

ARES CAPITAL CORP  
Form N-2/A  
February 07, 2005

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As filed with the Securities and Exchange Commission on February 7, 2005

Registration No. 333-121972

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**U.S. SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM N-2**

REGISTRATION STATEMENT

UNDER

*THE SECURITIES ACT OF 1933*

- ☑ PRE-EFFECTIVE AMENDMENT NO. 1
- POST-EFFECTIVE AMENDMENT NO.

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**ARES CAPITAL CORPORATION**

(Exact Name of Registrant as Specified in Charter)

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**780 Third Avenue, 46th Floor  
New York, New York 10017**

(Address of Principal Executive Offices)

Registrant's Telephone Number, including Area Code: **(212) 750-7300**

**Kevin Frankel  
c/o Ares Management LLC  
1999 Avenue of the Stars, Suite 1900  
Los Angeles, CA 90067  
(310) 201-4100**

(Name and Address of Agent for Service)

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*Copies of information to:*

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Los Angeles, CA 90067-3206  
(310) 557-2900**

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One New York Plaza  
New York, NY 10004-1980  
(212) 859-8000**

**Approximate Date of Proposed Public Offering:** As soon as practicable after the effective date of this Registration Statement.

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a distribution reinvestment plan, check the following box. ○

It is proposed that this filing will become effective (check appropriate box):

○

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when declared effective pursuant to section 8(c).

If appropriate, check the following box:

- This [post-effective amendment] designates a new effective date for a previously filed [post-effective amendment] [registration statement].
- This form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act and the Securities Act registration statement number of the earlier effective registration statement for the same offering is .

**CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933**

<b>Title of Securities Being Registered</b>	<b>Amount Being Registered</b>	<b>Proposed Maximum Offering Price Per Unit</b>	<b>Proposed Maximum Aggregate Offering Price(1)(2)</b>	<b>Amount of Registration Fee(3)</b>
Common Stock, \$0.001 par value per share			\$172,500,000	\$20,303.25

- (1) Includes the underwriters' over-allotment option.
- (2) Estimated pursuant to Rule 457 solely for the purpose of determining the registration fee.
- (3) Previously paid.

**THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SECTION 8(a), MAY DETERMINE.**

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

**Subject to Completion**

**Preliminary Prospectus dated February 7, 2005**

**PROSPECTUS**

# Shares

## Common Stock

Ares Capital Corporation is a closed-end, non-diversified management investment company incorporated in Maryland that is regulated as a business development company under the Investment Company Act of 1940. We were founded in April 2004 and completed an initial public offering of our common stock on October 8, 2004. Our investment objectives are 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 may include an equity component, and, to a lesser extent, in equity investments in private middle market companies.

We are managed by Ares Capital Management LLC, an affiliate of Ares Management LLC, an independent Los Angeles based firm that manages investment funds that have approximately \$6.1 billion of committed capital. Ares Technical Administration LLC provides the administrative services necessary for us to operate.

Our common stock is quoted on The NASDAQ National Market under the symbol "ARCC." On February 1, 2005, the last reported sales price of our common stock on The NASDAQ National Market was \$18.38 per share.

**Investing in our common stock involves risks that are described in the "Risk Factors" section beginning on page 15 of the prospectus.**

**Shares of closed-end investment companies frequently trade at a discount to their net asset value. If our shares trade at a discount to our net asset value, it may increase the risk of loss for purchasers in this offering.** This prospectus concisely provides important information you should know before investing in our common stock. Please read it before you invest and keep it for future reference. The SEC maintains an Internet website (<http://www.sec.gov>) that contains material incorporated by reference and other information about us.

	<u>Per Share</u>	<u>Total</u>
Public offering price	\$	\$
Underwriting discount (sales load)	\$	\$
Proceeds, before expenses, to Ares Capital Corporation(1)	\$	\$

(1)

Before deducting expenses payable by us related to this offering, estimated at \$ .

The underwriters may also purchase up to an additional \_\_\_\_\_ shares from us at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus to cover overallotments. If the underwriters exercise this option in full, the total public offering price will be \$ \_\_\_\_\_, the total underwriting discount (sales load) paid by us will be \$ \_\_\_\_\_, and total proceeds, before expenses, will be \$ \_\_\_\_\_.

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

The shares will be ready for delivery on or about \_\_\_\_\_, 2005.

**Merrill Lynch & Co.**

**Wachovia Securities**

**RBC Capital Markets**

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The date of this prospectus is \_\_\_\_\_, 2005.

