	0.5
Cargo Transport	1.4	0.8
Containers/Packaging	1.4	2.7
Computers/Electronics	1.2	2.0
Health Clubs	1.2	1.9
Grocery	1.0	1.5
Homebuilding	0.1	0.5
Total	100.0%	100.0%

	December 31, 2008	December 31, 2007
Geographic Region		
Southeast	22.2%	18.3%
Mid-Atlantic	21.0	22.9
Midwest	20.6	22.6
West	18.3	19.0
International	14.1	12.7
Northeast	3.8	4.5
Total	100.0%	100.0%

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6. INCOME TAXES

The following reconciles net increase in stockholders' equity resulting from operations to taxable income for the year ended December 31, 2008:

Net increase in stockholders' equity resulting from operations	$ (139,455)
Net unrealized loss on investments transactions not taxable	272,818
Other income not currently taxable	(1,008)
Other taxable income	1,351
Expenses not currently deductible	28,146
Other deductible expenses	(1,547)
Taxable income before deductions for distributions	$ 160,305

During the year ended December 31, 2008, as a result of permanent book-to-tax differences primarily due to the recharacterization of distributions, differences in the book and tax basis of investments sold, dividends paid by portfolio companies to the Company in excess of portfolio company earnings and nondeductible federal taxes, the Company increased accumulated undistributed net investment income by $3,464, decreased accumulated net realized gain (loss) on sale of investments by $124 and decreased capital in excess of par value by $3,340. Aggregate stockholders' equity was not affected by this reclassification. As of December 31, 2008, the cost of investments for tax purposes was $2,263,858 resulting in a gross unrealized appreciation and depreciation of $121,289 and $413,370, respectively.

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

Ordinary income	$ 146,048
Capital gains	6,891
Return of capital	
Total	$ 152,939

The following reconciles net increase in stockholders' equity resulting from operations to taxable income for the year ended December 31, 2007:

Net increase in stockholders' equity resulting from operations	$ 90,832
Net unrealized loss on investments transactions not taxable	10,661
Other income not currently taxable	(1,429)
Other taxable income	1,221
Expenses not currently deductible	18
Other deductible expenses	(73)
Taxable income before deductions for distributions	$ 101,230

During the year ended December 31, 2007, as a result of permanent book-to-tax differences primarily due to the recharacterization of distributions, differences in the book and tax basis of investments sold, dividends paid by portfolio companies to the Company in excess of portfolio company earnings and nondeductible federal taxes, the Company increased accumulated undistributed net investment income by $2,882, increased accumulated net realized gain on sale of investments by $1,471 and decreased capital in excess of par value by $4,352. Aggregate stockholders' equity was not affected by this reclassification. As of December 31, 2007, the cost of investments for tax purposes was

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$1,795,464 resulting in a gross unrealized appreciation and depreciation of $55,305 and $76,567, respectively.

For income tax purposes, distributions paid to stockholders are reported as ordinary income, non-taxable, capital gains, or a combination thereof. Dividends paid per common share for the year ended December 31, 2007 were taxable as follows (unaudited):

Ordinary income	$	106,600
Capital gains		4,895
Return of capital		
Total	$	111,495

The following reconciles net increase in stockholders' equity resulting from operations to taxable income for the year ended December 31, 2006:

Net increase in stockholders' equity resulting from operations	$	69,695
Net unrealized gain on investments transactions not taxable		14,553
Other income not currently taxable		(24,661)
Other taxable income		16,256
Expenses not currently deductible		5,705
Other deductible expenses		(1,107)
Taxable income before deductions for distributions	$	80,441

Excluded from taxable income before deductions for distributions are $239 of capital losses realized by the Company after October 31, 2006, which were deferred for tax purposes to the first day of the following fiscal year. During the year ended December 31, 2006, as a result of permanent book-to-tax differences primarily due to the recharacterization of distributions, differences in the book and tax basis of investments sold, dividends paid by portfolio companies to the Company in excess of portfolio company earnings and nondeductible federal taxes, the Company increased accumulated undistributed net investment income by $7,038, decreased accumulated net realized gain on sale of investments by $10,598 and increased capital in excess of par value by $3,559. Aggregate stockholders' equity was not affected by this reclassification. As of December 31, 2006, the cost of investments for tax purposes was $1,245,893 resulting in a gross unrealized appreciation and depreciation of $2,483 and $12,554, respectively.

For income tax purposes, distributions paid to stockholders are reported as ordinary income, non-taxable, capital gains, or a combination thereof. Dividends paid per common share for the year ended December 31, 2006 were taxable as follows (unaudited):

Ordinary income	$	64,551
Capital gains		7,778
Return of capital		
Total	$	72,329

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7. COMMITMENTS AND CONTINGENCIES

As of December 31, 2008 and 2007, the Company had the following commitments to fund various revolving senior secured and subordinated loans:

	As of December 31, 2008	As of December 31, 2007
Total revolving commitments	$ 419,000	$ 323,600
Less: funded commitments	(139,600)	(79,200)
Total unfunded commitments	279,400	244,400
Less: commitments substantially at discretion of the Company	(32,400)	
Less: unavailable commitments due to borrowing base or other covenant restriction	(64,500)	(15,400)
Total net adjusted unfunded revolving commitments	$ 182,500	$ 229,000

Of the total commitments as of December 31, 2008, $342,900 extend beyond the maturity date for our Revolving Credit Facility (as defined in Note 8). Included within the total commitments as of December 31, 2008 are commitments to issue up to $15,800 in standby letters of credit through a financial intermediary on behalf of certain portfolio companies. Under these arrangements, the Company would be required to make payments to third parties if the portfolio companies were to default on their related payment obligations. As of December 31, 2008, the Company had $12,500 in standby letters of credit issued and outstanding on behalf of the portfolio companies, of which no amounts were recorded as a liability. Of these letters of credit, $200 expire on January 31, 2009, $3,700 expire on February 28, 2009, $8,100 expire on September 30, 2009 and $500 expire on August 31, 2010. These letters of credit may be extended under substantially similar terms for additional one-year terms at the Company's option until the Revolving Credit Facility, under which the letters of credit were issued, matures on December 28, 2010.

As of December 31, 2008 and 2007, the Company was subject to subscription agreements to fund equity investments in private equity investment partnerships, substantially all at the discretion of the Company, as follows:

	As of December 31, 2008	As of December 31, 2007
Total private equity commitments	$ 428,300	$ 111,800
Total unfunded private equity commitments	$ 423,600	$ 110,500

8. BORROWINGS

In accordance with the Investment Company Act, with certain limited exceptions, we are only allowed to borrow amounts such that our asset coverage, as defined in the Investment Company Act, is at least 200% after such borrowing. As of December 31, 2008 our asset coverage for borrowed amounts was 220%.

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Our debt obligations consisted of the following as of December 31, 2008 and 2007:

	As of December 31,	
	2008	2007
Revolving Credit Facility	$ 480,486	$ 282,528
CP Funding Facility	114,300	85,000
Debt Securitization	314,000	314,000
Total	$ 908,786	$ 681,528

The weighted average interest rate of all our debt obligations as of December 31, 2008 and December 31, 2007 was 3.03% and 5.66%, respectively.

CP Funding Facility

In October 2004, we formed Ares Capital CP Funding LLC ("Ares Capital CP"), a wholly owned subsidiary of the Company, through which we established a revolving facility, referred to as the "CP Funding Facility," that, as amended, allows Ares Capital CP to issue up to $350.0 million of variable funding certificates ("VFC"). As part of the CP Funding Facility, we are subject to limitations as to how borrowed funds may be used including restrictions on geographic concentrations, sector concentrations, loan size, payment frequency and status, average life, collateral interests and investment ratings as well as regulatory restrictions on leverage which may affect the amount of VFC that we may issue from time to time. There are also certain requirements relating to portfolio performance, including required minimum portfolio yield and limitations on delinquencies and charge offs, violation of which could result in the early amortization of the CP Funding Facility and limit further advances under the CP Funding Facility and in some cases could be an event of default. The CP Funding is also subject to a borrowing base that applies different advance rates to assets held in Ares Capital CP. Such limitations, requirements, and associated defined terms are as provided for in the documents governing the CP Funding Facility. As of December 31, 2008, there was $114,300 outstanding under the CP Funding Facility and the Company continues to be in compliance with all of the limitations and requirements of the CP Funding Facility. As of December 31, 2007, there was $85,000 outstanding under the CP Funding Facility.

On July 22, 2008, we entered into an amendment to the CP Funding Facility to, among other things, extend its maturity, decrease the availability and advance rates applicable to certain types of eligible loans and make certain provisions of the facility more restrictive. The Company paid a renewal fee of 0.786% of the total amount available for borrowing, or $2,750. On December 5, 2008, we entered into an amendment to the CP Funding Facility to, among other things, modify the net worth test applicable to the Company, decrease the advance rates applicable to certain types of eligible loans and add an asset coverage requirement with respect to the Company consistent with applicable legal requirements.

The CP Funding Facility is scheduled to expire on July 21, 2009. The CP Funding Facility is secured by all of the assets held by Ares Capital CP, which as of December 31, 2008 consisted of 45 investments.

The interest charged on the VFC is based on the commercial paper rate, eurodollar or adjusted eurodollar rate plus 2.50%. Prior to July 22, 2008, the interest charged was based on the commercial paper rate plus 1.00%. The interest charged on the VFC is payable quarterly. As of December 31, 2008 and December 31, 2007, the commercial paper rate was 2.3271% and 5.1147%, respectively. For the years ended December 31, 2008, 2007 and 2006, the average interest rates (i.e. commercial paper rate plus the spread) were 5.19%, 6.12% and 5.80%, respectively. For the years ended December 31, 2008, 2007 and 2006, the average outstanding balances were $82,540, $88,296 and $45,621, respectively.

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For the years ended December 31, 2008, 2007 and 2006 the interest expense incurred was $4,280, $5,483, and $2,615, respectively. Cash paid for interest expense during the years ended December 31, 2008, 2007 and 2006 was $3,754, $4,285 and $2,603, respectively.

The Company is also required to pay a commitment fee for any unused portion of the CP Funding Facility. The commitment fee is equal to 0.5% per annum for any unused portion of the CP Funding Facility. Prior to July 22, 2008, the commitment fee was 0.125% per annum calculated based on an amount equal to $200,000 less the borrowings outstanding under the CP Funding Facility. For the years ended December 31, 2008, 2007 and 2006, the commitment fees incurred were $625, $141 and $260, respectively.

Revolving Credit Facility

In December 2005, we entered into a senior secured revolving credit facility referred to as the "Revolving Credit Facility", under which, as amended, the lenders have agreed to extend credit to the Company in an aggregate principal amount not exceeding $510,000 at any one time outstanding (see Note 16). The Revolving Credit Facility expires on December 28, 2010 and with certain exceptions is secured by substantially all of the assets in our portfolio (other than investments held by Ares Capital CP under the CP Funding Facility and those held as a part of the Debt Securitization, discussed below), which as of December 31, 2008 consisted of 170 investments. Under the Revolving Credit Facility, we have made certain representations and warranties and are required to comply with various covenants, reporting requirements and other customary requirements for similar revolving credit facilities, including, without limitation, covenants related to: (a) limitations on the incurrence of additional indebtedness and liens, (b) limitations on certain investments, (c) limitations on certain restricted payments, (d) maintaining a certain minimum stockholders' equity, (e) maintaining a ratio of total assets (less total liabilities) to total indebtedness, of the Company and its subsidiaries, of not less than 2.0:1.0, (f) maintaining minimum liquidity, and (g) limitations on the creation or existence of agreements that prohibit liens on certain properties of the Company and its subsidiaries.

In addition to the asset coverage ratio described above, borrowings under the Revolving Credit Facility (and the incurrence of certain other permitted debt) will be subject to compliance with a borrowing base that will apply different advance rates to different types of assets in our portfolio. The Revolving Credit Facility also includes an "accordion" feature that allows us to increase the size of the Revolving Credit Facility to a maximum of $765,000 under certain circumstances. The Revolving Credit Facility also includes usual and customary events of default for senior secured revolving credit facilities of this nature. As of December 31, 2008, there was $480,486 outstanding under the Revolving Credit Facility and the Company continues to be in compliance with all of the limitations and requirements of the Revolving Credit Facility. As of December 31, 2007, there was $282,500 outstanding under the Revolving Credit Facility.

The interest charged under the Revolving Credit Facility is generally based on LIBOR (one, two, three or six month) plus 1.00%. As of December 31, 2008, the one, two, three and six month LIBOR were 0.44%,1.10%,1.43% and 1.75%, respectively. For the year ended December 31, 2008 the average interest rate was 4.17%, the average outstanding balance was $422,614, the interest expense incurred was $17,610 and the cash paid for interest expense was $18,787. As of December 31, 2007, the one, two, three and six month LIBOR were 4.60%,4.65%,4.70% and 4.60%, respectively. For the year ended December 31, 2007 the average interest rate was 6.50%, the average outstanding balance was $177,526, the interest expense incurred was $11,532 and the cash paid for interest expense was $9,918. For the year ended December 31, 2006, the average interest rate was 6.44%, the average outstanding balance was $89,022, the interest expense incurred was $5,732 and the cash paid for interest expense was $4,519. The Company is also required to pay a commitment fee of 0.20% for any unused portion of the Revolving Credit Facility. For the years ended December 31, 2008, 2007 and 2006, the commitment fees incurred were $224, $304 and $318, respectively.

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The amount available for borrowing under the Revolving Credit Facility is reduced by any standby letters of credit issued through the Revolving Credit Facility. As of December 31, 2008, the Company had $16,700 in standby letters of credit issued through the Revolving Credit Facility. As of December 31, 2007, the Company had $11,400 in standby letters of credit issued through the Revolving Credit Facility.

As of December 31, 2008, the Company had a non-U.S. borrowing on the Revolving Credit Facility denominated in Canadian dollars. As of December 31, 2008 and 2007, unrealized appreciation on this borrowing was $3,365 and $822, respectively.

Debt Securitization

In July 2006, through our wholly owned subsidiary, ARCC CLO 2006 LLC ("ARCC CLO"), we completed a $400,000 debt securitization (the "Debt Securitization") and issued approximately $314,000 principal amount of asset-backed notes (including $50,000 revolving notes, all of which were drawn down as of December 31, 2008) (the "CLO Notes") to third parties that were secured by a pool of middle market loans that have been purchased or originated by the Company. The CLO Notes are included in the December 31, 2008 consolidated balance sheet. We retained approximately $86,000 of aggregate principal amount of certain BBB and non-rated securities in the Debt Securitization (the "Retained Notes").

The CLO Notes mature on December 20, 2019, and, as of December 31, 2008, there is $314,000 outstanding under the Debt Securitization (excluding the Retained Notes). The blended pricing of the CLO Notes, excluding fees, is approximately 3-month LIBOR plus 34 basis points.

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

Class	Amount (millions)	Rating (S&P/Moody's)	LIBOR Spread (basis points)
A-1A	$ 75	AAA/Aaa	25
A-1A VFN(1)	50	AAA/Aaa	28
A-1B	14	AAA/Aaa	37
A-2A	75	AAA/Aaa	22
A-2B	33	AAA/Aaa	35
B	23	AA/Aa2	43
C	44	A/A2	70
Total	$ 314		

(1) Revolving class, all of which was drawn as of December 31, 2008.

During the first five years from the closing date, principal collections received on the underlying collateral may be used to purchase new collateral, allowing us to maintain the initial leverage in the securitization for the entire five-year period. Under the terms of the securitization, up to 15% of the collateral may be subordinated loans that are neither first nor second lien loans.

The Class A-1A VFN Notes are a revolving class of secured notes and allow us to borrow and repay AAA/Aaa financing over the initial five-year period thereby providing more efficiency in funding costs. All of the notes are secured by the assets of ARCC Commercial Loan Trust 2006, including commercial loans totaling $308.1 million as of the closing date, which were sold to the trust by the Company, the originator and servicer of the assets. As of December 31, 2008, there were 67 investments securing the notes. Additional commercial loans have been purchased by the trust from the Company primarily using the proceeds from the Class A-1A VFN Notes. The pool of commercial loans

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in the trust must meet certain requirements, including, but not limited to, asset mix and concentration, collateral coverage, term, agency rating, minimum coupon, minimum spread and sector diversity requirements.

The interest charged under the Debt Securitization is based on 3-month LIBOR which as of December 31, 2008 was 1.43% and as of December 31, 2007 was 4.70%. For the years ended December 31, 2008, 2007 and 2006, the effective average interest rates were 3.68%, 5.82% and 5.99%, respectively. For the years ended December 31, 2008, 2007 and 2006, we incurred $11,556, $17,528 and $7,714 of interest expense, respectively. For the years ended December 31, 2008, 2007 and 2006, the cash paid for interest was $11,881, $17,513 and $7,236, respectively. The Company is also required to pay a commitment fee of 0.175% for any unused portion of the Class A-1A VFN Notes. There were no commitment fees incurred for the year ended December 31, 2008. For the years ended December 31, 2007 and 2006, the commitment fee incurred was $23 and $42, respectively, on these notes.

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

Effective January 1, 2008, the company adopted Statement of Financial Accounting Standards No. 159, the Fair Value Option for Financial Assets and Liabilities ("SFAS 159"), which provides companies the option to report selected financial assets and liabilities at fair value. SFAS 159 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. SFAS 159 also requires entities to display the fair value of the selected assets and liabilities on the face of the balance sheet. With the exception of the line items entitled "other assets" and "debt," all assets and liabilities approximate fair value on the balance sheet. The carrying value of the line items entitled "interest receivable," "receivable for open trades," "payable for open trades," "accounts payable and accrued expenses," "management and incentive fees payable" and "interest and facility fees payable" approximate fair value due to their short maturity.

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("SFAS 157"), which expands the application of fair value accounting. SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosure of fair value measurements. SFAS 157 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. SFAS 157 requires the Company to assume that the portfolio investment is sold in a principal market to market participants, or in the absence of a principal market, the most advantageous market, which may be a hypothetical market. Market participants are defined as buyers and sellers in the principal or most advantageous market that are independent, knowledgeable, and willing and able to transact. In accordance with SFAS 157, 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. SFAS 157 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. In accordance with SFAS 157, 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.

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In addition to using the above inputs in investment valuations, we continue to employ the valuation policy approved by our board of directors that is consistent with SFAS 157 (see Note 2). Consistent with our valuation policy, we evaluate the source of inputs, including any markets in which our investments are trading (or any markets in which securities with similar attributes are trading), in determining fair value. Our valuation policy considers the fact that because there is not a readily available market value for most of the investments in our portfolio, the fair value of the investments must typically be determined using unobservable inputs.

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

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

The following table presents fair value measurements of cash and cash equivalents and investments as of December 31, 2008:

		Fair Value Measurements Using		
	Total	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	$ 89,383	$ 89,383	$	$
Investments	$ 1,972,977	$	$ 110,515	$ 1,862,462

The following tables present changes in investments that use Level 3 inputs for the year ended December 31, 2008:

	For the Year Ended December 31, 2008
Balance as of December 31, 2007	$ 1,738,021
Net unrealized gains (losses)	(264,171)
Net purchases, sales or redemptions	458,229
Net transfers in and/or out of Level 3	(69,617)
Balance as of December 31, 2008	$ 1,862,462

As of December 31, 2008, the net unrealized loss on the investments that use Level 3 inputs was $275,186.

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Following are the carrying and fair values of our debt instruments as of December 31, 2008 and December 31, 2007. Fair value is estimated by discounting remaining payment using applicable current market rates which take into account changes in the Company's marketplace credit ratings.

	As of December 31, 2008		As of December 31, 2007	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Revolving Credit Facility	$ 480,486	$ 462,000	$ 282,528	$ 279,000
CP Funding Facility	114,300	113,000	85,000	84,000
Debt Securitization	314,000	148,000	314,000	261,000
	$ 908,786	$ 723,000	$ 681,528	$ 624,000

10. DERIVATIVE INSTRUMENTS

In October 2008, we entered into a two-year interest rate swap agreement for a total notional amount of $75 million. Under the interest rate swap agreement, we will pay a fixed interest rate of 2.985% and receive a floating rate based on the prevailing three-month LIBOR. As of December 31, 2008, the 3-month LIBOR was 1.43%. For the year ended December 31, 2008, we recognized $(2,164) in unrealized depreciation related to this swap agreement. As of December 31, 2008, this swap agreement had a fair value of $(2,164), which is included in the "accounts payable and other liabilities" in the accompanying consolidated balance sheet.

11. RELATED PARTY TRANSACTIONS

In connection with the IPO, our investment adviser paid to underwriters, on our behalf, an additional sales load of $2,475. This amount accrued interest at a variable rate that adjusted quarterly equal to the three-month LIBOR plus 2.00% per annum. We repaid this amount in full, plus accrued and unpaid interest, in February 2006.

In accordance with the investment advisory and management agreement, we bear all costs and expenses of the operation of the Company and reimburse the investment adviser for all such costs and expenses incurred in the operation of the Company. For the years ended December 31, 2008, 2007 and 2006 the investment adviser incurred such expenses totaling $2,292, $1,985 and $853, respectively. As of December 31, 2008, $368 was unpaid and such payable is included in accounts payable and accrued expenses in the accompanying consolidated balance sheet.

We rent office space (the "ARCC Office Space") directly from a third party pursuant to a lease that expires on February 27, 2011. In addition, we have entered into a sublease agreement with Ares Management whereby Ares Management subleases approximately 25% of the ARCC Office Space for a fixed rent equal to 25% of the basic annual rent payable by us under our lease, plus certain additional costs and expenses. For the years ended December 31, 2008, 2007 and 2006, such amounts payable to the Company totaled $253, $269 and $93, respectively.

As of December 31, 2008, Ares Management, of which the investment adviser is a wholly owned subsidiary, owned 2,859,882 shares of the Company's common stock representing approximately 2.9% of the total shares outstanding as of December 31, 2008.

See Notes 3, 12 and 13 for a description of other related party transactions.

12. IVY HILL FUNDS

On November 19, 2007, we established a middle market credit fund, Ivy Hill Middle Market Credit Fund, Ltd. ("Ivy Hill I"), which is managed by our wholly owned subsidiary, Ivy Hill Asset Management, L.P. ("Ivy Hill Management"), in exchange for a 0.50% management fee on the average total assets of Ivy Hill I. As of December 31, 2008, the total assets of Ivy Hill I were approximately $370,800. For the years ended December 31, 2008 and 2007, the Company earned $1,482 and $45 in management fees, respectively. Ivy Hill I primarily invests in first and second lien bank debt of middle market companies. Ivy Hill I was initially funded with $404,000 of capital including a $56,000 investment by the Company consisting of $40,000 million of Class B notes and $16,000 of subordinated notes. For the years ended December 31, 2008 and 2007, the Company earned $5,427 and $500 from its investments in Ivy Hill I, respectively.

Ivy Hill I purchased $68,000 and $133,000 of investments from the Company during the years ended December 31, 2008 and 2007, respectively, and may from time to time buy additional investments from the Company. There was no gain or loss recognized by the Company on these transactions.

On November 5, 2008, we established a second middle market credit fund, Ivy Hill Middle Market Credit Fund II, Ltd. ("Ivy Hill II"), which is also managed by Ivy Hill Management, in exchange for a 0.50% management fee on the average total assets of Ivy Hill II. Ivy Hill II primarily invests in second lien and subordinated bank debt of middle market companies. Ivy Hill II was initially funded with $250,000 of subordinated notes, and may grow over time with leverage. Ivy Hill II purchased $7,500 of investments from the Company during the year ended December 31, 2008. A loss of $188 was recorded on this transaction. For the year ended December 31, 2008, the Company earned $47 in management fees.

Our indirect wholly owned subsidiary, Ivy Hill Management, is party to a separate services agreement, referred to herein as the "services agreement," with Ares Capital Management. Pursuant to the services agreement, Ares Capital Management provides Ivy Hill Management with office facilities, equipment, clerical, bookkeeping and record keeping services, services of investment professionals and others to perform investment advisory, research and related services, services of, and oversight of, custodians, depositories, accountants, attorneys, underwriters and such other persons in any other capacity deemed to be necessary. Ivy Hill Management will reimburse Ares Capital Management for all of the costs associated with such services, including Ares Capital Management's allocable portion of overhead and the cost of its officers and respective staff in performing its obligations under the services agreement. The services agreement may be terminated by either party without penalty upon 60-days' written notice to the other party. For the year ended December 31, 2008, Ivy Hill Management incurred such expenses payable to the Investment Adviser of $244.

13. STOCKHOLDERS' EQUITY

On April 28, 2008, we completed a transferable rights offering, issuing 24,228,030 shares at a subscription price of $11.0016 per share, less dealer manager fees of $0.22 per share. Net proceeds after deducting the dealer manager fees and estimated offering expenses were approximately $259,800. Ares Investments LLC, an affiliate of the investment adviser, purchased 1,643,215 shares in the rights offering, bringing its total shares owned to 2,859,882 shares of common stock, representing approximately 2.9% of the total shares outstanding as of December 31, 2008.

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The following table summarizes the total shares issued and proceeds we received net of underwriter, dealer manager and offering costs for the years ended December 31, 2008, 2007 and 2006 (in millions, except per share amounts):

	Shares issued	Offering price per share	Proceeds net of underwriting and offering costs
2008			
April 2008 public offering	24.2	$ 11.00	$ 259.8
Total for the year ended December 31, 2008	24.2		$ 259.8
2007			
August 2007 public offering	2.6	$ 16.30	$ 42.3
April 2007 public offering	15.5	$ 17.97	267.2
February 2007 public offering	1.4	$ 19.95	27.2
Underwriters over-allotment option related to December 2006 public offering	0.4	$ 18.50	7.5
Total for the year ended December 31, 2007	19.9		$ 344.2
2006			
December 2006 public offering	2.7	$ 18.50	$ 49.8
July 2006 public offering	10.8	$ 15.67	162.0
Total for the year ended December 31, 2006	13.5		$ 211.8

14. DIVIDEND

The following table summarizes our dividends declared during 2008, 2007 and 2006 (in millions, except per share amount):

Date Declared	Record Date	Payment Date	Per Share Amount	Total Amount
November 6, 2008	December 15, 2008	January 2, 2009	$ 0.42	$ 40.8
August 7, 2008	September 15, 2008	September 30, 2008	$ 0.42	40.8
May 8, 2008	June 16, 2008	June 30, 2008	$ 0.42	40.8
February 28, 2008	March 17, 2008	March 31, 2008	$ 0.42	30.5
Total declared for 2008			$ 1.68	$ 152.9
November 8, 2007	December 14, 2007	December 31, 2007	$ 0.42	30.5
August 9, 2007	September 14, 2007	September 28, 2007	$ 0.42	30.4
May 10, 2007	June 15, 2007	June 29, 2007	$ 0.41	28.5
March 8, 2007	March 19, 2007	March 30, 2007	$ 0.41	22.1
Total declared for 2007			$ 1.66	$ 111.5
November 8, 2006	December 15, 2006	December 29, 2006	$ 0.10	$ 5.2
November 8, 2006	December 15, 2006	December 29, 2006	$ 0.40	20.8
August 9, 2006	September 15, 2006	September 29, 2006	$ 0.40	19.6
May 8, 2006	June 15, 2006	June 30, 2006	$ 0.38	14.5
February 28, 2006	March 24, 2006	April 14, 2006	$ 0.36	13.7
Total declared for 2006			$ 1.64	$ 73.8

During the year ended December 31, 2008, as part of the Company's dividend reinvestment plan for our common stockholders, we purchased 1,404,852 shares of our common stock at an average price

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of $9.05 in the open market in order to satisfy the reinvestment portion of our dividends. During the year ended December 31, 2007, as part of the Company's dividend reinvestment plan for our common stockholders, we purchased 237,686 shares of our common stock at an average price of $15.00 in the open market in order to satisfy the reinvestment portion of our dividends.

15. FINANCIAL HIGHLIGHTS

The following is a schedule of financial highlights as of and for the years ended December 31, 2008, 2007 and 2006:

Per Share Data:	As of and for the year ended December 31, 2008	As of and for the year ended December 31, 2007	As of and for the year ended December 31, 2006
Net asset value, beginning of period(1)	$ 15.47	$ 15.17	$ 15.03
Issuance of common stock	(1.19)	0.59	0.20
Effect of antidilution (dilution)	0.23		(0.03)
Net investment income for period(2)	1.42	1.43	1.31
Net realized and unrealized gains (loss) for period(2)	(2.98)	(0.06)	0.30
Net (decrease) increase in stockholders' equity	(1.56)	1.37	1.61
Distributions from net investment income	(1.58)	(1.43)	(1.31)
Distributions from net realized capital gains on securities	(0.10)	(0.23)	(0.33)
Total distributions to stockholders	(1.68)	(1.66)	(1.64)
Net asset value at end of period(1)	$ 11.27	$ 15.47	$ 15.17
Per share market value at end of period	$ 6.33	$ 14.63	$ 19.11
Total return based on market value(3)	(45.25)%	(14.76)%	29.12%
Total return based on net asset value(4)	(11.17)%	8.98%	10.73%
Shares outstanding at end of period	97,152,820	72,684,090	52,036,527
Ratio/Supplemental Data:			
Net assets at end of period	$ 1,094,879	$ 1,124,550	$ 789,433
Ratio of operating expenses to average net assets(5)(6)	9.09%	9.12%	8.84%
Ratio of net investment income to average net assets(5)(7)	10.22%	9.14%	9.19%
Portfolio turnover rate(5)	24%	30%	49%

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

(2) Weighted average basic per share data.

(3) For the year ended December 31, 2008, the total return based on market value for the year ended December 31, 2008 equals the increase of the ending market value at December 31, 2008 of $6.33 per share over the ending market value at December 31, 2007 of $14.63 per share plus the declared dividends of $1.68 per share for the year ended December 31, 2008, divided by the market value at December 31, 2007. For the year ended December 31, 2007, the total return based on market value for the year ended December 31, 2007 equals the increase of the ending market value at December 31, 2007 of $14.63 per share over the ending market value at December 31, 2006 of $19.11 per share plus the declared dividends of $1.66 per share for the year ended December 31, 2007, divided by the market value at December 31, 2006. For the year ended December 31, 2006, the total return based on market value for the year ended December 31, 2006 equals the increase of the ending market value at December 31, 2006 of $19.11 per share over the ending market value at December 31, 2005 of $16.07 per share plus the declared dividends of $1.64 per share for the year ended December 31, 2006, divided by the market value at December 31, 2005. Total return based on market value is not annualized.

(4) For the year ended December 31, 2008, the total return based on net asset value equals the change in net asset value during the period plus the declared dividends of $1.68 per share for the year ended December 31,

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2008 divided by the beginning net asset value for the period. For the year ended December 31, 2007, the total return based on net asset value equals the change in net asset value during the period plus the declared dividends of $1.66 per share for the year ended December 31, 2007 divided by the beginning net asset value for the period. For the year ended December 31, 2006, the total return based on net asset value equals the change in net asset value during the period plus the declared dividends of $1.64 per share for the year ended December 31, 2006 divided by the beginning net asset value for the period. These calculations were adjusted for shares issued in connection with dividend reinvestment plan, the issuances of common stock in connection with any add-on equity offerings and the reimbursement of underwriting costs paid by the investment adviser. Total return based on net asset value is not annualized.

(5) The ratios reflect an annualized amount.

(6) For the year ended December 31, 2008, the ratio of operating expenses to average net assets consisted of 2.45% of base management fees, 2.55% of incentive management fees, 2.93% of the cost of borrowing and other operating expenses of 1.16%. For the year ended December 31, 2007, the ratio of operating expenses to average net assets consisted of 2.27% of base management fees, 2.26% of incentive management fees, 3.55% of the cost of borrowing and other operating expenses of 1.04%. For the year ended December 31, 2006, the ratio of operating expenses to average net assets consisted of 2.06% of base management fees, 2.95% of incentive management fees, 2.81% of the cost of borrowing and other operating expenses of 1.02%. These ratios reflect annualized amounts.

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

16. SUBSEQUENT EVENTS

In January 2009, we increased the size of the Revolving Credit Facility under the "accordion" feature by an additional $15,000 bringing the total amount available for borrowing under the Revolving Credit Facility to $525,000.

In February 2009, we repurchased, in an open market transaction, a total of $27,000 of our outstanding debt securities under the Debt Securitization for $6,550.

17. SELECTED QUARTERLY DATA (Unaudited)

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

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	2007			
	Q4	**Q3**	**Q2**	**Q1**
Total investment income	$ 53,828	$ 47,931	$ 47,399	$ 39,715
Net investment income before net realized and unrealized gain (losses) and incentive compensation	$ 33,677	$ 29,875	$ 31,220	$ 23,699
Incentive compensation	$ 6,573	$ 5,966	$ 6,229	$ 4,755
Net investment income before net realized and unrealized gain (losses)	$ 27,104	$ 23,909	$ 24,991	$ 18,944
Net realized and unrealized gains (losses)	$ (16,353)	$ (984)	$ 8,576	$ 4,645
Net increase in stockholders' equity resulting from operations	$ 10,752	$ 22,924	$ 33,567	$ 23,589
Basic and diluted earnings per common share	$ 0.15	$ 0.32	$ 0.48	$ 0.44
Net asset value per share as of the end of the quarter	$ 15.47	$ 15.74	$ 15.84	$ 15.34

	2006			
	Q4	**Q3**	**Q2**	**Q1**
Total investment income	$ 37,508	$ 31,832	$ 30,490	$ 20,191
Net investment income before net realized and unrealized gain (losses) and incentive compensation	$ 23,508	$ 21,792	$ 16,233	$ 14,614
Incentive compensation	$ 5,189	$ 4,464	$ 6,940	$ 2,923
Net investment income before net realized and unrealized gain (losses)	$ 18,319	$ 17,328	$ 9,293	$ 11,692
Net realized and unrealized gain (losses)	$ 2,699	$ 813	$ 7,400	$ 2,151
Net increase in stockholders' equity resulting from operations	$ 21,018	$ 18,141	$ 16,693	$ 13,843
Basic and diluted earnings per common share	$ 0.42	$ 0.39	$ 0.44	$ 0.36
Net asset value per share as of the end of the quarter	$ 15.17	$ 15.06	$ 15.10	$ 15.03

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(in thousands, except per share amounts)

	September 30, 2009 (unaudited)	December 31, 2008
ASSETS		
Portfolio at value:		
Private finance		
Companies more than 25% owned (cost: 2009-$2,025,850; 2008-$2,167,020)	$ 1,032,018	$ 1,187,722
Companies 5% to 25% owned (cost: 2009-$219,671; 2008-$392,516)	178,253	352,760
Companies less than 5% owned (cost: 2009-$1,948,748; 2008-$2,317,856)	1,232,400	1,858,581
Total private finance (cost: 2009-$4,194,269; 2008-$4,877,392)	2,442,671	3,399,063
Commercial real estate finance (cost: 2009-$74,066; 2008-$85,503)	68,523	93,887
Total portfolio at value (cost: 2009-$4,268,335; 2008-4,962,895)	2,511,194	3,492,950
Accrued interest and dividends receivable	49,953	55,638
Other assets	125,653	122,909
Investments in money market and other securities	90,020	287
Cash and cash equivalents	62,737	50,402
Restricted cash	659	
Total assets	$ 2,840,216	$ 3,722,186
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Notes payable (principal amount: 2009-$1,586,513; 2008-$1,895,000) (maturing within one year: 2009-$253,745; 2008-$1,015,000)	$ 1,543,867	$ 1,895,000
Bank term debt (former revolver)	50,000	50,000
Accounts payable and other liabilities	45,084	58,786
Total liabilities	1,638,951	2,003,786
Commitments and contingencies		
Shareholders' equity:		
Common stock, $0.0001 par value, 400,000 shares authorized; 179,362 and 178,692 shares issued and outstanding at September 30, 2009, and December 31, 2008, respectively	18	18
Additional paid-in capital	3,037,718	3,037,845
Notes receivable from sale of common stock	(680)	(1,089)
Net unrealized appreciation (depreciation)	(1,883,617)	(1,503,089)
Undistributed earnings	47,826	184,715
Total shareholders' equity	1,201,265	1,718,400
Total liabilities and shareholders' equity	$ 2,840,216	$ 3,722,186
Net asset value per common share	$ 6.70	$ 9.62

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

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS

(in thousands, except per share amounts)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
	(unaudited)		(unaudited)	
Interest and Related Portfolio Income:				
Interest and dividends:				
Companies more than 25% owned	$ 24,737	$ 29,699	$ 72,941	$ 85,167
Companies 5% to 25% owned	4,775	9,864	25,123	31,587
Companies less than 5% owned	36,118	72,644	131,953	249,325
Total interest and dividends	65,630	112,207	230,017	366,079
Fees and other income:				
Companies more than 25% owned	6,063	6,130	18,648	22,638
Companies 5% to 25% owned	13	342	223	411
Companies less than 5% owned	732	1,983	3,362	11,056
Total fees and other income	6,808	8,455	22,233	34,105
Total interest and related portfolio income	72,438	120,662	252,250	400,184
Expenses:				
Interest	42,421	35,949	129,023	109,974
Employee	10,905	21,443	32,939	57,439
Employee stock options	392	1,477	2,369	9,531
Administrative	7,205	14,138	25,509	36,100
Impairment of long-lived asset			2,873	
Total operating expenses	60,923	73,007	192,713	213,044
Net investment income before income taxes	11,515	47,655	59,537	187,140
Income tax expense (benefit), including excise tax	1,930	2,060	4,205	8,141
Net investment income	9,585	45,595	55,332	178,999
Net Realized and Unrealized Gains (Losses):				
Net realized gains (losses):				
Companies more than 25% owned	(12,681)	1,098	(89,643)	1,967
Companies 5% to 25% owned	(824)	7,234	(54,963)	(6,569)
Companies less than 5% owned	8,415	53,710	(13,649)	51,932
Total net realized gains (losses)	(5,090)	62,042	(158,255)	47,330
Net change in unrealized appreciation or depreciation	(27,681)	(425,899)	(380,528)	(687,506)
Total net gains (losses)	(32,771)	(363,857)	(538,783)	(640,176)
Gain on repurchase of debt			83,532	
Loss on extinguishment of debt	(117,497)		(117,497)	

Net increase (decrease) in net assets resulting from operations	$ (140,683)	$ (318,262)	$ (517,416)	$ (461,177)
Basic earnings (loss) per common share	$ (0.79)	$ (1.78)	$ (2.89)	$ (2.70)
Diluted earnings (loss) per common share	$ (0.79)	$ (1.78)	$ (2.89)	$ (2.70)
Weighted average common shares outstanding basic	179,054	178,692	178,815	171,084
Weighted average common shares outstanding diluted	179,054	178,692	178,815	171,084

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

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(in thousands, except per share amounts)

	For the Nine Months Ended September 30, 2009	2008
	(unaudited)	
Operations:		
Net investment income	$ 55,332	$ 178,999
Net realized gains (losses)	(158,255)	47,330
Net change in unrealized appreciation (depreciation)	(380,528)	(687,506)
Gain on repurchase of debt	83,532	
Loss on extinguishment of debt	(117,497)	
Net increase (decrease) in net assets resulting from operations	(517,416)	(461,177)
Shareholder distributions:		
Common stock dividends		(340,381)
Net decrease in net assets resulting from shareholder distributions		(340,381)
Capital share transactions:		
Sale of common stock		402,478
Issuance of common stock in lieu of cash distributions		3,751
Issuance of common stock upon exercise of stock options	489	
Stock option expense	2,438	9,655
Net decrease in notes receivable from sale of common stock	409	841
Purchase of common stock held in deferred compensation trusts		(943)
Distribution of common stock held in deferred compensation trusts		27,335
Cancellation of stock options	(3,055)	
Net increase (decrease) in net assets resulting from capital share transactions	280	443,117
Total increase (decrease) in net assets	(517,135)	(358,441)
Net assets at beginning of period	1,718,400	2,771,847
Net assets at end of period	$ 1,201,265	$ 2,413,406
Net asset value per common share	$ 6.70	$ 13.51
Common shares outstanding at end of period	179,362	178,692

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

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)

	For the Nine Months Ended September 30,	
	2009	2008
	(unaudited)	
Cash flows from operating activities:		
Net increase (decrease) in net assets resulting from operations	$ (517,416)	$ (461,177)
Adjustments:		
Portfolio investments	(118,095)	(1,019,750)
Principal collections related to investment repayments or sales	479,815	878,229
Collections of notes and other consideration received from sale of investments	171,030	16,316
Realized gains from the receipt of notes and other consideration from sale of investments	(577)	(1,886)
Realized losses	194,152	87,867
Gain on repurchase of debt	(83,532)	
Redemption of (investments in) money market and other securities	(89,733)	187,838
Payment-in-kind interest and dividends, net of cash collections	(24,352)	(35,947)
Change in accrued interest and dividends	4,577	835
Net collection (amortization) of discounts and fees	(4,875)	(10,176)
Stock option expense	2,438	9,655
Impairment of long-lived asset	2,873	
Changes in other assets and liabilities	(95,823)	(42,537)
Depreciation and amortization	1,169	1,752
Net change in unrealized (appreciation) or depreciation	380,528	687,506
Net cash provided by (used in) operating activities	302,179	298,525
Cash flows from financing activities:		
Sale of common stock		402,478
Sale of common stock upon the exercise of stock options	489	
Collections of notes receivable from sale of common stock	408	841
Borrowings under notes payable		193,000
Repurchase or repayment of notes payable	(224,357)	(153,000)
Net borrowings under (repayments on) revolver/bank term debt		(197,250)
Purchase of common stock held in deferred compensation trusts		(943)
Net change in restricted cash	(659)	
Deferred financing costs	(65,725)	(8,611)
Other financing activities		(35)
Common stock dividends and distributions paid		(336,630)
Net cash provided by (used in) financing activities	(289,844)	(100,150)
Net increase (decrease) in cash	12,335	198,375
Cash at beginning of period	50,402	3,540
Cash at end of period	$ 62,737	$ 201,915

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

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS

September 30, 2009 (unaudited)

(in thousands, except number of shares)

Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Companies More Than 25% Owned				
AGILE Fund I, LLC(5)	Equity Interests		$ 665	$ 417
(Private Equity Fund)				
	Total Investment		**665**	**417**
AllBridge Financial, LLC	Senior Loan (6.6%, Due 12/09)	$ 1,311	1,311	1,311
(Asset Management)	Equity Interests		40,118	15,523
	Total Investment		**41,429**	**16,834**
Allied Capital Senior Debt Fund, L.P.(5)	Limited Partnership Interests		31,800	33,044
(Private Debt Fund)				
	Total Investment		**31,800**	**33,044**
Avborne, Inc.(7)	Preferred Stock (12,500 shares)			904
(Business Services)	Common Stock (27,500 shares)			
	Total Investment			**904**
Avborne Heavy Maintenance, Inc.(7)	Common Stock (2,750 shares)			
(Business Services)				
	Total Investment			
Aviation Properties Corporation	Common Stock (100 shares)		93	
(Business Services)				
	Total Investment		**93**	
Border Foods, Inc.	Senior Loan (12.9%, Due 3/12)	34,876	29,495	34,876
(Consumer Products)	Preferred Stock (100,000 shares)		12,721	16,585
	Common Stock (260,467 shares)		3,847	
	Total Investment		**46,063**	**51,461**
Calder Capital Partners, LLC(5)	Senior Loan (12.5%, Due 5/09)(6)	4,496	4,496	1,100
(Asset Management)	Equity Interests		2,453	
	Total Investment		**6,949**	**1,100**
Callidus Capital Corporation	Subordinated Debt (18.0%, Due 8/13)	20,939	20,939	15,165
(Asset Management)	Common Stock (100 shares)			
	Total Investment		**20,939**	**15,165**