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You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

## PROSPECTUS SUMMARY

*This summary highlights some of the information in this prospectus. It is not complete and may not contain all of the information that you may want to consider. You should read carefully the more detailed information set forth under "Risk Factors" and the other information included in this prospectus. Except where the context suggests otherwise, the terms "we," "us," "our," "the Company" and "Ares Capital" refer to Ares Capital Corporation and its subsidiaries; "Ares Capital Management" or "investment adviser" refers to Ares Capital Management LLC; "Ares Administration" refers to Ares Technical Administration LLC; and "Ares" refers to Ares Partners Management Company LLC and its affiliated companies, including Ares Management LLC.*

## THE COMPANY

Ares Capital is a closed-end, non-diversified management investment company that is regulated as a business development company, or a "BDC," under the Investment Company Act of 1940, or the "1940 Act." We were founded in April 2004 and completed an initial public offering of our common stock on October 8, 2004. Ares Capital's investment objectives are to generate both current income and capital appreciation through debt and equity investments by primarily investing in U.S. middle market companies, where we believe the supply of primary capital is limited and the investment opportunities are most attractive.

We primarily invest in first and second lien senior loans and long-term mezzanine debt. 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. In some cases, we may also receive warrants or options in connection with our debt investments. Our investments generally range between \$10 million and \$30 million each, although the investment sizes may be more or less than the targeted range. We also, to a lesser extent, make equity investments in private middle market companies. These investments are generally less than \$10 million each and made in conjunction with loans we make to these companies. In this prospectus, we generally use the term "middle market" to refer to companies with annual EBITDA between \$5 million and \$50 million. EBITDA represents net income before net interest expense, income tax expense, depreciation and amortization.

The first and second lien senior loans generally have stated terms of three to ten years and the mezzanine debt investments generally have stated terms of up to ten years, but the expected average life of such first and second lien loans and mezzanine debt is generally between three and seven years. However, there is no limit on the maturity or duration of any security in our portfolio. The debt that we invest in typically is not rated by any rating agency, but we believe that if such investments were rated, they would be below investment grade (rated lower than "Baa3" by Moody's or lower than "BBB-" by Standard & Poor's). We may invest without limit in debt of any rating, including debt that has not been rated by any nationally recognized statistical rating organization.

We believe that our 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 us with attractive investments. In addition to deal flow, the Ares investment platform assists our investment adviser in analyzing, structuring and monitoring investments. Ares' senior principals have worked together for many years and have substantial experience in investing in senior loans, high yield bonds, mezzanine debt and private equity. The Company has access to the Ares staff of approximately 38 investment professionals and to the 20 administrative professionals employed by Ares who provide assistance in accounting, legal, compliance and investor relations.

While our primary focus is to generate current income and capital appreciation through investments in first and second lien senior loans and mezzanine debt and, to a lesser extent, equity securities of private companies, we also may invest up to 30% of the portfolio in opportunistic investments. Such investments may include investments in high-yield bonds, debt and equity securities in collateralized debt obligation vehicles and distressed debt or equity securities of public companies. We expect that these public companies generally will have debt that is non-investment grade. As part of this 30% of the portfolio, we may also invest in debt of companies located outside of the United States, which investments are not anticipated to be in excess of 5% of the portfolio at the time such investments are made.

## About Ares

Ares is an independent Los Angeles based firm with 78 employees that manages investment funds that have approximately \$6.1 billion of committed capital. Ares was founded in 1997 by a group of highly experienced investment professionals.

Ares specializes in originating and managing assets in both the leveraged finance and private equity markets. Ares' leveraged finance activities include the acquisition and management of senior loans, high yield bonds, mezzanine 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 secured floating rate debt to common equity.

Ares is comprised of the following groups:

**Capital Markets Group.** The Ares Capital Markets Group currently manages a variety of funds and investment vehicles that have approximately \$5.0 billion of committed capital, primarily focusing on syndicated senior secured loans, high yield bonds, distressed debt and other liquid fixed income investments. The Capital Markets Group focuses primarily on liquid fixed income debt securities and other publicly traded debt securities.

**Private Debt Group.** The Ares Private Debt Group manages the assets of Ares Capital. The Private Debt Group focuses primarily on non-syndicated first and second lien senior loans and mezzanine debt.

**Private Equity Group.** The Ares Private Equity Group manages the Ares Corporate Opportunities Fund, or "ACOF," which has \$750 million of committed capital. ACOF generally makes private equity investments in middle market companies and in amounts substantially larger than the private equity investments anticipated to be made by Ares Capital. 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, our investment adviser, is served by a dedicated origination and transaction development team of 8 investment professionals, including our President, Michael J. Arougheti, which team is augmented by Ares' additional investment professionals, primarily its 18 member Capital Markets Group. Ares Capital Management's investment committee has 5 members,

including Mr. Arougheti and 4 founding members of Ares. In addition, Ares Capital Management leverages off of Ares' entire investment platform and benefits from the Ares investment professionals' significant capital markets, trading and research expertise developed through Ares industry analysts. Ares' industry analysts currently maintain research on over 600 companies. Ares funds have made investments in over 650 companies in over 30 different industries and currently hold over 300 investments in over 30 different industries.

## **MARKET OPPORTUNITY**

We believe the environment for investing in middle market companies is attractive for the following reasons:

We believe 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.

We believe 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, due to a continuing preference for larger size high yield bond issuances.

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

## **COMPETITIVE ADVANTAGES**

We believe that we have the following competitive advantages over other capital providers in middle market companies:

### **Existing investment platform**

Ares currently manages approximately \$6.1 billion of committed capital in the related asset classes of syndicated loans, high yield bonds, mezzanine debt and private equity. We believe Ares' current investment platform provides a competitive advantage in terms of access to origination and marketing activities and diligence for Ares Capital.

### **Seasoned management team**

Ares senior professionals 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. As a result of Ares' extensive investment experience, Ares and its senior principals have developed a strong reputation in the capital markets. We believe that this experience affords Ares Capital a competitive advantage in identifying and investing in middle market companies with the potential to generate positive returns.

### **Experience and focus on middle market companies**

Ares has historically focused on investments in middle market companies and we expect to benefit from this experience. Our investment adviser uses Ares' extensive network of relationships with intermediaries focused on middle market companies, to attract well-positioned prospective portfolio company investments. In addition, our investment adviser works closely with the investment professionals of the Ares Capital Markets Group, who oversee a current portfolio of investments in over 300 companies, maintain an extensive network of relationships, and possess valuable insights into industry trends.





### **Disciplined investment philosophy**

In making its investment decisions, our investment adviser has adopted Ares' long-standing, consistent investment approach that was developed over 12 years ago by several of its founders. Ares Capital Management's investment philosophy and portfolio construction involves an assessment of the overall macroeconomic environment, financial markets and company-specific research and analysis. Our investment approach emphasizes capital preservation, low volatility and minimization of downside risk.

### **Extensive industry focus**

We concentrate our investing activities in industries with a history of predictable and dependable cash flows and in which Ares' investment professionals historically have had extensive investment experience. Since its inception in 1997, Ares investment professionals have invested in over 650 companies in over 30 different industries, and over this time have developed long-term relationships with management teams and management consultants within these industries. The experience of Ares' investment professionals in investing across these industries, throughout various stages of the economic cycle, provides our investment adviser with access to ongoing market insights and favorable investment opportunities.

### **Flexible transaction structuring**

We are flexible in structuring investments, the types of securities in which we invest 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. This approach and experience should enable our investment adviser to identify attractive investment opportunities throughout the economic cycle and across a company's capital structure so that we can make investments consistent with our stated objectives.

### **Co-investment opportunities**

We intend to co-invest with Ares funds (other than ACOF) when we believe it will be advantageous for us to do so. As a BDC, we would not generally be permitted to invest in any portfolio company in which Ares or any of its affiliates currently has an investment or make any co-investments with Ares or its affiliates. Consequently, we intend to apply for an exemptive order from the SEC that would permit us 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, we cannot assure you that the Company will be permitted to co-invest with funds managed by Ares.

## **OPERATING AND REGULATORY STRUCTURE**

Our investment activities are managed by Ares Capital Management and supervised by our 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 our investment advisory and management agreement, we have agreed to pay Ares Capital Management an annual base management fee based on our total assets, as defined under the 1940 Act (other than cash and cash equivalents but including assets purchased with borrowed funds), and an incentive fee based on our performance. See "Management Investment Advisory and Management Agreement."

As a BDC, we are required to comply with certain regulatory requirements. While we are permitted to finance investments using debt, our ability to use debt is limited in certain significant respects. See "Regulation." We intend to elect to be treated for federal income tax purposes as a

regulated investment company, or a RIC, under Subchapter M of the Internal Revenue Code of 1986, or the "Code." See "Material U.S. Federal Income Tax Considerations."

## INVESTMENTS

As of December 31, 2004, we had investments in 20 portfolio companies, valued at approximately \$182.6 million. As of the date of this prospectus, we had substantially invested all of the net proceeds from our initial public offering.

In addition, we are in discussions with, and have issued non-binding proposals to, several companies regarding our potential investment in such companies through first and second lien senior loans, mezzanine debt and preferred equity. We currently expect that we will use a portion of the proceeds of this offering to make any such investments.

The consummation of any of these investments depends, upon among other things, satisfactory completion of our due diligence investigation of the prospective portfolio company, our acceptance of the terms and structure of such investment, the execution and delivery of satisfactory documentation and the receipt of any necessary consents. Any such investments will be made in accordance with our investment policies and procedures. We cannot assure you that we will make any of these investments.

For a detailed description of the portfolio companies included in our portfolio, see "Portfolio Companies."

## LIQUIDITY

On November 3, 2004, we entered into a conduit facility (the "Facility") pursuant to which we may obtain up to \$150,000,000 in financing from conduits and institutional lenders. As of December 31, 2004, the principal amount outstanding under the Facility was \$55.5 million. We intend to continue borrowing under the Facility in the future and we may increase the size of the Facility or otherwise issue debt securities or other evidences of indebtedness following the consummation of this offering.