Ciena Capital LLC	Guaranty ($3,189)			
(Financial Services)	Senior Loan (5.5%, Due 3/09)(6)	319,031	319,031	102,232
	Class B Equity Interests		119,436	
	Class C Equity Interests		109,097	
	Total Investment		**547,564**	**102,232**
CitiPostal Inc.	Guaranty ($5,000 See Note 3)			
(Business Services)	Senior Loan (3.7%, Due 12/13)	692	683	683
	Unitranche Debt (12.0%, Due 12/13)	51,180	51,001	51,001
	Subordinated Debt (16.0%, Due 12/15)	10,265	10,265	10,265
	Common Stock (37,024 shares)		12,726	1,124
	Total Investment		**74,675**	**63,073**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Coverall North America, Inc.	Unitranche Debt (12.0%, Due 7/11)	$ 31,627	$ 31,565	$ 31,565
(Business Services)	Subordinated Debt (15.0%, Due 7/11)	5,563	5,553	5,553
	Common Stock (763,333 shares)		14,362	21,261
	Total Investment		**51,480**	**58,379**
CR Holding, Inc.	Subordinated Debt (16.6%, Due 2/13)(6)	40,623	40,510	10,271
(Consumer Products)	Common Stock (32,090,696 shares)		28,744	
	Total Investment		**69,254**	**10,271**
Crescent Equity Corp.(8)	Senior Loan (10.0%, Due 6/10)	433	433	433
(Business Services)	Subordinated Debt (11.0%, Due 9/11 - 6/17)(6)	32,202	32,112	4,203
	Common Stock (174 shares)		82,730	
	Total Investment		**115,275**	**4,636**
	Guaranty ($900)			
Direct Capital Corporation	Senior Loan (8.0%, Due 1/14)(6)	8,175	8,175	8,573
(Financial Services)	Subordinated Debt (16.0%, Due 3/13)(6)	55,671	55,496	7,139
	Common Stock (2,317,020 shares)		25,732	
	Total Investment		**89,403**	**15,712**
Financial Pacific Company	Subordinated Debt (17.4%, Due 2/12 - 8/12)	68,967	68,870	41,417
(Financial Services)	Preferred Stock (9,458 shares)		8,865	
	Common Stock (12,711 shares)		12,783	
	Total Investment		**90,518**	**41,417**
Hot Light Brands, Inc.	Senior Loan (9.0%, Due 2/11)(6)	30,572	30,572	10,471
(Retail)	Common Stock (93,500 shares)		5,151	
	Total Investment		**35,723**	**10,471**
Hot Stuff Foods, LLC	Senior Loan (3.7%, Due 2/11 - 2/12)	45,417	45,310	45,417
(Consumer Products)	Subordinated Debt (12.3%, Due 8/12 - 2/13)(6)	83,692	83,387	49,801
	Common Stock (1,147,453 shares)		56,187	
	Total Investment		**184,884**	**95,218**
Huddle House, Inc.	Subordinated Debt (15.0%, Due 12/15)	19,544	19,494	19,494
(Retail)	Common Stock (358,428 shares)		36,348	7,651
	Total Investment		**55,842**	**27,145**
IAT Equity, LLC and Affiliates	Subordinated Debt (9.0%, Due 6/14)	6,000	6,000	6,000
d/b/a Industrial Air Tool	Equity Interests		7,500	9,948
(Industrial Products)				
	Total Investment		**13,500**	**15,948**
Impact Innovations Group, LLC	Equity Interests in Affiliate			322
(Business Services)				

	Total Investment			**322**
Insight Pharmaceuticals Corporation	Subordinated Debt (15.0%, Due 9/12)	54,167	54,100	52,098
(Consumer Products)	Common Stock (155,000 shares)		40,413	10,419
	Total Investment		**94,513**	**62,517**
Jakel, Inc.	Subordinated Debt (15.5%, Due 3/08)(6)	748	748	374
(Industrial Products)	**Total Investment**		**748**	**374**
Knightsbridge CLO 2007-1 Ltd.(4)	Class E Notes (9.5%, Due 1/22)	18,700	18,700	11,160
(CLO)	Income Notes (13.3%)(11)		38,746	22,640
	Total Investment		**57,446**	**33,800**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Knightsbridge CLO 2008-1 Ltd.(4)	Class C Notes (7.8%, Due 6/18)	$ 12,800	$ 12,800	$ 12,246
(CLO)	Class D Notes (8.8%, Due 6/18)	8,000	8,000	7,080
	Class E Notes (5.3%, Due 6/18)	13,200	11,081	9,798
	Income Notes (21.2%)(11)		21,327	20,112
	Total Investment		**53,208**	**49,236**
MVL Group, Inc.	Senior Loan (12.0%, Due 7/12)	25,260	25,256	25,256
(Business Services)	Subordinated Debt (14.5%, Due 7/12)	41,434	41,402	36,021
	Subordinated Debt (8.0%, Due 7/12)(6)	144	139	
	Common Stock (560,716 shares)		555	
	Total Investment		**67,352**	**61,277**
Penn Detroit Diesel Allison, LLC	Equity Interests		20,081	13,870
(Business Services)	**Total Investment**		**20,081**	**13,870**
Senior Secured Loan Fund LLC	Subordinated Certificates (8.4%)		165,248	165,000
(Private Debt Fund)	Equity Interests		1	
	Total Investment		**165,249**	**165,000**
Service Champ, Inc.	Subordinated Debt (15.5%, Due 4/12)	27,566	27,515	27,515
(Business Services)	Common Stock (55,112 shares)		11,785	28,321
	Total Investment		**39,300**	**55,836**
Stag-Parkway, Inc.	Subordinated Debt (10.0%, Due 7/12)	19,044	19,000	19,000
(Business Services)	Common Stock (25,000 shares)		32,686	7,359
	Total Investment		**51,686**	**26,359**
Startec Equity, LLC	Equity Interests		211	
(Telecommunications)				
	Total Investment		**211**	
Total companies more than 25% owned			**$ 2,025,850**	**$ 1,032,018**
Companies 5% to 25% Owned				
10th Street, LLC	Subordinated Debt (13.0%, Due 11/14)	22,100	22,004	22,100
(Business Services)	Equity Interests		422	485
	Option		25	25
	Total Investment		**22,451**	**22,610**
Air Medical Group Holdings LLC	Senior Loan (4.3%, Due 3/11)	4,665	4,642	4,456
(Healthcare Services)	Equity Interests		2,993	20,000
	Total Investment		**7,635**	**24,456**
BB&T Capital Partners/Windsor				
Mezzanine Fund, LLC(5)	Equity Interests		11,789	10,009
(Private Equity Fund)				

	Total Investment		**11,789**	**10,009**
Driven Brands, Inc. (Consumer Services)	Subordinated Debt (16.6%, Due 7/15)	89,838	89,477	86,398
	Common Stock (3,772,098 shares)		9,516	2,500
	Total Investment		**98,993**	**88,898**
Multi-Ad Services, Inc. (Business Services)	Unitranche Debt (11.3%, Due 11/11)	2,508	2,491	2,488
	Equity Interests		1,737	1,206
	Total Investment		**4,228**	**3,694**
Pendum Acquisition, Inc. (Business Services)	Common Stock (8,872 shares)			
	Total Investment			

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Postle Aluminum Company, LLC	Senior Loan (6.0%, Due 10/12)(6)	$ 35,000	$ 34,876	$ 15,308
(Industrial Products)	Subordinated Debt (3.0%, Due 10/12)(6)	23,953	23,868	
	Equity Interests		2,174	
	Total Investment		**60,918**	**15,308**
Progressive International	Preferred Stock (500 shares)		500	5,847
Corporation	Common Stock (197 shares)		13	153
(Consumer Products)	Warrants			
	Total Investment		**513**	**6,000**
Regency Healthcare Group, LLC	Equity Interests		1,302	1,841
(Healthcare Services)				
	Total Investment		**1,302**	**1,841**
SGT India Private Limited(4)	Common Stock (150,596 shares)		4,158	
(Business Services)				
	Total Investment		**4,158**	
Soteria Imaging Services, LLC	Subordinated Debt (11.3%, Due 11/10)	4,250	4,204	4,154
(Healthcare Services)	Equity Interests		1,881	1,283
	Total Investment		**6,085**	**5,437**
Universal Environmental Services, LLC	Equity Interests		1,599	
(Business Services)				
	Total Investment		**1,599**	
Total companies 5% to 25% owned			**219,671**	**178,253**
Companies Less Than 5% Owned				
3SI Security Systems, Inc.	Subordinated Debt (16.6%, Due 8/13)(6)	29,548	29,473	14,865
(Consumer Products)				
	Total Investment		**29,473**	**14,865**
Augusta Sportswear Group, Inc.	Common Stock (2,500 shares)		2,500	1,523
(Consumer Products)				
	Total Investment		**2,500**	**1,523**
Axium Healthcare Pharmacy, Inc.	Subordinated Debt (8.0%, Due 3/15)	2,975	2,975	2,380
(Healthcare Services)				
	Total Investment		**2,975**	**2,380**
BenefitMall Holdings Inc.	Subordinated Debt (18.0%, Due 6/14)	40,326	40,250	40,250
(Business Services)	Common Stock (39,274,290 shares)(12)		39,274	73,729
	Warrants(12)			

	Total Investment		**79,524**	**113,979**
Broadcast Electronics, Inc. (Business Services)	Senior Loan (8.8%, Due 11/11)(6) Preferred Stock (2,044 shares)	4,875	4,847	340
	Total Investment		**4,847**	**340**
Bushnell, Inc. (Consumer Products)	Subordinated Debt (6.8%, Due 2/14)	41,325	40,161	30,204
	Total Investment		**40,161**	**30,204**
Callidus Debt Partners CDO Fund I, Ltd.(4)(10) (CDO)	Class C Notes (12.9%, Due 12/13)(6) Class D Notes (17.0%, Due 12/13)(6)	19,420 9,400	19,527 9,454	2,935
	Total Investment		**28,981**	**2,935**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Callidus Debt Partners CLO Fund III, Ltd.(4)(10) (CLO)	Preferred Shares (23,600,000 shares)		$ 20,138	$ 2,199
	Total Investment		**20,138**	**2,199**
Callidus Debt Partners CLO Fund IV, Ltd.(4)(10) (CLO)	Class D Notes (5.1%, Due 4/20)	$ 3,000	2,160	1,653
	Income Notes (0.0%)(11)		14,868	4,366
	Total Investment		**17,028**	**6,019**
Callidus Debt Partners	Income Notes (2.6%)(11)		13,521	4,625
CLO Fund V, Ltd.(4)(10) (CLO)				
	Total Investment		**13,521**	**4,625**
Callidus Debt Partners CLO Fund VI, Ltd.(4)(10) (CLO)	Class D Notes (6.5%, Due 10/21)	9,325	7,602	3,833
	Income Notes (0.0%)(11)		29,144	4,155
	Total Investment		**36,746**	**7,988**
Callidus Debt Partners CLO Fund VII, Ltd.(4)(10) (CLO)	Income Notes (0.0%)(11)		24,824	5,431
	Total Investment		**24,824**	**5,431**
Callidus MAPS CLO Fund I LLC(10) (CLO)	Class E Notes (5.8%, Due 12/17)	17,000	17,000	11,400
	Income Notes (0.0%)(11)		41,176	13,662
	Total Investment		**58,176**	**25,062**
Callidus MAPS CLO Fund II, Ltd.(4)(10) (CLO)	Class D Notes (4.8%, Due 7/22)	7,700	3,785	3,068
	Income Notes (0.9%)(11)		18,109	4,819
	Total Investment		**21,894**	**7,887**
Carlisle Wide Plank Floors, Inc. (Consumer Products)	Unitranche Debt (12.0%, Due 6/11)	1,644	1,637	1,533
	Common Stock (345,056 Shares)		345	
	Total Investment		**1,982**	**1,533**
Catterton Partners VI, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		3,287	1,789
	Total Investment		**3,287**	**1,789**
Commercial Credit Group, Inc. (Financial Services)	Subordinated Debt (15.0%, Due 6/15)	22,000	21,970	21,970
	Preferred Stock (64,679 shares)		15,543	6,212
	Warrants			
	Total Investment		**37,513**	**28,182**

Community Education Centers, Inc. (Education Services)	Subordinated Debt (19.5%, Due 11/13)	36,654	36,602	36,501
	Total Investment		**36,602**	**36,501**
Component Hardware Group, Inc. (Industrial Products)	Subordinated Debt (13.5%, Due 1/13)	18,921	18,876	16,587
	Total Investment		**18,876**	**16,587**
Cook Inlet Alternative Risk, LLC (Business Services)	Unitranche Debt (10.8%, Due 4/13)	87,600	87,286	69,000
	Equity Interests		552	
	Total Investment		**87,838**	**69,000**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Cortec Group Fund IV, L.P.(5) (Private Equity)	Limited Partnership Interest		$ 6,572	$ 3,812
	Total Investment		**6,572**	**3,812**
Digital VideoStream, LLC (Business Services)	Unitranche Debt (11.0%, Due 2/12)	$ 13,203	13,155	12,825
	Convertible Subordinated Debt (10.0%, Due 2/16)	4,894	4,883	4,883
	Total Investment		**18,038**	**17,708**
DirectBuy Holdings, Inc. (Consumer Products)	Subordinated Debt (16.0%, Due 5/13)	76,389	76,139	60,287
	Equity Interests		8,000	
	Total Investment		**84,139**	**60,287**
Distant Lands Trading Co. (Consumer Products)	Senior Loan (6.3%, Due 11/11)	6,800	6,781	6,358
	Unitranche Debt (11.0%, Due 11/11)	43,581	43,499	41,967
	Common Stock (3,451 shares)		3,451	1,147
	Total Investment		**53,731**	**49,472**
Diversified Mercury Communications, LLC (Business Services)	Senior Loan (4.5%, Due 3/13)	2,814	2,803	2,525
	Total Investment		**2,803**	**2,525**
Dryden XVIII Leveraged Loan 2007 Limited(4) (CLO)	Class B Notes (5.0%, Due 10/19)(6)	9,092	7,872	2,355
	Income Notes (0.0%)(11)		23,164	2,415
	Total Investment		**31,036**	**4,770**
Dynamic India Fund IV(4)(5) (Private Equity Fund)	Equity Interests		9,350	7,982
	Total Investment		**9,350**	**7,982**
EarthColor, Inc. (Business Services)	Subordinated Debt (15.0%, Due 11/13)(6)	123,819	123,385	
	Common Stock (63,438 shares)(12)		63,438	
	Warrants(12)			
	Total Investment		**186,823**	
eCentury Capital Partners, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		7,274	
	Total Investment		**7,274**	
eInstruction Corporation (Education Services)	Subordinated Debt (12.1%, Due 7/14-1/15)	36,069	35,951	32,708
	Common Stock (2,406 shares)		2,500	750
	Total Investment		**38,451**	**33,458**

Farley's & Sathers Candy Company, Inc. (Consumer Products)	Subordinated Debt (8.3%, Due 3/11)	2,500	2,496	2,492
	Total Investment		**2,496**	**2,492**
Fidus Mezzanine Capital, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		12,828	7,804
	Total Investment		**12,828**	**7,804**
Freedom Financial Network, LLC (Financial Services)	Subordinated Debt (13.5%, Due 2/14)	6,000	5,953	6,000
	Total Investment		**5,953**	**6,000**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Geotrace Technologies, Inc. (Energy Services)	Warrants		$ 2,027	$ 2,300
	Total Investment		**2,027**	**2,300**
Gilchrist & Soames, Inc. (Consumer Products)	Subordinated Debt (13.4%, Due 10/13)	$ 25,304	25,186	23,101
	Total Investment		**25,186**	**23,101**
Havco Wood Products LLC (Industrial Products)	Equity Interests		910	
	Total Investment		**910**	
Higginbotham Insurance Agency, Inc. (Business Services)	Subordinated Debt (13.7%, Due 8/13 - 8/14)	53,305	53,129	53,129
	Common Stock (23,695 shares)(12)		23,695	12,355
	Warrant(12)			
	Total Investment		**76,824**	**65,484**
The Homax Group, Inc. (Consumer Products)	Senior Loan (6.3%, Due 10/12)	10,116	10,072	9,168
	Subordinated Debt (14.5%, Due 4/14)	14,159	13,619	4,945
	Preferred Stock (76 shares)		76	
	Common Stock (24 shares)		5	
	Warrants		954	
	Total Investment		**24,726**	**14,113**
Ideal Snacks Corporation (Consumer Products)	Senior Loan (8.5%, Due 6/10)	1,084	1,084	1,068
	Total Investment		**1,084**	**1,068**
Kodiak Fund LP(5) (Private Equity Fund)	Equity Interests		9,332	900
	Total Investment		**9,332**	**900**
Market Track Holdings, LLC (Business Services)	Senior Loan (8.0%, Due 6/14)	2,500	2,450	2,392
	Subordinated Debt (15.9%, Due 6/14)	24,600	24,504	23,166
	Total Investment		**26,954**	**25,558**
NetShape Technologies, Inc. (Industrial Products)	Senior Loan (4.0%, Due 2/13)	875	875	368
	Total Investment		**875**	**368**
Network Hardware Resale, Inc. (Business Services)	Unitranche Debt (12.8%, Due 12/11)	16,330	16,382	16,330
	Convertible Subordinated Debt (9.8%, Due 12/15)	15,953	16,000	16,000
	Total Investment		**32,382**	**32,330**

Novak Biddle Venture Partners III, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		2,018	1,037
	Total Investment		**2,018**	**1,037**
Oahu Waste Services, Inc. (Business Services)	Stock Appreciation Rights		206	406
	Total Investment		**206**	**406**
Pangaea CLO 2007-1 Ltd.(4) (CLO)	Class D Notes (5.3%, Due 1/21)	15,000	11,985	7,795
	Total Investment		**11,985**	**7,795**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
PC Helps Support, LLC	Senior Loan (4.3%, Due 12/13)	$ 8,299	$ 8,210	$ 7,763
(Business Services)	Subordinated Debt (12.8%, Due 12/13)	27,121	27,013	25,572
	Total Investment		**35,223**	**33,335**
Performant Financial Corporation	Common Stock (478,816 shares)		734	920
(Business Services)				
	Total Investment		**734**	**920**
Promo Works, LLC	Unitranche Debt (12.3%, Due 12/11)	23,111	22,994	20,312
(Business Services)				
	Total Investment		**22,994**	**20,312**
Reed Group, Ltd.	Senior Loan (6.4%, Due 12/13)	12,060	11,929	9,530
(Healthcare Services)	Subordinated Debt (15.8%, Due 12/13)	19,076	19,013	14,924
	Equity Interests		1,800	
	Total Investment		**32,742**	**24,454**
S.B. Restaurant Company	Unitranche Debt (9.8%, Due 4/11)	38,327	38,184	33,606
(Retail)	Preferred Stock (46,690 shares)		117	
	Warrants		534	
	Total Investment		**38,835**	**33,606**
SPP Mezzanine Funding II, L.P.(5)	Limited Partnership Interest		7,605	6,987
(Private Equity Fund)				
	Total Investment		**7,605**	**6,987**
STS Operating, Inc.	Subordinated Debt (11.0%, Due 1/13)	30,386	30,313	27,305
(Industrial Products)				
	Total Investment		**30,313**	**27,305**
Summit Energy Services, Inc.	Common Stock (415,982 shares)		1,861	2,150
(Business Services)				
	Total Investment		**1,861**	**2,150**
Tappan Wire & Cable Inc.	Unitranche Debt (15.0%, Due 8/14)(6)	22,346	22,248	4,515
(Business Services)	Common Stock (12,940 shares)(12)		2,043	
	Warrant(12)			
	Total Investment		**24,291**	**4,515**
The Step2 Company, LLC	Unitranche Debt (11.0%, Due 4/12)	94,602	94,396	89,550
(Consumer Products)	Equity Interests		2,156	1,528
	Total Investment		**96,552**	**91,078**
	Subordinated Debt (12.0%, Due 12/12)	40,000	39,793	18,347

Tradesmen International, Inc. (Business Services)				
	Total Investment		**39,793**	**18,347**
TransAmerican Auto Parts, LLC (Consumer Products)	Subordinated Debt (18.3%, Due 11/12)(6) Equity Interests	24,561	24,409 1,033	
	Total Investment		**25,442**	
Trover Solutions, Inc. (Business Services)	Subordinated Debt (12.0%, Due 11/12)	56,676	56,510	52,568
	Total Investment		**56,510**	**52,568**
United Road Towing, Inc. (Consumer Services)	Subordinated Debt (11.8%, Due 1/14)	19,060	18,988	18,792
	Total Investment		**18,988**	**18,792**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Venturehouse-Cibernet Investors, LLC (Business Services)	Equity Interest		$	$
	Total Investment			
WMA Equity Corporation and Affiliates d/b/a Wear Me Apparel (Consumer Products)	Subordinated Debt (16.8%, Due 4/13-4/14)(6) Common Stock (86 shares)	$ 139,455	138,559 39,549	71,345
	Total Investment		**178,108**	**71,345**
Webster Capital II, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		1,338	809
	Total Investment		**1,338**	**809**
Woodstream Corporation (Consumer Products)	Subordinated Debt (12.0%, Due 2/15) Common Stock (6,960 shares)	90,000	89,678 6,961	74,221 2,000
	Total Investment		**96,639**	**76,221**
Other companies	Other debt investments Other equity investments	37	(151) 41	(151) 8
	Total Investment		**(110)**	**(143)**
Total companies less than 5% owned			**$ 1,948,748**	**$ 1,232,400**
Total private finance (113 portfolio investments)			**$ 4,194,269**	**$ 2,442,671**

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

			September 30, 2009 (unaudited)	
	Stated Interest Rate Ranges	**Number of Loans**	**Cost**	**Value**
Commercial Mortgage Loans				
	Up to 6.99%	3	$ 32,143	$ 31,006
	7.00% 8.99%	2	1,876	1,864
	9.00% 10.99%	1	6,476	6,476
	11.00% 12.99%	1	10,479	6,319
	15.00% and above	2	3,970	4,848
Total commercial mortgage loans(13)			**$ 54,944**	**$ 50,513**
Real Estate Owned			**$ 5,937**	**$ 6,179**
Equity Interests(2) Companies more than 25% owned			**$ 13,185**	**$ 11,831**
Total commercial real estate finance			**$ 74,066**	**$ 68,523**
Total portfolio			**$ 4,268,335**	**$ 2,511,194**

	Yield	Cost	Value
Investments in Money Market and Other Securities			
First American Treasury Obligations Fund		$ 90,020	$ 90,020
Total		**$ 90,020**	**$ 90,020**

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

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS

December 31, 2008

(in thousands, except number of shares)

Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Companies More Than 25% Owned				
AGILE Fund I, LLC(5) (Private Equity Fund)	Equity Interests		$ 694	$ 497
	Total Investment		**694**	**497**
AllBridge Financial, LLC (Asset Management)	Equity Interests		33,294	10,960
	Total Investment		**33,294**	**10,960**
Allied Capital Senior Debt Fund, L.P.(5)	Standby Letter of Credit ($15,000)			
(Private Debt Fund)	Limited Partnership Interests		31,800	31,800
	Total Investment		**31,800**	**31,800**
Avborne, Inc.(7)	Preferred Stock (12,500 shares)			942
(Business Services)	Common Stock (27,500 shares)			
	Total Investment			**942**
Avborne Heavy Maintenance, Inc.(7) (Business Services)	Common Stock (2,750 shares)			
	Total Investment			
Aviation Properties Corporation (Business Services)	Common Stock (100 shares)		93	
	Total Investment		**93**	
Border Foods, Inc.	Standby Letters of Credit ($1,000)			
(Consumer Products)	Senior Loan (12.6%, Due 12/09 - 3/12)	$ 33,027	26,860	33,027
	Preferred Stock (100,000 shares)		12,721	11,851
	Common Stock (260,467 shares)		3,847	
	Total Investment		**43,428**	**44,878**
Calder Capital Partners, LLC(5)	Senior Loan (10.5%, Due 5/09)(6)	4,496	4,496	953
(Asset Management)	Equity Interests		2,453	
	Total Investment		**6,949**	**953**
Callidus Capital Corporation	Subordinated Debt (18.0%, Due 8/13 - 2/14)	16,068	16,068	16,068
(Asset Management)	Common Stock (100 shares)			34,377

	Total Investment		**16,068**	**50,445**
Ciena Capital LLC	Guaranty ($6,447)			
(Financial Services)	Senior Loan (5.5%, Due 3/09)(6)	319,031	319,031	104,883
	Class B Equity Interests		119,436	
	Class C Equity Interests		109,301	
	Total Investment		**547,768**	**104,883**
CitiPostal Inc.	Guaranty ($5,000 See Note 3)			
(Business Services)	Standby Letters of Credit ($102,600 See Note 3)			
	Senior Loan (4.0%, Due 12/13)	692	681	681
	Unitranche Debt (12.0%, Due 12/13)	51,758	51,548	51,548
	Subordinated Debt (16.0%, Due 12/15)	9,114	9,114	9,114
	Common Stock (37,024 shares)		12,726	8,616
	Total Investment		**74,069**	**69,959**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Coverall North America, Inc.	Unitranche Debt (12.0%, Due 7/11)	$ 32,035	$ 31,948	$ 31,948
(Business Services)	Subordinated Debt (15.0%, Due 7/11)	5,563	5,549	5,549
	Common Stock (763,333 shares)		14,361	17,968
	Total Investment		**51,858**	**55,465**
CR Holding, Inc.	Subordinated Debt (16.6%, Due 2/13)(6)	39,307	39,193	17,360
(Consumer Products)	Common Stock (32,090,696 shares)		28,744	
	Total Investment		**67,937**	**17,360**
Crescent Equity Corp.(8)	Senior Loan (10.0%, Due 1/09)	433	433	433
(Business Services)	Subordinated Debt (11.0%, Due 9/11 - 6/17)	22,312	22,247	14,283
	Subordinated Debt (11.0%, Due 1/12 - 9/12)(6)	10,097	10,072	4,331
	Common Stock (174 shares)		81,255	4,580
	Total Investment		**114,007**	**23,627**
Direct Capital Corporation	Guaranty ($900)			
(Financial Services)	Standby Letters of Credit ($200)			
	Subordinated Debt (16.0%, Due 3/13)(6)	55,671	55,496	13,530
	Common Stock (2,317,020 shares)		25,732	
	Total Investment		**81,228**	**13,530**
Financial Pacific Company	Subordinated Debt (17.4%, Due 2/12 - 8/12)	68,967	68,840	62,189
(Financial Services)	Preferred Stock (9,458 shares)		8,865	
	Common Stock (12,711 shares)		12,783	
	Total Investment		**90,488**	**62,189**
ForeSite Towers, LLC (Tower Leasing)	Equity Interest			889
	Total Investment			**889**
Global Communications, LLC (Business Services)	Senior Loan (10.0%, Due 9/02)(6)	1,335	1,335	1,335
	Total Investment		**1,335**	**1,335**
Hot Light Brands, Inc.	Senior Loan (9.0%, Due 2/11)(6)	30,522	30,522	13,678
(Retail)	Common Stock (93,500 shares)		5,151	
	Total Investment		**35,673**	**13,678**
Hot Stuff Foods, LLC	Standby Letter of Credit ($105)			
(Consumer Products)	Senior Loan (4.0%, Due 2/11 - 2/12)	53,597	53,456	42,378
	Subordinated Debt (12.4%, Due 8/12 - 2/13)(6)	83,692	83,387	
	Common Stock (1,147,453 shares)		56,187	
	Total Investment		**193,030**	**42,378**
Huddle House, Inc.	Subordinated Debt (15.0%, Due 12/12)	57,244	57,067	57,067
(Retail)	Common Stock (358,428 shares)		35,828	20,922

	Total Investment		**92,895**	**77,989**
IAT Equity, LLC and Affiliates d/b/a Industrial Air Tool (Industrial Products)	Subordinated Debt (9.0%, Due 6/14)	6,000	6,000	6,000
	Equity Interests		7,500	8,860
	Total Investment		**13,500**	**14,860**
Impact Innovations Group, LLC (Business Services)	Equity Interests in Affiliate			321
	Total Investment			**321**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Insight Pharmaceuticals Corporation	Subordinated Debt (15.0%, Due 9/12)	45,827	45,738	45,827
(Consumer Products)	Subordinated Debt (19.0%, Due 9/12)(6)	16,177	16,126	17,532
	Preferred Stock (25,000 shares)		25,000	4,068
	Common Stock (620,000 shares)		$ 6,325	
	Total Investment		**93,189**	**$ 67,427**
Jakel, Inc. (Industrial Products)	Subordinated Debt (15.5%, Due 3/08)(6)	$ 748	748	374
	Total Investment		**748**	**374**
Knightsbridge CLO 2007-1 Ltd.(4)	Class E Notes (13.8%, Due 1/22)	18,700	18,700	14,866
(CLO)	Income Notes (14.9%)(11)		40,914	35,214
	Total Investment		**59,614**	**50,080**
Knightsbridge CLO 2008-1 Ltd.(4)	Class C Notes (9.3%, Due 6/18)	12,800	12,800	12,800
(CLO)	Class D Notes (10.3%, Due 6/18)	8,000	8,000	8,000
	Class E Notes (6.8%, Due 6/18)	13,200	10,573	10,573
	Income Notes (16.6%)(11)		21,315	21,315
	Total Investment		**52,688**	**52,688**
MHF Logistical Solutions, Inc. (Business Services)	Subordinated Debt (13.0%, Due 6/12 - 6/13)(6)	49,841	49,633	
	Preferred Stock (10,000 shares)			
	Common Stock (20,934 shares)		20,942	
	Total Investment		**70,575**	
MVL Group, Inc.	Senior Loan (12.0%, Due 6/09 - 7/09)	30,674	30,663	30,663
(Business Services)	Subordinated Debt (14.5%, Due 6/09 - 7/09)	41,074	40,994	40,994
	Subordinated Debt (3.0%, Due 6/09)(6)	144	139	86
	Common Stock (560,716 shares)		555	
	Total Investment		**72,351**	**71,743**
Old Orchard Brands, LLC	Subordinated Debt (18.0%, Due 7/14)	18,951	18,882	18,882
(Consumer Products)	Equity Interests		16,857	27,763
	Total Investment		**35,739**	**46,645**
Penn Detroit Diesel Allison, LLC	Subordinated Debt (15.5%, Due 8/13)	37,984	37,869	37,869
(Business Services)	Equity Interests		18,873	21,100
	Total Investment		**56,742**	**58,969**
Service Champ, Inc.	Subordinated Debt (15.5%, Due 4/12)	27,050	26,984	26,984
(Business Services)	Common Stock (55,112 shares)		11,785	21,156
	Total Investment		**38,769**	**48,140**
Stag-Parkway, Inc.	Unitranche Debt (14.0%, Due 7/12)	17,975	17,920	17,962
(Business Services)	Common Stock (25,000 shares)		32,686	6,968

	Total Investment		**50,606**	**24,930**
Startec Equity, LLC (Telecommunications)	Equity Interests		211	332
	Total Investment		**211**	**332**
Senior Secured Loan Fund LLC	Subordinated Certificates (12.0)%		125,423	125,423
(Private Debt Fund)	Equity Interests		1	1
	Total Investment		**125,424**	**125,424**
Worldwide Express Operations, LLC	Subordinated Debt (14.0%, Due 2/14)(6)	2,865	2,722	2,032
(Business Services)	Equity Interests		11,384	
	Warrants		144	
	Total Investment		**14,250**	**2,032**
Total companies more than 25% owned			**$ 2,167,020**	**$ 1,187,722**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Companies 5% to 25% Owned				
10th Street, LLC	Subordinated Debt (13.0%, Due 11/14)	21,439	21,329	21,439
(Business Services)	Equity Interests		$ 422	$ 975
	Option		25	25
	Total Investment		**21,776**	**22,439**
Advantage Sales & Marketing, Inc.	Subordinated Debt (12.0%, Due 3/14)	$ 158,617	158,132	135,000
(Business Services)	Equity Interests			5,000
	Total Investment		**158,132**	**140,000**
Air Medical Group Holdings LLC	Senior Loan (3.3%, Due 3/11)	3,360	3,326	3,139
(Healthcare Services)	Equity Interests		2,993	10,800
	Total Investment		**6,319**	**13,939**
Alpine ESP Holdings, Inc.	Preferred Stock (701 shares)		701	
(Business Services)	Common Stock (11,657 shares)		13	
	Total Investment		**714**	
Amerex Group, LLC	Subordinated Debt (12.3%, Due 1/13)	8,789	8,784	8,784
(Consumer Products)	Equity Interests		3,508	9,932
	Total Investment		**12,292**	**18,716**
BB&T Capital Partners/Windsor Mezzanine Fund, LLC(5) (Private Equity Fund)	Equity Interests		11,789	11,063
	Total Investment		**11,789**	**11,063**
Becker Underwood, Inc.	Subordinated Debt (14.5%, Due 8/12)	25,503	25,450	25,502
(Industrial Products)	Common Stock (4,376 shares)		5,014	2,267
	Total Investment		**30,464**	**27,769**
Drew Foam Companies, Inc.	Preferred Stock (622,555 shares)		623	512
(Business Services)	Common Stock (6,286 shares)		6	
	Total Investment		**629**	**512**
Driven Brands, Inc.	Subordinated Debt (16.5%, Due 7/15)	84,106	83,698	83,698
(Consumer Services)	Common Stock (3,772,098 shares)		9,516	4,855
	Total Investment		**93,214**	**88,553**
Hilden America, Inc. (Consumer Products)	Common Stock (19 shares)		454	76
	Total Investment		**454**	**76**
	Equity Interests		432	345

Lydall Transport, Ltd. (Business Services)				
	Total Investment		**432**	**345**
Multi-Ad Services, Inc.	Unitranche Debt (11.3%, Due 11/11)	3,018	2,995	2,941
(Business Services)	Equity Interests		1,737	1,782
	Total Investment		**4,732**	**4,723**
Progressive International				
Corporation	Preferred Stock (500 shares)		500	1,125
(Consumer Products)	Common Stock (197 shares)		13	4,600
	Warrants			
	Total Investment		**513**	**5,725**
Regency Healthcare Group, LLC	Unitranche Debt (11.1%, Due 6/12)	10,901	10,855	10,825
(Healthcare Services)	Equity Interests		1,302	2,050
	Total Investment		**12,157**	**12,875**
SGT India Private Limited(4) (Business Services)	Common Stock (150,596 shares)		4,137	
	Total Investment		**4,137**	

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Soteria Imaging Services, LLC	Subordinated Debt (11.3%, Due 11/10)	$ 4,250	$ 4,167	$ 4,054
(Healthcare Services)	Equity Interests		1,881	1,971
	Total Investment		**6,048**	**6,025**
Triax Holdings, LLC	Subordinated Debt (21.0%, Due 2/12)(6)	10,625	10,587	
(Consumer Products)	Equity Interests		16,528	
	Total Investment		**27,115**	
Universal Environmental Services, LLC (Business Services)	Equity Interests		1,599	
	Total Investment		**1,599**	
Total companies 5% to 25% owned			**$ 392,516**	**$ 352,760**
Companies Less Than 5% Owned				
3SI Security Systems, Inc. (Consumer Products)	Subordinated Debt (14.6%, Due 8/13)	$ 29,200	$ 29,118	$ 28,170
	Total Investment		**29,118**	**28,170**
Abraxas Corporation (Business Services)	Subordinated Debt (14.6%, Due 4/13)	36,822	36,662	36,170
	Total Investment		**36,662**	**36,170**
Augusta Sportswear Group, Inc.	Subordinated Debt (13.0%, Due 1/15)	53,000	52,825	52,406
(Consumer Products)	Common Stock (2,500 shares)		2,500	1,400
	Total Investment		**55,325**	**53,806**
Axium Healthcare Pharmacy, Inc.	Senior Loan (14.0%, Due 12/12)	3,750	3,724	3,654
(Healthcare Services)	Unitranche Debt (14.0%, Due 12/12)	8,500	8,471	7,908
	Common Stock (22,860 shares)		2,286	100
	Total Investment		**14,481**	**11,662**
Baird Capital Partners IV Limited(5) (Private Equity Fund)	Limited Partnership Interest		3,636	2,978
	Total Investment		**3,636**	**2,978**
BenefitMall Holdings Inc.	Subordinated Debt (18.0%, Due 6/14)	40,326	40,238	40,238
(Business Services)	Common Stock (39,274,290 shares)(12)		39,274	91,149
	Warrants(12)			
	Total Investment		**79,512**	**131,387**
Broadcast Electronics, Inc.	Senior Loan (8.8%, Due 11/11)(6)	4,912	4,884	773
(Business Services)	Preferred Stock (2,044 shares)			
	Total Investment		**4,884**	**773**

Bushnell, Inc. (Consumer Products)	Subordinated Debt (8.0%, Due 2/14)	41,325	40,003	35,794
	Total Investment		**40,003**	**35,794**
Callidus Debt Partners CDO Fund I, Ltd.(4)(10)	Class C Notes (12.9%, Due 12/13)	18,800	18,907	10,116
(CDO)	Class D Notes (17.0%, Due 12/13)	9,400	9,454	
	Total Investment		**28,361**	**10,116**
Callidus Debt Partners CLO Fund III, Ltd.(4)(10) (CLO)	Preferred Shares (23,600,000 shares)		20,138	5,402
	Total Investment		**20,138**	**5,402**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Callidus Debt Partners CLO Fund IV, Ltd.(4)(10)	Class D Notes (9.1%, Due 4/20)	$ 3,000	$ 2,045	$ 1,445
(CLO)	Income Notes (13.2%)(11)		14,591	10,628
	Total Investment		**16,636**	**12,073**
Callidus Debt Partners CLO Fund V, Ltd.(4)(10) (CLO)	Income Notes (16.4%)(11)		13,388	10,331
	Total Investment		**13,388**	**10,331**
Callidus Debt Partners CLO Fund VI, Ltd.(4)(10)	Class D Notes (9.8%, Due 10/21)	9,000	7,144	3,929
(CLO)	Income Notes (17.8%)(11)		28,314	23,090
	Total Investment		**35,458**	**27,019**
Callidus Debt Partners CLO Fund VII, Ltd.(4)(10) (CLO)	Income Notes (11.4%)(11)		24,026	15,361
	Total Investment		**24,026**	**15,361**
Callidus MAPS CLO Fund I LLC(10)	Class E Notes (7.0%, Due 12/17)	17,000	17,000	9,813
(CLO)	Income Notes (4.0%)(11)		45,053	27,678
	Total Investment		**62,053**	**37,491**
Callidus MAPS CLO Fund II, Ltd.(4)(10)	Class D Notes (8.8%, Due 7/22)	7,700	3,555	2,948
(CLO)	Income Notes (13.3%)(11)		18,393	12,626
	Total Investment		**21,948**	**15,574**
Carlisle Wide Plank Floors, Inc.	Senior Loan (6.1%, Due 6/11)	1,000	998	953
(Consumer Products)	Unitranche Debt (14.5%, Due 6/11)	3,161	3,139	3,047
	Preferred Stock (345,056 Shares)		345	82
	Total Investment		**4,482**	**4,082**
Catterton Partners VI, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		2,812	2,356
	Total Investment		**2,812**	**2,356**
Centre Capital Investors V, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		3,049	2,344
	Total Investment		**3,049**	**2,344**
CK Franchising, Inc.	Subordinated Debt (12.3%, Due 7/12 - 7/17)	21,000	20,912	20,912
	Preferred Stock (1,281,887 shares)		1,282	1,592
	Common Stock (7,585,549 shares)		7,586	10,600
	Total Investment		**29,780**	**33,104**

Commercial Credit Group, Inc.	Subordinated Debt (15.0%, Due 6/15)	19,000	18,970	18,970
(Financial Services)	Preferred Stock (64,679 shares)		15,543	9,073
	Warrants			
	Total Investment		**34,513**	**28,043**
Community Education Centers, Inc. (Education Services)	Subordinated Debt (14.5%, Due 11/13)	35,548	35,486	34,056
	Total Investment		**35,486**	**34,056**
Component Hardware Group, Inc. (Industrial Products)	Subordinated Debt (13.5%, Due 1/13)	18,710	18,654	18,261
	Total Investment		**18,654**	**18,261**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Cook Inlet Alternative Risk, LLC	Unitranche Debt (10.8%, Due 4/13)	$ 90,000	$ 89,619	$ 82,839
(Business Services)	Equity Interests		552	
	Total Investment		**90,171**	**82,839**
Cortec Group Fund IV, L.P.(5) (Private Equity)	Limited Partnership Interest		4,647	3,445
	Total Investment		**4,647**	**3,445**
Diversified Mercury Communications, LLC (Business Services)	Senior Loan (4.5%, Due 3/13)	2,972	2,958	2,692
	Total Investment		**2,958**	**2,692**
Digital VideoStream, LLC	Unitranche Debt (11.0%, Due 2/12)	14,097	14,032	14,003
(Business Services)	Convertible Subordinated Debt (10.0%, Due 2/16)	4,545	4,533	4,700
	Total Investment		**18,565**	**18,703**
DirectBuy Holdings, Inc.	Subordinated Debt (14.5%, Due 5/13)	75,909	75,609	71,703
(Consumer Products)	Equity Interests		8,000	3,200
	Total Investment		**83,609**	**74,903**
Distant Lands Trading Co.	Senior Loan (7.5%, Due 11/11)	4,825	4,800	4,501
(Consumer Products)	Unitranche Debt (12.3%, Due 11/11)	43,133	43,022	42,340
	Common Stock (3,451 shares)		3,451	984
	Total Investment		**51,273**	**47,825**
Dryden XVIII Leveraged	Class B Notes (8.0%, Due 10/19)	9,000	7,728	4,535
Loan 2007 Limited(4) (CLO)	Income Notes (16.0%)(11)		22,080	17,477
	Total Investment		**29,808**	**22,012**
Dynamic India Fund IV(4)(5) (Private Equity Fund)	Equity Interests		9,350	8,966
	Total Investment		**9,350**	**8,966**
EarthColor, Inc.	Subordinated Debt (15.0%, Due 11/13)(6)	123,819	123,385	77,243
(Business Services)	Common Stock (63,438 shares)(12)		63,438	
	Warrants(12)			
	Total Investment		**186,823**	**77,243**
eCentury Capital Partners, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		7,274	1,431
	Total Investment		**7,274**	**1,431**

eInstruction Corporation	Subordinated Debt (12.6%, Due 7/14-1/15)	33,931	33,795	31,670
(Education Services)	Common Stock (2,406 shares)		2,500	1,700
	Total Investment		**36,295**	**33,370**
Farley's & Sathers Candy Company, Inc. (Consumer Products)	Subordinated Debt (10.1%, Due 3/11)	2,500	2,493	2,365
	Total Investment		**2,493**	**2,365**
FCP-BHI Holdings, LLC	Subordinated Debt (12.0%, Due 9/13)	27,284	27,191	25,640
d/b/a Bojangles' (Retail)	Equity Interests		1,029	1,700
	Total Investment		**28,220**	**27,340**
Fidus Mezzanine Capital, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		9,597	6,754

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
	Total Investment		**$ 9,597**	**$ 6,754**
Freedom Financial Network, LLC (Financial Services)	Subordinated Debt (13.5%, Due 2/14)	$ 13,000	12,945	12,811
	Total Investment		**12,945**	**12,811**
Geotrace Technologies, Inc. (Energy Services)	Warrants		2,027	3,000
	Total Investment		**2,027**	**3,000**
Gilchrist & Soames, Inc.	Subordinated Debt (13.4%, Due 10/13)	25,800	25,660	24,692
	Total Investment		**25,660**	**24,692**
Havco Wood Products LLC (Industrial Products)	Equity Interests		910	400
	Total Investment		**910**	**400**
Higginbotham Insurance Agency, Inc.	Subordinated Debt (13.7%, Due 8/13-8/14)	53,305	53,088	53,088
(Business Services)	Common Stock (23,695 shares)(12)		23,695	27,335
	Warrant(12)			
	Total Investment		**76,783**	**80,423**
The Hillman Companies, Inc.(3) (Consumer Products)	Subordinated Debt (10.0%, Due 9/11)	44,580	44,491	44,345
	Total Investment		**44,491**	**44,345**
The Homax Group, Inc.	Senior Loan (7.2%, Due 10/12)	11,785	11,742	10,689
(Consumer Products)	Subordinated Debt (14.5%, Due 4/14)	14,000	13,371	12,859
	Preferred Stock (76 shares)		76	
	Common Stock (24 shares)		5	
	Warrants		954	
	Total Investment		**26,148**	**23,548**
Ideal Snacks Corporation (Consumer Products)	Senior Loan (5.3%, Due 6/10)	1,496	1,496	1,438
	Total Investment		**1,496**	**1,438**
Kodiak Fund LP(5) (Private Equity Fund)	Equity Interests		9,422	900
	Total Investment		9,422	900
Market Track Holdings, LLC	Senior Loan (8.0%, Due 6/14)	2,500	2,450	2,352
(Business Services)	Subordinated Debt (15.9%, Due 6/14)	24,600	24,488	23,785
	Total Investment		**26,938**	**26,137**

NetShape Technologies, Inc. (Industrial Products)	Senior Loan (5.3%, Due 2/13)	382	382	346
	Total Investment		**382**	**346**
Network Hardware Resale, Inc.	Unitranche Debt (12.5%, Due 12/11)	18,734	18,809	18,703
(Business Services)	Convertible Subordinated Debt			
	(9.8%, Due 12/15)	14,533	14,585	14,585
	Total Investment		**33,394**	**33,288**
Novak Biddle Venture Partners III, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		2,018	1,349
	Total Investment		**2,018**	**1,349**
Oahu Waste Services, Inc. (Business Services)	Stock Appreciation Rights		206	750
	Total Investment		**206**	**750**
Pangaea CLO 2007-1 Ltd.(4) (CLO)	Class D Notes (9.2%, Due 10/21)	15,000	11,761	7,114
	Total Investment		**11,761**	**7,114**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
PC Helps Support, LLC	Senior Loan (4.8%, Due 12/13)	$ 8,610	$ 8,520	$ 8,587
(Business Services)	Subordinated Debt (13.3%, Due 12/13)	28,136	28,009	28,974
	Total Investment		**36,529**	**37,561**
Performant Financial Corporation (Business Services)	Common Stock (478,816 shares)		734	200
	Total Investment		**734**	**200**
Peter Brasseler Holdings, LLC (Business Services)	Equity Interests		3,451	2,900
	Total Investment		**3,451**	**2,900**
PharMEDium Healthcare Corporation (Healthcare Services)	Senior Loan (4.3%, Due 10/13)	1,910	1,910	1,747
	Total Investment		**1,910**	**1,747**
Postle Aluminum Company, LLC	Unitranche Debt (13.0%, Due 10/12)(6)	58,953	58,744	9,978
(Industrial Products)	Equity Interests		2,174	
	Total Investment		**60,918**	**9,978**
Pro Mach, Inc.	Subordinated Debt (12.5%, Due 6/12)	14,616	14,573	14,089
(Industrial Products)	Equity Interests		1,294	1,900
	Total Investment		**15,867**	**15,989**
Promo Works, LLC (Business Services)	Unitranche Debt (12.3%, Due 12/11)	23,111	22,954	21,266
	Total Investment		**22,954**	**21,266**
Reed Group, Ltd.	Senior Loan (7.6%, Due 12/13)	12,893	12,758	11,502
(Healthcare Services)	Subordinated Debt (13.8%, Due 12/13)	18,543	18,469	16,683
	Equity Interests		1,800	300
	Total Investment		**33,027**	**28,485**
S.B. Restaurant Company	Unitranche Debt (9.8%, Due 4/11)	36,501	36,295	34,914
(Retail)	Preferred Stock (46,690 shares)		117	117
	Warrants		534	
	Total Investment		**36,946**	**35,031**
	Standby Letters of Credit ($2,465)			
Snow Phipps Group, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		4,785	4,374
	Total Investment		**4,785**	**4,374**
	Limited Partnership Interest		9,362	9,269

SPP Mezzanine Funding II, L.P.(5) (Private Equity Fund)				
	Total Investment		**9,362**	**9,269**
STS Operating, Inc. (Industrial Products)	Subordinated Debt (11.0%, Due 1/13)	30,386	30,296	29,745
	Total Investment		**30,296**	**29,745**
Summit Energy Services, Inc.	Subordinated Debt (11.6%, Due 8/13)	35,730	35,547	32,113
	Common Stock (415,982 shares)		1,861	1,900
	Total Investment		**37,408**	**34,013**
Tank Intermediate Holding Corp.	Senior Loan (7.1%, Due 9/14)	30,514	29,539	25,937
	Total Investment		**29,539**	**25,937**
Tappan Wire & Cable Inc.	Unitranche Debt (15.0%, Due 8/14)	22,346	22,248	15,625
(Business Services)	Common Stock (12,940 shares)(12)		2,043	
	Warrant(12)			
	Total Investment		**$ 24,291**	**$ 15,625**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
The Step2 Company, LLC	Unitranche Debt (11.0%, Due 4/12)	$ 95,083	94,816	90,474
(Consumer Products)	Equity Interests		2,156	1,161
	Total Investment		**96,972**	**91,635**
Tradesmen International, Inc. (Business Services)	Subordinated Debt (12.0%, Due 12/12)	40,000	39,586	37,840
	Total Investment		**39,586**	**37,840**
TransAmerican Auto Parts, LLC	Subordinated Debt (16.3%, Due 11/12)(6)	24,561	24,409	
(Consumer Products)	Equity Interests		1,034	
	Total Investment		**25,443**	
Trover Solutions, Inc. (Business Services)	Subordinated Debt (12.0%, Due 11/12)	60,054	59,847	57,362
	Total Investment		**59,847**	**57,362**
United Road Towing, Inc. (Consumer Services)	Subordinated Debt (12.1%, Due 1/14)	20,000	19,915	20,000
	Total Investment		**19,915**	**20,000**
Venturehouse-Cibernet Investors, LLC (Business Services)	Equity Interest			
	Total Investment			
VICORP Restaurants, Inc. (Retail)	Warrants		33	
	Total Investment		**33**	
WMA Equity Corporation and Affiliates		139,455	138,559	63,823
d/b/a Wear Me Apparel	Subordinated Debt (16.8%, Due 4/13-4/14)(6)		39,721	
(Consumer Products)	Common Stock (86 shares)			
	Total Investment		**178,280**	**63,823**
Webster Capital II, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		1,702	1,481
	Total Investment		**1,702**	**1,481**
Woodstream Corporation	Subordinated Debt (12.0%, Due 2/15)	90,000	89,633	83,258
(Consumer Products)	Common Stock (6,960 shares)		6,961	2,500
	Total Investment		**96,594**	**85,758**
York Insurance Services Group, Inc. (Business Services)	Common Stock (12,939 shares)		1,294	1,700

	Total Investment		**1,294**	**1,700**
Other companies	Other debt investments	155	74	72
	Other equity investments		30	8
	Total Investment		**104**	**80**
Total companies less than 5% owned			**$ 2,317,856**	**$ 1,858,581**
Total private finance (138 portfolio investments)			**$ 4,877,392**	**$ 3,399,063**

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

	Stated Interest Rate Ranges	Number of Loans	December 31, 2008 Cost	Value
Commercial Mortgage Loans				
	Up to 6.99%	4	$ 30,999	$ 30,537
	7.00% 8.99%	1	644	580
	9.00% 10.99%	1	6,465	6,465
	11.00% 12.99%	1	10,469	9,391
	15.00% and above	2	3,970	6,529
Total commercial mortgage loans(13)			**$ 52,547**	**$ 53,502**
Real Estate Owned			**$ 18,201**	**$ 20,823**
Equity Interests(2) Companies more than 25% owned			**$ 14,755**	**$ 19,562**
Guarantees ($6,871)				
Standby Letter of Credit ($650)				
Total commercial real estate finance			**$ 85,503**	**$ 93,887**
Total portfolio			**$ 4,962,895**	**$ 3,492,950**

	Yield	Cost	Value
Investments in Money Market and Other Securities			
SEI Daily Income Tr Prime Obligation Money Market Fund	0.9%	$ 5	$ 5
Columbia Treasury Reserves Fund		12	12
Other Money Market Funds		270	270
Total		$ 287	$ 287

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

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

(3) Public company.

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

(5) Non-registered investment company.

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

(7) Avborne, Inc. and Avborne Heavy Maintenance, Inc. are affiliated companies.

(8)

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

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

(11)
Represents the effective interest yield earned on the cost basis of these preferred equity investments and income notes. The yield is included in interest income in the consolidated statement of operations.

(12)
Common stock is non-voting. In addition to non-voting stock ownership, the Company has an option to acquire a majority of the voting securities of the portfolio company at fair market value.

(13)
Commercial mortgage loans totaling $7.7 million at value were on non-accrual status and therefore were considered non-income producing.

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

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization

Allied Capital Corporation, a Maryland corporation, is a closed-end, non-diversified management investment company that has elected to be regulated as a business development company ("BDC") under the Investment Company Act of 1940 ("1940 Act"). Allied Capital Corporation ("ACC") has a real estate investment trust subsidiary, Allied Capital REIT, Inc. ("Allied REIT"), and several subsidiaries that are single member limited liability companies established for specific purposes including holding real estate properties. ACC also has a subsidiary, A.C. Corporation ("AC Corp"), that generally provides diligence and structuring services, as well as transaction, management, consulting, and other services, including underwriting and arranging senior loans, to the Company, its portfolio companies and its managed funds.

ACC and its subsidiaries, collectively, are referred to as the "Company." The Company consolidates the results of its subsidiaries for financial reporting purposes.

Pursuant to Accounting Standards Codification ("ASC") Topic 810 *"Consolidations"*, the financial results of the Company's portfolio investments are not consolidated in the Company's financial statements. Portfolio investments are held for purposes of deriving investment income and future capital gains.

The investment objective of the Company is to achieve current income and capital gains. In order to achieve this objective, the Company has primarily invested in debt and equity securities of private companies in a variety of industries.

Note 2. Summary of Significant Accounting Policies

The consolidated financial statements include the accounts of ACC and its subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications have been made to the 2008 balances to conform with the 2009 financial statement presentation.

In June 2009, the FASB issued SFAS No. 168, *"The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles,"* which was primarily codified into ASC Topic 105, *"Generally Accepted Accounting Standards."* This standard is the single source of authoritative non-governmental U.S. generally accepted accounting principles ("GAAP"), superseding existing FASB, American Institute of Certified Public Accountants ("AICPA"), Emerging Issues Task Force ("EITF"), and related accounting literature. Also included is relevant Securities and Exchange Commission guidance organized using the same topical structure in separate sections. This guidance is effective for financial statements issued for reporting periods that end after September 15, 2009. This guidance impacts the Company's consolidated financial statements and related disclosures as all references to authoritative literature reflect the newly adopted codification.

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with GAAP for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. In the opinion of management, the unaudited consolidated financial results of the Company included herein contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position of the Company as of September 30, 2009, the results of operations for the three and nine months ended September 30, 2009 and 2008, and changes in net assets and cash flows for the nine months ended September 30, 2009 and 2008. The results of operations for the three and nine months ended September 30, 2009, are not necessarily indicative of the operating results to be expected for the full year.

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The private finance portfolio and the interest and related portfolio income and net realized gains (losses) on the private finance portfolio are presented in three categories: companies more than 25% owned, which represent portfolio companies where the Company directly or indirectly owns more than 25% of the outstanding voting securities of such portfolio company or where the Company controls the portfolio company's board of directors and, therefore, are deemed controlled by the Company under the 1940 Act; companies owned 5% to 25%, which represent portfolio companies where the Company directly or indirectly owns 5% to 25% of the outstanding voting securities of such portfolio company or where the Company holds one or more seats on the portfolio company's board of directors and, therefore, are deemed to be an affiliated person under the 1940 Act; and companies less than 5% owned which represent portfolio companies where the Company directly or indirectly owns less than 5% of the outstanding voting securities of such portfolio company and where the Company has no other affiliations with such portfolio company. The interest and related portfolio income and net realized gains (losses) from the commercial real estate finance portfolio and other sources, including investments in money market and other securities, are included in the companies less than 5% owned category on the consolidated statement of operations.

In the ordinary course of business, the Company enters into transactions with portfolio companies that may be considered related party transactions.

The Company, as a BDC, has invested in illiquid securities including debt and equity securities of portfolio companies, CLO bonds and preferred shares/income notes, CDO bonds and investment funds. The Company's investments may be subject to certain restrictions on resale and generally have no established trading market. The Company values substantially all of its investments at fair value as determined in good faith by the Board of Directors in accordance with the Company's valuation policy and the provisions of the 1940 Act and ASC Topic 820 *"Financial Instruments,"* which codified FASB Statement No. 157, *Fair Value Measurements.* The Company determines fair value to be the price that would be received for an investment in a current sale, which assumes an orderly transaction between market participants on the measurement date. The Company's valuation policy considers the fact that no ready market exists for substantially all of the securities in which it invests and that fair value for its investments must typically be determined using unobservable inputs. The Company's valuation policy is intended to provide a consistent basis for determining the fair value of the portfolio.

The Company adopted the standards in ASC Topic 820 on a prospective basis in the first quarter of 2008. These standards require the Company to assume that the portfolio investment is to be sold in the principal market to market participants, or in the absence of a principal market, the most advantageous market, which may be a hypothetical market. Market participants are defined as buyers and sellers in the principal or most advantageous market that are independent, knowledgeable, and willing and able to transact. In accordance with the standards, the Company has considered its principal market, or the market in which the Company exits its portfolio investments with the greatest volume and level of activity.

The Company has determined that for its buyout investments, where the Company has control or could gain control through an option or warrant security, both the debt and equity securities of the portfolio investment would exit in the merger and acquisition ("M&A") market as the principal market generally through a sale or recapitalization of the portfolio company. The Company believes that the in-use premise of value (as defined in ASC Topic 820), which assumes the debt and equity securities are sold together, is appropriate as this would provide maximum proceeds to the seller. As a result, the Company uses the enterprise value methodology to determine the fair value of these investments. Enterprise value means the entire value of the company to a market participant, including the sum of the values of debt and equity securities used to capitalize the enterprise at a point in time. Enterprise value is determined using various factors, including cash flow from operations of the portfolio company, multiples at which private companies are bought and sold, and other pertinent factors, such as recent offers to purchase a portfolio company, recent transactions involving the purchase or sale of the portfolio company's equity securities, liquidation events, or other events. The Company allocates the enterprise value to these securities in order of the legal priority of the securities.

While the Company typically exits its securities upon the sale or recapitalization of the portfolio company in the M&A market, for investments in portfolio companies where the Company does not have control or the ability to gain control through an option or warrant security, the Company cannot typically control the exit of its investment into its principal market (the M&A market). As a result, in accordance with ASC Topic 820, the Company is required to determine the fair value of these investments assuming a sale of the individual investment (the in-exchange premise of value) in a hypothetical market to a hypothetical market participant. The Company continues to perform an enterprise value analysis for the investments in this category to assess the credit risk of the loan or debt security and to determine the fair value of its equity investment in these portfolio companies. The determined equity values are generally discounted when the Company has a minority ownership position, restrictions on resale, specific concerns about the receptivity of the capital markets to a specific company at a certain time, or other factors. For loan and debt securities, the Company performs a yield analysis assuming a hypothetical current sale of the investment. The yield analysis requires the Company to estimate the expected repayment date of the instrument and a market participant's required yield. The Company's estimate of the expected repayment date of a loan or debt security may be shorter than the legal maturity of the instruments as the Company's loans have historically been repaid prior to the maturity date. The yield analysis considers changes in interest rates and changes in leverage levels of the loan or debt security as compared to market interest rates and leverage levels. Assuming the credit quality of the loan or debt security remains stable, the Company will use the value determined by the yield analysis as the fair value for that security. A change in the assumptions that the Company uses to estimate the fair value of its loans and debt securities using the yield analysis could have a material impact on the determination of fair value. If there is deterioration in credit quality or a loan or debt security is in workout status, the Company may consider other factors in determining the fair value of a loan or debt security, including the value attributable to the loan or debt security from the enterprise value of the portfolio company or the proceeds that would be received in a liquidation analysis.

The Company's equity investments in private debt and equity funds are generally valued based on the fund's net asset value, unless other factors lead to a determination of fair value at a different amount. The value of the Company's equity securities in public companies for which quoted prices in an active market are readily available is based on the closing public market price on the measurement date.

The fair value of the Company's CLO bonds and preferred shares/income notes and CDO bonds ("CLO/CDO Assets") is generally based on a discounted cash flow model that utilizes prepayment, re-investment, loss and ratings assumptions based on historical experience and projected performance, economic factors, the characteristics of the underlying cash flow, and comparable yields for similar bonds and preferred shares/ income notes, when available. The Company recognizes unrealized appreciation or depreciation on its CLO/CDO Assets as comparable yields in the market change and/or based on changes in estimated cash flows resulting from changes in prepayment, re-investment, loss or ratings assumptions in the underlying collateral pool or changes in redemption assumptions for the CLO/CDO Assets, if applicable. The Company determines the fair value of its CLO/CDO Assets on an individual security-by-security basis.

The Company records unrealized depreciation on investments when it determines that the fair value of a security is less than its cost basis, and records unrealized appreciation when it determines that the fair value is greater than its cost basis. Because of the inherent uncertainty of valuation, the values determined at the measurement date may differ significantly from the values that would have been used had a ready market existed for the investments, and the differences could be material. Additionally, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the values determined at the measurement date. In accordance with ASC Topic 820 (discussed below), the Company does not consider a transaction price that is associated with a transaction that is not orderly to be indicative of fair value or market participant risk premiums, and accordingly would place little, if any, weight on transactions that are not orderly in determining fair value. When considering recent potential or completed transactions, the Company uses judgment in determining if such offers or transactions were pursuant to an orderly process for purposes of determining how much weight is placed on these data points in accordance with the applicable guidelines in ASC Topic 820.

Net Realized Gains or Losses and Net Change in Unrealized Appreciation or Depreciation

Realized gains or losses are measured by the difference between the net proceeds from the repayment or sale and the cost basis of the investment without regard to unrealized appreciation or depreciation previously recognized, and include investments charged off during the period, net of recoveries. Net change in unrealized appreciation or depreciation primarily reflects the change in portfolio investment values during the reporting period, including the reversal of previously recorded unrealized appreciation or depreciation when gains or losses are realized. Net change in unrealized appreciation or depreciation also reflects the change in the value of U.S. Treasury bills, when applicable, and depreciation on accrued interest and dividends receivable and other assets where collection is doubtful.

Interest and Dividend Income

Interest income is recorded on an accrual basis to the extent that such amounts are expected to be collected. For loans and debt securities with contractual payment-in-kind interest, which represents contractual interest accrued and added to the loan balance that generally becomes due at maturity, the Company will not accrue payment-in-kind interest if the portfolio company valuation indicates that the payment-in-kind interest is not collectible. In general, interest is not accrued on loans and debt securities if the Company has doubt about interest collection or where the enterprise value of the portfolio company may not support further accrual. Interest may not accrue on loans or debt securities to portfolio companies that are more than 50% owned by the Company depending on such company's capital requirements.

When the Company receives nominal cost warrants or free equity securities ("nominal cost equity"), the Company allocates its cost basis in its investment between its debt securities and its nominal cost equity at the time of origination. At that time, the original issue discount basis of the nominal cost equity is recorded by increasing the cost basis in the equity and decreasing the cost basis in the related debt securities. Loan origination fees, original issue discount, and market discount are capitalized and then amortized into interest income using a method that approximates the effective interest method. Upon the prepayment of a loan or debt security, any unamortized loan origination fees are recorded as interest income and any unamortized original issue discount or market discount is recorded as a realized gain.

The weighted average yield on loans and debt securities is computed as the (a) annual stated interest on accruing loans and debt securities plus the annual amortization of loan origination fees, original issue discount, and market discount on accruing loans and debt securities less the annual amortization of loan origination costs, divided by (b) total loans and debt securities at value. The weighted average yield is computed as of the balance sheet date.

The Company recognizes interest income on the CLO preferred shares/income notes using the effective interest method, based on the anticipated yield that is determined using the estimated cash flows over the projected life of the investment. Yields are revised when there are changes in actual or estimated cash flows due to changes in prepayments and/or re-investments, credit losses, ratings or

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asset pricing. Changes in estimated yield are recognized as an adjustment to the estimated yield over the remaining life of the preferred shares/income notes from the date the estimated yield was changed. CLO and CDO bonds have stated interest rates. The weighted average yield on the CLO/CDO Assets is calculated as the (a) annual stated interest or the effective interest yield on the accruing bonds or the effective yield on the preferred shares/income notes, divided by (b) CLO/CDO Assets at value. The weighted average yields are computed as of the balance sheet date.

Dividend income on preferred equity securities is recorded as dividend income on an accrual basis to the extent that such amounts are expected to be collected and to the extent that the Company has the option to receive the dividend in cash. Dividend income on common equity securities is recorded on the record date for private companies or on the ex-dividend date for publicly traded companies.

Fee Income

Fee income includes fees for loan prepayment premiums, guarantees, commitments and services rendered by the Company to portfolio companies and other third parties such as diligence, structuring, transaction services, management and consulting services, and other services. Loan prepayment premiums are recognized at the time of prepayment. Guaranty and commitment fees are generally recognized as income over the related period of the guaranty or commitment, respectively. Diligence, structuring, and transaction services fees are generally recognized as income when services are rendered or when the related transactions are completed. Management, consulting and other services fees, including fund management fees, are generally recognized as income as the services are rendered. Fees are not accrued if the Company has doubt about collection of those fees.

Cash and Cash Equivalents

Cash and cash equivalents represents unrestricted cash and highly liquid securities with original maturities of 90 days or less.

Guarantees

Guarantees meeting the characteristics described in ASC Topic 460, *"Guarantees"* and issued or modified after December 31, 2002, are recognized at fair value at inception. Guarantees made on behalf of portfolio companies are considered in determining the fair value of the Company's investments. See Note 5.

Financing Costs

Debt financing costs are based on actual costs incurred in obtaining debt financing and generally are deferred and amortized as part of interest expense over the term of the related debt instrument using a method that approximates the effective interest method. Costs associated with the issuance of common stock are recorded as a reduction to the proceeds from the sale of common stock. Financing costs generally include underwriting, accounting and legal fees, and printing costs.

Dividends to Shareholders

Dividends to shareholders are recorded on the ex-dividend date.

Stock Compensation Plans

The Company has a stock-based employee compensation plan. See Note 9. Effective January 1, 2006, the Company adopted the provisions of FASB Statement No. 123 (Revised 2004), *Share-Based Payment* ("SFAS 123R"), which was primarily codified into ASC Topic 718, *"Compensation Stock Compensation"*. These standards were adopted using the modified prospective method of application,

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which required the Company to recognize compensation costs on a prospective basis beginning January 1, 2006. Accordingly, the Company did not restate prior year financial statements. Under this method, the unamortized cost of previously awarded options that were unvested as of January 1, 2006, is recognized over the remaining service period in the statement of operations beginning in 2006, using the fair value amounts determined for pro forma disclosure under these standards. With respect to options granted on or after January 1, 2006, compensation cost based on estimated grant date fair value is recognized over the related service period in the statement of operations.

The stock option expense for the three and nine months ended September 30, 2009 and 2008, was as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
($ in millions, except per share amounts)	**2009**	**2008**	**2009**	**2008**
Employee Stock Option Expense:				
Previously awarded, unvested options as of January 1, 2006	$	$	$	$ 3.9
Options granted on or after January 1, 2006	0.4	1.5	2.4	5.6
Total employee stock option expense	$ 0.4	$ 1.5	$ 2.4	$ 9.5
Per basic share	$ 0.00	$ 0.01	$ 0.01	$ 0.06
Per diluted share	$ 0.00	$ 0.01	$ 0.01	$ 0.06

Options Granted. The stock option expense shown in the table above was based on the underlying value of the options granted by the Company. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model and expensed over the vesting period. The following weighted average assumptions were used to calculate the fair value of options granted during the three and nine months ended September 30, 2009 and 2008:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	**2008**	**2009**	**2008**
Expected term (in years)		5.0	3.0	5.0
Risk-free interest rate		3.4%	1.3%	2.8%
Expected volatility		32.8%	105.0%	27.8%
Dividend yield		8.5%	32.5%	8.5%
Weighted average fair value per option		$ 1.81	$ 0.21	$ 2.18

The expected term of the options granted represents the period of time that such options are expected to be outstanding. To determine the expected term of the options, the Company used historical and other data to estimate option exercise time frames, including considering employee terminations. The risk free rate was based on the U.S. Treasury bond yield curve at the date of grant consistent with the expected term. Expected volatilities were determined based on the historical volatility of the Company's common stock over a historical time period consistent with the expected term. The dividend yield was determined based on an estimate of the Company's future dividends over the expected term, relative to the option price. The estimate of future dividends takes into consideration the Company's estimate of future taxable income required to be distributed in order to maintain its status as a registered investment company (see "Federal and State Income Taxes and Excise Tax" below). The Company currently is not paying a dividend and may or may not be able to pay a dividend during the expected term. In addition, actual future taxable income and dividends may significantly differ from these estimates.

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To determine the stock options expense for options granted, the calculated fair value of the options granted is applied to the options granted, net of assumed future option forfeitures. The Company estimates that the employee-related stock option expense will be $3.4 million, $3.9 million, and $4.0 million for the years ended December 31, 2009, 2010, and 2011, respectively. This estimate may change if the Company's assumptions related to future option forfeitures change. This estimate does not include any expense related to stock option grants after September 30, 2009, as the fair value of those stock options will be determined at the time of grant. The aggregate total stock option expense remaining as of September 30, 2009, is expected to be recognized over an estimated weighted-average period of 1.30 years.

Federal and State Income Taxes and Excise Tax

The Company has complied with the requirements of the Code that are applicable to regulated investment companies ("RIC") and real estate investment trusts ("REIT"). ACC and any subsidiaries that qualify as a RIC or a REIT intend to distribute or retain through a deemed distribution all of their annual taxable income to shareholders; therefore, the Company has made no provision for income taxes exclusive of excise taxes for these entities.

If the Company does not distribute at least 98% of its annual taxable income in the year earned, the Company will generally be required to pay an excise tax equal to 4% of the amount by which 98% of the Company's annual taxable income exceeds the distributions from such taxable income during the year earned. To the extent that the Company determines that its estimated current year annual taxable income will be in excess of estimated current year dividend distributions from such taxable income, the Company accrues excise taxes on estimated excess taxable income as taxable income is earned using an annual effective excise tax rate. The annual effective excise tax rate is determined by dividing the estimated annual excise tax by the estimated annual taxable income.

Income taxes for AC Corp are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases as well as operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Per Share Information

Basic earnings per common share is calculated using the weighted average number of common shares outstanding for the period presented. Diluted earnings per common share reflects the potential dilution that could occur if options to issue common stock were exercised into common stock. Common stock equivalents of 3,814,040 shares and 5,703 shares were not included in the calculation of diluted earnings (loss) per common share for the nine months ended September 30, 2009 and 2008, respectively, as the effect would have been antidilutive.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

The consolidated financial statements include portfolio investments at value of $2.5 billion and $3.5 billion at September 30, 2009, and December 31, 2008, respectively. At September 30, 2009, and December 31, 2008, 88% and 94%, respectively, of the Company's total assets represented portfolio investments whose fair values have been determined by the Board of Directors in good faith in the

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absence of readily available market values. Because of the inherent uncertainty of valuation, the Board of Directors' determined values may differ significantly from the values that would have been used had a ready market existed for the investments, and the differences could be material.

Recent Accounting Pronouncements

Fair Value Measurements. In September 2006, the FASB issued Statement No. 157, which was primarily codified into ASC Topic 820, defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. This statement was effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years.

The Company adopted this statement on a prospective basis beginning in the quarter ended March 31, 2008. The initial adoption of this statement did not have a material effect on the Company's consolidated financial statements.

ASC Topic 820 also includes the codification of *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* ("FSP 157-3"), which was issued by the FASB in October 2008. These provisionsapply to financial assets within the scope of accounting pronouncements that require or permit fair value measurements in accordance with ASC Topic 820. These provisions of ASC Topic 820 provide clarification in a market that is not active and provide an example to illustrate key considerations in determining the fair value.

The Company applied these provisions of ASC Topic 820 relating to determining the fair value of a financial asset when the market for that asset is not active, in determining the fair value of its portfolio investments at December 31, 2008. The application of these provisions did not have a material impact on the Company's consolidated financial position or its results of operations.

ASC Topic 820 also includes the codification of *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* ("FSP 157-4"), which was issued by the FASB in April 2009. These provisions provide guidance on how to determine the fair value of assets under ASC Topic 820 in the current economic environment and reemphasize that the objective of a fair value measurement remains an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. These provisions state that a transaction price that is associated with a transaction that is not orderly is not determinative of fair value or market-participant risk premiums and companies should place little, if any, weight (compared with other indications of fair value) on transactions that are not orderly when estimating fair value or market risk premiums.

The Company adopted these provisions of ASC Topic 820 on a prospective basis beginning in the quarter ending March 31, 2009. The adoption of these provisions did not have a material effect on the Company's consolidated financial statements.

The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115, which was primarily codified into ASC Topic 320. In February 2007, the FASB issued Statement No. 159, which was primarily codified into ASC Topic 825, permits an entity to choose to measure many financial instruments and certain other items at fair value. This statement applies to all reporting entities, and contains financial statement presentation and disclosure requirements for assets and liabilities reported at fair value as a consequence of the election. This statement was effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years.

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The Company did not elect fair value measurement for assets or liabilities other than portfolio investments, which already were required to be measured at fair value, therefore, the adoption of this statement did not impact the Company's consolidated financial position or its results of operations.

Subsequent Events ("SFAS 165"), which was primarily codified into ASC Topic 855. In May 2009, the FASB issued SFAS 165 which establishes general standards for reporting events that occur after the balance sheet date, but before financial statements are issued or are available to be issued. This standard requires the disclosure of the date through which an entity has evaluated subsequent events and whether that date represents the date the financial statements were issued or were available to be issued.

The Company adopted these provisions of ASC 855 in the quarter ended June 30, 2009. The adoption of these provisions did not have a material impact on the Company's financial statements.

Accounting for Transfers of Financial Assets ("SFAS 166"), which has not yet been codified. In June 2009, the FASB issued SFAS 166, which changes the conditions for reporting a transfer of a portion of a financial asset as a sale and requires additional year-end and interim disclosures. SFAS 166 is effective for fiscal years beginning after November 15, 2009.

The implementation of SFAS 166 is not expected to have a material impact on the Company's financial statements.

Amendments to FASB Interpretation No. 46(R) ("SFAS 167"), which will be codified into ASC Topic 810, *Consolidation*. In June 2009, the FASB issued SFAS 167, which amends the guidance on accounting for variable interest entities. SFAS 167 is effective for fiscal years beginning after November 15, 2009 and interim periods within that fiscal year. The Company has not completed the process of evaluating the impact of adopting this standard.

The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles ("SFAS 168"), which was primarily codified into Topic 105, was issued by the FASB in July 2009 This standard, which supersedes SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, establishes the FASB Accounting Standards Codification, which will become the source of authoritative GAAP recognized by the FASB. This standard is effective for the period ending after September 15, 2009. The implementation of this standard did not have a material impact on the Company's financial statements.

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Note 3. Portfolio

Private Finance

At September 30, 2009, and December 31, 2008, the private finance portfolio consisted of the following:

	2009			2008		
($ in millions)	**Cost**	**Value**	**Yield(1)**	**Cost**	**Value**	**Yield(1)**
Loans and debt securities:						
Senior loans	$ 553.1	$ 289.4	4.8%	$ 556.9	$ 306.3	5.6%
Unitranche debt(2)	424.9	374.7	12.2%	527.5	456.4	12.0%
Subordinated debt(3)	1,770.9	1,182.9	13.4%	2,300.1	1,829.1	12.9%
Total loans and debt securities(4)	2,748.9	1,847.0	11.8%	3,384.5	2,591.8	11.9%
Equity securities:						
Preferred shares/income notes of CLOs(5)	245.0	84.4	12.1%	248.2	179.2	16.4%
Subordinated certificates in Senior Secured Loan Fund LLC(5)	165.2	165.0	14.0%	125.4	125.4	12.0%
Other equity securities	1,035.2	346.3		1,119.3	502.7	
Total equity securities	1,445.4	595.7		1,492.9	807.3	
Total	$ 4,194.3	$ 2,442.7		$ 4,877.4	$ 3,399.1	

(1) The weighted average yield on loans and debt securities is computed as the (a) annual stated interest on accruing loans and debt securities plus the annual amortization of loan origination fees, original issue discount, and market discount on accruing loans and debt securities less the annual amortization of loan origination costs, divided by (b) total loans and debt securities at value. At September 30, 2009, and December 31, 2008, senior loans included the senior secured loan to Ciena totaling $319.0 million and $319.0 million at cost, respectively, and $102.2 million and $104.9 million at value, respectively, which was placed on non-accrual status on the purchase date.

The weighted average yield on the preferred shares/income notes of CLOs is calculated as the (a) effective interest yield on the preferred shares/income notes of CLOs, divided by (b) total preferred shares/income notes of CLOs at value. The weighted average yields are computed as of the balance sheet date. The yield on the CLO assets represents the yield used for recording interest income. The market yield used in the valuation of the CLO assets may be different than the interest yields.

The weighted average yield on the subordinated certificates in the Senior Secured Loan Fund LLC is computed as the (a) effective interest yield on the subordinated certificates divided by (b) total investment at value.

(2) Unitranche debt is an investment that combines both senior and subordinated financing, generally in a first lien position.

(3) Subordinated debt includes bonds in CLOs and in a CDO.

(4) The total principal balance outstanding on loans and debt securities was $2,775.9 million and $3,418.0 million at September 30, 2009, and December 31, 2008, respectively. The difference between principal and cost is represented by unamortized loan origination fees and costs, original issue discounts, and market discounts totaling $27.0 million and $33.5 million at September 30, 2009, and December 31, 2008, respectively.

(5) Investments in the preferred shares/income notes of CLOs and the subordinated certificates in Senior Secured Loan Fund LLC earn a current return that is included in interest income in the accompanying consolidated statement of operations.

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The Company's private finance investment activity principally involves providing financing through privately negotiated long-term debt and equity investments. The Company's private finance debt and equity investments generally are issued by private companies and generally are illiquid and may be subject to certain restrictions on resale.

The Company's private finance debt investments are generally structured as loans and debt securities that carry a relatively high fixed rate of interest, which may be combined with equity features, such as conversion privileges, or warrants or options to purchase a portion of the portfolio company's equity at a pre-determined strike price, which is generally a nominal price for warrants or options in a private company. The annual stated interest rate is only one factor in pricing the investment relative to the Company's rights and priority in the portfolio company's capital structure, and will vary depending on many factors, including if the Company has received nominal cost equity or other components of investment return, such as loan origination fees or market discount. The stated interest rate may include some component of contractual payment-in-kind interest, which represents contractual interest accrued and added to the loan balance that generally becomes due at maturity.

At September 30, 2009, 80% of the private finance loans and debt securities had a fixed rate of interest and 20% had a floating rate of interest. At December 31, 2008, 85% of the private finance loans and debt securities had a fixed rate of interest and 15% had a floating rate of interest. Senior loans may carry a fixed rate of interest or a floating rate of interest, usually set as a spread over prime or LIBOR, and may require payments of both principal and interest throughout the life of the loan. Senior loans generally have contractual maturities of three to six years and interest is generally paid to the Company monthly or quarterly. Unitranche debt generally carries a fixed rate of interest and generally requires payments of both principal and interest throughout the life of the loan. Unitranche debt generally has contractual maturities of five to six years and interest generally is paid to the Company quarterly. Subordinated debt generally carries a fixed rate of interest generally with contractual maturities of five to ten years and generally has interest-only payments in the early years and payments of both principal and interest in the later years, although maturities and principal amortization schedules may vary. Interest on subordinated debt generally is paid to the Company quarterly.

Equity securities primarily consist of securities issued by private companies and may be subject to certain restrictions on their resale and are generally illiquid. The Company may make equity investments for minority stakes in portfolio companies or may receive equity features, such as nominal cost warrants. The Company also may invest in the equity (preferred and/or voting or non-voting common) of a portfolio company where the Company's equity ownership may represent a significant portion of the equity, but may or may not represent a controlling interest. If the Company invests in non-voting equity in a buyout investment, the Company generally has the option to acquire a controlling stake in the voting securities of the portfolio company at fair market value. The Company may incur costs associated with making buyout investments that will be included in the cost basis of the Company's equity investment. These include costs such as legal, accounting and other professional fees associated with diligence, referral and investment banking fees, and other costs. Equity securities generally do not produce a current return, but are held with the potential for investment appreciation and ultimate gain on sale.

Ciena Capital LLC. Ciena Capital LLC (f/k/a Business Loan Express, LLC) ("Ciena") has provided loans to commercial real estate owners and operators. Ciena has been a participant in the Small Business Administration's 7(a) Guaranteed Loan Program and its wholly-owned subsidiary is licensed by the SBA as a Small Business Lending Company ("SBLC"). Ciena remains subject to SBA rules and regulations. Ciena is headquartered in New York, NY.

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On September 30, 2008, Ciena voluntarily filed for bankruptcy protection under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of New York (the "Court"). Ciena continues to service and manage its assets as a "debtor-in-possession" under the jurisdiction of the Court and in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Court.

As a result of Ciena's decision to file for bankruptcy protection, the Company's unconditional guaranty of the obligations outstanding under Ciena's revolving credit facility became due and the Company, in lieu of paying under its guaranty, purchased the positions of the senior lenders under Ciena's revolving credit facility. As of September 30, 2009, the senior secured loan to Ciena had a cost basis of $319.0 million and a value of $102.2 million. The Company continues to guarantee the remaining principal balance of $5 million, plus related interest, fees and expenses payable to a third party bank. In connection with the Company's continuing guaranty of the amounts held by this bank, the Company has agreed that the amounts owing to the bank under the Ciena revolving credit facility will be paid before any of the secured obligations of Ciena now owed to the Company.

At September 30, 2009 and December 31, 2008, the Company's investment in Ciena was as follows:

	September 30, 2009		December 31, 2008	
($ in millions)	**Cost**	**Value**	**Cost**	**Value**
Senior Loan	$ 319.0	$ 102.2	$ 319.0	$ 104.9
Class B Equity Interests(1)	119.5		119.5	
Class C Equity Interests(1)	109.1		109.3	
Total(2)	$ 547.6	$ 102.2	$ 547.8	$ 104.9

(1) At September 30, 2009 and December 31, 2008, the Company held 100% of the Class B equity interests and 94.9% of the Class C equity interests.

(2) In addition to the Company's investment in Ciena included in the portfolio, the Company has amounts receivable from or related to Ciena that are included in other assets in the accompanying consolidated financial statements. See below.

During the nine months ended September 30, 2009, the Company funded $97.4 million to support Ciena's term securitizations in lieu of draws under related standby letters of credit, including the funding of $46.0 million during the third quarter of 2009. This was required primarily as a result of the issuer of the letters of credit not extending maturing standby letters of credit that were issued under the Company's former revolving line of credit. The amounts funded were recorded as other assets in the accompanying consolidated balance sheet. At September 30, 2009 and December 31, 2008, other assets included amounts receivable from or related to Ciena totaling $112.7 million and $15.4 million, respectively, at cost and $2.0 million and $2.1 million, respectively, at value. Net change in unrealized appreciation or depreciation included a net decrease related to the Company's investment in and receivables from Ciena of $36.8 million and $99.8 million for the three and nine months ended September 30, 2009, respectively. Net change in unrealized appreciation or depreciation included a net decrease in the Company's investment in and receivables from Ciena of $151.9 million and $220.5 million for the three and nine months ended September 30, 2008, respectively.

At September 30, 2009, the Company had no outstanding standby letters of credit issued under the Company's former line of credit. The Company has considered the letters of credit and the funding thereof in the valuation of Ciena at September 30, 2009 and December 31, 2008.

The Company's investment in Ciena was on non-accrual status, therefore the Company did not earn any interest and related portfolio income from its investment in Ciena for each of the three and nine months ended September 30, 2009 and 2008.

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At September 30, 2009, Ciena had one non-recourse securitization SBA loan warehouse facility, which has reached its maturity date but remains outstanding. Ciena is working with the providers of the SBA loan warehouse facility with regard to the repayment of that facility. The Company has issued a performance guaranty whereby the Company agreed to indemnify the warehouse providers for any damages, losses, liabilities and related costs and expenses that they may incur as a result of Ciena's failure to perform any of its obligations as loan originator, loan seller or loan servicer under the warehouse securitizations.

The Office of the Inspector General of the SBA (OIG) and the United States Secret Service are conducting ongoing investigations of allegedly fraudulently obtained SBA guaranteed loans issued by Ciena. Ciena also is subject to other SBA and OIG audits, investigations, and reviews. In addition, the Office of the Inspector General of the U.S. Department of Agriculture is conducting an investigation of Ciena's lending practices under the Business and Industry Loan (B&I) program. The OIG and the U.S. Department of Justice are also conducting a civil investigation of Ciena's lending practices in various jurisdictions. The Company is unable to predict the outcome of these inquiries, and it is possible that third parties could try to seek to impose liability against the Company in connection with certain defaulted loans in Ciena's portfolio. These investigations, audits and reviews are ongoing.

These investigations, audits, reviews, and litigation have had and may continue to have a material adverse impact on Ciena and, as a result, could continue to negatively affect the Company's financial results. The Company has considered Ciena's voluntary filing for bankruptcy protection, the letters of credit and the funding thereof, current regulatory issues, ongoing investigations and litigation in performing the valuation of Ciena at September 30, 2009 and at December 31, 2008.

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Collateralized Loan Obligations ("CLOs") and Collateralized Debt Obligations ("CDOs"). At September 30, 2009, and December 31, 2008, the Company owned bonds and preferred shares/income notes in CLOs and bonds in a CDO as follows:

	2009			2008		
($ in millions)	**Cost**	**Value**	**Yield(1)**	**Cost**	**Value**	**Yield(1)**
Bonds(2):						
Callidus Debt Partners CDO Fund I, Ltd.	$ 29.0	$ 2.9	%	$ 28.4	$ 10.1	39.4%
Callidus Debt Partners CLO Fund IV, Ltd.	2.1	1.6	20.9%	2.0	1.4	26.9%
Callidus Debt Partners CLO Fund VI, Ltd.	7.6	3.8	21.4%	7.1	3.9	26.1%
Callidus MAPS CLO Fund I LLC	17.0	11.4	8.6%	17.0	9.8	12.2%
Callidus MAPS CLO Fund II LLC	3.8	3.1	25.1%	3.6	3.0	30.2%
Dryden XVIII Leveraged Loan 2007 Limited	7.9	2.4	%	7.7	4.5	20.5%
Knightsbridge CLO 2007-1 Ltd.(3)	18.7	11.2	15.9%	18.7	14.9	17.4%
Knightsbridge CLO 2008-1 Ltd.(3)	31.9	29.1	11.3%	31.4	31.4	10.2%
Pangaea CLO 2007-1 Ltd.	12.0	7.8	16.8%	11.8	7.1	25.0%
Total bonds	130.0	73.3	12.7%	127.7	86.1	18.5%
Preferred Shares/Income Notes:						
Callidus Debt Partners CLO Fund III, Ltd.	20.1	2.2	%	20.1	5.4	%
Callidus Debt Partners CLO Fund IV, Ltd.	14.9	4.4	%	14.6	10.6	18.1%
Callidus Debt Partners CLO Fund V, Ltd.	13.5	4.6	7.6%	13.4	10.3	21.3%
Callidus Debt Partners CLO Fund VI, Ltd.	29.1	4.2	%	28.3	23.1	21.8%
Callidus Debt Partners CLO Fund VII, Ltd.	24.8	5.4	%	24.0	15.4	17.9%
Callidus MAPS CLO Fund I LLC	41.2	13.7	%	45.1	27.8	6.5%
Callidus MAPS CLO Fund II, Ltd.	18.1	4.8	3.4%	18.4	12.6	19.3%
Dryden XVIII Leveraged Loan 2007 Limited	23.2	2.4	%	22.1	17.5	20.2%
Knightsbridge CLO 2007-1 Ltd.(3)	38.8	22.6	22.8%	40.9	35.2	17.4%
Knightsbridge CLO 2008-1 Ltd.(3)	21.3	20.1	22.5%	21.3	21.3	16.6%
Total preferred shares/income notes	245.0	84.4	12.1%	248.2	179.2	16.4%
Total	$ 375.0	$ 157.7		$ 375.9	$ 265.3	

(1) The weighted average yield is calculated as the (a) annual stated interest or the effective interest yield on the accruing bonds or the effective interest yield on the preferred shares/income notes, divided by (b) CLO and CDO assets at value. The yield on these debt and equity securities is included in interest income in the accompanying consolidated statement of operations. The market yield used in the valuation of the CLO and CDO assets may be different than the interest yields shown above.