## RISK FACTORS

Investing in this offering involves risks. The following is a summary of certain risks that you should carefully consider before investing in shares of our common stock. In addition, see "Risk Factors" beginning on page 18 for a more detailed discussion of the factors you should carefully consider before deciding to invest in our common stock.

### Risks Relating to Our Business

We are a new company with a limited operating history.

Our investment adviser and the members of its investment committee have limited experience managing a BDC.

A failure on our part to maintain our status as a BDC would significantly reduce our operating flexibility.

The Company may not replicate Ares' historical success.

We are dependent upon Ares Capital Management's key personnel for our future success and upon their access to Ares investment professionals.

Our financial condition and results of operation will depend on our ability to manage future growth effectively.

Our ability to grow will depend on our ability to raise capital.

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We operate in a highly competitive market for investment opportunities.

We will be subject to corporate-level income tax if we are unable to qualify as a RIC.

We may have difficulty paying our required distributions if we recognize income before or without receiving cash representing such income.

Regulations governing our operation as a BDC affect our ability to, and the way in which we, raise additional capital.

If our primary investments are deemed not to be qualifying assets we could lose our status as a BDC or be precluded from investing according to our current business plan.

We borrow money, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing with us.

We will be exposed to risks associated with changes in interest rates.

When we are required to repay the amount paid to the underwriters by our investment adviser on our behalf in connection with our initial public offering, we may have to realize losses.

Many of our portfolio investments are recorded at fair value as determined in good faith by our board of directors. As a result, there will be uncertainty as to the value of our portfolio investments.

The lack of liquidity in our investments may adversely affect our business.

We may experience fluctuations in our quarterly results.

There are significant potential conflicts of interest that could impact our investment returns.

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

We may be obligated to pay our manager incentive compensation even if we incur a loss.

Changes in laws or regulations governing our operations, or changes in the interpretation thereof, and any failure by us to comply with laws or regulations governing our operations may adversely affect our business.

Our ability to enter into transactions with our affiliates will be restricted.

### Risks Relating To Our Investments

Our portfolio is concentrated in a limited number of portfolio companies, which subjects us to a risk of significant loss if any of these companies defaults on its obligations.

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Our investments may be risky, and you could lose all or part of your investment.

Economic recessions or downturns could impair our portfolio companies and harm our operating results.

There may be circumstances where our debt investments could be subordinated to claims of other creditors or we could be subject to lender liability claims.

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An investment strategy focused primarily on privately-held companies presents certain challenges, including the lack of available information about these companies and a greater vulnerability to economic downturns.

Our portfolio companies may incur debt or issue equity securities that rank equally with, or senior to, our investments in such companies.

Investments in equity securities involve a substantial degree of risk.

Our incentive fee may induce Ares Capital Management to make certain investments, including speculative investments.

Our investments in foreign debt may involve significant risks in addition to the risks inherent in U.S. investments. We may expose ourselves to risks if we engage in hedging transactions.

We will initially invest a portion of the net proceeds of this offering primarily in high-quality short-term investments, which will generate lower rates of return than those expected from the interest generated on first and second lien loans and mezzanine debt.

When we are a debt or minority equity investor in a portfolio company, we may not be in a position to control the entity, and management of the company may make decisions that could decrease the value of our portfolio holdings.

Our board of directors may change our operating policies and strategies without prior notice or stockholder approval, the effects of which may be adverse.

### Risks Relating To This Offering

There is a risk that you may not receive dividends or that our dividends may not grow over time.

Provisions of the Maryland General Corporation Law and of our charter and bylaws could deter takeover attempts and have an adverse impact on the price of our common stock.

Investing in our shares may involve an above average degree of risk.

The market price of our common stock may fluctuate significantly.

We may allocate the net proceeds from this offering in ways with which you may not agree.

Our shares may trade at discounts from net asset value.

Investors in this offering will incur immediate dilution upon the closing of this offering.

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

## OUR CORPORATE INFORMATION

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Our administrative offices are located at 1999 Avenue of the Stars, Suite 1900, Los Angeles, California, 90067, telephone number (310) 201-4200, and our executive offices are located at 780 Third Avenue, 46th Floor, New York, New York 10017, telephone number (212) 750-7300.



**THE OFFERING**

Common stock offered by us	shares, excluding to the overallotment option granted to the underwriters.	shares of common stock issuable pursuant to the overallotment option granted to the underwriters.
Shares outstanding after this offering	shares, excluding to the overallotment option granted to the underwriters.	shares of common stock issuable pursuant to the overallotment option granted to the underwriters.
Use of proceeds	<p>We expect to use a portion of the net proceeds of this offering to repay outstanding indebtedness under the Facility, which had \$55.5 million outstanding as of December 31, 2004. We intend to use the remainder of the net proceeds to fund investments in portfolio companies in accordance with our investment objectives and the strategies described in this prospectus and for general corporate purposes. Pending such investments, we will invest the net proceeds primarily in cash, cash equivalents, U.S. government securities and other high-quality short-term investments, which may earn yields substantially lower than the income that we anticipate receiving once we are fully invested in accordance with our investment objectives. If we do not realize yields in excess of our expenses, we may incur operating losses and the market price of shares may decline. See "Use of Proceeds."</p>	
Distributions	<p>We intend to distribute quarterly dividends to our stockholders out of assets legally available for distribution. Our quarterly dividends, if any, will be determined by our board of directors. On December 16, 2004, we declared an initial dividend of \$0.30 per share for the fourth quarter of 2004. Because of our limited operating history, this is the only dividend to date that we have declared on our common stock.</p>	
Taxation	<p>We intend to elect to be treated for federal income tax purposes as a RIC. As a RIC, we generally will not pay corporate-level federal income taxes on any ordinary income or capital gains that we distribute to our stockholders as dividends. To maintain our RIC status, we must meet specified source-of-income and asset diversification requirements and distribute annually an amount equal to at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, reduced by deductible expenses, out of assets legally available for distribution. See "Risk Factors" We will be subject to corporate level income tax if we are unable to qualify as a RIC" and "Distributions."</p>	

Dividend reinvestment plan	We have a dividend reinvestment plan for our stockholders. This is an "opt out" dividend reinvestment plan. As a result, if we declare a dividend, then stockholders' cash dividends will be automatically reinvested in additional shares of our common stock, unless they specifically "opt out" of the dividend reinvestment plan so as to receive cash dividends. Stockholders who receive distributions in the form of stock will be subject to the same federal, state and local tax consequences as stockholders who elect to receive their distributions in cash. See "Dividend Reinvestment Plan."
NASDAQ National Market symbol	"ARCC"
Trading at a Discount	Shares of closed-end investment companies frequently trade at a discount to their net asset value. The possibility that our shares may trade at a discount to our net asset value is separate and distinct from the risk that our net asset value per share may decline. Our net asset value immediately following this offering will reflect reductions resulting from the sales load and the amount of the organization and offering expenses paid by us. This risk may have a greater effect on investors expecting to sell their shares soon after completion of the public offering and our shares may be more appropriate for long-term investors than for investors with shorter investment horizons. We cannot predict whether our shares will trade above, at or below net asset value.
Anti-takeover provisions	Our board of directors is divided into three classes of directors serving staggered three-year terms. This structure is intended to provide us with a greater likelihood of continuity of management, which may be necessary for us to realize the full value of our investments. A staggered board of directors also may serve to deter hostile takeovers or proxy contests, as may certain other measures adopted by us. See "Description of Our Stock."
Leverage	We borrow funds to make additional investments. We use this practice, which is known as "leverage," to attempt to increase returns to our common stockholders, but it involves significant risks. See "Risk Factors," "Senior Securities" and "Regulation Indebtedness and Senior Securities." With certain limited exceptions, we are only allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing. The amount of leverage that we employ at any particular time will depend on our investment adviser's and our board of directors' assessment of market and other factors at the time of any proposed borrowing. As of December 31, 2004, we had \$55.5 million of borrowings outstanding under the Facility.
Management arrangements	Ares Capital Management serves as our investment adviser. Ares Administration serves as our administrator. For a description of Ares Capital Management, Ares Administration, Ares and our contractual arrangements with these companies, see "Management Investment Advisory and Management Agreement," and " Administration Agreement."

Available information

We are required to file periodic reports, proxy statements and other information with the SEC. This information will be available at the SEC's public reference room in Washington, D.C. and on the SEC's Internet website at <http://www.sec.gov>.

### FEES AND EXPENSES

The following table is intended to assist you in understanding the costs and expenses that an investor in this offering will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by "you," "us" or "Ares Capital," or that "we" will pay fees or expenses, stockholders will indirectly bear such fees or expenses as investors in Ares Capital.

<b>Stockholder transaction expenses (as a percentage of offering price):</b>	
Sales load paid by us	%(1)
Offering expenses borne by us	%(2)
Dividend reinvestment plan expenses	None (3)
<hr style="width: 10%; margin-left: auto; margin-right: 0;"/>	
Total stockholder transaction expenses paid by us	%
<hr style="width: 10%; margin-left: auto; margin-right: 0;"/>	
Total stockholder transaction expenses	%
<b>Estimated annual expenses (as a percentage of net assets attributable to common stock):</b>	
Management fees	%(4)
Incentive fees payable under investment advisory and management agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income, subject to certain limitations)	%(5)
Interest payments on borrowed funds	%(6)
Other expenses	%(7)
<hr style="width: 10%; margin-left: auto; margin-right: 0;"/>	
Total annual expenses (estimated)	%(4)(7)(8)