(2) These securities are included in private finance subordinated debt.

(3) These funds are managed by the Company through a wholly-owned subsidiary.

The initial yields on the cost basis of the CLO preferred shares and income notes are based on the estimated future cash flows expected to be paid to these CLO classes from the underlying collateral assets. As each CLO preferred share or income note ages, the estimated future cash flows are updated based on the estimated performance of the underlying collateral assets, and the respective yield on the cost basis is adjusted as necessary. As future cash flows are subject to uncertainties and contingencies that are difficult to predict and are subject to future events that may alter current assumptions, no assurance can be given that the anticipated yields to maturity will be achieved.

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The bonds, preferred shares and income notes of the CLOs and CDO in which the Company has invested are junior in priority for payment of interest and principal to the more senior notes issued by the CLOs and CDO. Cash flow from the underlying collateral assets in the CLOs and CDO is generally allocated first to the senior bonds in order of priority. Any remaining cash flow is then generally distributed to the preferred shareholders and income note holders. To the extent there are ratings downgrades, defaults and unrecoverable losses on the underlying collateral assets that result in reduced cash flows, the preferred shares/income notes will bear this loss first and then the subordinated bonds would bear any loss after the preferred shares/income notes. At both September 30, 2009, and December 31, 2008, the face value of the CLO and CDO assets held by the Company was subordinate to as much as 94% of the face value of the securities outstanding in these CLOs and CDO.

At September 30, 2009, and December 31, 2008, the underlying collateral assets of these CLO and CDO issuances, consisting primarily of senior corporate loans, were issued by 627 issuers and 658 issuers, respectively, and had balances as follows:

($ in millions)	2009	2008
Bonds	$ 232.3	$ 268.3
Syndicated loans	4,387.2	4,477.3
Cash(1)	107.9	89.6
Total underlying collateral assets at cost(2)	$ 4,727.4	$ 4,835.2

(1) Includes undrawn liability amounts.

(2) At September 30, 2009, and December 31, 2008, the total cost basis of defaulted obligations was $139.6 million and $95.0 million, respectively, or approximately 3.0% and 2.0% respectively, of the total underlying collateral assets.

Loans and Debt Securities on Non-Accrual Status. At September 30, 2009, and December 31, 2008, private finance loans and debt securities at value not accruing interest were as follows:

($ in millions)	2009	2008
Loans and debt securities		
Companies more than 25% owned	$ 194.2	$ 176.1
Companies 5% to 25% owned	15.3	
Companies less than 5% owned	96.3	151.8
Total	$ 305.8	$ 327.9

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Industry and Geographic Compositions. The industry and geographic compositions of the private finance portfolio at value at September 30, 2009, and December 31, 2008, were as follows:

	2009	2008
Industry		
Business services	32%	36%
Consumer products	28	24
Private debt funds	8	6
Financial services	8	5
CLO/CDO(1)	6	8
Consumer services	5	5
Industrial products	3	5
Retail	2	5
Healthcare services	2	2
Other	6	4
Total	100%	100%
Geographic Region(2)		
Mid-Atlantic	42%	41%
Midwest	30	28
Southeast	15	17
West	12	13
Northeast	1	1
Total	100%	100%

(1) These funds primarily invest in senior corporate loans. Certain of these funds are managed by Callidus Capital, a portfolio company of Allied Capital.

(2) The geographic region for the private finance portfolio depicts the location of the headquarters for the Company's portfolio companies. The portfolio companies may have a number of other locations in other geographic regions.

Commercial Real Estate Finance

At September 30, 2009, and December 31, 2008, the commercial real estate finance portfolio consisted of the following:

	2009			2008		
($ in millions)	**Cost**	**Value**	**Yield(1)**	**Cost**	**Value**	**Yield(1)**
Commercial mortgage loans	$ 54.9	$ 50.5	6.9%	$ 52.5	$ 53.5	7.4%
Real estate owned	5.9	6.2		18.2	20.8	
Equity interests	13.2	11.8		14.8	19.6	
Total	$ 74.0	$ 68.5		$ 85.5	$ 93.9	

(1) The weighted average yield on the commercial mortgage loans is computed as the (a) annual stated interest on accruing loans plus the annual amortization of loan origination fees, original issue discount, and market discount on accruing loans less the annual amortization of origination costs, divided by (b) total interest-bearing investments at value. The weighted average yield is computed as of the balance sheet date.

Commercial Mortgage Loans and Equity Interests. The commercial mortgage loan portfolio contains loans that were originated by the Company or were purchased from third-party sellers. At September 30, 2009, and December 31, 2008, approximately 63% and 69% of the Company's commercial mortgage loan portfolio was composed of fixed interest rate loans, respectively, and 37%

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and 31% of the Company's commercial loan portfolio was composed of adjustable interest rate loans, respectively. At September 30, 2009, and December 31, 2008, loans with a value of $9.2 million and $7.7 million, respectively, were not accruing interest. Loans greater than 120 days delinquent generally do not accrue interest.

Equity interests primarily consist of equity securities issued by privately owned companies that invest in single real estate properties. These equity interests may be subject to certain restrictions on their resale and are generally illiquid. Equity interests generally do not produce a current return, but are generally held in anticipation of potential investment appreciation and ultimate realized gain on sale.

The property types and the geographic composition securing the commercial real estate finance portfolio at value at September 30, 2009, and December 31, 2008, were as follows:

	2009	2008
Property Type		
Hospitality	54%	52%
Recreation	30	22
Office	14	15
Retail		9
Other	2	2
Total	100%	100%
Geographic Region		
Southeast	46%	43%
West	32	26
Midwest	13	22
Northeast	9	9
Mid-Atlantic		
Total	100%	100%

Fair Value Measurements

The Company, as a BDC, has invested in illiquid securities including debt and equity securities of portfolio companies, CLO bonds and preferred shares/income notes, CDO bonds and investment funds. The Company's investments may be subject to certain restrictions on resale and generally have no established trading market. The Company values substantially all of its investments at fair value as determined in good faith by the Board of Directors in accordance with the Company's valuation policy and the provisions of the 1940 Act and ASC Topic 820. The Company determines fair value to be the price that would be received for an investment in a current sale, which assumes an orderly transaction between market participants on the measurement date. The Company's valuation policy considers the fact that no ready market exists for substantially all of the securities in which it invests and that fair value for its investments must typically be determined using unobservable inputs.

ASC Topic 820 establishes a fair value hierarchy that encourages the use of observable inputs, but allows for unobservable inputs when observable inputs do not exist. Inputs are classified into one of three categories:

Level 1 Quoted prices (unadjusted) in active markets for identical assets

Level 2 Inputs other than quoted prices that are observable to the market participant for the asset or quoted prices in a market that is not active

Level 3 Unobservable inputs

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When there are multiple inputs for determining the fair value of an investment, the Company classifies the investment in total based on the lowest level input that is significant to the fair value measurement.

The Company has $90.0 million in investments in money market and other securities, which the Company has determined are Level 1 assets but are not included in the Company's investment portfolio. Portfolio assets measured at fair value on a recurring basis by level within the fair value hierarchy at September 30, 2009, were as follows:

($ in millions)	Fair Value Measurement as of September 30, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets at Fair Value:				
Portfolio				
Private finance:				
Loans and debt securities	$ 1,847.0	$	$	$ 1,847.0
Preferred shares/income notes of CLOs	84.4			84.4
Subordinated certificates in Senior Secured Loan Fund LLC	165.0			165.0
Other equity securities	346.3			346.3
Commercial real estate finance	68.5			68.5
Total portfolio	$ 2,511.2	$	$	$ 2,511.2

The table below sets forth a summary of changes in the Company's assets measured at fair value using level 3 inputs.

	Private Finance					
($ in millions)	Loans and Debt Securities	Preferred Shares/ Income Notes of CLOs	Subordinated Certificates in Senior Secured Fund LLC	Other Equity Securities	Commercial Real Estate Finance	Total
Balance at December 31, 2008	$ 2,591.8	$ 179.2	$ 125.4	$ 502.7	$ 93.9	$ 3,493.0
Total gains or losses						
Net realized gains (losses)(1)	(116.5)	11.7		(40.9)	(3.7)	(149.4)
Net change in unrealized appreciation or depreciation(2)	(109.2)	(91.5)	(0.2)	(72.3)	(13.9)	(287.1)
Purchases, issuances, repayments and exits, net(3)	(519.1)	(15.0)	39.8	(43.2)	(7.8)	(545.3)
Transfers in and/or out of level 3						
Balance at September 30, 2009	$ 1,847.0	$ 84.4	$ 165.0	$ 346.3	$ 68.5	$ 2,511.2
Net unrealized appreciation (depreciation) during the period relating to assets still held at the reporting date(2)	$ (205.0)	$ (91.5)	$ (0.2)	$ (89.9)	$ (15.3)	$ (401.9)

(1) Includes net realized gains (losses) (recorded as realized gains or losses in the accompanying consolidated statement of operations), and amortization of discounts and closing points (recorded as interest income in the accompanying consolidated statement of operations).

(2) Included in change in net unrealized appreciation or depreciation in the accompanying consolidated statement of operations. Net change in unrealized appreciation or depreciation includes net unrealized appreciation (depreciation) resulting from changes in portfolio investment

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values during the reporting period and the reversal of previously recorded unrealized appreciation or depreciation when gains or losses are realized. The net change in unrealized appreciation or depreciation in the consolidated statement of operations also includes the change in value of escrow and other receivables from portfolio companies that are included in other assets on the consolidated balance sheet.

(3)

Includes interest and dividend income reinvested through the receipt of a debt or equity security (payment-in-kind income) (recorded as interest and dividend income in the accompanying consolidated statement of operations).

Managed Funds

In addition to managing its own assets, the Company manages certain funds that also invest in the debt and equity securities of primarily private middle market companies in a variety of industries and broadly syndicated senior secured loans. At September 30, 2009, the Company had eight separate funds under its management (together, the "Managed Funds") for which the Company may earn management or other fees for its services. The Company may invest in the equity of these funds, along with other third parties, from which the Company may earn a current return and/or a future incentive allocation.

In the first quarter of 2009, the Company completed the acquisition of the management contracts of three middle market senior debt CLOs (together, the "Emporia Funds") and certain other related assets for approximately $11 million (subject to post-closing adjustments). The acquired assets are included in other assets in the accompanying consolidated balance sheet and the cost will be amortized over the life of the contracts.

The assets of the Managed Funds at September 30, 2009 and December 31, 2008, and the Company's management fees as of September 30, 2009, were as follows:

($ in millions) Name of Fund	Assets of Managed Funds September 30, 2009	 December 31, 2008	Management Fee(2)
Senior Secured Loan Fund LLC(3)	$ 921.2	$ 789.8	0.375%
Allied Capital Senior Debt Fund, L.P.	351.4	412.9	1.625%(1)(2)
Knightsbridge CLO 2007-1 Ltd.	500.7	500.6	0.600%
Knightsbridge CLO 2008-1 Ltd.	304.6	304.8	0.600%
Emporia Preferred Funding I, Ltd.	419.8		0.625%(1)
Emporia Preferred Funding II, Ltd.	355.7		0.650%(1)
Emporia Preferred Funding III, Ltd.	406.1		0.650%(1)
AGILE Fund I, LLC	83.5	99.3	(1)
Total Assets	$ 3,343.0	$ 2,107.4	

(1)

In addition to the management fees, the Company is entitled to an incentive allocation subject to certain performance benchmarks. There can be no assurance that the incentive allocation will be earned.

(2)

Management fees are stated as a percent of assets except for the Allied Capital Senior Debt Fund, L.P. ("ACSDF") which is stated as a percent of equity capital. The management fee paid by ACSDF was 2.000% at December 31, 2008 and was reduced to 1.625% effective January 1, 2009 for the 2009 calendar year.

(3)

In June 2009, the Unitranche Fund LLC was renamed the Senior Secured Loan Fund LLC. In October 2009, the Company sold its investment, including the outstanding commitments and the

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provision of management services, in the Senior Secured Loan Fund LLC. See Note 14. Subsequent Events.

A portion of the management fees earned by the Company may be deferred under certain circumstances. Collection of the fees earned may be dependent in part on the performance of the relevant Managed Fund. The Company may pay a portion of management fees it receives to Callidus Capital Corporation, a wholly owned portfolio investment , for services provided to the Allied Capital Senior Debt Fund, L.P., Knightsbridge CLO 2007-1 Ltd., Knightsbridge CLO 2008-1 Ltd. and the Emporia Funds.

The Company's responsibilities to the Managed Funds may include investment origination, underwriting, and portfolio monitoring services. Each of the Managed Funds may separately invest in the debt or equity of companies in the Company's portfolio, and these investments may be senior, pari passu or junior to the debt and equity investments held by the Company. The Company may or may not participate in investments made by the Managed Funds.

The Company accounts for the sale of securities to funds with which it has continuing involvement as sales pursuant to ASC Topic 860, when the securities have been legally isolated from the Company, the Company has no ability to restrict or constrain the ability of the Managed Funds to pledge or exchange the transferred securities, and the Company does not have either the entitlement and the obligation to repurchase the securities or the ability to unilaterally cause the Managed Fund to put the securities back to the Company.

During the nine months ended September 30, 2009, the Company sold assets to certain of its Managed Funds for which the Company received proceeds of $9.7 million and recognized a net realized gain of $6.3 million. During the nine months ended September 30, 2008, the Company sold assets to certain of the Managed Funds, for which the Company received proceeds of $352.7 million, and recognized realized gains of $2.8 million.

In addition to managing these funds, the Company holds certain investments in the Managed Funds as follows:

($ in millions)		September 30, 2009		December 31, 2008	
Name of Fund	**Investment Description**	**Cost**	**Value**	**Cost**	**Value**
Senior Secured Loan Fund LLC(1)	Subordinated Certificates and Equity Interests	$ 165.2	$ 165.0	$ 125.4	$ 125.4
Allied Capital Senior Debt Fund, L.P.	Equity interests	31.8	33.0	31.8	31.8
Knightsbridge CLO 2007-1 Ltd.	Class E Notes and Income Notes	57.4	33.8	59.6	50.1
Knightsbridge CLO 2008-1 Ltd.	Class C Notes, Class D Notes, Class E Notes and Income Notes	53.2	49.2	52.7	52.7
AGILE Fund I, LLC	Equity Interests	0.7	0.4	0.7	0.5
Total		$ 308.3	$ 281.4	$ 270.2	$ 260.5

(1) The Company has committed up to a total of $525.0 million of subordinated certificates to the Senior Secured Loan Fund. The Senior Secured Loan Fund will be capitalized as investment transactions are completed. In October 2009, the Company sold its investment, including the outstanding commitments and the provision of management services, in the Senior Secured Loan Fund LLC. See Note 14. Subsequent Events.

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Note 4. Debt

At September 30, 2009, and December 31, 2008, the Company had outstanding debt as follows:

($ in millions)	2009 Facility Amount	2009 Amount Drawn at par	2009 Annual Interest Cost(1)	2008 Facility Amount	2008 Amount Drawn at par	2008 Annual Interest Cost(1)
Notes payable:						
Privately issued secured notes payable (formerly unsecured)(5)	$ 841.0	$ 841.0(6)	13.8%	$ 1,015.0	$ 1,015.0	7.8%
Publicly issued unsecured notes payable	745.5	745.5	6.7%	880.0	880.0	6.7%
Total notes payable	1,586.5	1,586.5	10.5%	1,895.0	1,895.0	7.3%
Bank secured term debt (former revolver)(4)	50.0	50.0	17.0%(2)	632.5	50.0	4.3%(2)
Total debt	$ 1,636.5	$ 1,636.5	10.7%(3)	$ 2,527.5	$ 1,945.0	7.7%(3)

(1) The weighted average annual interest cost is computed as the (a) annual stated interest on the debt, plus the annual amortization of commitment fees, other facility fees and amortization of debt financing costs and original issue discount that are recognized into interest expense over the contractual life of the respective borrowings, divided by (b) debt outstanding on the balance sheet date.

(2) The annual interest cost reflects the interest rate payable for borrowings under the revolving line of credit in effect at the balance sheet date. In addition to the current interest payable, there were annual costs of commitment fees, other facility fees and amortization of debt financing costs of $4.3 million at September 30, 2009, and $8.5 million at December 31, 2008.

(3) The annual interest cost for total debt includes the annual cost of commitment fees, other facility fees and amortization of debt financing costs on the bank term debt regardless of the amount outstanding on the facility as of the balance sheet date. The annual interest cost reflects the facilities in place on the balance sheet date.

(4) During the three months ended September 30, 2009, the commitments under the facility were reduced to $50.0 million subsequent to the funding of $46.0 million to Ciena securitizations in lieu of draws under letters of credit issued under the facility.

(5) In the third quarter of 2009, the Company completed the restructuring of its private notes.

(6) The notes payable on the consolidated balance sheet are shown net of OID of approximately $42.6 million as of September 30, 2009.

Debt Restructure

On August 28, 2009, the Company completed a comprehensive restructuring of its private notes (the "Notes") and its bank facility (the "Facility"). Beginning in January 2009, the Company engaged in discussions with the revolving line of credit lenders (the "Lenders") and the private noteholders (the "Noteholders") to seek relief under certain terms of both the Facility and the Notes due to certain covenant defaults. As of December 31, 2008, the Company's asset coverage was less than the 200% then required by the revolving credit facility and the private notes. Asset coverage generally refers to the percentage resulting from assets less accounts payable and other liabilities, divided by total debt.

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In connection with the restructuring, the Company granted the Noteholders and the Lenders a pari-passu blanket lien on a substantial portion of its assets, including a substantial portion of the assets of the Company's consolidated subsidiaries.

The financial covenants applicable to the Notes and the Facility were modified as part of the restructuring. The Consolidated Debt to Consolidated Shareholders' Equity covenant and the Capital Maintenance covenant were both eliminated. The Asset Coverage ratio was set at 1.35:1 initially, increasing to 1.4:1 at June 30, 2010 and to 1.55:1 at June 30, 2011, and maintained at that level thereafter. A new covenant, Total Adjusted Assets to Secured Debt, was set at 1.75:1 initially, increasing to 2.0:1 at June 30, 2010 and to 2.25:1 at June 30, 2011, and maintained at that level thereafter. The ratio of Adjusted EBIT to Adjusted Interest Expense was set at 1.05:1 initially, decreasing to 0.95:1 at December 31, 2009, 0.80:1 at March 31, 2010 and 0.75:1 at June 30, 2010. The covenant will then be increased to 0.80:1 on December 31, 2010 and 0.95:1 on December 31, 2011 and maintained at that level thereafter. At September 30, 2009, the Company was in compliance with these financial covenants.

The Notes and Facility impose certain limitations on the Company's ability to incur additional indebtedness, including precluding the Company from incurring additional indebtedness unless its asset coverage of all outstanding indebtedness is at least 200%. Pursuant to the 1940 Act, the Company is not permitted to issue indebtedness unless immediately after such issuance the Company has asset coverage of all outstanding indebtedness of at least 200%. At September 30, 2009, the Company's asset coverage ratio was 175%, which is less than the 200% requirement. As a result, the Company will not be able to issue additional indebtedness until such time as its asset coverage returns to at least 200%.

The Company is required to apply 50% of all net cash proceeds from asset sales to the repayment of the Notes and 6% of all net cash proceeds from asset sales to the repayment of the Facility, subject to certain conditions and exclusions. In the case of certain events of default, the Company would be required to apply 100% of all net cash proceeds from asset sales to the repayment of its secured lenders. Under the new agreements, subject to a limit and certain liquidity restrictions, the Company may repurchase its public debt; however, the Company is prohibited from repurchasing its common stock and may not pay dividends in excess of the minimum the Company reasonably believes is required to maintain its tax status as a regulated investment company. In addition, upon the occurrence of a change of control (as defined in the Note Agreement and Credit Agreement), the Noteholders have the right to be prepaid in full and the Company is required to repay in full all amounts outstanding under the Facility.

The Note Agreement and Credit Agreement provide for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, cross-defaults, bankruptcy events and failure to pay judgments. Certain of these events of default are subject to notice and cure periods or materiality thresholds. Pursuant to the terms of the Notes, the occurrence of an event of default generally permits the holders of more than 50% in principal amount of outstanding Notes to accelerate repayment of all amounts due thereunder. The occurrence of an event of default would generally permit the administrative agent for the lenders under the Facility, or the holders of more than 51% of the aggregate principal debt outstanding under the Facility, to accelerate repayment of all amounts outstanding thereunder. Pursuant to the Notes, during the continuance of an event of default, the rate of interest applicable to the Notes would increase by 200 basis points. Pursuant to the terms of the Facility, during the continuance of an event of default, the applicable spread on any borrowings outstanding under the Facility would increase by 200 basis points.

In connection with the restructuring, the Company recorded a loss on the extinguishment of debt of $117.5 million. In addition to the $11 million of previously deferred unamortized debt costs associated with the Notes and Facility, the Company incurred and paid costs to the lenders of $146 million and other third party advisory and other fees of approximately $26 million in connection

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with the restructuring. Approximately $20 million of the restructuring costs were deferred and are being amortized into interest expense over the life of the Notes and Facility. In addition, the Company recorded approximately $45 million of original issue discount ("OID") related to the restructuring of the Notes, which is being amortized into interest expense over the life of the Notes. After giving effect to the restructuring and the recording of the loss, the Company estimates that the weighted average interest cost, including amortization of the deferred debt cost and OID, for the Notes is approximately 13.75% and the for Facility is approximately 17%. The loss on extinguishment of debt is comprised of the following:

($ in millions)	
Previously deferred unamortized costs	$ 11.3
Fees paid to Noteholders/Lenders	145.9
Advisory and other fees paid	26.0
Costs deferred and amortizing into interest expense	(20.3)
OID recorded and amortizing into interest expense	(45.4)
Loss on extinguishment of debt	$ 117.5

Privately Issued Notes Payable. The Company had $1,015.0 million of Notes outstanding at June 30, 2009. The Company made principal payments on the Notes at and prior to the closing of the restructuring and had $841.0 million of Notes outstanding following the closing of the restructuring.

In connection with the restructuring, the existing Notes were exchanged for three new series of Notes containing the following terms:

($ in millions)	**Principal Amount**	**Maturity Dates**	**Annual Stated Interest Rate Through December 31, 2009(1)**	**Annual Stated Interest Rate Beginning January 1, 2010(1)**	**Annual Stated Interest Rate Beginning January 1, 2011(1)**	**Annual Stated Interest Rate Beginning January 1, 2012(1)**
Series A	$ 253.8	June 15, 2010	8.50%	9.25%	N/A	N/A
Series B	$ 253.8	June 15, 2011	9.00%	9.50%	9.75%	N/A
Series C	$ 333.5	March 31 & April 1, 2012	9.50%	10.00%	10.25%	10.75%

(1) The Notes generally require payment of interest quarterly.

The Company made various cash payments in connection with the restructuring of its Notes. The Company paid an amendment fee at closing of $15.2 million. In addition, the Company paid a make-whole fee of $79.7 million related to a contractual provision in the old Notes. Due to the payment of this make-whole fee, the new Notes have no significant make-whole requirement. The Company also paid a restructuring fee of $50.0 million at closing, which will be applied toward the principal balance of the Notes if the Notes are refinanced in full on or before January 31, 2010.

Bank Facility. At June 30, 2009, the Company had an unsecured revolving line of credit that was due to expire on April 11, 2011. The Company's Facility was restructured from a revolving facility to a term facility maturing on November 13, 2010. Total commitments under the Facility were reduced at closing to $96.0 million from $115.0 million prior to closing. At closing, there were $50.0 million of borrowings and $46.0 million of standby letters of credit ("LCs") outstanding under the Facility. The $46.0 million of LCs terminated and/or expired prior to September 30, 2009 and the commitments under the Facility were reduced by a commensurate amount. As a result, the total commitment and outstanding balance was $50.0 million at September 30, 2009.

Borrowings under the Facility bear interest at a floating rate of interest, subject to a floor. The floating rate spread increases by 0.5% per annum beginning on January 1, 2010 and continuing through

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maturity. At closing, the interest rate on the Facility was 8.5% per annum. The Facility requires the payment of a commitment fee equal to 0.50% per annum of the committed amount. In addition, the Company agreed to pay an amendment fee at closing of $1.0 million, and a restructuring fee payable on January 31, 2010 equal to 1.0% of the outstanding borrowings on such date if the Facility remains outstanding. The Facility generally requires payments of interest no less frequently than quarterly.

Publicly Issued Unsecured Notes Payable. At September 30, 2009, the Company had outstanding publicly issued unsecured notes as follows:

($ in millions)	Amount	Maturity Date
6.625% Notes due 2011	$ 319.9	July 15, 2011
6.000% Notes due 2012	195.6	April 1, 2012
6.875% Notes due 2047	230.0	April 15, 2047
Total	$ 745.5	

The 6.625% Notes due 2011 and the 6.000% Notes due 2012 require payment of interest only semi-annually, and all principal is due upon maturity. The Company has the option to redeem these notes in whole or in part, together with a redemption premium, as stipulated in the notes. In addition, the Company may purchase these notes in the market at par or at a discount to the extent permitted by the 1940 Act. During the nine months ended September 30, 2009, the Company paid $30.1 million to repurchase certain of the 6.625% Notes due 2011 which had a face value of $80.1 million, and $20.2 million to repurchase certain of the 6.000% Notes due 2012 which had a face value of $54.4 million. After recognizing the remaining unamortized original issue discount associated with the notes repurchased, the Company recognized a net gain on repurchase of debt of $83.5 million for the nine months ended September 30, 2009.

The 6.875% Notes due 2047 require payment of interest only quarterly, and all principal is due upon maturity. These notes are redeemable in whole or in part at any time or from time to time on or after April 15, 2012, at par and upon the occurrence of certain tax events as stipulated in the notes.

The Company has certain financial and operating covenants that are required by the publicly issued unsecured notes payable. The Company is not permitted to issue indebtedness unless immediately after such issuance the Company has asset coverage of all outstanding indebtedness of at least 200% as required by the 1940 Act, as amended. At September 30, 2009, the Company's asset coverage ratio was 175%.

Scheduled Maturities. Scheduled future maturities of notes payable at September 30, 2009, were as follows:

	Amount Maturing at Par			
($ in millions) Year	Bank Secured Term Debt	Privately Issued Secured Notes Payable	Publicly Issued Unsecured Notes Payable	Total
2009	$	$	$	$
2010	50.0	253.7		303.7
2011		253.8	319.9	573.7
2012		333.5	195.6	529.1
2013				
Thereafter			230.0	230.0
Total	$ 50.0	$ 841.0	$ 745.5	$ 1,636.5

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Fair Value of Debt

The Company records debt at cost. The fair value of the Company's outstanding debt was approximately $1.4 billion and $1.4 billion at September 30, 2009 and December 31, 2008, respectively. The fair value of the Company's publicly issued 6.875% Notes due 2047 was determined using the market price of the retail notes at September 30, 2009 and December 31, 2008. The fair value of the Company's other debt was determined based on market interest rates for similar instruments as of the balance sheet dates.

Note 5. Guarantees and Commitments

In the ordinary course of business, the Company has issued guarantees and has extended standby letters of credit through financial intermediaries on behalf of certain portfolio companies. All standby letters of credit had been issued through Bank of America, N.A. As of September 30, 2009, and December 31, 2008, the Company had issued guarantees of debt and rental obligations aggregating $9.1 million and $19.2 million, respectively, and had extended standby letters of credit aggregating $0.0 million and $122.3 million, respectively. Under these arrangements, the Company would be required to make payments to third parties if the portfolio companies were to default on their related payment obligations or if the expiration dates of the letters of credit are not extended. The maximum amount of potential future payments was $9.1 million and $141.5 million at September 30, 2009, and December 31, 2008, respectively.

As of September 30, 2009, the guarantees and standby letters of credit expired as follows:

(in millions)	Total	2009	2010	2011	2012	2013	After 2013
Guarantees	$ 9.1	$ 5.0	$ 3.2	$	$ 0.1	$	$ 0.8
Standby letters of credit(1)							
Total	$ 9.1	$ 5.0	$ 3.2	$	$ 0.1	$	$ 0.8

(1) During the three months ended September 30, 2009, the Company funded $46.0 million in lieu of draws under standby letters of credit and the remaining standby letters of credit expired/terminated. At September 30, 2009, there were no standby letters of credit issued under the facility.

In the ordinary course of business, the Company enters into agreements with service providers and other parties that may contain provisions for the Company to indemnify and guaranty certain minimum fees to such parties under certain circumstances.

At September 30, 2009, the Company had outstanding commitments to fund investments totaling $543.9 million, including $515.5 million related to private finance investments and $28.4 million related to commercial real estate finance investments. Total outstanding commitments related to private finance investments included $352.2 million to the Senior Secured Loan Fund LLC. During October 2009, the Company sold its investment, including its outstanding commitments and the provision for management services, in the Senior Secured Loan Fund. See Note 14. Subsequent Events.

Note 6. Shareholders' Equity

The Company did not sell any common stock during the nine months ended September 30, 2009. The Company sold 20.5 million shares of its common stock during the nine months ended September 30, 2008, for gross proceeds of $417.1 million. The Company paid $14.6 million in costs, including underwriting fees, for net proceeds of $402.5 million.

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The Company issued 0.7 million shares of common stock upon the exercise of stock options during the nine months ended September 30, 2009. No stock options were exercised during the nine months ended September 30, 2008.

The Company has a dividend reinvestment plan, whereby the Company may buy shares of its common stock in the open market or issue new shares in order to satisfy dividend reinvestment requests. If the Company issues new shares, the issue price is equal to the average of the closing sale prices reported for the Company's common stock for the five consecutive trading days immediately prior to the dividend payment date. The Company may not issue new shares below net asset value. During the nine months ended September 30, 2009, the Company did not pay dividends and there was no activity in the dividend reinvestment plan. During the nine months ended September 30, 2008, under the dividend reinvestment plan the Company issued 0.2 million shares at an average price of $19.49 per share, and 0.5 million shares were purchased by a plan agent for shareholders at an average price of $14.43 per share.

Note 7. Earnings Per Common Share

Earnings per common share for the three and nine months ended September 30, 2009 and 2008, were as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(in millions, except per share amounts)	**2009**	**2008**	**2009**	**2008**
Net increase (decrease) in net assets resulting from operations	$ (140.7)	$ (318.3)	$ (517.4)	$ (461.2)
Weighted average common shares outstanding basic	179.1	178.7	178.8	171.1
Dilutive options outstanding				
Weighted average common shares outstanding diluted	179.1	178.7	178.8	171.1
Basic earnings (loss) per common share	$ (0.79)	$ (1.78)	$ (2.89)	$ (2.70)
Diluted earnings (loss) per common share	$ (0.79)	$ (1.78)	$ (2.89)	$ (2.70)

Note 8. Employee Compensation Plans

The Company had an Individual Performance Award plan ("IPA"), and an Individual Performance Bonus plan ("IPB"' each individually a "Plan," or collectively, the "Plans"). These Plans generally were determined annually at the beginning of each year but could be adjusted throughout the year. In 2008, the IPA was paid in cash in two equal installments during the year. Through December 31, 2007, the IPA amounts were contributed into a trust and invested in the Company's common stock. The IPB was distributed in cash to award recipients throughout the year (beginning in February of each respective year) as long as the recipient remained employed by the Company. The Company currently has not established an IPA or IPB for 2009.

The trusts for the IPA payments were consolidated with the Company's accounts. The common stock was classified as common stock held in deferred compensation trust in the accompanying financial statements and the deferred compensation obligation, which represented the amount owed to the employees, was included in other liabilities. Changes in the value of the Company's common stock held in the deferred compensation trust were not recognized. However, the liability was marked to market with a corresponding charge or credit to employee compensation expense.

In December 2007, the Company's Board of Directors made a determination that it was in the best interests of the Company to terminate its deferred compensation arrangements. The Board of Directors' decision primarily was in response to increased complexity resulting from changes in the

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regulation of deferred compensation arrangements. The Board of Directors resolved that the accounts under these Plans would be distributed to participants in full on March 18, 2008, the termination and distribution date, or as soon as was reasonably practicable thereafter, in accordance with the provisions of each of these Plans.

The accounts under the deferred compensation arrangements totaled $52.5 million at December 31, 2007. The balances on the termination date were distributed to participants in March 2008 subsequent to the termination date in accordance with the transition rule for payment elections under Section 409A of the Code. Distributions from the plans were made in cash or shares of the Company's common stock, net of required withholding taxes.

The IPA and IPB expenses are included in employee expenses and for the three and nine months ended September 30, 2009 and 2008, were as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
($ in millions)	**2009**	**2008**	**2009**	**2008**
IPA	$	$ 2.0	$	$ 6.6
IPA mark to market expense (benefit)				(4.1)
Total IPA expense	$	$ 2.0	$	$ 2.5
Total IPB expense	$	$ 2.4	$	$ 6.8

Note 9. Stock Option Plan

The purpose of the stock option plan ("Option Plan") is to provide officers and non-officer directors of the Company with additional incentives. Options are exercisable at a price equal to the fair market value of the shares on the day the option is granted. Each option states the period or periods of time within which the option may be exercised by the optionee, which may not exceed ten years from the date the option is granted. The options granted to officers generally vest ratably over up to a three year period. Options granted to non-officer directors vest on the grant date.

All rights to exercise options terminate 60 days after an optionee ceases to be (i) a non-officer director, (ii) both an officer and a director, if such optionee serves in both capacities, or (iii) an officer (if such officer is not also a director) of the Company for any cause other than death or total and permanent disability. In the event of a change of control of the Company, all outstanding options will become fully vested and exercisable as of the change of control.

At September 30, 2009, and December 31, 2008, there were 37.2 million shares authorized under the Option Plan and the number of shares available to be granted under the Option Plan was 3.8 million and 9.5 million, respectively.

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Information with respect to options granted, exercised and forfeited under the Option Plan for the nine months ended September 30, 2009, was as follows:

(in millions, except per share amounts)	Shares	Weighted Average Exercise Price Per Share	Weighted Average Contractual Remaining Term (Years)	Aggregate Intrinsic Value at September 30, 2009(1)
Options outstanding at January 1, 2009	19.7	$ 26.56		
Granted	11.5	$ 0.88		
Exercised	(0.7)	$ 0.73		
Forfeited	(5.8)	$ 21.65		
Options outstanding at September 30, 2009	24.7	$ 16.48	5.10	$ 21.3
Exercisable at September 30, 2009(2)	15.2	$ 22.25	4.53	$ 6.8
Exercisable and expected to be exercisable at September 30, 2009(3)	23.3	$ 16.77	5.05	$ 19.7

(1) Represents the difference between the market value of the options at September 30, 2009, and the cost for the option holders to exercise the options.

(2) Represents vested options.

(3) The amount of options expected to be exercisable at September 30, 2009, is calculated based on an estimate of expected forfeitures.

During the nine months ended September 30, 2008, 7.7 million options were granted, no options were exercised and 4.5 million options were forfeited. The fair value of the options vested during the nine months ended September 30, 2008 was $13.5 million.

Note 10. Dividends and Distributions and Taxes

At December 31, 2008, the Company met its dividend distribution requirements for the 2008 tax year and therefore did not have excess taxable income available for distribution to shareholders in 2009. The Company's Board of Directors has not declared any dividends in 2009. The Company's Board of Directors declared and the Company paid a dividend of $0.65 per common share for the first, second and third quarters of 2008, totaling $340.4 million.

The Company generally will be required to pay an excise tax equal to 4% of the amount by which 98% of the Company's annual taxable income exceeds the distributions for the year. The Company records an excise tax based on the Company's estimated excess taxable income for the period. Such estimates may change from period to period. The Company did not record an excise tax for the three and nine months ended September 30, 2009. The Company recorded an excise tax of $0.9 million and $5.1 million for the three and nine months ended September 30, 2008, respectively.

In certain circumstances, the Company is restricted in its ability to pay dividends. Each of the Company's Notes and the Company's Facility contain provisions that limit the amount of dividends the Company can pay. In addition, pursuant to the 1940 Act, the Company may be precluded from declaring dividends or other distributions to its shareholders unless the Company's asset coverage of senior securities is at least 200%.

The Company had cumulative deferred taxable income related to installment sale gains of approximately $218.9 million as of December 31, 2008. These gains have been recognized for financial reporting purposes in the respective years they were realized, but are generally deferred for tax purposes until the notes or other amounts received from the sale of the related investments are

collected in cash. A substantial portion of these installment gains as of December 31, 2008 will be recognized for tax purposes in 2009 as certain notes received from the sale of the related investments have been sold.

The Company's undistributed book earnings of $184.7 million as of December 31, 2008 resulted from undistributed ordinary income and long-term capital gains. The difference between undistributed book earnings at the end of the year and taxable income carried over from the current year into the next year relates to a variety of timing and permanent differences in the recognition of income and expenses for book and tax purposes.

The Company's consolidated subsidiary, AC Corp, is subject to federal and state income taxes. For the three months ended September 30, 2009 and 2008, AC Corp's income tax expense was $1.9 million and $1.2 million, respectively, and for the nine months ended September 30, 2009 and 2008, income tax expense was $4.2 million and $3.0 million, respectively. For the nine months ended September 30, 2009, paid in capital was decreased by $3.1 million primarily for the reduction of the deferred tax asset related to stock options that expired unexercised.

Note 11. Supplemental Disclosure of Cash Flow Information

The Company paid interest of $140.8 million and $95.9 million, respectively, for the nine months ended September 30, 2009 and 2008. The Company paid income taxes, including excise taxes (net of refunds), of $5.5 million and $13.0 million the nine months ended September 30, 2009 and 2008, respectively.

Non-cash operating activities for the nine months ended September 30, 2009 and 2008, totaled $71.4 million and $107.7 million, respectively. Non-cash operating activities included the exchange of existing debt securities and accrued interest for new debt and equity securities.

Non-cash financing activities included the issuance of common stock in lieu of cash distributions totaling $3.8 million for the nine months ended September 30, 2008.

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Note 12. Financial Highlights

	At and for the Nine Months Ended September 30, 2009(1)	At and for the Nine Months Ended September 30, 2008	At and for the Year Ended December 31, 2008
Per Common Share Data			
Net asset value, beginning of period	$ 9.62	$ 17.54	$ 17.54
Net investment income(2)	0.31	1.04	1.23
Net realized gains (losses)(2)(3)	(0.89)	0.28	(0.75)
Net investment income plus net realized gains (losses)(2)	(0.58)	1.32	0.48
Net change in unrealized appreciation (depreciation)(2)(3)	(2.13)	(4.02)	(6.49)
Gain on repurchase of debt	0.47		
Loss on extinguishment of debt	(0.65)		
Net increase (decrease) in net assets resulting from operations(2)	(2.89)	(2.70)	(6.01)
Net decrease in net assets from shareholder distributions		(1.95)	(2.60)
Net increase (decrease) in net assets from capital share transactions(2)	(0.03)	0.62	0.69
Net asset value, end of period	$ 6.70	$ 13.51	$ 9.62
Market value, end of period	$ 3.07	$ 10.80	$ 2.69
Total return(4)	14.1%	(43.3)%	(82.5)%
Ratios and Supplemental Data			
($ and shares in millions, except per share amounts)			
Ending net assets	$ 1,201.3	$ 2,413.4	$ 1,718.4
Common shares outstanding at end of period	179.4	178.7	178.7
Diluted weighted average common shares outstanding	178.8	171.1	173.0
Employee, employee stock option and administrative expenses/average net assets(5)	4.32%	3.80%	5.47%
Total operating expenses/average net assets(5)(6)	13.69%	7.85%	11.39%
Income tax expense (benefit), including excise tax/average net assets(5)	0.30%	0.30%	0.10%
Net investment income/average net assets(5)	3.93%	6.59%	8.47%
Net increase (decrease) in net assets resulting from operations/average net assets(5)	(36.76)%	(16.99)%	(41.34)%
Portfolio turnover rate(5)	4.12%	19.38%	24.00%
Average debt outstanding	$ 1,833.3	$ 2,072.8	$ 2,091.6
Average debt per share(2)	$ 10.25	$ 12.12	$ 12.09

(1) The results for the nine months ended September 30, 2009, are not necessarily indicative of the operating results to be expected for the full year.

(2) Based on diluted weighted average number of common shares outstanding for the period.

(3) Net realized gains (losses) and net change in unrealized appreciation or depreciation can fluctuate significantly from period to period. As a result, quarterly comparisons may not be meaningful.

(4) Total return assumes the reinvestment of all dividends paid, if any, for the periods presented.

(5)

The ratios for the nine months ended September 30, 2009 and 2008, do not represent annualized results.

(6) Includes 0.20% for the effect of the impairment of long-lived asset during the nine months ended September 30, 2009.

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Note 13. Litigation

On June 23, 2004, the Company was notified by the SEC that the SEC was conducting an informal investigation of the Company. The investigation related to the valuation of securities in the Company's private finance portfolio and other matters. On June 20, 2007, the Company announced that it entered into a settlement with the SEC that resolved the SEC's informal investigation. As part of the settlement and without admitting or denying the SEC's allegations, the Company agreed to the entry of an administrative order. In the order the SEC alleged that, between June 30, 2001, and March 31, 2003, the Company did not maintain books, records and accounts which, in reasonable detail, supported or accurately and fairly reflected valuations of certain securities in the Company's private finance portfolio and, as a result, did not meet certain recordkeeping and internal controls provisions of the federal securities laws. In the administrative order, the SEC ordered the Company to continue to maintain certain of its current valuation-related controls. Specifically, during and following the two-year period of the order the Company has: (1) continued to employ a Chief Valuation Officer, or a similarly structured officer-level employee, to oversee its quarterly valuation processes; and (2) continued to employ third-party valuation consultants to assist in its quarterly valuation processes.

On December 22, 2004, the Company received letters from the U.S. Attorney for the District of Columbia requesting the preservation and production of information regarding the Company and Business Loan Express, LLC (currently known as Ciena Capital LLC) in connection with a criminal investigation relating to matters similar to those investigated by and settled with the SEC as discussed above. The Company produced materials in response to the requests from the U.S. Attorney's office and certain current and former employees were interviewed by the U.S. Attorney's Office. The Company has voluntarily cooperated with the investigation.

In late December 2006, the Company received a subpoena from the U.S. Attorney for the District of Columbia requesting, among other things, the production of records regarding the use of private investigators by the Company or its agents. The Board established a committee, which was advised by its own counsel, to review this matter. In the course of gathering documents responsive to the subpoena, the Company became aware that an agent of the Company obtained what were represented to be telephone records of David Einhorn and which purport to be records of calls from Greenlight Capital during a period of time in 2005. Also, while the Company was gathering documents responsive to the subpoena, allegations were made that the Company's management had authorized the acquisition of these records and that management was subsequently advised that these records had been obtained. The Company's management has stated that these allegations are not true. The Company has cooperated fully with the inquiry by the U.S. Attorney's Office.

On February 26, 2007, Dana Ross filed a class action complaint in the U.S. District Court for the District of Columbia in which she alleges that Allied Capital Corporation and certain members of management violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder. Thereafter, the court appointed new lead counsel and approved new lead plaintiffs. On July 30, 2007, plaintiffs served an amended complaint. Plaintiffs claim that, between November 7, 2005, and January 22, 2007, Allied Capital either failed to disclose or misrepresented information about its portfolio company, Business Loan Express, LLC. Plaintiffs seek unspecified compensatory and other damages, as well as other relief. The Company believes the lawsuit is without merit, and intends to defend the lawsuit vigorously. On September 13, 2007, the Company filed a motion to dismiss the lawsuit. A hearing was held on the motion to dismiss in April 2009. The motion is pending.

As of November 6, 2009, the Company is aware of a putative class action and shareholder derivative complaint as well as an additional shareholder derivative complaint filed against the Company, its Board of Directors and Ares Capital Corporation. Both complaints allege that the Company's Board of Directors failed to discharge adequately its fiduciary duties to shareholders by failing to adequately value the Company's shares and ensure that its shareholders received adequate

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consideration in a proposed sale of Allied Capital to Ares Capital Corporation, that the proposed merger between the Company and Ares Capital is the product of a flawed sales process, that the Company's directors and officers breached their fiduciary duties by agreeing to a structure that was not designed to maximize the value of Allied's shares, and that Ares Capital aided and abetted the alleged breach of fiduciary duty. The plaintiffs demand, among other things, a preliminary and permanent injunction enjoining the sale and rescinding the transaction or any part thereof that has been implemented. The Company believes that each of the lawsuits is without merit, and it intends to defend each of these lawsuits vigorously.

In addition, the Company is party to certain lawsuits in the normal course of business. Furthermore, third parties may try to seek to impose liability on the Company in connection with the activities of its portfolio companies. For a discussion of civil investigations being conducted regarding the lending practice of Ciena Capital LLC, a portfolio company of the Company, see "Note 3, Portfolio Ciena Capital LLC."

While the outcome of any of the open legal proceedings described above cannot at this time be predicted with certainty, the Company does not expect these matters will materially affect its financial condition or results of operations.

Note 14. Subsequent Events

In accordance with ASC Topic 855, the Company has evaluated events subsequent to September 30, 2009, and through the issuance of these consolidated financial statements, which occurred on November 6, 2009.

On October 26, 2009, the Company, entered into an Agreement and Plan of Merger (the "Merger Agreement") with Ares Capital Corporation, a Maryland corporation ("Ares Capital"), and ARCC Odyssey Corp., a Maryland corporation and wholly-owned subsidiary of Ares Capital ("Merger Sub"). The Merger Agreement provides that, upon the terms and subject to the conditions set forth in the Merger Agreement, Merger Sub will merge with and into Allied Capital, with Allied Capital as the surviving company (the "Merger"). Immediately following the Merger, Allied Capital will merge with and into Ares Capital.

Upon consummation of the Merger, each share of common stock, par value $0.0001 per share, of Allied Capital issued and outstanding immediately prior to the effective time of the Merger will be converted into and become exchangeable for 0.325 common shares, par value $0.001 per share, of Ares Capital. Based on the number of shares of Allied Capital common stock outstanding on the date of the Merger Agreement and not including the effect of outstanding in-the-money options, this will result in approximately 58.3 million Ares Capital shares being exchanged for approximately 179.4 million outstanding Allied Capital shares, subject to adjustment in certain limited circumstances.

Following consummation of the transactions contemplated by the Merger Agreement, Ares Capital's Board of Directors will continue as directors of Ares Capital. However, Ares Capital's Board of Directors will be increased by at least one member and Ares Capital will submit the name of one member of Allied Capital's current Board of Directors for consideration to Ares Capital's Nominating and Governance Committee to fill the vacancy.

The Merger Agreement contains (a) customary representations and warranties of Allied Capital and Ares Capital, including, among others: corporate organization, capitalization, corporate authority and absence of conflicts, third party and governmental consents and approvals, reports and regulatory matters, financial statements, compliance with law and legal proceedings, absence of certain changes, taxes, employee matters, intellectual property, insurance, investment assets and certain contracts, (b) covenants of Allied Capital and Ares Capital to conduct their respective businesses in the ordinary

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course until the Merger is completed and (c) covenants of Allied Capital and Ares Capital not to take certain actions during this interim period.

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

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

The representations and warranties of each party set forth in the Merger Agreement (a) have been qualified by confidential disclosures made to the other party in connection with the Merger Agreement, (b) will not survive consummation of the Merger and cannot be the basis for any claims under the Merger Agreement by the other party after the Merger is consummated, (c) are qualified in certain circumstances by a materiality standard which may differ from what may be viewed as material by investors, (d) were made only as of the date of the Merger Agreement or such other date as is specified in the Merger Agreement, and (e) may have been included in the Merger Agreement for the purpose of allocating risk between Allied Capital and Ares Capital rather than establishing matters as facts.

Consummation of the Merger, which is currently anticipated to occur by the end of the first quarter of 2010, is subject to certain conditions, including, among others, Allied Capital stockholder approval, Ares Capital stockholder approval, required regulatory approvals (including expiration of the waiting period under the Hart-Scott-Rodino Act), receipt of certain Ares Capital and Allied Capital lender consents and other customary closing conditions.

The Merger Agreement also contains certain termination rights for Allied Capital and Ares Capital and provides that, in connection with the termination of the Merger Agreement under specified circumstances, Allied Capital may be required to pay Ares Capital a termination fee of $30 million ($15 million if Allied Capital stockholders do not approve the Merger) and Ares Capital may be required to pay Allied Capital a termination fee of $30 million.

In a separate transaction on October 30, 2009, the Company sold its interests, including its outstanding commitments and the provision of management services, in its Senior Secured Loan Fund LLC (the "SL Fund," formerly known as the Unitranche Fund) to Ares Capital for $165 million in cash. At September 30, 2009, the SL Fund held "unitranche loans" totaling approximately $921 million. In addition, from September 30, 2009 through November 2, 2009, the Company has collected additional cash proceeds totaling approximately $30 million and has identified approximately $200 million of assets for potential future sale. The Company has also paid down an additional $94 million of private debt since September 30, 2009 and has cash and money market and other securities of $273 million as of November 2, 2009.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Allied Capital Corporation:

We have reviewed the accompanying consolidated balance sheet of Allied Capital Corporation and subsidiaries (the Company), including the consolidated statement of investments, as of September 30, 2009, the related consolidated statements of operations for the three- and nine-month periods ended September 30, 2009 and 2008, and the consolidated statements of changes in net assets and cash flows and the financial highlights (included in Note 12) for the nine-month periods ended September 30, 2009 and 2008. These consolidated financial statements and financial highlights are the responsibility of the Company's management.

We conducted our reviews in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements and financial highlights referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Allied Capital Corporation and subsidiaries, including the consolidated statement of investments, as of December 31, 2008, and the related consolidated statements of operations, changes in net assets and cash flows (not presented herein), and the financial highlights, for the year then ended; and in our report dated March 2, 2009, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet including the consolidated statement of investments as of December 31, 2008, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Washington, D.C.
November 6, 2009

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Schedule 12-14

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

SCHEDULE OF INVESTMENTS IN AND ADVANCES TO AFFILIATES

(in thousands)

PRIVATE FINANCE Portfolio Company	Investment(1)	Amount of Interest or Dividends Credited to Income(6)	Other(2)	December 31, 2008 Value	Gross Additions(3)	Gross Reductions(4)	September 30, 2009 Value
Companies More Than 25% Owned							
AGILE Fund I, LLC (Private Equity Fund)	Equity Interests			$ 497	$ 34	$ (114)	$ 417
AllBridge Financial, LLC (Asset Management)	Senior Loan	$ 21			1,311		1,311
	Equity Interests			10,960	6,926	(2,363)	15,523
Allied Capital Senior Debt Fund, L.P. (Private Debt Fund)	Limited Partnership Interests			31,800	1,244		33,044
Avborne, Inc. (Business Services)	Preferred Stock			942		(38)	904
	Common Stock						
Avborne Heavy Maintenance, Inc. (Business Services)	Common Stock						
Aviation Properties Corporation (Business Services)	Common Stock						
Border Foods, Inc. (Consumer Products)	Senior Loan	4,162		33,027	2,637	(788)	34,876
	Preferred Stock			11,851	4,734		16,585
	Common Stock						
Calder Capital Partners, LLC (Asset Management)	Senior Loan(5)			953	147		1,100
	Equity Interests						
Callidus Capital Corporation (Asset Management)	Subordinated Debt	2,321		16,068	4,872	(5,775)	15,165
	Common Stock			34,377		(34,377)	
Ciena Capital LLC (Financial Services)	Senior Loan(5)			104,883		(2,651)	102,232
	Class B Equity Interests				3,504	(3,504)	
	Class C Equity Interests						
CitiPostal Inc. (Business Services)	Senior Loan	23		681	2		683
	Unitranche Debt	4,734		51,548	424	(971)	51,001
	Subordinated Debt	1,198		9,114	1,151		10,265
	Common Stock			8,616		(7,492)	1,124
Coverall North America, Inc. (Business Services)	Unitranche Debt	2,911		31,948	25	(408)	31,565
	Subordinated Debt	646		5,549	4		5,553

	Common Stock			17,968	3,293		21,261
CR Holding, Inc. (Consumer Products)	Subordinated Debt(5)			17,360	1,316	(8,405)	10,271
	Common Stock						
Crescent Equity Corp.	Senior Loan	33		433			433
(Business Services)	Subordinated Debt(5)	58	$ 166	18,614	83	(14,494)	4,203
	Common Stock			4,580	2,165	(6,745)	
Direct Capital Corporation	Senior Loan(5)				8,573		8,573
(Financial Services)	Subordinated Debt(5)			13,530		(6,391)	7,139
	Common Stock						
Financial Pacific Company	Subordinated Debt	8,084		62,189	30	(20,802)	41,417
(Financial Services)	Preferred Stock	10					
	Common Stock						
ForeSite Towers, LLC (Tower Leasing)	Equity Interest			889		(889)	
Global Communications, LLC (Business Services)	Senior Loan			1,335		(1,335)	
Hot Light Brands, Inc.	Senior Loan(5)			13,678	50	(3,257)	10,471
(Retail)	Common Stock						

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PRIVATE FINANCE Portfolio Company	Investment(1)	Amount of Interest or Dividends Credited to Income(6)	Other(2)	December 31, 2008 Value	Gross Additions(3)	Gross Reductions(4)	September 30, 2009 Value
Hot Stuff Foods, LLC	Senior Loan	$ 1,526		$ 42,378	$ 11,219	$ (8,180)	$ 45,417
(Consumer Products)	Subordinated Debt(5)				49,801		49,801
	Common Stock						
Huddle House, Inc.	Subordinated Debt	4,918		57,067	962	(38,535)	19,494
(Retail)	Common Stock			20,922		(13,271)	7,651
IAT Equity, LLC and Affiliates	Subordinated Debt	410		6,000			6,000
d/b/a Industrial Air Tool	Equity Interests			8,860	1,088		9,948
(Industrial Products)							
Impact Innovations Group, LLC	Equity Interests in Affiliate			321	1		322
(Business Services)							
Insight Pharmaceuticals Corporation	Subordinated Debt	$ 5,619		63,359	8,960	(20,221)	52,098
(Consumer Products)	Preferred Stock			4,068	20,932	(25,000)	
	Common Stock				34,088	(23,669)	10,419
Jakel, Inc.	Subordinated Debt(5)			374			374
(Industrial Products)							
Knightsbridge CLO 2007-1 Ltd.	Class E Notes	1,442		14,866		(3,706)	11,160
(CLO)	Income Notes	2,838		35,214	2,837	(15,411)	22,640
Knightsbridge CLO 2008-1 Ltd.	Class C Notes	842		12,800		(554)	12,246
(CLO)	Class D Notes	587		8,000		(920)	7,080
	Class E Notes	1,126		10,573	508	(1,283)	9,798
	Income Notes	2,924		21,315	2,924	(4,127)	20,112
MHF Logistical Solutions, Inc.	Subordinated Debt				49,633	(49,633)	
(Business Services)	Preferred Stock						
	Common Stock				20,942	(20,942)	
MVL Group, Inc.	Senior Loan	2,433		30,663	70	(5,477)	25,256
(Business Services)	Subordinated Debt	3,842		40,994	42,123	(47,096)	36,021
	Subordinated Debt(5)			86	144	(230)	
	Common Stock						
Old Orchard Brands, LLC	Subordinated Debt	917		18,882	262	(19,144)	
(Consumer Products)	Equity Interests			27,763		(27,763)	
Penn Detroit Diesel Allison, LLC	Subordinated Debt	2,767		37,869	578	(38,447)	
(Business Services)	Equity Interests			21,100	1,262	(8,492)	13,870
Senior Secured Loan Fund LLC	Subordinated Certificates	11,782	$ 7,548	125,423	47,373	(7,796)	165,000
(Private Debt Fund)							
	Equity Interests			1		(1)	
Service Champ, Inc.	Subordinated Debt	3,235		26,984	531		27,515
(Business Services)	Common Stock			21,156	7,165		28,321
Stag-Parkway, Inc.	Subordinated Debt	1,362			19,001	(1)	19,000
(Business Services)	Unitranche Debt	170		17,962	418	(18,380)	
	Common Stock			6,968	391		7,359
Startec Equity, LLC	Equity Interests			332		(332)	
(Telecommunications)							
Worldwide Express Operations, LLC	Subordinated Debt		38	2,032	694	(2,726)	

(Business Services)	Equity Interests			11,384	(11,384)	
	Warrants			144	(144)	
Total companies more than 25% owned			**$ 1,187,722**			**$ 1,032,018**
Companies 5% to 25% Owned						
10th Street, LLC	Subordinated Debt	$ 2,148	$ 21,439	$ 676	$ (15)	$ 22,100
(Business Services)	Equity Interests		975		(490)	485
	Option		25			25
Advantage Sales & Marketing, Inc.	Subordinated Debt	2,286	135,000		(135,000)	
(Business Services)	Equity Interests		5,000		(5,000)	
Air Medical Group Holdings LLC	Senior Loan	100	3,139	13,947	(12,630)	4,456
(Healthcare Services)	Equity Interests		10,800	9,200		20,000
Alpine ESP Holdings, Inc.	Preferred Stock			701	(701)	
(Business Services)	Common Stock			13	(13)	
Amerex Group, LLC	Subordinated Debt	1,993	8,784	5	(8,789)	
(Consumer Products)	Equity Interests	6,167	9,932		(9,932)	

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PRIVATE FINANCE Portfolio Company	**Investment(1)**	**Amount of Interest or Dividends Credited to Income(6)**	**Other(2)**	**December 31, 2008 Value**	**Gross Additions(3)**	**Gross Reductions(4)**	**September 30, 2009 Value**
BB&T Capital Partners/Windsor Mezzanine Fund, LLC (Private Equity Fund)	Equity Interests			$ 11,063	$	$ (1,054)	$ 10,009
Becker Underwood, Inc. (Industrial Products)	Subordinated Debt	$ 425		25,502	216	(25,718)	
	Common Stock			2,267	2,748	(5,015)	
Drew Foam Companies, Inc. (Business Services)	Preferred Stock			512	111	(623)	
	Common Stock				6	(6)	
Driven Brands, Inc. (Consumer Services)	Subordinated Debt	11,021		83,698	5,780	(3,080)	86,398
	Common Stock			4,855		(2,355)	2,500
Hilden America, Inc. (Consumer Products)	Common Stock			76	378	(454)	
Lydall Transport, Ltd. (Business Services)	Equity Interests			345	87	(432)	
Multi-Ad Services, Inc. (Business Services)	Unitranche Debt	234		2,941	56	(509)	2,488
	Equity Interests			1,782		(576)	1,206
Pendum Acquisition, Inc. (Business Services)	Common Stock						
Postle Aluminum Company, LLC (Industrial Products)	Senior Loan(5)				34,876	(19,568)	15,308
	Subordinated Debt(5)				23,868	(23,868)	
	Equity Interest						
Progressive International Corporation (Consumer Products)	Preferred Stock			1,125	4,722		5,847
	Common Stock			4,600		(4,447)	153
	Warrants						
Regency Healthcare Group, LLC (Healthcare Services)	Senior Loan	44			4,001	(4,001)	
	Unitranche Debt	309		10,825	31	(10,856)	
	Equity Interests			2,050		(209)	1,841
SGT India Private Limited (Business Services)	Common Stock				21	(21)	
Soteria Imaging Services, LLC (Healthcare Services)	Subordinated Debt	396		4,054	100		4,154
	Equity Interests			1,971		(688)	1,283
Triax Holdings, LLC (Consumer Products)	Subordinated Debt				10,772	(10,772)	
	Equity Interests				16,528	(16,528)	
Universal Environmental Services, LLC (Business Services)	Equity Interests						

Total companies 5% to 25% owned	**$ 352,760**	**$ 178,253**

This schedule should be read in conjunction with the Company's consolidated financial statements, including the consolidated statement of investments and Note 3 to the consolidated financial statements. Note 3 includes additional information regarding activities in the private finance portfolio.

(1) Common stock, preferred stock, warrants, options, and equity interests are generally non-income producing and restricted. The principal amount for loans and debt securities and the number of shares of common stock and preferred stock is shown in the consolidated statement of investments as of September 30, 2009.

(2) Other includes interest, dividend, or other income which was applied to the principal of the investment and therefore reduced the total investment. These reductions are also included in the Gross Reductions for the investment, as applicable.

(3) Gross additions include increases in the cost basis of investments resulting from new portfolio investments, paid-in-kind interest or dividends, the amortization of discounts and closing fees, the exchange of one or more existing securities for one or more new securities and the movement of an existing portfolio company into this category from a different category. Gross additions also include net increases in unrealized appreciation or net decreases in unrealized depreciation.

(4) Gross reductions include decreases in the cost basis of investments resulting from principal collections related to investment repayments or sales, the exchange of one or more existing securities for one or more new securities and the movement of an existing portfolio company out of this category into a different category. Gross reductions also include net increases in unrealized depreciation or net decreases in unrealized appreciation.

(5) Loan or debt security is on non-accrual status at September 30, 2009, and is therefore considered non-income producing. Loans or debt securities on non-accrual status at the end of the period may or may not have been on non-accrual status for the full period.

(6) Represents the total amount of interest or dividends credited to income for the portion of the year an investment was included in the companies more than 25% owned or companies 5% to 25% owned categories, respectively.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Allied Capital Corporation:

We have audited the accompanying consolidated balance sheet of Allied Capital Corporation and subsidiaries (the Company) as of December 31, 2008 and 2007, including the consolidated statements of investments as of December 31, 2008 and 2007, and the related consolidated statements of operations, changes in net assets and cash flows, and the financial highlights (included in Note 13), for each of the years in the three-year period ended December 31, 2008. These consolidated financial statements and financial highlights are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included physical inspection or confirmation of securities owned as of December 31, 2008 and 2007. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Allied Capital Corporation and subsidiaries as of December 31, 2008 and 2007, and the results of their operations, their cash flows, changes in their net assets, and financial highlights for each of the years in the three-year period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company is in default on provisions of certain credit agreements. The credit agreement defaults provide the respective lenders the right to declare immediately due and payable unpaid amounts approximating $1.1 billion at December 31, 2008. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for share based payments in 2006 due to the adoption of Financial Accounting Standards Board Interpretation No. 123 (Revised 2004), *Share Based Payment.* Also, as discussed in Note 2 to the consolidated financial statements, the Company modified its method of determining the fair value of portfolio investments in 2008 due to the adoption of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements.*

Washington, D.C.
March 2, 2009

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(in thousands, except per share amounts)

	December 31, 2008	December 31, 2007
ASSETS		
Portfolio at value:		
Private finance		
Companies more than 25% owned (cost: 2008-$2,167,020; 2007-$1,622,094)	$ 1,187,722	$ 1,279,080
Companies 5% to 25% owned (cost: 2008-$392,516; 2007-$426,908)	352,760	389,509
Companies less than 5% owned (cost: 2008-$2,317,856; 2007-$2,994,880)	1,858,581	2,990,732
Total private finance (cost: 2008-$4,877,392; 2007-$5,043,882)	3,399,063	4,659,321
Commercial real estate finance (cost: 2008-$85,503; 2007-$96,942)	93,887	121,200
Total portfolio at value (cost: 2008-$4,962,895; 2007-$5,140,824)	3,492,950	4,780,521
Accrued interest and dividends receivable	55,638	71,429
Other assets	122,909	157,864
Investments in money market and other securities	287	201,222
Cash	50,402	3,540
Total assets	$ 3,722,186	$ 5,214,576
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Notes payable (maturing or subject to acceleration within one year: 2008-$1,015,000; 2007-$153,000)	$ 1,895,000	$ 1,922,220
Revolving line of credit	50,000	367,250
Accounts payable and other liabilities	58,786	153,259
Total liabilities	2,003,786	2,442,729
Commitments and contingencies		
Shareholders' equity:		
Common stock, $0.0001 par value, 400,000 shares authorized; 178,692 and 158,002 shares issued and outstanding at December 31, 2008 and 2007, respectively	18	16
Additional paid-in capital	3,037,845	2,657,939
Common stock held in deferred compensation trust		(39,942)
Notes receivable from sale of common stock	(1,089)	(2,692)
Net unrealized appreciation (depreciation)	(1,503,089)	(379,327)
Undistributed earnings	184,715	535,853
Total shareholders' equity	1,718,400	2,771,847
Total liabilities and shareholders' equity	$ 3,722,186	$ 5,214,576
Net asset value per common share	$ 9.62	$ 17.54

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

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS

(in thousands, except per share amounts)

	For the Years Ended December 31,		
	2008	**2007**	**2006**
Interest and Related Portfolio Income:			
Interest and dividends			
Companies more than 25% owned	$ 111,188	$ 105,634	$ 102,636
Companies 5% to 25% owned	42,376	41,577	39,754
Companies less than 5% owned	303,854	270,365	244,037
Total interest and dividends	457,418	417,576	386,427
Fees and other income			
Companies more than 25% owned	28,278	18,505	29,606
Companies 5% to 25% owned	2,619	810	4,447
Companies less than 5% owned	13,929	24,814	32,078
Total fees and other income	44,826	44,129	66,131
Total interest and related portfolio income	502,244	461,705	452,558
Expenses:			
Interest	148,930	132,080	100,600
Employee	76,429	89,155	92,902
Employee stock options	11,781	35,233	15,599
Administrative	49,424	50,580	39,005
Total operating expenses	286,564	307,048	248,106
Net investment income before income taxes	215,680	154,657	204,452
Income tax expense, including excise tax	2,506	13,624	15,221
Net investment income	213,174	141,033	189,231
Net Realized and Unrealized Gains (Losses):			
Net realized gains (losses)			
Companies more than 25% owned	(131,440)	226,437	513,314
Companies 5% to 25% owned	(14,120)	(10,046)	4,467
Companies less than 5% owned	16,142	52,122	15,520
Total net realized gains (losses)	(129,418)	268,513	533,301
Net change in unrealized appreciation or depreciation	(1,123,762)	(256,243)	(477,409)
Total net gains (losses)			

	(1,253,180)	12,270	55,892
Net increase (decrease) in net assets resulting from operations	$ (1,040,006)	$ 153,303	$ 245,123
Basic earnings (loss) per common share	$ (6.01)	$ 1.00	$ 1.72
Diluted earnings (loss) per common share	$ (6.01)	$ 0.99	$ 1.68
Weighted average common shares outstanding basic	172,996	152,876	142,405
Weighted average common shares outstanding diluted	172,996	154,687	145,599

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

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(in thousands, except per share amounts)

	For the Years Ended December 31, 2008	2007	2006
Operations:			
Net investment income	$ 213,174	$ 141,033	$ 189,231
Net realized gains (losses)	(129,418)	268,513	533,301
Net change in unrealized appreciation or depreciation	(1,123,762)	(256,243)	(477,409)
Net increase (decrease) in net assets resulting from operations	(1,040,006)	153,303	245,123
Shareholder distributions:			
Common stock dividends	(456,531)	(407,317)	(354,892)
Preferred stock dividends	(10)	(10)	(10)
Net decrease in net assets resulting from shareholder distributions	(456,541)	(407,327)	(354,902)
Capital share transactions:			
Sale of common stock	402,478	171,282	295,769
Issuance of common stock in lieu of cash distributions	3,751	17,095	14,996
Issuance of common stock upon the exercise of stock options		14,251	11,734
Cash portion of option cancellation payment		(52,833)	
Stock option expense	11,906	35,810	15,835
Net decrease in notes receivable from sale of common stock	1,603	158	1,018
Purchase of common stock held in deferred compensation trust	(943)	(12,444)	(9,855)
Distribution of common stock held in deferred compensation trust	27,335	837	980
Other	(3,030)	10,471	
Net increase in net assets resulting from capital share transactions	443,100	184,627	330,477
Total net increase (decrease) in net assets	(1,053,447)	(69,397)	220,698
Net assets at beginning of year	2,771,847	2,841,244	2,620,546
Net assets at end of year	$ 1,718,400	$ 2,771,847	$ 2,841,244
Net asset value per common share	$ 9.62	$ 17.54	$ 19.12
Common shares outstanding at end of year	178,692	158,002	148,575

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

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)

	For the Years Ended December 31,		
	2008	**2007**	**2006**
Cash flows from operating activities:			
Net increase (decrease) in net assets resulting from operations	$ (1,040,006)	$ 153,303	$ 245,123
Adjustments:			
Portfolio investments	(1,070,092)	(1,845,973)	(2,257,828)
Principal collections related to investment repayments or sales	1,037,348	1,211,550	1,055,347
Payment-in-kind interest and dividends, net of cash collections	(53,364)	(11,997)	(4,138)
Change in accrued interest and dividends	14,860	(11,916)	(4,021)
Net collection (amortization) of discounts and fees	(13,083)	(4,101)	1,713
Net redemption of U.S. Treasury bills, money market and other securities	200,935	988	19,757
Stock option expense	11,906	35,810	15,835
Changes in other assets and liabilities	(41,481)	(12,466)	36,418
Depreciation and amortization	913	2,064	1,800
Realized gains from the receipt of notes and other consideration from sale of investments, net of collections	4,574	(17,706)	(209,049)
Realized losses	279,886	131,997	24,169
Net change in unrealized (appreciation) or depreciation	1,123,762	256,243	477,409
Net cash provided by (used in) operating activities	456,158	(112,204)	(597,465)
Cash flows from financing activities:			
Sale of common stock	402,478	171,282	295,769
Sale of common stock upon the exercise of stock options		14,251	11,734
Collections of notes receivable from sale of common stock	1,603	158	1,018
Borrowings under notes payable	193,000	230,000	700,000
Repayments on notes payable and debentures	(218,212)		(203,500)
Net borrowings under (repayments on) revolving line of credit	(317,250)	159,500	116,000
Cash portion of option cancellation payment		(52,833)	
Purchase of common stock held in deferred compensation trust	(943)	(12,444)	(9,855)
Payment of deferred financing costs and other financing activities	(17,182)	1,798	(6,795)
Common stock dividends and distributions paid	(452,780)	(397,645)	(336,572)
Preferred stock dividends paid	(10)	(10)	(10)
Net cash provided by (used in) financing activities	(409,296)	114,057	567,789
Net increase (decrease) in cash	46,862	1,853	(29,676)
Cash at beginning of year	3,540	1,687	31,363
Cash at end of year	$ 50,402	$ 3,540	$ 1,687

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

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS

December 31, 2008

(in thousands, except number of shares)

Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Companies More Than 25% Owned				
AGILE Fund I, LLC(5) (Private Equity Fund)	Equity Interests		$ 694	$ 497
	Total Investment		**694**	**497**
AllBridge Financial, LLC (Asset Management)	Equity Interests		33,294	10,960
	Total Investment		**33,294**	**10,960**
	Standby Letter of Credit ($15,000)			
Allied Capital Senior Debt Fund, L.P.(5) (Private Debt Fund)	Equity Interests (See Note 3)		31,800	31,800
	Total Investment		**31,800**	**31,800**
Avborne, Inc.(7) (Business Services)	Preferred Stock (12,500 shares)			942
	Common Stock (27,500 shares)			
	Total Investment			**942**
Avborne Heavy Maintenance, Inc.(7) (Business Services)	Common Stock (2,750 shares)			
	Total Investment			
Aviation Properties Corporation (Business Services)	Common Stock (100 shares)		93	
	Total Investment		**93**	
	Standby Letters of Credit ($1,000)			
Border Foods, Inc. (Consumer Products)	Senior Loan (12.6%, Due 12/09 3/12)	$ 33,027	26,860	33,027
	Preferred Stock (100,000 shares)		12,721	11,851
	Common Stock (260,467 shares)		3,847	

	Total Investment		**43,428**	**44,878**
Calder Capital Partners, LLC(5) (Asset Management)	Senior Loan (10.5%, Due 5/09)(6)	4,496	4,496	953
	Equity Interests		2,453	
	Total Investment		**6,949**	**953**
Callidus Capital Corporation (Asset Management)	Subordinated Debt (18.0%, Due 8/13 2/14)	16,068	16,068	16,068
	Common Stock (100 shares)			34,377
	Total Investment		**16,068**	**50,445**
	Guaranty ($6,447)			
Ciena Capital LLC (Financial Services)	Senior Loan (5.5%, Due 3/09)(6)	319,031	319,031	104,883
	Class B Equity Interests		119,436	
	Class C Equity Interests		109,301	
	Total Investment		**547,768**	**104,883**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
CitiPostal Inc.	Guaranty ($5,000 See Note 3)			
(Business Services)	Standby Letters of Credit ($102,600 See Note 3)			
	Senior Loan (4.0%, Due 12/13)	$ 692	$ 681	$ 681
	Unitranche Debt (12.0%, Due 12/13)	51,758	51,548	51,548
	Subordinated Debt (16.0%, Due 12/15)	9,114	9,114	9,114
	Common Stock (37,024 shares)		12,726	8,616
	Total Investment		**74,069**	**69,959**
Coverall North America, Inc.	Unitranche Debt (12.0%, Due 7/11)	32,035	31,948	31,948
(Business Services)	Subordinated Debt (15.0%, Due 7/11)	5,563	5,549	5,549
	Common Stock (763,333 shares)		14,361	17,968
	Total Investment		**51,858**	**55,465**
CR Holding, Inc. (Consumer Products)	Subordinated Debt (16.6%, Due 2/13)(6)	39,307	39,193	17,360
	Common Stock (32,090,696 shares)		28,744	
	Total Investment		**67,937**	**17,360**
Crescent Equity Corp.(8)	Senior Loan (10.0%, Due 1/09)	433	433	433
(Business Services)	Subordinated Debt (11.0%, Due 9/11 6/17)	22,312	22,247	14,283
	Subordinated Debt (11.0%, Due 1/12 9/12)(6)	10,097	10,072	4,331
	Common Stock (174 shares)		81,255	4,580
	Total Investment		**114,007**	**23,627**
Direct Capital Corporation	Guaranty ($900)			
(Financial Services)	Standby Letters of Credit ($200)			
	Subordinated Debt (16.0%, Due 3/13)(6)	55,671	55,496	13,530
	Common Stock (2,317,020 shares)		25,732	
	Total Investment		**81,228**	**13,530**
Financial Pacific Company	Subordinated Debt (17.4%, Due 2/12 8/12)	68,967	68,840	62,189
(Financial Services)	Preferred Stock (9,458 shares)		8,865	
	Common Stock (12,711 shares)		12,783	
	Total Investment		**90,488**	**62,189**

ForeSite Towers, LLC (Tower Leasing)	Equity Interest			889
	Total Investment			**889**
Global Communications, LLC (Business Services)	Senior Loan (10.0%, Due 9/02)(6)	1,335	1,335	1,335
	Total Investment		**1,335**	**1,335**
Hot Light Brands, Inc. (Retail)	Senior Loan (9.0%, Due 2/11)(6)	30,522	30,522	13,678
	Common Stock (93,500 shares)		5,151	
	Total Investment		**35,673**	**13,678**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Hot Stuff Foods, LLC	Standby Letter of Credit ($105)			
(Consumer Products)	Senior Loan (4.0%, Due 2/11 2/12)	$ 53,597	$ 53,456	$ 42,378
	Subordinated Debt (12.4%, Due 8/12 2/13)(6)	83,692	83,387	
	Common Stock (1,147,453 shares)		56,187	
	Total Investment		**193,030**	**42,378**
Huddle House, Inc. (Retail)	Subordinated Debt (15.0%, Due 12/12)	57,244	57,067	57,067
	Common Stock (358,428 shares)		35,828	20,922
	Total Investment		**92,895**	**77,989**
IAT Equity, LLC and Affiliates d/b/a Industrial Air Tool	Subordinated Debt (9.0%, Due 6/14)	6,000	6,000	6,000
(Industrial Products)	Equity Interests		7,500	8,860
	Total Investment		**13,500**	**14,860**
Impact Innovations Group, LLC (Business Services)	Equity Interests in Affiliate			321
	Total Investment			**321**
Insight Pharmaceuticals Corporation	Subordinated Debt (15.0%, Due 9/12)	45,827	45,738	45,827
(Consumer Products)	Subordinated Debt (19.0%, Due 9/12)(6)	16,177	16,126	17,532
	Preferred Stock (25,000 shares)		25,000	4,068
	Common Stock (620,000 shares)		6,325	
	Total Investment		**93,189**	**67,427**
Jakel, Inc. (Industrial Products)	Subordinated Debt (15.5%, Due 3/08)(6)	748	748	374
	Total Investment		**748**	**374**
Knightsbridge CLO 2007-1 Ltd.(4)	Class E Notes (13.8%, Due 1/22)	18,700	18,700	14,866
(CLO)	Income Notes (14.9%)(11)		40,914	35,214
	Total Investment		**59,614**	**50,080**
Knightsbridge CLO 2008-1 Ltd.(4)	Class C Notes (9.3%, Due 6/18)	12,800	12,800	12,800
(CLO)	Class D Notes (10.3%, Due 6/18)	8,000	8,000	8,000

	Class E Notes (6.8%, Due 6/18)	13,200	10,573	10,573
	Income Notes (16.6%)(11)		21,315	21,315
	Total Investment		**52,688**	**52,688**
MHF Logistical Solutions, Inc. (Business Services)	Subordinated Debt (13.0%, Due 6/12 6/13)(6)	49,841	49,633	
	Preferred Stock (10,000 shares)			
	Common Stock (20,934 shares)		20,942	
	Total Investment		**70,575**	
MVL Group, Inc. (Business Services)	Senior Loan (12.0%, Due 6/09 7/09)	30,674	30,663	30,663
	Subordinated Debt (14.5%, Due 6/09 7/09)	41,074	40,994	40,994
	Subordinated Debt (3.0%, Due 6/09)(6)	144	139	86
	Common Stock (560,716 shares)		555	
	Total Investment		**72,351**	**71,743**

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Private Finance Portfolio Company	**Investment(1)(2)**	**Principal**	**Cost**	**Value**
Old Orchard Brands, LLC	Subordinated Debt (18.0%, Due 7/14)	$ 18,951	$ 18,882	$ 18,882
(Consumer Products)	Equity Interests		16,857	27,763
	Total Investment		**35,739**	**46,645**
Penn Detroit Diesel Allison, LLC	Subordinated Debt (15.5%, Due 8/13)	37,984	37,869	37,869
(Business Services)	Equity Interests		18,873	21,100
	Total Investment		**56,742**	**58,969**
Service Champ, Inc.	Subordinated Debt (15.5%, Due 4/12)	27,050	26,984	26,984
(Business Services)	Common Stock (55,112 shares)		11,785	21,156
	Total Investment		**38,769**	**48,140**
Stag-Parkway, Inc.	Unitranche Debt (14.0%, Due 7/12)	17,975	17,920	17,962
(Business Services)	Common Stock (25,000 shares)		32,686	6,968
	Total Investment		**50,606**	**24,930**
Startec Equity, LLC (Telecommunications)	Equity Interests		211	332
	Total Investment		**211**	**332**
Unitranche Fund LLC	Subordinated Certificates (12.0%)		125,423	125,423
(Private Debt Fund)	Equity Interests		1	1
	Total Investment		**125,424**	**125,424**
Worldwide Express Operations, LLC (Business Services)	Subordinated Debt (14.0%, Due 2/14)(6)	2,865	2,722	2,032
	Equity Interests		11,384	
	Warrants		144	
	Total Investment		**14,250**	**2,032**
Total companies more than 25% owned			**$ 2,167,020**	**$ 1,187,722**
Companies 5% to 25% Owned				
10th Street, LLC (Business Services)	Subordinated Debt (13.0%, Due 11/14)	21,439	21,329	21,439
	Equity Interests		422	975
	Option		25	25
	Total Investment		**21,776**	**22,439**
Advantage Sales & Marketing, Inc.		158,617	158,132	135,000

	Subordinated Debt (12.0%, Due 3/14)			
(Business Services)	Equity Interests			5,000
	Total Investment		**158,132**	**140,000**
Air Medical Group Holdings LLC	Senior Loan (3.3%, Due 3/11)	3,360	3,326	3,139
(Healthcare Services)	Equity Interests		2,993	10,800
	Total Investment		**6,319**	**13,939**
Alpine ESP Holdings, Inc.	Preferred Stock (701 shares)		701	
(Business Services)	Common Stock (11,657 shares)		13	
	Total Investment		**714**	
Amerex Group, LLC	Subordinated Debt (12.3%, Due 1/13)	8,789	8,784	8,784
(Consumer Products)	Equity Interests		3,508	9,932
	Total Investment		**12,292**	**18,716**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
BB&T Capital Partners/Windsor Mezzanine Fund, LLC(5) (Private Equity Fund)	Equity Interests		$ 11,789	$ 11,063
	Total Investment		**11,789**	**11,063**
Becker Underwood, Inc.	Subordinated Debt (14.5%, Due 8/12)	$ 25,503	25,450	25,502
(Industrial Products)	Common Stock (4,376 shares)		5,014	2,267
	Total Investment		**30,464**	**27,769**
Drew Foam Companies, Inc.	Preferred Stock (622,555 shares)		623	512
(Business Services)	Common Stock (6,286 shares)		6	
	Total Investment		**629**	**512**
Driven Brands, Inc.	Subordinated Debt (16.5%, Due 7/15)	84,106	83,698	83,698
(Consumer Services)	Common Stock (3,772,098 shares)		9,516	4,855
	Total Investment		**93,214**	**88,553**
Hilden America, Inc. (Consumer Products)	Common Stock (19 shares)		454	76
	Total Investment		**454**	**76**
Lydall Transport, Ltd. (Business Services)	Equity Interests		432	345
	Total Investment		**432**	**345**
Multi-Ad Services, Inc.	Unitranche Debt (11.3%, Due 11/11)	3,018	2,995	2,941
(Business Services)	Equity Interests		1,737	1,782
	Total Investment		**4,732**	**4,723**
Progressive International Corporation	Preferred Stock (500 shares)		500	1,125
(Consumer Products)	Common Stock (197 shares)		13	4,600
	Warrants			
	Total Investment		**513**	**5,725**
Regency Healthcare Group, LLC	Unitranche Debt (11.1%, Due 6/12)	10,901	10,855	10,825
(Healthcare Services)	Equity Interests		1,302	2,050
	Total Investment		**12,157**	**12,875**

SGT India Private Limited(4) (Business Services)	Common Stock (150,596 shares)		4,137	
	Total Investment		**4,137**	
Soteria Imaging Services, LLC (Healthcare Services)	Subordinated Debt (11.3%, Due 11/10)	4,250	4,167	4,054
	Equity Interests		1,881	1,971
	Total Investment		**6,048**	**6,025**
Triax Holdings, LLC (Consumer Products)	Subordinated Debt (21.0%, Due 2/12)(6)	10,625	10,587	
	Equity Interests		16,528	
	Total Investment		**27,115**	
Universal Environmental Services, LLC (Business Services)	Equity Interests		1,599	
	Total Investment		**1,599**	

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Total companies 5% to 25% owned			**$ 392,516**	**$ 352,760**
Companies Less Than 5% Owned				
3SI Security Systems, Inc. (Consumer Products)	Subordinated Debt (14.6%, Due 8/13)	$ 29,200	$ 29,118	$ 28,170
	Total Investment		**29,118**	**28,170**
Abraxas Corporation (Business Services)	Subordinated Debt (14.6%, Due 4/13)	36,822	36,662	36,170
	Total Investment		**36,662**	**36,170**
Augusta Sportswear Group, Inc.	Subordinated Debt (13.0%, Due 1/15)	53,000	52,825	52,406
(Consumer Products)	Common Stock (2,500 shares)		2,500	1,400
	Total Investment		**55,325**	**53,806**
Axium Healthcare Pharmacy, Inc.	Senior Loan (14.0%, Due 12/12)	3,750	3,724	3,654
(Healthcare Services)	Unitranche Debt (14.0%, Due 12/12)	8,500	8,471	7,908
	Common Stock (22,860 shares)		2,286	100
	Total Investment		**14,481**	**11,662**
Baird Capital Partners IV Limited(5) (Private Equity Fund)	Limited Partnership Interest		3,636	2,978
	Total Investment		**3,636**	**2,978**
BenefitMall Holdings Inc.	Subordinated Debt (18.0%, Due 6/14)	40,326	40,238	40,238
(Business Services)	Common Stock (39,274,290 shares)(12)		39,274	91,149
	Warrants(12)			
	Total Investment		**79,512**	**131,387**
Broadcast Electronics, Inc.	Senior Loan (8.8%, Due 11/11)(6)	4,912	4,884	773
(Business Services)	Preferred Stock (2,044 shares)			
	Total Investment		**4,884**	**773**
Bushnell, Inc. (Consumer Products)	Subordinated Debt (8.0%, Due 2/14)	41,325	40,003	35,794

	Total Investment		**40,003**	**35,794**
Callidus Debt Partners CDO Fund I, Ltd.(4)(10) (CDO)	Class C Notes (12.9%, Due 12/13)	18,800	18,907	10,116
	Class D Notes (17.0%, Due 12/13)	9,400	9,454	
	Total Investment		**28,361**	**10,116**
Callidus Debt Partners CLO Fund III, Ltd.(4)(10) (CLO)	Preferred Shares (23,600,000 shares)		20,138	5,402
	Total Investment		**20,138**	**5,402**

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Private Finance Portfolio Company	**Investment(1)(2)**	**Principal**	**Cost**	**Value**
Callidus Debt Partners CLO Fund IV, Ltd.(4)(10) (CLO)	Class D Notes (9.1%, Due 4/20)	$ 3,000	$ 2,045	$ 1,445
	Income Notes (13.2%)(11)		14,591	10,628
	Total Investment		**16,636**	**12,073**
Callidus Debt Partners CLO Fund V, Ltd.(4)(10) (CLO)	Income Notes (16.4%)(11)		13,388	10,331
	Total Investment		**13,388**	**10,331**
Callidus Debt Partners CLO Fund VI, Ltd.(4)(10) (CLO)	Class D Notes (9.8%, Due 10/21)	9,000	7,144	3,929
	Income Notes (17.8%)(11)		28,314	23,090
	Total Investment		**35,458**	**27,019**
Callidus Debt Partners CLO Fund VII, Ltd.(4)(10) (CLO)	Income Notes (11.4%)(11)		24,026	15,361
	Total Investment		**24,026**	**15,361**
Callidus MAPS CLO Fund I LLC(10) (CLO)	Class E Notes (7.0%, Due 12/17)	17,000	17,000	9,813
	Income Notes (4.0%)(11)		45,053	27,678
	Total Investment		**62,053**	**37,491**
Callidus MAPS CLO Fund II, Ltd.(4)(10) (CLO)	Class D Notes (8.8%, Due 7/22)	7,700	3,555	2,948
	Income Notes (13.3%)(11)		18,393	12,626
	Total Investment		**21,948**	**15,574**
Carlisle Wide Plank Floors, Inc. (Consumer Products)	Senior Loan (6.1%, Due 6/11)	1,000	998	953
	Unitranche Debt (14.5%, Due 6/11)	3,161	3,139	3,047
	Preferred Stock (345,056 Shares)		345	82
	Total Investment		**4,482**	**4,082**
Catterton Partners VI, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		2,812	2,356
	Total Investment		**2,812**	**2,356**
Centre Capital Investors V, L.P.(5)	Limited Partnership Interest		3,049	2,344