- (1) The underwriting discounts and commissions with respect to shares sold in this offering, which is a one-time fee, is the only sales load paid in connection with this offering.
- (2) Amount reflects estimated offering expenses of approximately \$ .
- (3) The expenses of the dividend reinvestment plan are included in "other expenses."
- (4) Our management fee is 1.5% of our total assets other than cash and cash equivalents (which includes assets purchased with borrowed amounts). For the purposes of this table, we have assumed that we maintain no cash or cash equivalents. See "Management Investment Advisory and Management Agreement."
- (5) We expect to fully invest the net proceeds from this offering within 120 days and may have capital gains and interest income that could result in the payment of an incentive fee to our investment adviser in the first year after completion of this offering. However, the incentive fee payable to our investment adviser is based on our performance and will not be paid unless we achieve certain goals. As we cannot predict whether we will meet the necessary performance targets, we have assumed a base incentive fee of 0% in this chart.

The incentive fee consists of two parts:

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



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2.50%. The effect of this provision is that, if pre-incentive fee net investment income exceeds 2.50% in any calendar quarter, our investment adviser will receive 20% of our pre-incentive fee net investment income as if a hurdle rate did not apply.

The second, payable annually in arrears for each calendar year ending on or after December 31, 2004, equals 20% of our net realized capital gains, if any, computed net of all realized capital losses and unrealized capital depreciation.

We will defer cash payment of any incentive fee otherwise earned by our investment adviser if, during the most recent four full calendar quarter period ending on or prior to the date such payment is to be made, the sum of (a) our aggregate distributions to our stockholders and (b) our change in net assets (defined as total assets less indebtedness) is less than 8.0% of our net assets at the beginning of such period. These calculations will be appropriately pro rated during the first three calendar quarters following the closing of this offering and will be adjusted for any share issuances or repurchases.

See "Management Investment Advisory and Management Agreement."

- (6) "Interest payments on borrowed funds" represents our annualized interest expenses based on an interest rate of 3.56% as of December 31, 2004 plus our annualized amortization of debt issuance cost divided by our actual borrowings as of December 31, 2004. We had outstanding borrowings of \$55.5 million at December 31, 2004. See "Risk Factors We borrow money, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing with us."
- (7) Includes our estimated overhead expenses, including payments under the administration agreement based on our projected allocable portion of overhead and other expenses incurred by Ares Administration in performing its obligations under the administration agreement. See "Management Administration Agreement." The holders of shares of our common stock (and not the holders of our debt securities or preferred stock, if any) indirectly bear the cost associated with our annual expenses.
- (8) "Total annual expenses" as a percentage of consolidated net assets attributable to common stock are higher than the total annual expenses percentage would be for a company that is not leveraged. We borrow money to leverage our net assets and increase our total assets. The SEC requires that the "Total annual expenses" percentage be calculated as a percentage of net assets, rather than the total assets, including assets that have been funded with borrowed monies. If the "Total annual expenses" percentage were calculated instead as a percentage of consolidated total assets, our "Total annual expenses" would be % of consolidated total assets.

**Example**

The following example demonstrates the projected dollar amount of total cumulative expenses over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed we would have no additional leverage, that none of our assets are cash or cash equivalents, and that our annual operating expenses would remain at the levels set forth in the table above.

	<u>1 year</u>	<u>3 years</u>	<u>5 years</u>	<u>10 years</u>
You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return(1)	\$	\$	\$	\$

- (1) The above illustration assumes that we will not realize any capital gains computed net of all realized capital losses and unrealized capital depreciation. The expenses you would pay, based on a \$1,000 investment and assuming a 5% annual

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return resulting entirely from net realized capital gains (and therefore subject to the capital gain incentive fee), and otherwise making the same assumptions in the example above, would be: 1 year, \$ ; 3 years, \$ ; 5 years, \$ ; and 10 years, \$ . However, cash payment of the capital incentive fee would be deferred if during the most recent four full calendar quarter period ending on or prior to the date the payment set forth in the example is to be made, the sum of (a) our aggregate distributions to our stockholders and (b) our change in net assets (defined as total assets less indebtedness) was less than 8.0% of our net assets at the beginning of such period (as adjusted for any share issuances or repurchases).

The foregoing table is to assist you in understanding the various costs and expenses that an investor in our common stock will bear directly or indirectly. While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. The incentive fee under the investment advisory and management agreement, which, assuming a 5% annual return, would either not be payable or have an insignificant impact on the expense amounts shown above, is not included in the example. If we achieve sufficient returns on our investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, our expenses, and returns to our investors, would be higher. This example does not reflect repayments of the sales load paid by our investment adviser in connection with our initial public offering to underwriters on our behalf, since it is unlikely such amounts would be repayable under the assumptions described above. See "Risk Factors" When we are required to repay the amount paid to underwriters by our investment adviser on our behalf in connection with our initial public offering, we may have to realize losses and the amount that we have available for investment may be reduced." In addition, while the example assumes reinvestment of all dividends and distributions at net asset value, participants in our dividend reinvestment plan who have not otherwise elected to receive cash will receive a number of shares of our common stock, determined by dividing the total dollar amount of the dividend payable to a participant by the market price per share of our common stock at the close of trading on the valuation date for the dividend. See "Dividend Reinvestment Plan" for additional information regarding our dividend reinvestment plan.