(Private Equity Fund)				
	Total Investment		**3,049**	**2,344**
CK Franchising, Inc. (Consumer Services)	Subordinated Debt (12.3%, Due 7/12 7/17)	21,000	20,912	20,912
	Preferred Stock (1,281,887 shares)		1,282	1,592
	Common Stock (7,585,549 shares)		7,586	10,600
	Total Investment		**29,780**	**33,104**
Commercial Credit Group, Inc. (Financial Services)	Subordinated Debt (15.0%, Due 6/15)	19,000	18,970	18,970
	Preferred Stock (64,679 shares)		15,543	9,073
	Warrants			
	Total Investment		**34,513**	**28,043**
Community Education Centers, Inc. (Education Services)	Subordinated Debt (14.5%, Due 11/13)	35,548	35,486	34,056
	Total Investment		**35,486**	**34,056**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Component Hardware Group, Inc. (Industrial Products)	Subordinated Debt (13.5%, Due 1/13)	$ 18,710	$ 18,654	$ 18,261
	Total Investment		**18,654**	**18,261**
Cook Inlet Alternative Risk, LLC (Business Services)	Unitranche Debt (10.8%, Due 4/13)	90,000	89,619	82,839
	Equity Interests		552	
	Total Investment		**90,171**	**82,839**
Cortec Group Fund IV, L.P.(5) (Private Equity)	Limited Partnership Interest		4,647	3,445
	Total Investment		**4,647**	**3,445**
Diversified Mercury Communications, LLC (Business Services)	Senior Loan (4.5%, Due 3/13)	2,972	2,958	2,692
	Total Investment		**2,958**	**2,692**
Digital VideoStream, LLC (Business Services)	Unitranche Debt (11.0%, Due 2/12)	14,097	14,032	14,003
	Convertible Subordinated Debt (10.0%, Due 2/16)	4,545	4,533	4,700
	Total Investment		**18,565**	**18,703**
DirectBuy Holdings, Inc. (Consumer Products)	Subordinated Debt (14.5%, Due 5/13)	75,909	75,609	71,703
	Equity Interests		8,000	3,200
	Total Investment		**83,609**	**74,903**
Distant Lands Trading Co. (Consumer Products)	Senior Loan (7.5%, Due 11/11)	4,825	4,800	4,501
	Unitranche Debt (12.3%, Due 11/11)	43,133	43,022	42,340
	Common Stock (3,451 shares)		3,451	984
	Total Investment		**51,273**	**47,825**
Dryden XVIII Leveraged Loan 2007 Limited(4) (CLO)	Class B Notes (8.0%, Due 10/19)	9,000	7,728	4,535
	Income Notes (16.0%)(11)		22,080	17,477
	Total Investment		**29,808**	**22,012**
Dynamic India Fund IV(4)(5)	Equity Interests		9,350	8,966

(Private Equity Fund)				
	Total Investment		**9,350**	**8,966**
EarthColor, Inc.	Subordinated Debt (15.0%, Due 11/13)(6)	123,819	123,385	77,243
(Business Services)	Common Stock (63,438 shares)(12)		63,438	
	Warrants(12)			
	Total Investment		**186,823**	**77,243**
eCentury Capital Partners, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		7,274	1,431
	Total Investment		**7,274**	**1,431**
eInstruction Corporation	Subordinated Debt (12.6%, Due 7/14-1/15)	33,931	33,795	31,670
(Education Services)	Common Stock (2,406 shares)		2,500	1,700
	Total Investment		**36,295**	**33,370**
Farley's & Sathers Candy Company, Inc. (Consumer Products)	Subordinated Debt (10.1%, Due 3/11)	2,500	2,493	2,365
	Total Investment		**2,493**	**2,365**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
FCP-BHI Holdings, LLC d/b/a Bojangles' (Retail)	Subordinated Debt (12.0%, Due 9/13)	$ 27,284	$ 27,191	$ 25,640
	Equity Interests		1,029	1,700
	Total Investment		**28,220**	**27,340**
Fidus Mezzanine Capital, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		9,597	6,754
	Total Investment		**9,597**	**6,754**
Freedom Financial Network, LLC (Financial Services)	Subordinated Debt (13.5%, Due 2/14)	13,000	12,945	12,811
	Total Investment		**12,945**	**12,811**
Geotrace Technologies, Inc. (Energy Services)	Warrants		2,027	3,000
	Total Investment		**2,027**	**3,000**
Gilchrist & Soames, Inc. (Consumer Products)	Subordinated Debt (13.4%, Due 10/13)	25,800	25,660	24,692
	Total Investment		**25,660**	**24,692**
Havco Wood Products LLC (Industrial Products)	Equity Interests		910	400
	Total Investment		**910**	**400**
Higginbotham Insurance Agency, Inc. (Business Services)	Subordinated Debt (13.7%, Due 8/13-8/14)	53,305	53,088	53,088
	Common Stock (23,695 shares)(12)		23,695	27,335
	Warrant(12)			
	Total Investment		**76,783**	**80,423**
The Hillman Companies, Inc.(3) (Consumer Products)	Subordinated Debt (10.0%, Due 9/11)	44,580	44,491	44,345
	Total Investment		**44,491**	**44,345**
The Homax Group, Inc.	Senior Loan (7.2%, Due 10/12)	11,785	11,742	10,689

(Consumer Products)	Subordinated Debt (14.5%, Due 4/14)	14,000	13,371	12,859
	Preferred Stock (76 shares)		76	
	Common Stock (24 shares)		5	
	Warrants		954	
	Total Investment		**26,148**	**23,548**
Ideal Snacks Corporation (Consumer Products)	Senior Loan (5.3%, Due 6/10)	1,496	1,496	1,438
	Total Investment		**1,496**	**1,438**
Kodiak Fund LP(5) (Private Equity Fund)	Equity Interests		9,422	900
	Total Investment		**9,422**	**900**
Market Track Holdings, LLC (Business Services)	Senior Loan (8.0%, Due 6/14)	2,500	2,450	2,352
	Subordinated Debt (15.9%, Due 6/14)	24,600	24,488	23,785
	Total Investment		**26,938**	**26,137**
NetShape Technologies, Inc. (Industrial Products)	Senior Loan (5.3%, Due 2/13)	382	382	346
	Total Investment		**382**	**346**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Network Hardware Resale, Inc. (Business Services)	Unitranche Debt (12.5%, Due 12/11)	$ 18,734	$ 18,809	$ 18,703
	Convertible Subordinated Debt (9.8%, Due 12/15)	14,533	14,585	14,585
	Total Investment		**33,394**	**33,288**
Novak Biddle Venture Partners III, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		2,018	1,349
	Total Investment		**2,018**	**1,349**
Oahu Waste Services, Inc. (Business Services)	Stock Appreciation Rights		206	750
	Total Investment		**206**	**750**
Pangaea CLO 2007-1 Ltd.(4) (CLO)	Class D Notes (9.2%, Due 10/21)	15,000	11,761	7,114
	Total Investment		**11,761**	**7,114**
PC Helps Support, LLC (Business Services)	Senior Loan (4.8%, Due 12/13)	8,610	8,520	8,587
	Subordinated Debt (13.3%, Due 12/13)	28,136	28,009	28,974
	Total Investment		**36,529**	**37,561**
Performant Financial Corporation (Business Services)	Common Stock (478,816 shares)		734	200
	Total Investment		**734**	**200**
Peter Brasseler Holdings, LLC (Business Services)	Equity Interests		3,451	2,900
	Total Investment		**3,451**	**2,900**
PharMEDium Healthcare Corporation (Healthcare Services)	Senior Loan (4.3%, Due 10/13)	1,910	1,910	1,747
	Total Investment		**1,910**	**1,747**
Postle Aluminum Company, LLC (Industrial Products)	Unitranche Debt (13.0%, Due 10/12)(6)	58,953	58,744	9,978
	Equity Interests		2,174	

	Total Investment		**60,918**	**9,978**
Pro Mach, Inc.	Subordinated Debt (12.5%,			
	Due 6/12)	14,616	14,573	14,089
(Industrial Products)	Equity Interests		1,294	1,900
	Total Investment		**15,867**	**15,989**
Promo Works, LLC	Unitranche Debt (12.3%,			
	Due 12/11)	23,111	22,954	21,266
(Business Services)				
	Total Investment		**22,954**	**21,266**
Reed Group, Ltd.	Senior Loan (7.6%, Due 12/13)	12,893	12,758	11,502
(Healthcare Services)	Subordinated Debt (13.8%,			
	Due 12/13)	18,543	18,469	16,683
	Equity Interests		1,800	300
	Total Investment		**33,027**	**28,485**
S.B. Restaurant	Unitranche Debt (9.8%,			
Company	Due 4/11)	36,501	36,295	34,914
(Retail)	Preferred Stock (46,690 shares)		117	117
	Warrants		534	
	Total Investment		**36,946**	**35,031**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Snow Phipps Group, L.P.(5) (Private Equity Fund)	Standby Letters of Credit ($2,465)			
	Limited Partnership Interest		$ 4,785	$ 4,374
	Total Investment		**4,785**	**4,374**
SPP Mezzanine Funding II, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		9,362	9,269
	Total Investment		**9,362**	**9,269**
STS Operating, Inc. (Industrial Products)	Subordinated Debt (11.0%, Due 1/13)	$ 30,386	30,296	29,745
	Total Investment		**30,296**	**29,745**
Summit Energy Services, Inc. (Business Services)	Subordinated Debt (11.6%, Due 8/13)	35,730	35,547	32,113
	Common Stock (415,982 shares)		1,861	1,900
	Total Investment		**37,408**	**34,013**
Tank Intermediate Holding Corp. (Industrial Products)	Senior Loan (7.1%, Due 9/14)	30,514	29,539	25,937
	Total Investment		**29,539**	**25,937**
Tappan Wire & Cable Inc. (Business Services)	Unitranche Debt (15.0%, Due 8/14)	22,346	22,248	15,625
	Common Stock (12,940 shares)(12)		2,043	
	Warrant(12)			
	Total Investment		**24,291**	**15,625**
The Step2 Company, LLC (Consumer Products)	Unitranche Debt (11.0%, Due 4/12)	95,083	94,816	90,474
	Equity Interests		2,156	1,161
	Total Investment		**96,972**	**91,635**
Tradesmen International, Inc. (Business Services)	Subordinated Debt (12.0%, Due 12/12)	40,000	39,586	37,840
	Total Investment		**39,586**	**37,840**
TransAmerican Auto Parts, LLC (Consumer Products)	Subordinated Debt (16.3%, Due 11/12)(6)	24,561	24,409	
	Equity Interests		1,034	

	Total Investment		**25,443**	
Trover Solutions, Inc. (Business Services)	Subordinated Debt (12.0%, Due 11/12)	60,054	59,847	57,362
	Total Investment		**59,847**	**57,362**
United Road Towing, Inc. (Consumer Services)	Subordinated Debt (12.1%, Due 1/14)	20,000	19,915	20,000
	Total Investment		**19,915**	**20,000**
Venturehouse-Cibernet Investors, LLC (Business Services)	Equity Interest			
	Total Investment			
VICORP Restaurants, Inc. (Retail)	Warrants		33	
	Total Investment		**33**	

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
WMA Equity Corporation and Affiliates d/b/a Wear Me Apparel (Consumer Products)	Subordinated Debt (16.8%, Due 4/13-4/14)(6)	$ 139,455	$ 138,559	$ 63,823
	Common Stock (86 shares)		39,721	
	Total Investment		**178,280**	**63,823**
Webster Capital II, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		1,702	1,481
	Total Investment		**1,702**	**1,481**
Woodstream Corporation (Consumer Products)	Subordinated Debt (12.0%, Due 2/15)	90,000	89,633	83,258
	Common Stock (6,960 shares)		6,961	2,500
	Total Investment		**96,594**	**85,758**
York Insurance Services Group, Inc. (Business Services)	Common Stock (12,939 shares)		1,294	1,700
	Total Investment		**1,294**	**1,700**
Other companies	Other debt investments	155	74	72
	Other equity investments		30	8
	Total Investment		**104**	**80**
Total companies less than 5% owned			**$ 2,317,856**	**$ 1,858,581**
Total private finance (138 portfolio investments)			**$ 4,877,392**	**$ 3,399,063**

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

	Stated Interest Rate Ranges	Number of Loans	December 31, 2008 (unaudited) Cost	Value
Commercial Mortgage Loans				
	Up to 6.99%	4	$ 30,999	$ 30,537
	7.00% 8.99%	1	644	580
	9.00% 10.99%	1	6,465	6,465
	11.00% 12.99%	1	10,469	9,391
	15.00% and above	2	3,970	6,529
Total commercial mortgage loans(13)			**$ 52,547**	**$ 53,502**
Real Estate Owned			**$ 18,201**	**$ 20,823**

Equity Interests(2) Companies more than 25% owned	**$**	**14,755**	**$**	**19,562**
Guarantees ($6,871)				
Standby Letter of Credit ($650)				
Total commercial real estate finance	**$**	**85,503**	**$**	**93,887**
Total portfolio	**$**	**4,962,895**	**$**	**3,492,950**

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	Yield	Cost	Value
Investments in Money Market and Other Securities			
SEI Daily Income Tr Prime Obligation Money Market Fund	0.9%	$ 5	$ 5
Columbia Treasury Reserves Fund		12	12
Other Money Market Funds		270	270
Total		$ 287	$ 287

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

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

(3) Public company.

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

(5) Non-registered investment company.

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

(7) Avborne, Inc. and Avborne Heavy Maintenance, Inc. are affiliated companies.

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

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

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

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

(13) Commercial mortgage loans totaling $7.7 million at value were on non-accrual status and therefore were considered non-income producing.

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

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INVESTMENTS

December 31, 2007

(in thousands, except number of shares)

Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Companies More Than 25% Owned				
Alaris Consulting, LLC (Business Services)	Senior Loan (16.5%, Due 12/05 - 12/07)(6)	$ 27,055	$ 26,987	$
	Equity Interests		5,189	
	Total Investment		**32,176**	
	Guaranty ($1,100)			
AllBridge Financial, LLC (Asset Management)	Equity Interests		7,800	7,800
	Total Investment		**7,800**	**7,800**
Allied Capital Senior Debt Fund, L.P.(5)	Standby Letter of Credit ($30,000)			
(Private Debt Fund)	Equity Interests (See Note 3)		31,800	32,811
	Total Investment		**31,800**	**32,811**
Avborne, Inc.(7) (Business Services)	Preferred Stock (12,500 shares)		611	1,633
	Common Stock (27,500 shares)			
	Total Investment		**611**	**1,633**
Avborne Heavy Maintenance, Inc.(7) (Business Services)	Preferred Stock (1,568 shares)		2,401	2,557
	Common Stock (2,750 shares)			370
	Total Investment		**2,401**	**2,927**
	Guaranty ($2,401)			
Aviation Properties Corporation (Business Services)	Common Stock (100 shares)		65	
	Total Investment		**65**	
Border Foods, Inc.	Standby Letters of Credit ($1,000)			
(Consumer Products)	Preferred Stock (100,000 shares)		12,721	4,648
	Common Stock (148,838 shares)		3,847	

	Total Investment		**16,568**	**4,648**
Calder Capital Partners, LLC(5) (Asset Management)	Senior Loan (9.4%, Due 5/09)(6)	2,907	2,907	3,035
	Equity Interests		2,396	3,559
	Total Investment		**5,303**	**6,594**
Callidus Capital Corporation (Asset Management)	Subordinated Debt (18.0%, Due 10/08)	6,871	6,871	6,871
	Common Stock (100 shares)		2,067	44,587
	Total Investment		**8,938**	**51,458**
Ciena Capital LLC (Financial Services)	Class A Equity Interests (25.0% See Note 3)(6)	99,044	99,044	68,609
	Class B Equity Interests		119,436	
	Class C Equity Interests		109,301	
	Total Investment		**327,781**	**68,609**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
CitiPostal Inc. (Business Services)	Guaranty ($258,707 See Note 3)			
	Standby Letters of Credit ($18,000 See Note 3)			
	Senior Loan (8.4%, Due 12/13)	$ 692	$ 679	$ 679
	Unitranche Debt (12.0%, Due 12/13)	50,852	50,597	50,597
	Subordinated Debt (16.0%, Due 12/15)	8,049	8,049	8,049
	Common Stock (37,024 shares)		12,726	12,726
	Total Investment		**72,051**	**72,051**
Coverall North America, Inc. (Business Services)	Unitranche Debt (12.0%, Due 7/11)	35,054	34,923	34,923
	Subordinated Debt (15.0%, Due 7/11)	6,000	5,979	5,979
	Common Stock (884,880 shares)		16,648	27,597
	Total Investment		**57,550**	**68,499**
CR Holding, Inc. (Consumer Products)	Subordinated Debt (16.6%, Due 2/13)	40,956	40,812	40,812
	Common Stock (37,200,551 shares)		33,321	40,934
	Total Investment		**74,133**	**81,746**
Direct Capital Corporation (Financial Services)	Subordinated Debt (16.0%, Due 3/13)	39,184	39,030	39,030
	Common Stock (2,097,234 shares)		19,250	6,906
	Total Investment		**58,280**	**45,936**
Financial Pacific Company (Financial Services)	Subordinated Debt (17.4%, Due 2/12 - 8/12)	73,031	72,850	72,850
	Preferred Stock (10,964 shares)		10,276	19,330
	Common Stock (14,735 shares)		14,819	38,544
	Total Investment		**97,945**	**130,724**
ForeSite Towers, LLC (Tower Leasing)	Equity Interest			878
	Total Investment			**878**
Global Communications, LLC (Business Services)	Senior Loan (10.0%, Due 9/02)(6)	1,822	1,822	1,822
	Total Investment		**1,822**	**1,822**
Hot Stuff Foods, LLC	Senior Loan (8.4%, Due 2/11-2/12)	50,940	50,752	50,752

(Consumer Products)	Subordinated Debt (12.1%, Due 8/12)	30,000	29,907	29,907
	Subordinated Debt (15.4%, Due 2/13)(6)	52,373	52,150	1,337
	Common Stock (1,147,453 shares)		56,187	
	Total Investment		**188,996**	**81,996**
Huddle House, Inc.	Subordinated Debt (15.0%, Due 12/12)	59,857	59,618	59,618
(Retail)	Common Stock (415,328 shares)		41,533	44,154
	Total Investment		**101,151**	**103,772**
Impact Innovations Group, LLC (Business Services)	Equity Interests in Affiliate			320
	Total Investment			**320**
Insight Pharmaceuticals Corporation	Subordinated Debt (15.0%, Due 9/12)	44,257	44,136	45,041
(Consumer Products)	Subordinated Debt (19.0%, Due 9/12)(6)	16,181	16,130	16,796
	Preferred Stock (25,000 shares)		25,000	1,462
	Common Stock (620,000 shares)		6,325	
	Total Investment		**91,591**	**63,299**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Jakel, Inc. (Industrial Products)	Subordinated Debt (15.5%, Due 3/08)(6)	$ 1,563	$ 1,563	$ 1,563
	Total Investment		**1,563**	**1,563**
Legacy Partners Group, Inc.	Senior Loan (14.0%, Due 5/09)(6)	3,843	3,843	3,843
(Business Services)	Equity Interests		4,261	1,332
	Total Investment		**8,104**	**5,175**
Litterer Beteiligungs-GmbH(4)	Subordinated Debt (8.0%, Due 12/08)	772	772	772
(Business Services)	Equity Interest		1,809	700
	Total Investment		**2,581**	**1,472**
MVL Group, Inc.	Senior Loan (12.0%, Due 6/09 - 7/09)	30,674	30,639	30,639
(Business Services)	Subordinated Debt (14.5%, Due 6/09 - 7/09)	40,191	39,943	39,943
	Common Stock (648,661 shares)		643	4,949
	Total Investment		**71,225**	**75,531**
Old Orchard Brands, LLC	Subordinated Debt (18.0%, Due 7/14)	19,632	19,544	19,544
(Consumer Products)	Equity Interests		18,767	25,419
	Total Investment		**38,311**	**44,963**
Penn Detroit Diesel Allison, LLC	Subordinated Debt (15.5%, Due 8/13)	39,331	39,180	39,180
(Business Services)	Equity Interests		21,128	37,965
	Total Investment		**60,308**	**77,145**
Powell Plant Farms, Inc. (Consumer Products)	Senior Loan (15.0%, Due 12/07)(6)	1,350	1,350	1,534
	Total Investment		**1,350**	**1,534**
Service Champ, Inc.	Subordinated Debt (15.5%, Due 4/12)	28,443	28,351	28,351
(Business Services)	Common Stock (63,888 shares)		13,662	26,292
	Total Investment		**42,013**	**54,643**
Staffing Partners Holding Company, Inc. (Business Services)	Subordinated Debt (13.5%, Due 1/07)(6)	509	509	223
	Total Investment		**509**	**223**

Startec Equity, LLC (Telecommunications)	Equity Interests		190	430
	Total Investment		**190**	**430**
Sweet Traditions, Inc. (Retail)	Senior Loan (13.0%, Due 9/08 - 8/11)(6)	39,692	36,052	35,229
	Preferred Stock (961 shares)		950	
	Common Stock (10,000 shares)		50	
	Total Investment		**37,052**	**35,229**
Triview Investments, Inc.(8) (Broadcasting & Cable/Business Services/Consumer Products)	Senior Loan (10.0%, Due 12/07)	433	433	433
	Subordinated Debt (12.9%, Due 1/10 - 6/17)	43,157	42,977	42,977
	Subordinated Debt (12.5%, Due 11/07 - 3/08)(6)	1,400	1,400	1,583
	Common Stock (202 shares)		120,638	83,453
	Total Investment		**$ 165,448**	**$ 128,446**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Unitranche Fund LLC	Guaranty ($900)			
(Private Debt Fund)	Standby Letter of Credit ($200)			
	Subordinated Certificates		$ 744	$ 744
	Equity Interests		1	1
	Total Investment		**745**	**745**
Worldwide Express Operations, LLC	Subordinated Debt (14.0%, Due 2/14)	$ 2,845	2,670	2,670
(Business Services)	Equity Interests		12,900	21,516
	Warrants		163	272
	Total Investment		**15,733**	**24,458**
Total companies more than 25% owned			**$** 1,622,094	**$** 1,279,080
Companies 5% to 25% Owned				
10th Street, LLC	Subordinated Debt (13.0%, Due 12/14)	20,774	20,645	20,645
(Business Services)	Equity Interests		446	1,100
	Total Investment		**21,091**	**21,745**
Advantage Sales & Marketing, Inc.	Subordinated Debt (12.0%, Due 3/14)	155,432	154,854	154,854
(Business Services)	Equity Interests			10,973
	Total Investment		**154,854**	**165,827**
Air Medical Group Holdings LLC	Senior Loan (7.8%, Due 3/11)	3,030	2,980	2,980
(Healthcare Services)	Equity Interests		3,470	10,800
	Total Investment		**6,450**	**13,780**
Alpine ESP Holdings, Inc.	Preferred Stock (622 shares)		622	749
(Business Services)	Common Stock (13,513 shares)		14	262
	Total Investment		**636**	**1,011**
Amerex Group, LLC	Subordinated Debt (12.0%, Due 1/13)	8,400	8,400	8,400
(Consumer Products)	Equity Interests		3,509	13,713
	Total Investment		**11,909**	**22,113**
BB&T Capital Partners/Windsor Mezzanine Fund, LLC(5) (Private Equity Fund)	Equity Interests		11,739	11,467
	Total Investment		**11,739**	**11,467**
Becker Underwood, Inc.	Subordinated Debt (14.5%, Due 8/12)	24,865	24,798	24,798

(Industrial Products)	Common Stock (5,073 shares)		5,813	4,190
	Total Investment		**30,611**	**28,988**
BI Incorporated	Subordinated Debt (13.5%, Due 2/14)	30,615	30,499	30,499
(Business Services)	Common Stock (40,000 shares)		4,000	7,382
	Total Investment		**34,499**	**37,881**
Creative Group, Inc. (Business Services)	Subordinated Debt (14.0%, Due 9/13)(6)	15,000	13,686	6,197
	Common Stock (20,000 shares)			
	Warrant		1,387	
	Total Investment		**15,073**	**6,197**
Drew Foam Companies, Inc.	Preferred Stock (722 shares)		722	396
(Business Services)	Common Stock (7,287 shares)		7	
	Total Investment		**729**	**396**

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Private Finance Portfolio Company	**Investment(1)(2)**	**Principal**	**Cost**	**Value**
MedBridge Healthcare, LLC (Healthcare Services)	Senior Loan (8.0%, Due 8/09)(6)	$ 7,164	$ 7,164	$ 7,164
	Subordinated Debt (10.0%, Due 8/14)(6)	5,184	5,184	2,406
	Convertible Subordinated Debt (2.0%, Due 8/14)(6)	2,970	984	
	Equity Interests		1,416	
	Total Investment		**14,748**	**9,570**
MHF Logistical Solutions, Inc. (Business Services)	Subordinated Debt (11.5%, Due 6/12)(6)	33,600	33,448	9,280
	Subordinated Debt (18.0%, Due 6/13)(6)	11,211	11,154	
	Common Stock (20,934 shares)(12)		20,942	
	Warrants(12)			
	Total Investment		**65,544**	**9,280**
Multi-Ad Services, Inc.	Unitranche Debt (11.3%, Due 11/11)	19,800	19,704	19,704
(Business Services)	Equity Interests		2,000	940
	Total Investment		**21,704**	**20,644**
Progressive International Corporation	Subordinated Debt (16.0%, Due 12/09)	1,557	1,545	1,545
(Consumer Products)	Preferred Stock (500 shares)		500	1,038
	Common Stock (197 shares)		13	4,900
	Warrants			
	Total Investment		**2,058**	**7,483**
Regency Healthcare Group, LLC	Unitranche Debt (11.1%, Due 6/12)	12,000	11,941	11,941
(Healthcare Services)	Equity Interests		1,500	1,681
	Total Investment		**13,441**	**13,622**
SGT India Private Limited(4) (Business Services)	Common Stock (150,596 shares)		4,098	3,075
	Total Investment		**4,098**	**3,075**
Soteria Imaging Services, LLC	Subordinated Debt (12.0%, Due 11/10)	14,500	13,744	13,744
(Healthcare Services)	Equity Interests		2,170	2,686
	Total Investment		**15,914**	**16,430**
Universal Environmental Services, LLC (Business Services)	Equity Interests		1,810	

	Total Investment		**1,810**	
Total companies 5% to 25% owned			**$ 426,908**	**$ 389,509**
Companies Less Than 5% Owned				
3SI Security Systems, Inc.	Subordinated Debt (14.5%, Due 8/13)	$ 27,937	$ 27,837	$ 27,837
(Consumer Products)				
	Total Investment		**27,837**	**27,837**
AgData, L.P.	Senior Loan (10.3%, Due 7/12)	843	815	815
(Consumer Services)				
	Total Investment		**815**	**815**
Axium Healthcare Pharmacy, Inc.	Senior Loan (12.5%, Due 12/12)	2,600	2,567	2,567
(Healthcare Services)	Unitranche Debt (12.5%, Due 12/12)	8,500	8,463	8,463
	Common Stock (26,500 shares)		2,650	1,097
	Total Investment		**13,680**	**12,127**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Baird Capital Partners IV Limited Partnership(5) (Private Equity Fund)	Limited Partnership Interest		$ 2,234	$ 2,114
	Total Investment		**2,234**	**2,114**
BenefitMall, Inc. (Business Services)	Subordinated Debt (14.9%, Due 10/13-10/14)	$ 82,167	81,930	81,930
	Common Stock (45,528,000 shares)(12)		45,528	82,404
	Warrants(12)			
	Standby Letters of Credit ($3,961)			
	Total Investment		**127,458**	**164,334**
Broadcast Electronics, Inc. (Business Services)	Senior Loan (9.0%, Due 7/12)(6)	4,913	4,884	3,273
	Total Investment		**4,884**	**3,273**
Bushnell, Inc. (Consumer Products)	Subordinated Debt (11.3%, Due 2/14)	41,325	39,821	39,821
	Total Investment		**39,821**	**39,821**
Callidus Debt Partners CDO Fund I, Ltd.(4)(10) (CDO)	Class C Notes (12.9%, Due 12/13)	18,800	18,929	18,988
	Class D Notes (17.0%, Due 12/13)	9,400	9,465	9,494
	Total Investment		**28,394**	**28,482**
Callidus Debt Partners CLO Fund III, Ltd.(4)(10) (CLO)	Preferred Shares (23,600,000 shares, 12.9%)(11)		21,783	19,999
	Total Investment		**21,783**	**19,999**
Callidus Debt Partners CLO Fund IV, Ltd.(4)(10) (CLO)	Income Notes (14.8%)(11)		12,298	11,290
	Total Investment		**12,298**	**11,290**
Callidus Debt Partners CLO Fund V, Ltd.(4)(10) (CLO)	Income Notes (20.3%)(11)		13,977	14,658
	Total Investment		**13,977**	**14,658**

Callidus Debt Partners				
CLO Fund VI, Ltd.(4)(10)	Class D Notes (11.3%, Due 10/21)	5,000	4,329	4,329
(CLO)	Income Notes (19.3%)(11)		26,985	26,985
	Total Investment		**31,314**	**31,314**
Callidus Debt Partners(4)(10)				
CLO Fund VII, Ltd. (CLO)	Income Notes (16.6%)(11)		22,113	22,113
	Total Investment		**22,113**	**22,113**
Callidus MAPS CLO				
Fund I LLC(10)	Class E Notes (10.4%, Due 12/17)	17,000	17,000	16,119
(CLO)	Income Notes (5.6%)(11)		49,252	36,085
	Total Investment		**66,252**	**52,204**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Callidus MAPS CLO Fund II, Ltd.(4)(10) (CLO)	Income Notes (14.7%)(11)		$ 18,753	$ 18,753
	Total Investment		**18,753**	**18,753**
Camden Partners Strategic Fund II, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		997	1,350
	Total Investment		**997**	**1,350**
Carlisle Wide Plank Floors, Inc. (Consumer Products)	Senior Loan (9.8%, Due 6/11)	$ 500	497	497
	Unitranche Debt (10.0%, Due 6/11)	3,161	3,129	3,129
	Preferred Stock (400,000 Shares)		400	507
	Total Investment		**4,026**	**4,133**
Catterton Partners V, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		3,624	2,952
	Total Investment		**3,624**	**2,952**
Catterton Partners VI, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		2,259	2,103
	Total Investment		**2,259**	**2,103**
Centre Capital Investors IV, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		2,215	2,276
	Total Investment		**2,215**	**2,276**
Centre Capital Investors V, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		628	628
	Total Investment		**628**	**628**
CK Franchising, Inc. (Consumer Services)	Senior Loan (8.7%, Due 7/12)	9,000	8,911	8,911
	Subordinated Debt (12.3%, Due 7/12 - 7/17)	21,000	20,908	20,908
	Preferred Stock (1,486,004 shares)		1,486	1,586
	Common Stock (8,793,408 shares)		8,793	8,654
	Total Investment		**40,098**	**40,059**

Commercial Credit Group, Inc. (Financial Services)	Subordinated Debt (14.8%, Due 2/11)	12,000	12,023	12,023
	Preferred Stock (74,978 shares)		18,018	19,421
	Warrants			
	Total Investment		**30,041**	**31,444**
Community Education Centers, Inc. (Education Services)	Subordinated Debt (13.5%, Due 11/13)	35,011	34,936	34,936
	Total Investment		**34,936**	**34,936**
Component Hardware Group, Inc. (Industrial Products)	Subordinated Debt (13.5%, Due 1/13)	18,432	18,363	18,363
	Total Investment		**18,363**	**18,363**
Cook Inlet Alternative Risk, LLC (Business Services)	Unitranche Debt (10.8%, Due 4/13)	95,000	94,530	94,530
	Equity Interests		640	1,696
	Total Investment		**95,170**	**96,226**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Cortec Group Fund IV, L.P.(5) (Private Equity)	Limited Partnership Interest		$ 3,383	$ 2,922
	Total Investment		**3,383**	**2,922**
Diversified Mercury Communications, LLC (Business Services)	Senior Loan (8.5%, Due 3/13)	$ 233	217	217
	Total Investment		**217**	**217**
Digital VideoStream, LLC (Business Services)	Unitranche Debt (11.0%, Due 2/12)	17,213	17,128	17,128
	Convertible Subordinated Debt (10.0%, Due 2/16)	4,118	4,103	5,397
	Total Investment		**21,231**	**22,525**
DirectBuy Holdings, Inc. (Consumer Products)	Subordinated Debt (14.5%, Due 5/13)	75,000	74,631	74,631
	Equity Interests		8,000	8,000
	Total Investment		**82,631**	**82,631**
Distant Lands Trading Co. (Consumer Products)	Senior Loan (10.3%, Due 11/11)	10,000	9,966	9,966
	Unitranche Debt (11.0%, Due 11/11)	42,375	42,226	42,226
	Common Stock (4,000 shares)		4,000	2,645
	Total Investment		**56,192**	**54,837**
Driven Brands, Inc. d/b/a Meineke and Econo Lube (Consumer Services)	Senior Loan (8.7%, Due 6/11)	37,070	36,951	36,951
	Subordinated Debt (12.1%, Due 6/12 - 6/13)	83,000	82,754	82,754
	Common Stock (11,675,331 shares)(12)		29,455	15,977
	Warrants(12)			
	Total Investment		**149,160**	**135,682**
Dryden XVIII Leveraged Loan 2007 Limited(4) (CLO)	Subordinated Debt (9.7%, Due 10/19)	9,000	7,406	7,406
	Income Notes (14.2%)(11)		21,940	21,940
	Total Investment		**29,346**	**29,346**
Dynamic India Fund IV(4)(5) (Private Equity Fund)	Equity Interests		6,050	6,215
	Total Investment		**6,050**	**6,215**

EarthColor, Inc. (Business Services)	Subordinated Debt (15.0%, Due 11/13) Common Stock (73,540 shares)(12) Warrants(12)	127,000	126,463 73,540	126,463 62,675
	Total Investment		**200,003**	**189,138**
eCentury Capital Partners, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		6,899	2,176
	Total Investment		**6,899**	**2,176**
eInstruction Corporation (Education Services)	Subordinated Debt (13.5%, Due 7/14-1/15) Common Stock (2,406 shares)	47,000	46,765 2,500	46,765 2,500
	Total Investment		**49,265**	**49,265**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Farley's & Sathers Candy Company, Inc. (Consumer Products)	Subordinated Debt (13.7%, Due 3/11)	$ 18,000	$ 17,932	$ 17,932
	Total Investment		**17,932**	**17,932**
FCP-BHI Holdings, LLC d/b/a Bojangles' (Retail)	Subordinated Debt (12.8%, Due 9/13)	24,000	23,887	23,887
	Equity Interests		1,000	998
	Total Investment		**24,887**	**24,885**
Fidus Mezzanine Capital, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		6,357	6,357
	Total Investment		**6,357**	**6,357**
Frozen Specialties, Inc. (Consumer Products)	Warrants		435	229
	Total Investment		**435**	**229**
Garden Ridge Corporation (Retail)	Subordinated Debt (7.0%, Due 5/12)(6)	20,500	20,500	20,500
	Total Investment		**20,500**	**20,500**
Geotrace Technologies, Inc. (Energy Services)	Subordinated Debt (10.0%, Due 6/09)	6,772	6,616	6,616
	Warrants		2,350	2,993
	Total Investment		**8,966**	**9,609**
Gilchrist & Soames, Inc. (Consumer Products)	Senior Loan (9.0%, Due 10/13)	20,000	19,954	19,954
	Subordinated Debt (13.4%, Due 10/13)	25,800	25,676	25,676
	Total Investment		**45,630**	**45,630**
Grotech Partners, VI, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		8,808	8,252
	Total Investment		**8,808**	**8,252**
Havco Wood Products LLC (Industrial Products)	Senior Loan (9.7%, Due 8/11)	600	585	585
	Unitranche Debt (11.5%, Due 8/11)	5,100	4,248	4,248
	Equity Interests		1,055	3,192

	Total Investment		**5,888**	**8,025**
Haven Eldercare of New England, LLC (Healthcare Services)	Subordinated Debt (12.0%, Due 8/09)(6)	1,927	1,927	
	Total Investment		**1,927**	
Higginbotham Insurance Agency, Inc. (Business Services)	Senior Loan (7.7%, Due 8/12)	15,033	14,942	14,942
	Subordinated Debt (13.5%, Due 8/13 - 8/14)	46,356	46,136	46,136
	Common Stock (23,926 shares)(12)		23,926	23,868
	Warrant(12)			
	Total Investment		**85,004**	**84,946**
The Hillman Companies, Inc.(3) (Consumer Products)	Subordinated Debt (10.0%, Due 9/11)	44,580	44,458	44,458
	Total Investment		**44,458**	**44,458**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
The Homax Group, Inc. (Consumer Products)	Senior Loan (8.7%, Due 10/12)	$ 10,969	$ 10,969	$ 10,969
	Subordinated Debt (12.0%, Due 4/14)	14,000	13,244	13,244
	Preferred Stock (89 shares)		89	13
	Common Stock (28 shares)		6	
	Warrants		1,106	194
	Total Investment		**25,414**	**24,420**
Ideal Snacks Corporation (Consumer Products)	Senior Loan (9.0%, Due 6/10])	288	288	288
	Total Investment		**288**	**288**
Integrity Interactive Corporation (Business Services)	Unitranche Debt (10.5%, Due 2/12)	12,193	12,095	12,095
	Total Investment		**12,095**	**12,095**
International Fiber Corporation (Industrial Products)	Subordinated Debt (14.0%, Due 6/12)	24,572	24,476	24,476
	Preferred Stock (25,000 shares)		2,500	2,194
	Total Investment		**26,976**	**26,670**
Jones Stephens Corporation (Consumer Products)	Senior Loan (8.8%, Due 9/12)	5,537	5,525	5,525
	Total Investment		**5,525**	**5,525**
Knightsbridge CLO 2007-1 Ltd.(4) (CLO)	Subordinated Debt (14.1%, Due 1/22)	22,000	22,000	22,000
	Income Notes (15.2%)(11)		31,211	31,211
	Total Investment		**53,211**	**53,211**
Kodiak Fund LP(5) (Private Equity Fund	Equity Interests		9,423	2,853
	Total Investment		**9,423**	**2,853**

Line-X, Inc. (Consumer Products)	Senior Loan (12.0%, Due 8/11)	900	885	885
	Unitranche Debt (12.0% Due 8/11)	48,198	48,039	42,784
	Total Investment		**48,924**	**43,669**
MedAssets, Inc.(3) (Business Services)	Standby Letter of Credit ($1,500)			
	Common Stock (224,817 shares)		2,049	6,652
	Total Investment		**2,049**	**6,652**
Mid-Atlantic Venture Fund IV, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		6,975	1,791
	Total Investment		**6,975**	**1,791**
Milestone AV Technologies, Inc. (Business Services)	Subordinated Debt (11.3%, Due 6/13)	37,500	37,500	36,750
	Total Investment		**37,500**	**36,750**
NetShape Technologies, Inc. (Industrial Products)	Senior Loan (8.6%, Due 2/13)	5,802	5,773	5,773
	Total Investment		**5,773**	**5,773**
Network Hardware Resale, Inc. (Business Services)	Unitranche Debt (10.5%, Due 12/11)	$ 20,512	$ 20,614	$ 20,614
	Convertible Subordinated Debt (9.8%, Due 12/15)	13,242	13,302	15,586
	Total Investment		**33,916**	**36,200**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Norwesco, Inc. (Industrial Products)	Subordinated Debt (12.7%, Due 1/12 - 7/12)	82,924	82,674	82,674
	Common Stock (559,603 shares)(12)		38,313	117,831
	Warrants(12)			
	Total Investment		**120,987**	**200,505**
Novak Biddle Venture Partners III, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		1,910	1,256
	Total Investment		**1,910**	**1,256**
Oahu Waste Services, Inc. (Business Services)	Stock Appreciation Rights		239	998
	Total Investment		**239**	**998**
Odyssey Investment Partners Fund III, LP(5) (Private Equity Fund)	Limited Partnership Interest		2,276	2,567
	Total Investment		2,276	2,567
Pangaea CLO 2007-1 Ltd.(4) (CLO)	Subordinated Debt (10.2%, Due 10/21)	15,000	11,570	11,570
	Total Investment		11,570	11,570
Passport Health Communications, Inc. (Healthcare Services)	Preferred Stock (651,381 shares)		2,000	2,433
	Common Stock (19,680 shares)		48	7
	Total Investment		**2,048**	**2,440**
PC Helps Support, LLC (Business Services)	Senior Loan (8.9%, Due 12/13)	20,000	20,000	20,000
	Subordinated Debt (13.3%, Due 12/13)	30,895	30,743	30,743
	Total Investment		**50,743**	**50,743**
Pendum, Inc. (Business Services)	Subordinated Debt (17.0%, Due 1/11)(6)	34,028	34,028	
	Preferred Stock (82,715 shares)			
	Warrants			
	Total Investment		**34,028**	

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Performant Financial Corporation (Business Services)	Common Stock (478,816 shares)			
	Total Investment		**734**	
PharMEDium Healthcare Corporation (Healthcare Services)	Senior Loan (8.6%, Due 10/13)	19,577	19,577	19,577
	Total Investment		**19,577**	**19,577**
Postle Aluminum Company, LLC (Industrial Products)	Unitranche Debt (11.0%, Due 10/12)	61,500	61,252	61,252
	Equity Interests		2,500	3,092
	Total Investment		**63,752**	**64,344**
Pro Mach, Inc. (Industrial Products)	Subordinated Debt (13.0%, Due 6/12)	$ 14,562	$ 14,506	$ 14,506
	Equity Interests		1,500	1,596
	Total Investment		**16,006**	**16,102**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Promo Works, LLC (Business Services)	Unitranche Debt (10.3%, Due 12/11)	26,215	26,006	26,006
	Guaranty ($600)			
	Total Investment		**26,006**	**26,006**
Reed Group, Ltd. (Healthcare Services)	Senior Loan (8.7%, Due 12/13)	21,000	20,970	20,970
	Subordinated Debt (13.8%, Due 12/13)	18,000	17,910	17,910
	Equity Interests		1,800	1,800
	Total Investment		**40,680**	**40,680**
S.B. Restaurant Company (Retail)	Unitranche Debt (9.8%, Due 4/11)	34,001	33,733	33,733
	Preferred Stock (54,125 shares)		135	135
	Warrants		619	2,095
	Standby Letters of Credit ($2,540)			
	Total Investment		**34,487**	**35,963**
SBBUT, LLC (Consumer Products)	Equity Interests			
	Total Investment			
Service Center Metals, LLC (Industrial Products)	Subordinated Debt (15.5%, Due 9/11)	5,000	4,981	4,981
	Equity Interests		313	343
	Total Investment		**5,294**	**5,324**
Snow Phipps Group, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		2,288	2,288
	Total Investment		**2,288**	**2,288**
SPP Mezzanine Funding, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		2,268	1,942
	Total Investment		**2,268**	**1,942**
SPP Mezzanine Funding II, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		4,077	3,731

	Total Investment		**4,077**	**3,731**
Stag-Parkway, Inc. (Business Services)	Unitranche Debt (10.8%, Due 7/12)	51,000	50,810	50,810
	Total Investment		**50,810**	**50,810**
STS Operating, Inc. (Industrial Products)	Subordinated Debt (11.0%, Due 1/13)	30,386	30,273	30,273
	Total Investment		**30,273**	**30,273**
Summit Energy Services, Inc. (Business Services)	Senior Loan (8.5%, Due 8/13)	24,239	24,239	23,512
	Subordinated Debt (11.6%, Due 8/13)	35,765	35,596	35,596
	Common Stock (89,406 shares)		2,000	1,995
	Total Investment		**61,835**	**61,103**
Tappan Wire & Cable Inc. (Business Services)	Unitranche Debt (15.0%, Due 8/14)	24,100	23,975	23,975
	Common Stock (15,000 shares)(12)		2,250	5,810
	Warrant(12)			
	Total Investment		**26,225**	**29,785**
The Step2 Company, LLC (Consumer Products)	Unitranche Debt (11.0%, Due 4/12)	$ 96,041	$ 95,693	$ 95,693
	Equity Interests		2,483	2,987
	Total Investment		**98,176**	**98,680**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
Tradesmen International, Inc. (Business Services)	Subordinated Debt (12.0%, Due 12/12)	49,124	48,431	48,431
	Total Investment		**48,431**	**48,431**
TransAmerican Auto Parts, LLC (Consumer Products)	Subordinated Debt (14.0%, Due 11/12)	24,076	23,907	23,907
	Equity Interests		1,198	1,014
	Total Investment		**25,105**	**24,921**
Trover Solutions, Inc. (Business Services)	Subordinated Debt (12.0%, Due 11/12)	60,000	59,740	59,740
	Total Investment		**59,740**	**59,740**
Universal Air Filter Company (Industrial Products)	Subordinated Debt (12.0%, Due 11/12)	14,750	14,688	14,688
	Total Investment		**14,688**	**14,688**
Updata Venture Partners II, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		4,465	4,306
	Total Investment		**4,465**	**4,306**
Venturehouse-Cibernet Investors, LLC (Business Services)	Equity Interest			54
	Total Investment			**54**
Venturehouse Group, LLC(5) (Private Equity Fund)	Equity Interest			613
	Total Investment			**613**
VICORP Restaurants, Inc. (Retail)	Warrants		33	
	Total Investment		**33**	
Walker Investment Fund II, LLLP(5) (Private Equity Fund)	Limited Partnership Interest		1,330	
	Total Investment		**1,330**	
WMA Equity Corporation and Affiliates				

d/b/a Wear Me Apparel (Consumer Products)	Subordinated Debt (13.6%, Due 4/13)	125,000	124,010	124,010
		13,033	13,033	13,302
	Subordinated Debt (9.0%, Due 4/14)(6)		46,046	13,726
	Common Stock (100 shares)			
	Total Investment		**183,089**	**151,038**
Webster Capital II, L.P.(5) (Private Equity Fund)	Limited Partnership Interest		897	897
	Total Investment		**897**	**897**
Woodstream Corporation (Consumer Products)	Subordinated Debt (12.0%, Due 2/15)	$ 90,000	$ 89,574	$ 89,574
			7,500	7,482
	Common Stock (7,500 shares)			
	Total Investment		**97,074**	**97,056**

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Private Finance Portfolio Company	Investment(1)(2)	Principal	Cost	Value
York Insurance Services Group, Inc. (Business Services)	Subordinated Debt (14.5%, Due 1/14)	45,141	44,966	44,966
	Common Stock (15,000 shares)		1,500	1,995
	Total Investment		**46,466**	**46,961**
Other companies	Other debt investments	159	57	62
	Other equity investments		8	
	Total Investment		**65**	**62**
Total companies less than 5% owned			**$ 2,994,880**	**$ 2,990,732**
Total private finance (156 portfolio investments)			**$ 5,043,882**	**$ 4,659,321**

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

	Stated Interest Rate Ranges	Number of Loans	December 31, 2007 Cost	Value
Commercial Mortgage Loans				
	Up to 6.99%	3	$ 20,361	$ 19,842
	7.00% 8.99%	8	22,768	22,768
	9.00% 10.99%	3	8,372	8,372
	11.00% 12.99%	1	10,456	10,456
	15.00% and above	2	3,970	3,970
Total commercial mortgage loans(13)		**17**	**$ 65,927**	**$ 65,408**
Real Estate Owned			**$ 15,272**	**$ 21,253**
Equity Interests(2) Companies more than 25% owned			**$ 15,743**	**$ 34,539**
Guarantees ($6,871)				
Standby Letter of Credit ($1,295)				
Total commercial real estate finance			**$ 96,942**	**$ 121,200**
Total portfolio			**$ 5,140,824**	**$ 4,780,521**

	Yield	Cost	Value
Investments in Money Market and Other Securities			
American Beacon Money Market Select FD Fund	4.5%	$ 126,910	$ 126,910
American Beacon Money Market Fund	4.8%	40,163	40,163
SEI Daily Income Tr Prime Obligation Money Market Fund	4.9%	34,143	34,143
Columbia Money Market Reserves Fund	4.6%	6	6
Total		$ 201,222	$ 201,222

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

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

(3) Public company.