**This example and the expenses in the table above should not be considered a representation of our future expenses, and actual expenses (including the cost of debt, if any, and other expenses) may be greater or less than those shown.**

## SELECTED FINANCIAL AND OTHER DATA

The following selected financial and other data for the period from June 23, 2004 (inception) through December 31, 2004 are derived from our consolidated financial statements which have been audited by KPMG LLP, an independent registered public accounting firm whose report thereon is included within this registration statement. The data should be read in conjunction with our consolidated financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations," which are included elsewhere in this registration statement.

**ARES CAPITAL CORPORATION AND SUBSIDIARY**  
**SELECTED FINANCIAL AND OTHER DATA**  
**Period June 23, 2004 (inception) Through December 31, 2004**

Total Investment Income	\$	4,380,848
Net Realized and Unrealized Gain on Investments		475,393
Total Expenses		(1,665,753)
<hr/>		
Net Increase in Stockholders' Equity Resulting from Operations	\$	3,190,488
<hr/>		
Per Share Data:		
Net Increase in Stockholder's Equity Resulting from Operations:		
Basic:	\$	0.29
Diluted:	\$	0.29
Cash Dividend Declared:	\$	0.30
<hr/>		
Total Assets	\$	220,455,614
Total Debt	\$	55,500,000
Total Stockholders' Equity	\$	159,708,305
<hr/>		
Other Data:		
Number of Portfolio Companies at Period End		20
Principal Amount of Investments Purchased(1)	\$	234,102,000
Principal Amount of Investments Sold and Repayments(2)	\$	52,272,000
Total Return(3)		31.53%
Weighted Average Yield on Loans(4):		12.22%

- (1) Includes \$140.8 million of the assets purchased from Royal Bank of Canada and excludes \$9.7 million of publicly traded fixed income securities.
- (2) Excludes \$9.7 million of publicly traded fixed income securities.
- (3) Total return 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 on October 8, 2004, plus the declared dividend of \$0.30 per share for holders of record on December 27, 2004, divided by the initial offering price. Total return is not annualized.
- (4) Weighted average yield on loans is computed as (a) the annual stated interest rate (or, in the case of equity securities, dividend rate) plus the annual amortization of loan, origination fees, original issue discount and market discount on accruing loans, debt and income producing equity securities) divided by (b) total loans, debt and income producing equity securities at value.



## RISK FACTORS

*Before you invest in our shares, you should be aware of various risks, including those described below. You should carefully consider these risk factors, together with all of the other information included in this prospectus, before you decide whether to make an investment in our common stock. The risks set out below are not the only risks we face. If any of the following events occur, our business, financial condition and results of operations could be materially adversely affected. In such case, our net asset value and the trading price of our common stock could decline, and you may lose all or part of your investment.*

### RISKS RELATING TO OUR BUSINESS

#### **We are a new company with a limited operating history.**

We were incorporated in April 2004, completed an initial public offering of our common stock in October 2004 and have a limited operating history. We are subject to all of the business risks and uncertainties associated with any new business, including the risk that we will not achieve our investment objectives and that the value of your investment could decline substantially.

#### **Our investment adviser and the members of its investment committee have limited experience managing a BDC.**

The 1940 Act imposes numerous constraints on the operations of business development companies. For example, business development companies are required to invest at least 70% of their total assets primarily in securities of private or thinly traded U.S. public companies, cash, cash equivalents, U.S. government securities and other high quality debt investments that mature in one year or less. Our investment adviser and the majority of the members of our senior management only have limited experience managing or providing management consultant services to an operating company, such as may be required of a BDC. Our investment adviser's and the members of its investment committee's lack of experience in managing a portfolio of assets under such constraints may hinder their ability to take advantage of attractive investment opportunities and, as a result, achieve our investment objectives.

#### **A failure on our part to maintain our status as a BDC would significantly reduce our operating flexibility.**

If we do not continue to qualify as a BDC, we might be regulated as a closed-end investment company under the 1940 Act, which would significantly decrease our operating flexibility.

#### **The Company may not replicate Ares' historical success.**

Our primary focus in making investments differs from those of other private funds that are or have been managed by Ares' investment professionals. Further, investors in Ares Capital are not acquiring an interest in other Ares funds. While Ares Capital may consider potential co-investment participation in portfolio investments with other Ares funds (other than ACOF), no investment opportunities are currently under consideration and any such investment activity will be subject to, among other things, regulatory and independent board member approvals, the receipt of which, if sought, cannot be assured. Accordingly, we cannot assure you that Ares Capital will replicate Ares' historical success, and we caution you that our investment returns could be substantially lower than the returns achieved by those private funds.