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

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(5) Non-registered investment company.

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

(7) Avborne, Inc. and Avborne Heavy Maintenance, Inc. are affiliated companies.

(8) Triview Investments, Inc. had a cost basis of $165.4 million and holds investments in Longview Cable & Data, LLC (Broadcasting & Cable) with a value of $7.0 million, Triax Holdings, LLC (Consumer Products) with a value of $62.0 million, and Crescent Hotels & Resorts, LLC and affiliates (Business Services) with a value of $59.4 million, for a total value of $128.4 million.

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

(11) Represents the effective interest yield earned on the cost basis of these preferred equity investments and income notes. The yield is included in interest income from companies less than 5% owned in the consolidated statement of operations.

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

(13) Commercial mortgage loans totaling $14.3 million at value were on non-accrual status and therefore were considered non-income producing.

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

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ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Other Matters

Allied Capital Corporation, a Maryland corporation, is a closed-end, non-diversified management investment company that has elected to be regulated as a business development company ("BDC") under the Investment Company Act of 1940 ("1940 Act"). Allied Capital Corporation ("ACC") has a real estate investment trust subsidiary, Allied Capital REIT, Inc. ("Allied REIT"), and several subsidiaries that are single member limited liability companies established for specific purposes including holding real estate properties. ACC also has a subsidiary, A.C. Corporation ("AC Corp"), that generally provides diligence and structuring services, as well as transaction, management, consulting, and other services, including underwriting and arranging senior loans, to the Company, its portfolio companies and its managed funds.

ACC and its subsidiaries, collectively, are referred to as the "Company." The Company consolidates the results of its subsidiaries for financial reporting purposes.

Pursuant to Article 6 of Regulation S-X, the financial results of the Company's portfolio investments are not consolidated in the Company's financial statements. Portfolio investments are held for purposes of deriving investment income and future capital gains.

The investment objective of the Company is to achieve current income and capital gains. In order to achieve this objective, the Company has primarily invested in debt and equity securities of private companies in a variety of industries.

Events of Default, Liquidity and Operations

The Company experienced a significant reduction in its net worth during the second half of 2008, primarily resulting from net unrealized depreciation on its portfolio, which reflects market conditions. As a result, on December 30, 2008, the Company entered into amendments relating to its private notes and revolving line of credit, including amendments which added new covenants. The amendments are more fully described in Note 4 to the consolidated financial statements.

In January 2009 the Company re-opened discussions with the revolving line of credit lenders (the "Lenders") and the private noteholders (the "Noteholders") to seek relief under certain terms of both the revolving credit facility and the private notes due to a then-expected covenant default. It was subsequently determined that at December 31, 2008 the Company's asset coverage was less than the 200% required by the revolving credit facility and the private notes. Asset coverage generally refers to the percentage resulting from assets less accounts payable and other liabilities, divided by total debt. These discussions are continuing and the Company has expanded the discussions to encompass a more comprehensive restructuring of these debt agreements to provide long-term operational flexibility. As a result of these more comprehensive discussions, the Company has not completed the documents contemplated by the December 30, 2008 amendments to the revolving credit facility and private notes, which were to include a grant of a first lien security interest on substantially all of the Company's assets. Consequently, the administrative agent for the revolving credit facility has notified the Company that an event of default has occurred pursuant to the revolving credit facility. An event of default under the revolving credit facility constitutes an event of default under the private notes.

Pursuant to the 1940 Act, the Company is not permitted to issue indebtedness unless immediately after such issuance the Company has asset coverage of all outstanding indebtedness of at least 200%. The Company's publicly issued unsecured notes payable require the Company to comply with this provision of the 1940 Act. At December 31, 2008, the Company's asset coverage ratio was 188%, which is less than the 200% requirement. As a result under the publicly issued unsecured notes payable, the Company will not be able to issue indebtedness until such time as its asset coverage returns to at least

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200%. The Company has not experienced any default or cross default with respect to the publicly issued unsecured notes payable.

The existence of an event of default under the revolving credit facility and private notes restricts the Company from borrowing or obtaining letters of credit under its revolving credit facility, and from declaring dividends or other distributions to the Company's shareholders. Pursuant to the terms of the revolving credit facility, during the continuance of an event of default, the applicable spread on any borrowings outstanding and fees on any letters of credit outstanding under the revolving credit facility increase by up to 200 basis points. Pursuant to the terms of the private notes, during the continuance of an event of default, the rate of interest borne by the private notes increases by 200 basis points.

Neither the Lenders nor the Noteholders have accelerated repayment of the Company's obligations; however, the occurrence of an event of default permits the administrative agent for the Lenders, or the holders of more than 51% of the commitments under the revolving credit facility, to accelerate repayment of all amounts due, to terminate commitments thereunder, and to require the Company to provide cash collateral equal to the face amount of all outstanding letters of credit. Pursuant to the terms of the private notes, the occurrence of an event of default permits the holders of 51% or more of any issue of outstanding private notes to accelerate repayment of all amounts due thereunder.

The Company's consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company does not have available cash resources sufficient to satisfy all of the obligations under these debt agreements should the lenders accelerate these obligations. These factors raise substantial doubt about the Company's ability to continue as a going concern. The Company continues to seek a comprehensive restructuring of these debt agreements to provide long-term operational flexibility. In addition, the Company continues to sell assets to generate capital to repay debt. There can be no assurance that the Company's plans will be successful in addressing the liquidity uncertainties discussed above. In the event there is an acceleration of the amounts outstanding under the revolving credit facility or any issue of the private notes, it would cause the Company to evaluate other alternatives and would have a material adverse effect on the Company's operations. The accompanying consolidated financial statements do not include any adjustments that might result from these uncertainties.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of ACC and its subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications have been made to the 2007 and 2006 balances to conform with the 2008 financial statement presentation.

The private finance portfolio and the interest and related portfolio income and net realized gains (losses) on the private finance portfolio are presented in three categories: companies more than 25% owned, which represent portfolio companies where the Company directly or indirectly owns more than 25% of the outstanding voting securities of such portfolio company or where the Company controls the portfolio company's board of directors and, therefore, are deemed controlled by the Company under the 1940 Act; companies owned 5% to 25%, which represent portfolio companies where the Company directly or indirectly owns 5% to 25% of the outstanding voting securities of such portfolio company or where the Company holds one or more seats on the portfolio company's board of directors and, therefore, are deemed to be an affiliated person under the 1940 Act; and companies less than 5% owned which represent portfolio companies where the Company directly or indirectly owns less than 5% of the outstanding voting securities of such portfolio company and where the Company has no other affiliations with such portfolio company. The interest and related portfolio income and net realized gains (losses) from the commercial real estate finance portfolio and other sources, including investments in money market and other securities, are included in the companies less than 5% owned category on the consolidated statement of operations.

In the ordinary course of business, the Company enters into transactions with portfolio companies that may be considered related party transactions.

The Company, as a BDC, has invested in illiquid securities including debt and equity securities of portfolio companies, CLO bonds and preferred shares/income notes, CDO bonds and investment funds. The Company's investments may be subject to certain restrictions on resale and generally have no established trading market. The Company values substantially all of its investments at fair value as determined in good faith by the Board of Directors in accordance with the Company's valuation policy and the provisions of the Investment Company Act of 1940 and FASB Statement No. 157, *Fair Value Measurements* ("SFAS 157" or the "Statement"). The Company determines fair value to be the price that would be received for an investment in a current sale, which assumes an orderly transaction between market participants on the measurement date. The Company's valuation policy considers the fact that no ready market exists for substantially all of the securities in which it invests and that fair value for its investments must typically be determined using unobservable inputs. The Company's valuation policy is intended to provide a consistent basis for determining the fair value of the portfolio.

The Company adopted SFAS 157 on a prospective basis in the first quarter of 2008. SFAS 157 requires the Company to assume that the portfolio investment is to be sold in the principal market to market participants, or in the absence of a principal market, the most advantageous market, which may be a hypothetical market. Market participants are defined as buyers and sellers in the principal or most advantageous market that are independent, knowledgeable, and willing and able to transact. In accordance with the Statement, the Company has considered its principal market, or the market in which the Company exits its portfolio investments with the greatest volume and level of activity.

The Company has determined that for its buyout investments, where the Company has control or could gain control through an option or warrant security, both the debt and equity securities of the portfolio investment would exit in the merger and acquisition ("M&A") market as the principal market generally through a sale or recapitalization of the portfolio company. The Company believes that the in-use premise of value (as defined in SFAS 157), which assumes the debt and equity securities are sold together, is appropriate as this would provide maximum proceeds to the seller. As a result, the Company will continue to use the enterprise value methodology to determine the fair value of these investments under SFAS 157. Enterprise value means the entire value of the company to a market participant, including the sum of the values of debt and equity securities used to capitalize the enterprise at a point in time. Enterprise value is determined using various factors, including cash flow from operations of the portfolio company, multiples at which private companies are bought and sold, and other pertinent factors, such as recent offers to purchase a portfolio company, recent transactions involving the purchase or sale of the portfolio company's equity securities, liquidation events, or other events. The Company allocates the enterprise value to these securities in order of the legal priority of the securities.

While the Company typically exits its securities upon the sale or recapitalization of the portfolio company in the M&A market, for investments in portfolio companies where the Company does not have control or the ability to gain control through an option or warrant security, the Company cannot typically control the exit of its investment into its principal market (the M&A market). As a result, in accordance with SFAS 157, the Company is required to determine the fair value of these investments assuming a sale of the individual investment (the in-exchange premise of value) in a hypothetical market to a hypothetical market participant. The Company continues to perform an enterprise value analysis for the investments in this category to assess the credit risk of the loan or debt security and to determine the fair value of its equity investment in these portfolio companies. The determined equity values are generally discounted when the Company has a minority ownership position, restrictions on resale, specific concerns about the receptivity of the capital markets to a specific company at a certain

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time, or other factors, which the Company believes would lead a market participant to discount such securities. For loan and debt securities, the Company performs a yield analysis assuming a hypothetical current sale of the investment. The yield analysis requires the Company to estimate the expected repayment date of the instrument and a market participant's required yield. The Company's estimate of the expected repayment date of a loan or debt security is generally shorter than the legal maturity of the instruments as the Company's loans have historically been repaid prior to the maturity date. The yield analysis considers changes in interest rates and changes in leverage levels of the loan or debt security as compared to the Company's estimates of market interest rates and leverage levels at the balance sheet date. Assuming the credit quality of the loan or debt security remains stable, the Company will use the value determined by the yield analysis as the fair value for that security. A change in the assumptions that the Company uses to estimate the fair value of its loans and debt securities using the yield analysis could have a material impact on the determination of fair value. If there is deterioration in credit quality or a loan or debt security is in workout status, the Company may consider other factors in determining the fair value of a loan or debt security, including the value attributable to the loan or debt security from the enterprise value of the portfolio company or the proceeds that would be received in a liquidation analysis.

The Company's equity investments in private debt and equity funds are generally valued at such fund's net asset value, unless other factors lead to a determination of fair value at a different amount. The value of the Company's equity securities in public companies for which quoted prices in an active market are readily available is based on the closing public market price on the measurement date.

The fair value of the Company's CLO bonds and preferred shares/income notes and CDO bonds ("CLO/CDO Assets") is generally based on a discounted cash flow model that utilizes prepayment, re-investment and loss assumptions based on historical experience and projected performance, economic factors, the characteristics of the underlying cash flow, and comparable yields for similar bonds and preferred shares/ income notes, when available. The Company recognizes unrealized appreciation or depreciation on its CLO/CDO Assets as comparable yields in the market change and/or based on changes in estimated cash flows resulting from changes in prepayment, re-investment or loss assumptions in the underlying collateral pool, or changes in redemption assumptions for the CLO/CDO Assets, if applicable. The Company determines the fair value of its CLO/CDO Assets on an individual security-by-security basis.

The Company will record unrealized depreciation on investments when it determines that the fair value of a security is less than its cost basis, and will record unrealized appreciation when it determines that the fair value is greater than its cost basis. Because of the inherent uncertainty of valuation, the values determined at the measurement date may differ significantly from the values that would have been used had a ready market existed for the investments, and the differences could be material. Additionally, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the values determined at the measurement date.

Net Realized Gains or Losses and Net Change in Unrealized Appreciation or Depreciation

Realized gains or losses are measured by the difference between the net proceeds from the repayment or sale and the cost basis of the investment without regard to unrealized appreciation or depreciation previously recognized, and include investments charged off during the period, net of recoveries. Net change in unrealized appreciation or depreciation primarily reflects the change in portfolio investment values during the reporting period, including the reversal of previously recorded unrealized appreciation or depreciation when gains or losses are realized. Net change in unrealized appreciation or depreciation also reflects the change in the value of U.S. Treasury bills, when applicable, and depreciation on accrued interest and dividends receivable and other assets where collection is doubtful.

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Interest and Dividend Income

Interest income is recorded on an accrual basis to the extent that such amounts are expected to be collected. For loans and debt securities with contractual payment-in-kind interest, which represents contractual interest accrued and added to the loan balance that generally becomes due at maturity, the Company will not accrue payment-in-kind interest if the portfolio company valuation indicates that the payment-in-kind interest is not collectible. In general, interest is not accrued on loans and debt securities if the Company has doubt about interest collection or where the enterprise value of the portfolio company may not support further accrual. Loans in workout status generally do not accrue interest. In addition, interest may not accrue on loans or debt securities to portfolio companies that are more than 50% owned by the Company depending on such company's capital requirements.

When the Company receives nominal cost warrants or free equity securities ("nominal cost equity"), the Company allocates its cost basis in its investment between its debt securities and its nominal cost equity at the time of origination. At that time, the original issue discount basis of the nominal cost equity is recorded by increasing the cost basis in the equity and decreasing the cost basis in the related debt securities. Loan origination fees, original issue discount, and market discount are capitalized and then amortized into interest income using a method that approximates the effective interest method. Upon the prepayment of a loan or debt security, any unamortized loan origination fees are recorded as interest income and any unamortized original issue discount or market discount is recorded as a realized gain.

The weighted average yield on loans and debt securities is computed as the (a) annual stated interest on accruing loans and debt securities plus the annual amortization of loan origination fees, original issue discount, and market discount on accruing loans and debt securities less the annual amortization of loan origination costs, divided by (b) total loans and debt securities at value. The weighted average yield is computed as of the balance sheet date.

The Company recognizes interest income on the CLO preferred shares/income notes using the effective interest method, based on the anticipated yield that is determined using the estimated cash flows over the projected life of the investment. Yields are revised when there are changes in actual or estimated cash flows due to changes in prepayments and/or re-investments, credit losses or asset pricing. Changes in estimated yield are recognized as an adjustment to the estimated yield over the remaining life of the preferred shares/income notes from the date the estimated yield was changed. CLO and CDO bonds have stated interest rates. The weighted average yield on the CLO/CDO Assets is calculated as the (a) annual stated interest or the effective interest yield on the accruing bonds or the effective yield on the preferred shares/income notes, divided by (b) CLO/CDO Assets at value. The weighted average yields are computed as of the balance sheet date.

Dividend income on preferred equity securities is recorded as dividend income on an accrual basis to the extent that such amounts are expected to be collected and to the extent that the Company has the option to receive the dividend in cash. Dividend income on common equity securities is recorded on the record date for private companies or on the ex-dividend date for publicly traded companies.

Fee Income

Fee income includes fees for loan prepayment premiums, guarantees, commitments, and services rendered by the Company to portfolio companies and other third parties such as diligence, structuring, transaction services, management and consulting services, and other services. Loan prepayment premiums are recognized at the time of prepayment. Guaranty and commitment fees are generally recognized as income over the related period of the guaranty or commitment, respectively. Diligence, structuring, and transaction services fees are generally recognized as income when services are rendered or when the related transactions are completed. Management, consulting and other services fees are generally recognized as income as the services are rendered. Fees are not accrued if the Company has doubt about the collection of those fees.

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Guarantees

Guarantees meeting the characteristics described in FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* and issued or modified after December 31, 2002, are recognized at fair value at inception. Guarantees made on behalf of portfolio companies are considered in determining the fair value of the Company's investments. See Note 5.

Financing Costs

Debt financing costs are based on actual costs incurred in obtaining debt financing and are deferred and amortized as part of interest expense over the term of the related debt instrument using a method that approximates the effective interest method. Costs associated with the issuance of common stock are recorded as a reduction to the proceeds from the sale of common stock. Financing costs generally include underwriting, accounting and legal fees, and printing costs.

Dividends to Shareholders

Dividends to shareholders are recorded on the ex-dividend date.

Stock Compensation Plans

The Company has a stock-based employee compensation plan. See Note 9. Effective January 1, 2006, the Company adopted the provisions of FASB Statement No. 123 (Revised 2004), *Share-Based Payment* ("SFAS 123R"). SFAS 123R was adopted using the modified prospective method of application, which required the Company to recognize compensation costs on a prospective basis beginning January 1, 2006. Accordingly, the Company did not restate prior year financial statements. Under this method, the unamortized cost of previously awarded options that were unvested as of January 1, 2006, is recognized over the remaining service period in the statement of operations, using the fair value amounts determined for pro forma disclosure under SFAS 123R. With respect to options granted on or after January 1, 2006, compensation cost based on estimated grant date fair value is recognized over the related service period in the consolidated statement of operations. The stock option expense for the years ended December 31, 2008, 2007 and 2006, was as follows:

($ in millions, except per share amounts)	**2008**	**2007**	**2006**
Employee Stock Option Expense:			
Options granted:			
Previously awarded, unvested options as of January 1, 2006	$ 3.9	$ 10.1	$ 13.2
Options granted on or after January 1, 2006	7.9	10.7	2.4
Total options granted	11.8	20.8	15.6
Options cancelled in connection with tender offer (see Note 9)		14.4	
Total employee stock option expense	$ 11.8	$ 35.2	$ 15.6
Per basic share	$ 0.07	$ 0.23	$ 0.11
Per diluted share	$ 0.07	$ 0.23	$ 0.11

In addition to the employee stock option expense for options granted, administrative expense included $0.1 million, $0.2 million, and $0.2 million of expense for each of the years ended December 31, 2008, 2007 and 2006, respectively, related to options granted to directors during each year. Options were granted to non-officer directors in the second quarters of 2008, 2007 and 2006. Options granted to non-officer directors vest on the grant date and therefore, the full expense is recorded on the grant date.

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Options Granted. The stock option expense shown in the tables above were based on the underlying value of the options granted by the Company. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model and expensed over the vesting period. The following weighted average assumptions were used to calculate the fair value of options granted during the years ended December 31, 2008, 2007, and 2006:

	2008	**2007**	**2006**
Expected term (in years)	5.0	5.0	5.0
Risk-free interest rate	2.8%	4.6%	4.8%
Expected volatility	27.8%	26.4%	29.1%
Dividend yield	8.5%	8.9%	9.0%
Weighted average fair value per option	$ 2.18	$ 2.96	$ 3.47

The expected term of the options granted represents the period of time that such options are expected to be outstanding. To determine the expected term of the options, the Company used historical data to estimate option exercise time frames, including considering employee terminations. The risk free rate was based on the U.S. Treasury bond yield curve at the date of grant consistent with the expected term. Expected volatilities were determined based on the historical volatility of the Company's common stock over a historical time period consistent with the expected term. The dividend yield was determined based on the Company's historical dividend yield over a historical time period consistent with the expected term.

To determine the stock options expense for options granted, the calculated fair value of the options granted is applied to the options granted, net of assumed future option forfeitures. The Company estimates that the employee-related stock option expense for outstanding unvested options as of December 31, 2008, will be approximately $3.5 million, $3.9 million and $3.7 million for the years ended December 31, 2009, 2010 and 2011, respectively. This estimate does not include any expense related to stock option grants after December 31, 2008, as the fair value of those stock options will be determined at the time of grant. This estimate may change if the Company's assumptions related to future option forfeitures change. The aggregate total stock option expense remaining as of December 31, 2008, is expected to be recognized over an estimated weighted-average period of 1.53 years.

Options Cancelled in Connection with Tender Offer. As discussed in Note 9, the Company completed a tender offer in July 2007, whereby the Company accepted for cancellation 10.3 million vested options held by employees and non-officer directors of the Company in exchange for an option cancellation payment ("OCP"). The OCP was equal to the "in-the-money" value of the stock options cancelled, determined using the Weighted Average Market Price of $31.75, and was paid one-half in cash and one-half in unregistered shares of the Company's common stock. In accordance with the terms of the tender offer, the Weighted Average Market Price represented the volume weighted average price of the Company's common stock over the fifteen trading days preceding the first day of the offer period, or June 20, 2007. Because the Weighted Average Market Price at the commencement of the tender offer on June 20, 2007, was higher than the market price of the Company's common stock at the close of the offer on July 18, 2007, SFAS 123R required the Company to record a non-cash employee-related stock option expense of $14.4 million and administrative expense related to stock options cancelled that were held by non-officer directors of $0.4 million. The same amounts were recorded as an increase to additional paid-in capital and, therefore, had no effect on the Company's net asset value. The portion of the OCP paid in cash of $52.8 million reduced the Company's additional paid-in capital and therefore reduced the Company's net asset value. For income tax purposes, the Company's tax deduction resulting from the OCP will be similar to the tax deduction that would have resulted from an exercise of stock options in the market. Any tax deduction for the Company resulting from the OCP or

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an exercise of stock options in the market is limited by Section 162(m) of the Internal Revenue Code ("Code").

Federal and State Income Taxes and Excise Tax

The Company has complied with the requirements of the Code that are applicable to regulated investment companies ("RIC") and real estate investment trusts ("REIT"). ACC and any subsidiaries that qualify as a RIC or a REIT intend to distribute or retain through a deemed distribution all of their annual taxable income to shareholders; therefore, the Company has made no provision for income taxes exclusive of excise taxes for these entities.

If the Company does not distribute at least 98% of its annual taxable income in the year earned, the Company will generally be required to pay an excise tax equal to 4% of the amount by which 98% of the Company's annual taxable income exceeds the distributions from such taxable income during the year earned. To the extent that the Company determines that its estimated current year annual taxable income will be in excess of estimated current year dividend distributions from such taxable income, the Company accrues excise taxes on estimated excess taxable income as taxable income is earned using an annual effective excise tax rate. The annual effective excise tax rate is determined by dividing the estimated annual excise tax by the estimated annual taxable income.

Income taxes for AC Corp are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases as well as operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Per Share Information

Basic earnings per common share is calculated using the weighted average number of common shares outstanding for the year presented. Diluted earnings per common share reflects the potential dilution that could occur if options to issue common stock were exercised into common stock. Earnings per share is computed after subtracting dividends on preferred shares, if any.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

The consolidated financial statements include portfolio investments at value of $3.5 billion and $4.8 billion at December 31, 2008 and 2007, respectively. At December 31, 2008 and 2007, 94% and 92%, respectively, of the Company's total assets represented portfolio investments whose fair values have been determined by the Board of Directors in good faith in the absence of readily available market values. Because of the inherent uncertainty of valuation, the Board of Directors' determined values may differ significantly from the values that would have been used had a ready market existed for the investments, and the differences could be material.

Recent Accounting Pronouncements

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial

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statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes.* This interpretation is effective for fiscal years beginning after December 15, 2006. The adoption of this interpretation did not have a significant effect on the Company's consolidated financial position or its results of operations.

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements.* This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company has adopted this statement on a prospective basis beginning in the quarter ending March 31, 2008. The initial adoption of this statement did not have a material effect on the Company's consolidated financial statements.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115.* This statement permits an entity to choose to measure many financial instruments and certain other items at fair value. This statement applies to all reporting entities, and contains financial statement presentation and disclosure requirements for assets and liabilities reported at fair value as a consequence of the election. This statement is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company did not elect fair value measurement for assets or liabilities other than portfolio investments, which were already required to be measured at fair value, therefore, the adoption of this statement did not impact the Company's consolidated financial position or its results of operations.

In October 2008, the FASB issued FASB Staff Position No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active.* This FSP applies to financial assets within the scope of accounting pronouncements that require or permit fair value measurements in accordance with Statement 157. This FSP clarifies the application of Statement 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value. The Company has applied the provisions of this FSP in determining the fair value of its portfolio investments at December 31, 2008. The application of the FSP did not have a material impact on the Company's consolidated financial position or its results of operations.

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Note 3. Portfolio

Private Finance

At December 31, 2008 and 2007, the private finance portfolio consisted of the following:

	2008			2007		
($ in millions)	**Cost**	**Value**	**Yield(1)**	**Cost**	**Value**	**Yield(1)**
Loans and debt securities:						
Senior loans	$ 556.9	$ 306.3	5.6%	$ 374.1	$ 344.3	7.7%
Unitranche debt(2)	527.5	456.4	12.0%	659.2	653.9	11.5%
Subordinated debt(3)	2,300.1	1,829.1	12.9%	2,576.4	2,416.4	12.8%
Total loans and debt securities(4)	3,384.5	2,591.8	11.9%	3,609.7	3,414.6	12.1%
Equity securities:						
Preferred shares/income notes of CLOs(5)	248.2	179.2	16.4%	218.3	203.0	14.6%
Subordinated certificates in Unitranche Fund LLC(5)	125.4	125.4	12.0%	0.7	0.7	12.4%
Other equity securities	1,119.3	502.7		1,215.2	1,041.0	
Total equity securities	1,492.9	807.3		1,434.2	1,244.7	
Total	$ 4,877.4	$ 3,399.1		$ 5,043.9	$ 4,659.3	

(1) The weighted average yield on loans and debt securities is computed as the (a) annual stated interest on accruing loans and debt securities plus the annual amortization of loan origination fees, original issue discount, and market discount on accruing loans and debt securities less the annual amortization of loan origination costs, divided by (b) total loans and debt securities at value. At December 31, 2007, the cost and value of subordinated debt included the Class A equity interests in Ciena Capital LLC, which were placed on non-accrual status during the fourth quarter of 2006. At December 31, 2008, senior loans included the senior secured loan to Ciena totaling $319.0 million at cost and $104.9 million at value, which was placed on non-accrual on the purchase date.

The weighted average yield on the preferred shares/income notes of CLOs is calculated as the (a) effective interest yield on the preferred shares/income notes of CLOs, divided by (b) total preferred shares/income notes of CLOs at value. The weighted average yields are computed as of the balance sheet date. The effective interest yield on the CLO assets represents the yield used for recording interest income. The market yield used in the valuation of the CLO assets may be different than the interest yields.

The weighted average yield on the subordinated certificates in the Unitranche Fund LLC is computed as the (a) annual stated interest divided by (b) total investment at value.

(2) Unitranche debt is an investment that combines both senior and subordinated financing, generally in a first lien position.

(3) Subordinated debt includes bonds in CLOs and in a CDO.

(4) The total principal balance outstanding on loans and debt securities was $3,418.0 million and $3,639.6 million at December 31, 2008 and 2007, respectively. The difference between principal and cost primarily represents unamortized loan origination fees and costs, original issue discounts, and market discounts totaling $33.5 million and $29.9 million at December 31, 2008 and 2007, respectively.

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(5)
Investments in the preferred shares/income notes of CLOs and the subordinated certificates in Unitranche Fund LLC earn a current return that is included in interest income in the accompanying consolidated statement of operations.

The Company's private finance investment activity principally involves providing financing through privately negotiated debt and equity investments. The Company's private finance debt and equity investments generally are issued by private companies and generally are illiquid and may be subject to certain restrictions on resale.

The Company's private finance debt investments generally are structured as loans and debt securities that carry a relatively high fixed rate of interest, which may be combined with equity features, such as conversion privileges, or warrants or options to purchase a portion of the portfolio company's equity at a pre-determined strike price, which generally is a nominal price for warrants or options in a private company. The annual stated interest rate is only one factor in pricing the investment relative to the Company's rights and priority in the portfolio company's capital structure, and will vary depending on many factors, including if the Company has received nominal cost equity or other components of investment return, such as loan origination fees or market discount. The stated interest rate may include some component of contractual payment-in-kind interest, which represents contractual interest accrued and added to the loan balance that generally becomes due at maturity.

At December 31, 2008 and 2007, 85% and 86%, respectively of the private finance loans and debt securities had a fixed rate of interest and 15% and 14%, respectively, had a floating rate of interest. Senior loans may carry a fixed rate of interest or a floating rate of interest, set as a spread over prime or LIBOR, and may require payments of both principal and interest throughout the life of the loan. Senior loans generally have contractual maturities of three to six years and interest is generally paid to the Company monthly or quarterly. Unitranche debt generally carries a fixed rate of interest. Unitranche debt generally requires payments of both principal and interest throughout the life of the loan. Unitranche debt generally has contractual maturities of five to six years and interest generally is paid to the Company quarterly. Subordinated debt generally carries a fixed rate of interest generally with contractual maturities of five to ten years and generally has interest-only payments in the early years and payments of both principal and interest in the later years, although maturities and principal amortization schedules may vary. Interest on subordinated debt generally is paid to the Company quarterly.

Equity securities primarily consist of securities issued by private companies and may be subject to certain restrictions on their resale and are generally illiquid. The Company may make equity investments for minority stakes in portfolio companies or may receive equity features, such as nominal cost warrants. The Company also may invest in the equity (preferred and/or voting or non-voting common) of a portfolio company where the Company's equity ownership may represent a significant portion of the equity, but may or may not represent a controlling interest. If the Company invests in non-voting equity in a buyout investment, the Company generally has the option to acquire a controlling stake in the voting securities of the portfolio company at fair market value. The Company may incur costs associated with making buyout investments that will be included in the cost basis of the Company's equity investment. These include costs such as legal, accounting and other professional fees associated with diligence, referral and investment banking fees, and other costs. Equity securities generally do not produce a current return, but are held with the potential for investment appreciation and ultimate gain on sale.

Ciena Capital LLC. Ciena Capital LLC (f/k/a Business Loan Express, LLC) ("Ciena") has provided loans to commercial real estate owners and operators. Ciena has been a participant in the Small Business Administration's 7(a) Guaranteed Loan Program and its wholly-owned subsidiary is licensed by the SBA as a Small Business Lending Company ("SBLC"). Ciena is headquartered in New York, NY.

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At December 31, 2008 and 2007, the Company's investment in Ciena was as follows:

	2008		2007	
($ in millions)	**Cost**	**Value**	**Cost**	**Value**
Senior Loan	$ 319.0	$ 104.9	$	$
Class A Equity Interests			99.0	68.6
Class B Equity Interests(1)	119.5		119.5	
Class C Equity Interests(1)	109.3		109.3	
Total	$ 547.8	$ 104.9	$ 327.8	$ 68.6

(1) At December 31, 2008 and 2007, the Company held 100% of the Class B equity interests and 94.9% of the Class C equity interests.

At December 31, 2008 and 2007, other assets includes amounts receivable from or related to Ciena totaling $15.4 million and $5.4 million at cost and $2.1 million and $5.4 million at value, respectively. During the fourth quarter of 2008, the Company sold its Class A Equity Interests in Ciena for nominal consideration to affiliates of AllBridge Financial, LLC, and realized a loss of $98.9 million. Net change in unrealized appreciation or depreciation for the year ended December 31, 2008, included a decrease in the Company's investment in Ciena totaling $296.0 million and the reversal of unrealized depreciation of $99.0 million associated with the realized loss on the sale of the Company's Class A equity interests. Net change in unrealized appreciation or depreciation included a net decrease in the Company's investment in Ciena of $174.5 million and $142.3 million for the years ended December 31, 2007 and 2006, respectively.

In addition, at December 31, 2008, the Company had standby letters of credit issued under the Company's line of credit of $102.6 million in connection with term securitization transactions completed by Ciena. Due to the economic environment, the term securitizations have experienced increasing defaults and the financial institution that has issued these letters of credit has experienced a ratings downgrade; therefore, some of these letters of credit may be drawn beginning in 2009. Because the Company's asset coverage ratio is currently less than 200%, an event of default has occurred under the Company's line of credit and the Company may need to fund these letter of credit draws with cash in lieu of a borrowing under the Company's line of credit. The Company has considered any funding under the letters of credit in the valuation of Ciena at December 31, 2008.

Ciena has continued to experience significant deterioration in the value of its assets primarily as a result of an increase in borrower defaults in the current economic environment and decreasing values for financial assets. On September 30, 2008, Ciena voluntarily filed for bankruptcy protection under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of New York (the "Court"). Ciena continues to operate its servicing business and manage its assets as a "debtor-in-possession" under the jurisdiction of the Court and in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Court. Ciena believes that by filing for bankruptcy protection it will be able to proceed with an orderly sale of its assets over time in more favorable market conditions in the future and thereby maximize the value of its assets and reduce costs in order to repay its debts.

As a result of Ciena's decision to file for bankruptcy protection, the Company's unconditional guaranty of the obligations outstanding under Ciena's revolving credit facility became due, and the Company, in lieu of paying under its guaranty, purchased the positions of the senior lenders under Ciena's revolving credit facility except for a $5 million position held by Citibank, N.A. The Company paid $325.4 million to fund the purchase, which included $319.0 million of principal, $1.4 million of interest, and $5.0 million of other payments related to the revolving credit facility and the bankruptcy. As of December 31, 2008, the senior secured loan had a cost basis of $319.0 million and a value of

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$104.9 million. The Company continues to guarantee the remaining principal balance of $5 million, plus related interest, fees and expenses payable to Citibank. In connection with the Company's continuing guaranty of the amounts held by Citibank, the Company has agreed with Citibank that the amounts owing to Citibank under the Ciena revolving credit facility will be paid before any of the secured obligations of Ciena now owed to the Company.

Total interest and related portfolio income earned from the Company's investment in Ciena for the years ended December 31, 2008, 2007, and 2006, was as follows:

($ in millions)	**2008**	**2007**	**2006**
Interest income on subordinated debt and Class A equity interests(1)	$	$	$ 11.9
Fees and other income		5.4	7.8
Total interest and related portfolio income	$	$ 5.4	$ 19.7

(1) Interest and dividend income from Ciena for the years ended December 31, 2006, included interest and dividend income of $5.7 million, which was paid in kind. The interest and dividends paid in kind were paid to the Company through the issuance of additional debt or equity interests.

In the fourth quarter of 2006, the Company placed its investment in Ciena's 25% Class A equity interests on non-accrual status. As a result, there was no interest income from the Company's investment in Ciena for the years ended December 31, 2007, and 2008. In consideration for providing a guaranty on Ciena's revolving credit facility and standby letters of credit, the Company earned fees of $5.4 million and $6.1 million for the years ended December 31, 2007 and 2006, respectively, which were included in fees and other income. Ciena has not yet paid the $5.4 million in such fees earned by the Company in 2007, and at December 31, 2008, and 2007, such fees were included as a receivable in other assets with a carrying amount net of depreciation of zero and $5.4 million, respectively. The Company considered these outstanding receivables in its valuation of Ciena at December 31, 2008 and 2007. The remaining fees and other income in 2006 relate to management fees from Ciena. The Company did not accrue the fees earned from Ciena for providing the guaranty and standby letters of credit for the nine months ended September 30, 2008. Subsequent to September 30, 2008, the Company will not earn any fees from Ciena for continuing to provide the guaranty or letters of credit.

At December 31, 2008, Ciena had two non-recourse securitization warehouse facilities, both of which have matured. In order to pay down debt under the conventional loan warehouse facility, Ciena is in the process of selling loans on behalf of the conventional loan warehouse facility providers. Ciena is also working with the providers of the SBA loan warehouse facility with regard to the repayment of that facility. The Company has issued performance guaranties whereby the Company agreed to indemnify the warehouse providers for any damages, losses, liabilities and related costs and expenses that they may incur as a result of Ciena's failure to perform any of its obligations as loan originator, loan seller or loan servicer under the warehouse securitizations.

The Office of the Inspector General of the SBA (OIG) and the United States Secret Service are conducting ongoing investigations of allegedly fraudulently obtained SBA-guaranteed loans issued by Ciena. Specifically, on or about January 9, 2007, Ciena became aware of an indictment captioned as the United States v. Harrington, No. 2:06-CR-20662 pending in the United States District Court for the Eastern District of Michigan. The indictment alleged that a former Ciena employee in the Detroit office engaged in the fraudulent origination of loans guaranteed, in substantial part, by the SBA. The Company understands that Ciena is working cooperatively with the U.S. Attorney's Office and the investigating agencies with respect to this matter. On October 1, 2007, the former Ciena employee pled guilty to one count of conspiracy to fraudulently originate SBA-guaranteed loans and one count of making a false statement before a grand jury. The former Ciena employee was sentenced on

November 13, 2008 to ten years imprisonment and was ordered to pay restitution of $30 million to Ciena, $2.9 million to a commercial bank, and $800,000 to the SBA.

On March 6, 2007, Ciena entered into an agreement with the SBA. According to the agreement, Ciena would remain a preferred lender in the SBA 7(a) Guaranteed Loan Program and would retain the ability to sell loans into the secondary market. As part of this agreement, Ciena immediately paid approximately $10 million to the SBA to cover amounts paid by the SBA with respect to some of the SBA-guaranteed loans that have been the subject of the charges by the U.S. Attorney's Office for the Eastern District of Michigan against Mr. Harrington. The agreement provided that, during its term, an independent third party selected by the SBA would review loans originated by Ciena before they could be sold into the secondary market and would review defaulted loans repurchased from the secondary market by Ciena before the SBA would reimburse Ciena. The March 6 agreement has expired. Ciena also entered into an escrow agreement with the SBA pursuant to which Ciena deposited $10 million with the escrow agent for any additional payments Ciena may be obligated to pay to the SBA in the future under the agreement.

Ciena is also subject to other SBA and OIG audits, investigations, and reviews. In addition, the Office of the Inspector General of the U.S. Department of Agriculture is conducting an investigation of Ciena's lending practices under the Business and Industry Loan (B&I) program. The OIG and the U.S. Department of Justice are also conducting a civil investigation of Ciena's lending practices in various jurisdictions. The Company is unable to predict the outcome of these inquiries, and it is possible that third parties could try to seek to impose liability against the Company in connection with certain defaulted loans in Ciena's portfolio. These investigations, audits and reviews are ongoing.

On or about January 16, 2007, Ciena and its subsidiary Business Loan Center LLC ("BLC") became aware of a lawsuit titled, United States, ex rel James R. Brickman and Greenlight Capital, Inc. v. Business Loan Express LLC f/k/a Business Loan Express, Inc.; Business Loan Center LLC f/k/a Business Loan Center, Inc.; Robert Tannenhauser; Matthew McGee; and George Harrigan, 05-CV-3147 (JEC). The complaint includes allegations arising under the False Claims Act and relating to alleged fraud in connection with SBA guarantees on shrimp vessel loans. On December 18, 2007, the United States District Court for the Northern District of Georgia dismissed all claims in this matter. The plaintiffs appealed the dismissal. Ciena's bankruptcy filing automatically stayed the appeal; however, pursuant to Ciena's request, the Court lifted the automatic stay to permit the appeal to proceed. Oral arguments took place on February 3, 2009 before the U.S. Court of Appeals for the 11th Circuit and the District Court's decision dismissing all claims by the 11th Circuit was affirmed on February 5, 2009. On February 23, 2009, the plaintiff/appellant filed a Petition for Rehearing En Banc, which is now pending.

These investigations, audits, reviews, and litigation have had and may continue to have a material adverse impact on Ciena and, as a result, could continue to negatively affect the Company's financial results. The Company has considered Ciena's voluntary filing for bankruptcy protection, current regulatory issues, ongoing investigations, and litigation in performing the valuation of Ciena at December 31, 2008.

Mercury Air Centers, Inc. In April 2004, the Company completed the purchase of a majority ownership in Mercury Air Centers, Inc. ("Mercury"). At December 31, 2006, the Company's investment in Mercury totaled $84.3 million at cost and $244.2 million at value, which included unrealized appreciation of $159.9 million. In August 2007, the Company completed the sale of its majority equity interest in Mercury. For the year ended December 31, 2007, the Company realized a gain of $262.4 million, subject to post-closing adjustments. For the year ended December 31, 2008, we realized an additional gain of $6.0 million resulting from these post-closing adjustments. In addition, the Company was repaid approximately $51 million of subordinated debt outstanding to Mercury at closing.

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Mercury owned and operated fixed base operations generally under long-term leases from local airport authorities, which consisted of terminal and hangar complexes that serviced the needs of the general aviation community. Mercury was headquartered in Richmond Heights, OH.

Total interest and related portfolio income earned from the Company's investment in Mercury for the years ended December 31, 2007, and 2006, was as follows:

($ in millions)	**2007**	**2006**
Interest income	$ 5.1	$ 9.3
Fees and other income	0.2	0.6
Total interest and related portfolio income	$ 5.3	$ 9.9

Net change in unrealized appreciation or depreciation for the year ended December 31, 2007, included an increase in unrealized appreciation totaling $74.9 million for the first half of 2007 and the reversal of $234.8 million associated with the sale of the Company's majority equity interest in the third quarter of 2007. Net change in unrealized appreciation or depreciation for the year ended December 31, 2006, included an increase in unrealized appreciation of $106.1 million related to the Company's investment in Mercury.

Advantage Sales and Marketing, Inc. In June 2004, the Company completed the purchase of a majority voting ownership in Advantage Sales and Marketing, Inc. ("Advantage"). At December 31, 2005, the Company's investment in Advantage totaled $257.7 million at cost and $660.4 million at value, which included unrealized appreciation of $402.7 million. Advantage is a sales and marketing agency providing outsourced sales, merchandising, and marketing services to the consumer packaged goods industry. Advantage has offices across the United States and is headquartered in Irvine, CA.

On March 29, 2006, the Company sold its majority equity interest in Advantage. The Company was repaid its $184 million in subordinated debt outstanding at closing. For the year ended December 31, 2006, the Company realized a gain on the sale of its equity investment of $434.4 million, subject to post-closing adjustments and excluding any earn-out amounts. The Company realized additional gains in 2008 and 2007 resulting from post-closing adjustments and an earn-out payment totaling $1.9 million and $3.4 million, respectively, subject to additional post-closing adjustments.

As consideration for the common stock sold in the transaction, the Company received a $150 million subordinated note, with the balance of the consideration paid in cash. In addition, a portion of the Company's cash proceeds from the sale of the common stock were placed in escrow, subject to certain holdback provisions. At December 31, 2008, the amount of the escrow included in other assets in the accompanying consolidated balance sheet was approximately $23.3 million. For tax purposes, the receipt of the $150 million subordinated note as part of the Company's consideration for the common stock sold and the hold back of certain proceeds in escrow generally will allow the Company, through installment treatment, to defer the recognition of taxable income for a portion of the Company's realized gain until the note or other amounts are collected.

Total interest and related portfolio income earned from the Company's investment in Advantage while the Company held a majority equity interest was $14.1 million (which included a prepayment premium of $5.0 million) for the year ended December 31, 2006. In addition, the Company earned structuring fees of $2.3 million on its new $150 million subordinated debt investment in Advantage upon the closing of the sale in 2006. Net change in unrealized appreciation or depreciation for the year ended December 31, 2006, included the reversal of $389.7 million of previously recorded unrealized appreciation associated with the realization of a gain on the sale of the Company's majority equity interest in Advantage.

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In connection with the sale transaction, the Company retained an equity investment in the business valued at $15 million at closing. During the fourth quarter of 2006, Advantage made a distribution on this minority equity investment, which resulted in a realized gain of $4.8 million.

The Company's investment in Advantage at December 31, 2008, which was composed of subordinated debt and a minority equity interest, totaled $158.1 million at cost and $140.0 million at value which included unrealized depreciation of $18.1 million. This investment was included in companies 5% to 25% owned in the consolidated financial statements as the Company continues to hold a seat on Advantage's board of directors.

Collateralized Loan Obligations ("CLOs") and Collateralized Debt Obligations ("CDOs"). At December 31, 2008 and 2007, the Company owned bonds and preferred shares/income notes in CLOs and bonds in a CDO as follows:

	2008			2007		
($ in millions)	**Cost**	**Value**	**Yield(1)**	**Cost**	**Value**	**Yield(1)**
Bonds(2):						
Callidus Debt Partners CDO Fund I, Ltd.	$ 28.4	$ 10.1	39.4%	$ 28.4	$ 28.5	14.0%
Callidus Debt Partners CLO Fund IV, Ltd.	2.0	1.4	26.9%			
Callidus Debt Partners CLO Fund VI, Ltd.	7.1	3.9	26.1%	4.3	4.3	13.4%
Callidus MAPS CLO Fund I LLC	17.0	9.8	12.2%	17.0	16.1	11.0%
Callidus MAPS CLO Fund II LLC	3.6	3.0	30.2%			
Dryden XVIII Leveraged Loan 2007 Limited	7.7	4.5	20.5%	7.4	7.4	12.7%
Knightsbridge CLO 2007-1 Ltd.(3)	18.7	14.9	17.4%	22.0	22.0	14.1%
Knightsbridge CLO 2008-1 Ltd.(3)	31.4	31.4	10.2%			
Pangaea CLO 2007-1 Ltd.	11.8	7.1	25.0%	11.6	11.6	13.9%
Total bonds	127.7	86.1	18.5%	90.7	89.9	13.3%
Preferred Shares/Income Notes:						
Callidus Debt Partners CLO Fund III, Ltd.	20.1	5.4	%	21.8	20.0	14.1%
Callidus Debt Partners CLO Fund IV, Ltd.	14.6	10.6	18.1%	12.3	11.3	16.1%
Callidus Debt Partners CLO Fund V, Ltd.	13.4	10.3	21.3%	14.0	14.7	19.3%
Callidus Debt Partners CLO Fund VI, Ltd.	28.3	23.1	21.8%	27.0	27.0	19.3%
Callidus Debt Partners CLO Fund VII, Ltd.	24.0	15.4	17.9%	22.1	22.1	16.6%
Callidus MAPS CLO Fund I LLC	45.1	27.8	6.5%	49.3	36.1	7.6%
Callidus MAPS CLO Fund II, Ltd.	18.4	12.6	19.3%	18.7	18.7	14.7%
Dryden XVIII Leveraged Loan 2007 Limited	22.1	17.5	20.2%	21.9	21.9	14.2%
Knightsbridge CLO 2007-1 Ltd.(3)	40.9	35.2	17.4%	31.2	31.2	15.2%
Knightsbridge CLO 2008-1 Ltd.(3)	21.3	21.3	16.6%			
Total preferred shares/income notes	248.2	179.2	16.4%	218.3	203.0	14.6%
Total	$ 375.9	$ 265.3		$ 309.0	$ 292.9	

(1) The weighted average yield is calculated as the (a) annual stated interest or the effective interest yield on the accruing bonds or the effective interest yield on the preferred shares/income notes, divided by (b) CLO and CDO assets at value. The yield on these debt and equity securities is included in interest income in the accompanying consolidated statement of operations.

The market yield used in the valuation of the CLO and CDO assets may be different than the interest yields shown above.

(2) These securities are included in private finance subordinated debt.

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(3)

These funds are managed by the Company through a wholly-owned subsidiary.

The initial yields on the cost basis of the CLO preferred shares and income notes are based on the estimated future cash flows expected to be paid to these CLO classes from the underlying collateral assets. As each CLO preferred share or income note ages, the estimated future cash flows are updated based on the estimated performance of the underlying collateral assets, and the respective yield on the cost basis is adjusted as necessary. As future cash flows are subject to uncertainties and contingencies that are difficult to predict and are subject to future events that may alter current assumptions, no assurance can be given that the anticipated yields to maturity will be achieved.

The bonds, preferred shares and income notes of the CLOs and CDO in which the Company has invested are junior in priority for payment of interest and principal to the more senior notes issued by the CLOs and CDO. Cash flow from the underlying collateral assets in the CLOs and CDO generally is allocated first to the senior bonds in order of priority, then any remaining cash flow generally is distributed to the preferred shareholders and income note holders. To the extent there are ratings downgrades, defaults and unrecoverable losses on the underlying collateral assets that result in reduced cash flows, the preferred shares/income notes will bear this loss first and then the subordinated bonds would bear any loss after the preferred shares/income notes. At both December 31, 2008 and 2007, the face value of the CLO and CDO assets held by the Company was subordinate to as much as 94% of the face value of the securities outstanding in these CLOs and CDO.

At December 31, 2008 and 2007, based on information provided by the collateral managers, the underlying collateral assets of these CLO and CDO issuances, consisting primarily of senior corporate loans, were issued by 658 issuers and 671 issuers, respectively, and had principal balances as follows:

($ in millions)	**2008**	**2007**
Bonds	$ 268.3	$ 288.5
Syndicated loans	4,477.3	4,122.7
Cash(1)	89.6	104.4
Total underlying collateral assets(2)	$ 4,835.2	$ 4,515.6

(1)

Includes undrawn liability amounts.

(2)

At December 31, 2008 and 2007, the total face value of defaulted obligations was $95.0 million and $18.4 million, respectively, or approximately 2.0% and 0.4% respectively, of the total underlying collateral assets.

Loans and Debt Securities on Non-Accrual Status. At December 31, 2008 and 2007, private finance loans and debt securities at value not accruing interest were as follows:

($ in millions)	**2008**	**2007**
Loans and debt securities in workout status		
Companies more than 25% owned	$ 136.8	$ 114.1
Companies 5% to 25% owned		11.7
Companies less than 5% owned	74.6	23.8
Loans and debt securities not in workout status		
Companies more than 25% owned	39.3	21.4
Companies 5% to 25% owned		13.4
Companies less than 5% owned	77.2	13.3
Total	$ 327.9	$ 197.7

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Industry and Geographic Compositions. The industry and geographic compositions of the private finance portfolio at value at December 31, 2008 and 2007, were as follows:

	2008	2007
Industry		
Business services	36%	37%
Consumer products	24	25
CLO/CDO(1)	8	6
Financial services	6	6
Industrial products	5	10
Consumer services	5	4
Retail	5	4
Private debt funds	5	1
Healthcare services	2	3
Other	4	4
Total	100%	100%
Geographic Region(2)		
Mid-Atlantic	41%	36%
Midwest	28	32
Southeast	17	17
West	13	14
Northeast	1	1
Total	100%	100%

(1) These funds primarily invest in senior corporate loans. Certain of these funds are managed by Callidus Capital, a portfolio company of Allied Capital.

(2) The geographic region for the private finance portfolio depicts the location of the headquarters for the Company's portfolio companies. The portfolio companies may have a number of other locations in other geographic regions.

Commercial Real Estate Finance

At December 31, 2008 and 2007, the commercial real estate finance portfolio consisted of the following:

	2008			2007		
($ in millions)	**Cost**	**Value**	**Yield(1)**	**Cost**	**Value**	**Yield(1)**
Commercial mortgage loans	$ 52.5	$ 53.5	7.4%	$ 65.9	$ 65.4	6.8%
Real estate owned	18.2	20.8		15.3	21.3	
Equity interests	14.8	19.6		15.7	34.5	
Total	$ 85.5	$ 93.9		$ 96.9	$ 121.2	

(1) The weighted average yield on the commercial mortgage loans is computed as the (a) annual stated interest on accruing loans plus the annual amortization of loan origination fees, original issue discount, and market discount on accruing loans less the annual amortization of origination costs, divided by (b) total interest-bearing investments at value. The weighted average yield is computed as of the balance sheet date.

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Commercial Mortgage Loans and Equity Interests. The commercial mortgage loan portfolio contains loans that were originated by the Company or were purchased from third-party sellers. At December 31, 2008, approximately 69% and 31% of the Company's commercial mortgage loan portfolio was composed of fixed and adjustable interest rate loans, respectively. At December 31, 2007, approximately 85% and 15% of the Company's commercial mortgage loan portfolio was composed of fixed and adjustable interest rate loans, respectively. At December 31, 2008 and 2007, loans with a value of $7.7 million and $14.3 million, respectively, were not accruing interest. Loans greater than 120 days delinquent generally do not accrue interest.

Equity interests consist primarily of equity securities issued by privately owned companies that invest in single real estate properties. These equity interests may be subject to certain restrictions on their resale and are generally illiquid. Equity interests generally do not produce a current return, but are generally held in anticipation of investment appreciation and ultimate realized gain on sale.

The property types and the geographic composition securing the commercial mortgage loans and equity interests at value at December 31, 2008 and 2007, were as follows:

	2008	2007
Property Type		
Hospitality	52%	44%
Recreation	22	15
Office	15	21
Retail	9	18
Other	2	2
Total	100%	100%
Geographic Region		
Southeast	43%	40%
West	26	20
Midwest	22	31
Northeast	9	7
Mid-Atlantic		2
Total	100%	100%

Fair Value Measurements

The Company, as a BDC, has invested in illiquid securities including debt and equity securities of portfolio companies, CLO bonds and preferred shares/income notes, CDO bonds and investment funds. The Company's investments may be subject to certain restrictions on resale and generally have no established trading market. The Company values substantially all of its investments at fair value as determined in good faith by the Board of Directors in accordance with the Company's valuation policy and the provisions of the Investment Company Act of 1940 and SFAS 157. The Company determines fair value to be the price that would be received for an investment in a current sale, which assumes an orderly transaction between market participants on the measurement date. The Company's valuation policy considers the fact that no ready market exists for substantially all of the securities in which it invests and that fair value for its investments must typically be determined using unobservable inputs.

SFAS 157 establishes a fair value hierarchy that encourages the use of observable inputs, but allows for unobservable inputs when observable inputs do not exist. Inputs are classified into one of three categories:

Level 1 Quoted prices (unadjusted) in active markets for identical assets

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Level 2 Inputs other than quoted prices that are observable to the market participant for the asset or quoted prices in a market that is not active

Level 3 Unobservable inputs

When there are multiple inputs for determining the fair value of an investment, the Company classifies the investment in total based on the lowest level input that is significant to the fair value measurement.

Assets measured at fair value on a recurring basis by level within the fair value hierarchy at December 31, 2008, were as follows:

	Fair Value Measurement as of December 31, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
($ in millions)				
Assets at Fair Value:				
Portfolio				
Private finance	$ 3,399.1	$	$	$ 3,399.1
Commercial real estate finance	93.9			93.9
Total portfolio	$ 3,493.0	$	$	$ 3,493.0

The table below sets forth a summary of changes in the Company's assets measured at fair value using level 3 inputs.

	Private Finance	Commercial Real Estate Finance	Total
($ in millions)			
Balance at December 31, 2007	$ 4,652.7	$ 121.2	$ 4,773.9
Total gains or losses:			
Net realized gains (losses)(1)	(80.9)	(4.1)	(85.0)
Net change in unrealized appreciation or depreciation(2)	(1,089.2)	(15.9)	(1,105.1)
Purchases, issuances, repayments and exits, net(3)	(83.5)	(7.3)	(90.8)
Transfers in and/or out of level 3			
Balance at December 31, 2008	$ 3,399.1	$ 93.9	$ 3,493.0
Net unrealized appreciation (depreciation) during the period relating to assets still held at the reporting date(2)	$ (1,202.1)	$ (20.8)	$ (1,222.9)

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(1) Includes net realized gains (losses) (recorded as realized gains or losses in the accompanying consolidated statement of operations) and amortization of discounts and closing points (recorded as interest income in the accompanying consolidated statement of operations).

(2) Included in change in net unrealized appreciation or depreciation in the accompanying consolidated statement of operations. Net change in unrealized appreciation or depreciation includes net unrealized appreciation (depreciation) resulting from changes in portfolio investment values during the reporting period and the reversal of previously recorded unrealized appreciation or depreciation when gains or losses are realized.

(3) Includes interest and dividend income reinvested through the receipt of a debt or equity security (payment-in-kind income) (recorded as interest and dividend income in the accompanying consolidated statement of operations).

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Managed Funds

In addition to managing its own assets, the Company manages certain funds that also invest in the debt and equity securities of primarily private middle market companies in a variety of industries. At December 31, 2008, the Company had five separate funds under its management (together, the "Managed Funds") for which the Company may earn management or other fees for the Company's services. The Company may invest in the equity of these funds, along with other third parties, from which the Company may earn a current return and/or a future incentive allocation.

At December 31, 2008, the funds that the Company manages had total assets of approximately $2.1 billion. The Company's responsibilities to the Managed Funds may include investment origination, underwriting, and portfolio monitoring services. Each of the Managed Funds may separately invest in the debt or equity of companies in the Company's portfolio, and these investments may be senior, pari passu or junior to the debt and equity investments held by the Company. The Company may or may not participate in investments made by the Managed Funds. In December 2008, the Company agreed to purchase the management contracts of three additional funds for approximately $10 million plus an earnout not to exceed $1.5 million, and certain transaction costs. The aggregate assets held by these funds total approximately $1.2 billion. The Company expects to begin managing these funds in early 2009.

The Company accounts for the sale of securities to funds with which it has continuing involvement as sales pursuant to SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, a replacement of FASB Statement 125, when the securities have been legally isolated from the Company, the Company has no ability to restrict or constrain the ability of the funds to pledge or exchange the transferred securities, and the Company does not have either the entitlement and the obligation to repurchase the securities or the ability to unilaterally cause the fund to put the securities back to the Company.

Unitranche Fund LLC. In December 2007, the Company formed the Unitranche Fund LLC ("Unitranche Fund"), which the Company co-manages with an affiliate of General Electric Capital Corporation ("GE"). At December 31, 2008, the Unitranche Fund had total assets of $789.8 million, and the Company's investment in the Unitranche Fund totaled $125.4 million at cost and at value.

The Unitranche Fund is a private fund that generally focuses on making first lien unitranche loans to middle market companies with Earnings before Interest, Taxes, Depreciation, and Amortization of at least $15 million. The Unitranche Fund may invest up to $270 million for a single borrower. For financing needs greater than $270 million, the Company and GE may jointly underwrite additional financing for a total unitranche financing of up to $500 million. Allied Capital, GE and the Unitranche Fund may co-invest in a single borrower, with the Unitranche Fund holding at least a majority of the issuance. The Company may hold the portion of a unitranche loan underwritten by the Company. GE has committed $3.075 billion to the Unitranche Fund consisting of $3.0 billion of senior notes and $0.075 billion of subordinated certificates, and the Company has committed $525.0 million of subordinated certificates. The Unitranche Fund is capitalized as transactions are completed. Investments made by the Unitranche Fund must be approved by the investment committee of the Unitranche Fund, which includes a representative from the Company and GE. Therefore, the Company's commitment to the Unitranche Fund cannot be drawn without the Company's approval. The level of investments made by the Unitranche Fund will be dependent on market conditions, the Unitranche Fund's ability to identify attractive investment opportunities, and the Company's ability to fund its commitment to the Unitranche Fund. The Company earns a management and sourcing fee totaling 0.375% per annum of managed assets. In addition to the management and sourcing fee, the Company earns structuring fees on investments made by the Unitranche Fund.

Allied Capital Senior Debt Fund, L.P. The Company is a special limited partner in the Allied Capital Senior Debt Fund, L.P. ("ACSDF"), a private fund that generally invests in senior, unitranche

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and second lien debt. The Company has committed and funded $31.8 million to ACSDF, which is a portfolio company. At December 31, 2008, the Company's investment in ACSDF totaled $31.8 million at cost and at value, and ACSDF had total assets of $412.9 million. As a special limited partner, the Company may earn an incentive allocation to the extent of 20% of the annual net income of ACSDF, subject to certain performance benchmarks. There can be no assurance that this incentive allocation will be earned, particularly given the current economic environment. The value of the Company's investment in ACSDF is based on the net asset value of ACSDF, which reflects the capital invested plus the Company's allocation of the net earnings of ACSDF, including the incentive allocation.

AC Corp is the investment manager to ACSDF. Callidus Capital Corporation, a portfolio investment controlled by the Company, acts as special manager to ACSDF. A subsidiary of the Company is the general partner of ACSDF, and AC Corp serves as collateral manager to a warehouse financing vehicle associated with ACSDF. AC Corp will earn a management fee of up to 2% per annum of the net asset value of ACSDF and will pay Callidus 25% of that management fee to compensate Callidus for its role as special manager.

The Company may offer to sell loans to ACSDF or the warehouse financing vehicle. ACSDF or the warehouse financing vehicle may purchase loans from the Company. In connection with ACSDF's formation in June 2007 and during the second half of 2007, the Company sold $224.2 million of seasoned assets with a weighted average yield of 10.0% to a warehouse financing vehicle associated with ACSDF. During the year ended December 31, 2008, the Company sold $72.3 million of seasoned assets with a weighted average yield of 9.2% to the warehouse financing vehicle. ACSDF has also purchased loans from other third parties. Due to the lack of liquidity in the securitization markets, ACSDF is not currently purchasing loans and at December 31, 2008, the ACSDF warehouse financing vehicle had completed its reinvestment period and any investment repayments are used to repay outstanding balances under the warehouse facility.

Knightsbridge CLO 2007-1 Ltd. On March 31, 2008, the Company, through a wholly-owned subsidiary, assumed the management of Knightsbridge CLO 2007-1 Ltd. ("Knightsbridge 2007"), which invests primarily in middle market senior loans.

At December 31, 2008, Knightsbridge 2007 had total assets of $500.6 million and the Company's investment in this CLO totaled $59.6 million at cost and $50.1 million at value. The Company earns a management fee of up to 0.6% per annum of the assets of Knightsbridge 2007, up to 7.5% of which is paid to an unaffiliated third party in its capacity as special equity holder. In addition, Callidus assists the Company in the management of Knightsbridge 2007 and the Company pays Callidus a fee for this assistance.

The Company may offer to sell loans to Knightsbridge 2007 and Knightsbridge 2007 may purchase loans from the Company or from other third parties. During the year ended December 31, 2008, the Company sold loans totaling $95.4 million with a weighted average yield of 8.5% to Knightsbridge 2007.

Knightsbridge CLO 2008-1 Ltd. In June 2008, the Company formed Knightsbridge 2008-1 Ltd. ("Knightsbridge 2008"). Upon its formation, Knightsbridge 2008 completed its initial purchase of assets from a third party. The Company manages Knightsbridge 2008 through a wholly-owned subsidiary. Knightsbridge 2008 invests primarily in middle market senior loans.

At December 31, 2008, Knightsbridge 2008 had total assets of $304.8 million and the Company's investment in this CLO totaled $52.7 million at cost and at value. The Company earns a management fee of up to 0.6% per annum of the assets of Knightsbridge 2008, up to 10% of which is paid to an unaffiliated third party in its capacity as special equity holder. In addition, Callidus assists the Company in the management of Knightsbridge 2008 and the Company pays Callidus a fee for this assistance.

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The Company may offer to sell loans to Knightsbridge 2008 and Knightsbridge 2008 may purchase loans from the Company or from other third parties. During the year ended December 31, 2008, the Company sold loans totaling $48.6 million with a weighted average yield of 9.3% to Knightsbridge 2008.

AGILE Fund I, LLC. In January 2008, the Company entered into an investment agreement with the Goldman Sachs Private Equity Group, part of Goldman Sachs Asset Management ("Goldman Sachs"). As part of the investment agreement, the Company agreed to sell a pro-rata strip of private equity and debt investments to AGILE Fund I, LLC ("AGILE"), a private fund in which a fund managed by Goldman Sachs owns substantially all of the interests, for a total transaction value of $167 million. The sales of the assets closed in the first quarter of 2008.

The sale to AGILE included 13.7% of the Company's equity investments in 23 of its buyout portfolio companies and 36 of its minority equity portfolio companies for a total purchase price of $104 million which resulted in a net realized gain of $8.3 million (subsequent to post-closing adjustments) and dividend income of $6.4 million. In addition, the Company sold approximately $63 million in debt investments, which represented 7.3% of its unitranche, second lien and subordinated debt investments in the buyout investments included in the equity sale. AGILE generally has the right to co-invest in its proportional share of any future follow-on investment opportunities presented by the companies in its portfolio.

The Company is the managing member of AGILE, and will be entitled to an incentive allocation subject to certain performance benchmarks. There can be no assurance that this incentive allocation will be earned, particularly given the current economic environment. The Company owns the remaining interests in AGILE not held by Goldman Sachs. At December 31, 2008, AGILE had total assets of $99.3 million and the Company's investment in AGILE totaled $0.7 million at cost and $0.5 million at value.

As part of this transaction, the Company also sold ten venture capital and private equity limited partnership investments for approximately $28 million to a fund managed by Goldman Sachs, which will assume the $5.3 million of unfunded commitments related to these limited partnership investments. The sales of these limited partnership investments closed in the first half of 2008 and resulted in a net loss of $7.0 million (subsequent to post-closing adjustments) for the year ended December 31, 2008.

Note 4. Debt

At December 31, 2008 and 2007, the Company had the following debt:

	2008			2007		
($ in millions)	**Facility Amount**	**Amount Drawn**	**Annual Interest Cost(1)**	**Facility Amount**	**Amount Drawn**	**Annual Interest Cost(1)**
Notes payable:						
Privately issued unsecured notes payable	$ 1,015.0	$ 1,015.0	7.8%	$ 1,042.2	$ 1,042.2	6.1%
Publicly issued unsecured notes payable	880.0	880.0	6.7%	880.0	880.0	6.7%
Total notes payable and debentures	1,895.0	1,895.0	7.3%	1,922.2	1,922.2	6.4%
Revolving line of credit(4)	632.5	50.0	4.3%(2)	922.5	367.3	5.9%(2)
Total debt	$ 2,527.5	$ 1,945.0	7.7%(3)	$ 2,844.7	$ 2,289.5	6.5%(3)

(1) The weighted average annual interest cost is computed as the (a) annual stated interest on the debt plus the annual amortization of commitment fees, other facility fees and amortization of debt

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financing costs that are recognized into interest expense over the contractual life of the respective borrowings, divided by (b) debt outstanding on the balance sheet date.

(2) The annual interest cost reflects the interest rate payable for borrowings under the revolving line of credit. In addition to the current interest payable, there were annual costs of commitment fees, other facility fees and amortization of debt financing costs of $8.5 million and $3.7 million at December 31, 2008 and 2007, respectively.

(3) The annual interest cost for total debt includes the annual cost of commitment fees, other facility fees and amortization of debt financing costs on the revolving line of credit regardless of the amount outstanding on the facility as of the balance sheet date. The annual interest cost reflects the facilities in place on the balance sheet date.

(4) At December 31, 2008, $460.2 million remained unused on the revolving line of credit, net of amounts committed for standby letters of credit of $122.3 million issued under the credit facility.

Notes Payable and Debentures

Revolving Line of Credit. The Company has a three-year unsecured revolving line of credit with total commitments of $632.5 million that expires on April 11, 2011 (the "Revolving Line of Credit"). At December 31, 2007, the Company had an unsecured Revolving Line of Credit with a committed amount of $922.5 million that was scheduled to expire on September 30, 2008. At December 31, 2008, there was $50.0 million outstanding under the Company's Revolving Line of Credit and the amount available under the Revolving Line of Credit was $460.2 million, net of amounts committed for standby letters of credit of $122.3 million issued under the credit facility.

Borrowings under the Revolving Line of Credit generally bear interest at a rate per annum equal to (i) LIBOR (for the period selected by the Company) plus 3.00% or (ii) the higher of (a) the Federal Funds rate plus 1.50% or (b) the Bank of America N.A. prime rate plus 1.00%. The Revolving Line of Credit requires the payment of an annual commitment fee equal to 0.50% of the committed amount (whether used or unused). The Revolving Line of Credit generally requires payments of interest at the end of each LIBOR interest period, but no less frequently than quarterly, on LIBOR-based loans, and monthly payments of interest on other loans. All principal is due upon maturity.

The Revolving Line of Credit provides for a swingline sub-facility. The swingline sub-facility bears interest at the Bank of America N.A. cost of funds plus 2.00%. The Revolving Line of Credit also provides for a sub-facility for the issuance of letters of credit for up to an aggregate amount of $175 million. The letter of credit fee is 3.00% per annum on letters of credit issued, which is payable quarterly. Events of default have increased the interest rate and fees on letters of credit by up to 2.00% during the continuance of such events of default. See Note 1.

Privately Issued Unsecured Notes Payable. The Company has privately issued notes (the "Private Notes") to institutional investors, primarily insurance companies. The Private Notes have five- or seven-year maturities and stated fixed rates of interest ranging from 6.53% to 9.14% at December 31, 2008. Events of default have occurred which has increased these interest rates by 2.00% during the continuance of such events of default. See Note 1. The Private Notes generally require payment of interest only semi-annually, and all principal is due upon maturity. At December 31, 2008, the Private Notes had maturities from November 2009 to June 2015. The Private Notes may be prepaid in whole or in part, together with an interest premium, if any, as stipulated in the private note agreements.

In June 2008, the Company issued $140.5 million of five-year notes and $52.5 million of seven-year notes. The debt matures in June 2013 and June 2015, respectively.

In May 2008, the Company repaid $153.0 million of notes that matured and had a fixed interest rate of 5.45%. In December 2008, the Company prepaid notes denominated in Euros and Sterling for a

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total U.S. dollar equivalent of $16 million with an interest rate of 5.9%. In December 2008, the Company also prepaid Private Notes with an outstanding balance of $50 million at a discount. The net gain on the discounted payoff was $1.1 million, which is included in fees and other income in the Company's Consolidated Statement of Operations. These notes had a fixed interest rate of 6.75%.

The Revolving Line of Credit and the Private Notes have similar financial and operating covenants. These covenants require the Company to maintain certain financial ratios, including asset coverage, debt to equity and interest coverage, and a minimum net worth. These debt agreements provide for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, cross-defaults, bankruptcy events, failure to pay judgments, attachment of our assets, change of control and the issuance of an order of dissolution. Certain of these events of default are subject to notice and cure periods or materiality thresholds. These debt agreements limit the Company's ability to declare dividends or repurchase its common stock during the existence of certain defaults and events of default.

Amendments to Revolving Line of Credit and Privately Issued Unsecured Notes Payable. On December 30, 2008, the Company entered into amendments relating to the Company's Private Notes and Revolving Line of Credit. The amendments reduced the Company's capital maintenance covenant to the greater of $1.5 billion and 85% of consolidated adjusted debt, and reduced the Company's interest charges coverage ratio covenant, determined as of the last day of each fiscal quarter for the period of four consecutive fiscal quarters ending on such day, to 1.4 to 1 for the fiscal quarter ending December 31, 2008 and each fiscal quarter thereafter to and including the fiscal quarter ending December 31, 2009, to 1.6 to 1 for the fiscal quarter ending March 31, 2010 and each fiscal quarter thereafter to and including the fiscal quarter ending December 31, 2010, and to 1.7 to 1 for the fiscal quarter ending March 31, 2011 and each fiscal quarter thereafter. The amendments did not modify the Company's obligation to maintain a minimum 200% asset coverage ratio.

The amendments added new covenants that required the Company to grant to the Noteholders and the Lenders a first priority lien on substantially all of the Company's assets no later than January 30, 2009, and to maintain a ratio of consolidated total adjusted assets to secured debt of not less than 2.25 to 1. Also, prior to December 31, 2010, the Company is (i) required to limit the payment of dividends to a maximum of $0.20 per share per fiscal quarter (or such greater amount required for the Company to maintain its regulated investment company status), and (ii) restricted from purchasing, redeeming or retiring any shares of the Company's common stock or any warrants, rights or options to purchase or acquire any shares of the Company's common stock for an aggregate consideration in excess of $60 million. In addition, the amendments restricted the Company from prepaying, redeeming, purchasing or otherwise acquiring any of its currently outstanding public notes prior to their stated maturity. The amendments also made certain other modifications. The amendments increased the rate of interest on the instruments by 100 basis points. In addition, these amendments required a 50 basis point amendment fee.

Events of default have occurred under the Revolving Line of Credit and Private Notes. See Note 1.

Publicly Issued Unsecured Notes Payable. At December 31, 2008, the Company had outstanding publicly issued unsecured notes as follows:

($ in millions)	**Amount**	**Maturity Date**
6.625% Notes due 2011	$ 400.0	July 15, 2011
6.000% Notes due 2012	250.0	April 1, 2012
6.875% Notes due 2047	230.0	April 15, 2047
Total	$ 880.0	

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The 6.625% Notes due 2011 and the 6.000% Notes due 2012 require payment of interest only semi-annually, and all principal is due upon maturity. The Company has the option to redeem these notes in whole or in part, together with a redemption premium, as stipulated in the notes.

In 2007, the Company completed the issuance of $230.0 million of 6.875% Notes due 2047 for net proceeds of $222.1 million. Net proceeds are net of underwriting discounts and estimated offering expenses. These notes require payment of interest only quarterly, and all principal is due upon maturity. These notes are redeemable in whole or in part at any time or from time to time on or after April 15, 2012, at par and upon the occurrence of certain tax events as stipulated in the notes.

The Company has certain financial and operating covenants that are required by the publicly issued unsecured notes payable. The Company is not permitted to issue indebtedness unless immediately after such issuance the Company has asset coverage of all outstanding indebtedness of at least 200% as required by the 1940 Act, as amended. At December 31, 2008, the Company's asset coverage ratio was 188%, which is less than the 200% requirement. As a result under the publicly issued unsecured notes payable, the Company will not be able to issue indebtedness until such time as the Company's asset coverage returns to at least 200%. The Company has not experienced any default or cross default with respect to the publicly issued unsecured notes payable.

Scheduled Maturities. Scheduled future maturities of notes payable at December 31, 2008, were as follows:

	Amount Maturing		
($ in millions) Year	**Privately Issued Unsecured Notes Payable(1)**	**Publicly Issued Unsecured Notes Payable**	**Total**
2009	$ 1,015.0	$	$ 1,015.0
2010			
2011		400.0	400.0
2012		250.0	250.0
2013			
Thereafter		230.0	230.0
Total	$ 1,015.0	$ 880.0	$ 1,895.0

(1) The private notes have stated contractual maturities as follows: 2009 $252.5 million, 2010 $408.0 million, 2011 $72.5 million, 2012 $89.0 million, 2013 $140.5 million, and thereafter $52.5 million.

As discussed above, events of default have occurred under the revolving line of credit and private notes. Neither the lenders nor noteholders have accelerated repayment; however, if the administrative agent for the lenders under the revolving line of credit or the required percentage of lenders under the revolving line of credit or noteholders under the private notes, respectively, were to accelerate repayment, these obligations would become immediately due and payable. Therefore, in the table above, the private notes are shown as payable in 2009.

Fair Value of Debt

The Company records debt at cost. The fair value of the Company's outstanding debt was approximately $1.4 billion and $2.2 billion at December 31, 2008 and 2007, respectively. The fair value of the Company's publicly issued 6.875% Notes due 2047 was determined using the market price of the retail notes at December 31, 2008. The fair value of the Company's other debt was determined based on market interest rates for similar instruments as of the balance sheet date.

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Note 5. Guarantees and Commitments

In the ordinary course of business, the Company has issued guarantees and has extended standby letters of credit through financial intermediaries on behalf of certain portfolio companies. All standby letters of credit have been issued through Bank of America, N.A. As of December 31, 2008 and 2007, the Company had issued guarantees of debt and rental obligations aggregating $19.2 million and $270.6 million, respectively, and had extended standby letters of credit aggregating $122.3 million and $58.5 million, respectively. Under these arrangements, the Company would be required to make payments to third parties if the portfolio companies were to default on their related payment obligations. The maximum amount of potential future payments was $141.5 million and $329.1 million at December 31, 2008 and 2007, respectively.

As of December 31, 2008, the guarantees and standby letters of credit expired as follows:

(in millions)	Total	2009	2010	2011	2012	2013	After 2013
Guarantees	$ 19.2	$ 7.5	$ 6.4	$ 4.4	$ 0.1	$	$ 0.8
Standby letters of credit	122.3	122.3					
Total	$ 141.5	$ 129.8	$ 6.4	$ 4.4	$ 0.1	$	$ 0.8

Standby letters of credit have been issued under the Revolving Line of Credit. Because the Company's asset coverage ratio is currently less than 200%, an event of default has occurred under the Company's line of credit and the Company is precluded from borrowing under the Revolving Line of Credit to fund these standby letters of credit and the Company may need to fund these letter of credit draws with cash in lieu of a borrowing. During the existence of an event of default, the administrative agent is permitted to require the Company to provide cash collateral equal to the face amount of all outstanding standby letters of credit. As a result, in the table above the Company has assumed that these standby letters of credit may not be able to be extended and may mature in 2009.

In the ordinary course of business, the Company enters into agreements with service providers and other parties that may contain provisions for the Company to indemnify and guaranty certain minimum fees to such parties under certain circumstances.

At December 31, 2008, the Company had outstanding commitments to fund investments totaling $682.1 million, including $648.7 million related to private finance investments and $33.4 million related to commercial real estate finance investments. Total outstanding commitments related to private finance investments included $399.6 million to the Unitranche Fund LLC. Investments made by the Unitranche Fund must be approved by the investment committee of the Unitranche Fund, which includes a representative from the Company and GE. Therefore, the Company's commitment to the Unitranche Fund cannot be drawn without the Company's approval. See Note 3.

Note 6. Shareholders' Equity

Sales of common stock for the years ended December 31, 2008, 2007, and 2006, were as follows:

(in millions)	2008	2007	2006
Number of common shares	20.5	6.6	10.9
Gross proceeds	$ 417.1	$ 177.7	$ 310.2
Less costs, including underwriting fees	(14.6)	(6.4)	(14.4)
Net proceeds	$ 402.5	$ 171.3	$ 295.8

There were no stock options exercised in the year ended December 31, 2008. The Company issued 0.6 million and 0.5 million shares of common stock upon the exercise of stock options during the years

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ended December 31, 2007, and 2006, respectively. In addition, in July 2007, the Company issued 1.7 million unregistered shares of common stock upon the cancellation of stock options pursuant to a tender offer. See Note 9.

The Company has a dividend reinvestment plan, whereby the Company may buy shares of its common stock in the open market or issue new shares in order to satisfy dividend reinvestment requests. If the Company issues new shares, the issue price is equal to the average of the closing sale prices reported for the Company's common stock for the five consecutive trading days immediately prior to the dividend payment date. The Company cannot issue new shares at a price below net asset value. Dividend reinvestment plan activity for the years ended December 31, 2008, 2007, and 2006, was as follows:

(in millions, except per share amounts)	**2008**	**2007**	**2006**
Shares issued	0.2	0.6	0.5
Average price per share	$ 19.49	$ 27.40	$ 30.58
Shares purchased by plan agent for shareholders	1.8		
Average price per share	$ 6.09		

Note 7. Earnings Per Common Share

Earnings per common share for the years ended December 31, 2008, 2007, and 2006, were as follows:

(in millions, except per share amounts)	**2008**	**2007**	**2006**
Net increase (decrease) in net assets resulting from operations	$ (1,040.0)	$ 153.3	$ 245.1
Weighted average common shares outstanding basic	173.0	152.9	142.4
Dilutive options outstanding		1.8	3.2
Weighted average common shares outstanding diluted	173.0	154.7	145.6
Basic earnings (loss) per common share	$ (6.01)	$ 1.00	$ 1.72
Diluted earnings (loss) per common share	$ (6.01)	$ 0.99	$ 1.68

Note 8. Employee Compensation Plans

The Company accrued bonuses for non-officer employees for 2008 of $1.0 million which were paid in February 2009. In addition, the Company accrued $11.2 million in performance awards in 2008 which are included in salaries and employee benefits expense. In lieu of paying these amounts as a 2008 bonus, the Company will pay these amounts in four quarterly installments ending on January 15, 2010. An employee must be employed on the quarterly payment dates in order to receive the quarterly payment.

The Company has an Individual Performance Award plan ("IPA"), and an Individual Performance Bonus plan ("IPB", each individually a "Plan," or collectively, the "Plans"). These Plans generally are determined annually at the beginning of each year but may be adjusted throughout the year. In 2008, the IPA was paid in cash in two equal installments during the year. Through December 31, 2007, the IPA amounts were contributed into a trust and invested in the Company's common stock. The IPB was distributed in cash to award recipients throughout the year (beginning in February of each respective year) as long as the recipient remained employed by the Company. The Company currently has not established an IPA or IPB for 2009; however, depending upon the Company's need to retain and motivate its employees, the Company may determine in conjunction with the Compensation Committee of the Board of Directors that some form of 2009 retention compensation or additional individual performance compensation may be in the best interests of the Company.

The trusts for the IPA payments were consolidated with the Company's accounts. The common stock was classified as common stock held in deferred compensation trust in the accompanying financial statements and the deferred compensation obligation, which represented the amount owed to the employees, was included in other liabilities. Changes in the value of the Company's common stock held in the deferred compensation trust were not recognized. However, the liability was marked to market with a corresponding charge or credit to employee compensation expense.

In December 2007, the Company's Board of Directors made a determination that it was in the best interests of the Company to terminate its deferred compensation arrangements. The Board of Directors' decision primarily was in response to increased complexity resulting from recent changes in the regulation of deferred compensation arrangements. The Board of Directors resolved that the accounts under these Plans would be distributed to participants in full on March 18, 2008, the termination and distribution date, or as soon as was reasonably practicable thereafter, in accordance with the provisions of each of these Plans.

The accounts under the deferred compensation arrangements totaled $52.5 million at December 31, 2007. The balances on the termination date were distributed to participants in March 2008 subsequent to the termination date in accordance with the transition rule for payment elections under Section 409A of the Code. Distributions from the plans were made in cash or shares of the Company's common stock, net of required withholding taxes.

The IPA and IPB expenses are included in employee expenses and for the years ended December 31, 2008, 2007, and 2006, were as follows:

($ in millions)	**2008**	**2007**	**2006**
IPA contributions	$ 8.5	$ 9.8	$ 8.1
IPA mark to market expense (benefit)	(4.1)	(14.0)	2.9
Total IPA expense (benefit)	$ 4.4	$ (4.2)	$ 11.0
Total IPB expense	$ 8.8	$ 9.5	$ 8.1

Note 9. Stock Option Plan

The purpose of the stock option plan ("Option Plan") is to provide officers and non-officer directors of the Company with additional incentives. Options are exercisable at a price equal to the fair market value of the shares on the day the option is granted. Each option states the period or periods of time within which the option may be exercised by the optionee, which may not exceed ten years from the date the option is granted. The options granted to officers generally vest ratably over up to a three year period. Options granted to non-officer directors vest on the grant date.

All rights to exercise options terminate 60 days after an optionee ceases to be (i) a non-officer director, (ii) both an officer and a director, if such optionee serves in both capacities, or (iii) an officer (if such officer is not also a director) of the Company for any cause other than death or total and permanent disability. In the event of a change of control of the Company, all outstanding options will become fully vested and exercisable as of the change of control.

At December 31, 2006, there were 32.2 million shares authorized under the Option Plan. On May 15, 2007, the Company's stockholders voted to increase the number of shares of common stock authorized for issuance to 37.2 million shares. At December 31, 2008 and 2007, there were 37.2 million shares authorized under the Option Plan.

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On July 18, 2007, the Company completed a tender offer related to the Company's offer to all optionees who held vested "in-the-money" stock options as of June 20, 2007, the opportunity to receive an option cancellation payment ("OCP") equal to the "in-the-money" value of the stock options cancelled, determined using the Weighted Average Market Price of $31.75, which would be paid one-half in cash and one-half in unregistered shares of the Company's common stock. The Company accepted for cancellation 10.3 million vested options, which in the aggregate had a weighted average exercise price of $21.50. This resulted in a total option cancellation payment of approximately $105.6 million, of which $52.8 million was paid in cash and $52.8 million was paid through the issuance of 1.7 million unregistered shares of the Company's common stock, determined using the Weighted Average Market Price of $31.75. The Weighted Average Market Price represented the volume weighted average price of the Company's common stock over the fifteen trading days preceding the first day of the offer period, or June 20, 2007. See Note 2 Stock Compensation Plans.

At December 31, 2008 and 2007, the number of shares available to be granted under the Option Plan was 9.5 million and 10.7 million, respectively.

Information with respect to options granted, exercised and forfeited under the Option Plan for the years ended December 31, 2008, 2007, and 2006, was as follows:

(in millions, except per share amounts)	Shares	Weighted Average Exercise Price Per Share	Weighted Average Contractual Remaining Term (Years)	Aggregate Intrinsic Value at December 31, 2008(1)
Options outstanding at January 1, 2006	22.3	$ 24.52		
Granted	1.8	$ 29.88		
Exercised	(0.5)	$ 22.99		
Forfeited	(0.4)	$ 27.67		
Options outstanding at December 31, 2006	23.2	$ 24.92		
Granted	6.7	$ 29.52		
Exercised	(0.6)	$ 25.25		
Cancelled in tender offer(2)	(10.3)	$ 21.50		
Forfeited	(0.5)			