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

We depend on the diligence, skill and network of business contacts of the members of Ares Capital Management's investment committee. We also depend, to a significant extent, on Ares Capital Management's access to the investment professionals of Ares and the information and deal flow generated by Ares' investment professionals in the course of their investment and portfolio management activities. Our future success will depend on the continued service of Ares Capital Management's investment committee. The departure of any of the members of Ares Capital Management's investment committee, or of a significant number of the investment professionals or partners of Ares, could have a material adverse effect on our ability to achieve our investment objectives. In addition, we cannot assure you that Ares Capital Management will remain our investment adviser or that we will continue to have access to Ares' investment professionals or its information and deal flow.

**Our financial condition and results of operation will depend on our ability to manage future growth effectively.**

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

Accomplishing this result on a cost-effective basis will be largely a function of Ares Capital Management's structuring of the investment process and its ability to provide competent, attentive and efficient services to us. Our executive officers and the members of Ares Capital Management have substantial responsibilities in connection with their roles at Ares and with the other Ares funds as well as responsibilities under the investment advisory and management agreement. They may also be called upon to provide managerial assistance to our portfolio companies on behalf of our administrator. These demands on their time, which will increase as the number of investments grow, may distract them or slow the rate of investment. In order to grow, we and Ares Capital Management will need to hire, train, supervise and manage new employees. However, we cannot assure you that any such employees will contribute to the work of the investment adviser. Any failure to manage our future growth effectively could have a material adverse effect on our business, financial condition and results of operations.

**Our ability to grow will depend on our ability to raise capital.**

We will need to periodically access the capital markets to raise cash to fund new investments. Unfavorable economic conditions could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. An inability to successfully access the capital markets could limit our ability to grow our business and fully execute our business strategy and could decrease our earnings, if any. With certain limited exceptions, we are only allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing. The amount of leverage that we employ will depend on our investment adviser's and our board of directors' assessment of market and other factors at the time of any proposed borrowing. We cannot assure you that we will be able to obtain a line of credit at all or on terms acceptable to us.

**We operate in a highly competitive market for investment opportunities.**

A number of entities compete with us to make the types of investments that we plan to make in middle market companies. We compete with other business development companies, public and private funds, commercial and investment banks, commercial financing companies, insurance companies, high yield investors, hedge funds, and, to the extent they provide an alternative form of

financing, private equity funds. Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. Some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our 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 us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act will impose on us as a BDC. We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations. Also, as a result of this competition, we may not be able to take advantage of attractive investment opportunities from time to time, and we cannot assure you that we will be able to identify and make investments that meet our investment objectives.

We will not seek to compete primarily based on the interest rates we will offer and we believe that some of our competitors may make loans with interest rates that will be comparable to or lower than the rates we offer.

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

**We will be subject to corporate-level income tax if we are unable to qualify as a RIC.**

To qualify as a RIC under the Code, we must meet certain income source, asset diversification and annual distribution requirements.

The annual distribution requirement for a RIC is satisfied if we distribute to our stockholders on an annual basis an amount equal to at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, reduced by deductible expenses. Because we may use debt financing in the future, we may be subject to certain asset coverage ratio requirements under the 1940 Act and financial covenants under loan agreements that could, under certain circumstances, restrict us from making distributions necessary to qualify as a RIC. If we are unable to obtain cash from other sources, we may fail to qualify as a RIC and, thus, may be subject to corporate-level income tax.

To qualify as a RIC, we must also meet certain asset diversification requirements at the end of each calendar quarter. Failure to meet these tests may result in our having to (i) dispose of certain investments quickly or (ii) raise additional capital to prevent the loss of RIC status. If we fail to qualify as a RIC for any reason and become or remain subject to corporate income tax, the resulting corporate taxes could substantially reduce our net assets, the amount of income available for distribution and the amount of our distributions. Such a failure would have a material adverse effect on us and our stockholders.

**We may have difficulty paying our required distributions if we recognize income before or without receiving cash representing such income.**

For federal income tax purposes, we will include in income certain amounts that we have not yet received in cash, such as original issue discount, which may arise if we receive warrants in connection with the making of a loan or possibly in other circumstances, or contracted payment-in-kind interest, which represents contractual interest added to the loan balance and due at the end of the loan term. Such original issue discount or increases in loan balances will be included in income before we receive any corresponding cash payments. We also may be required to include in income certain other

amounts that we will not receive in cash, including, for example, non-cash income from pay-in-kind securities and deferred payment securities.

Since in certain cases we may recognize income before or without receiving cash representing such income, we may have difficulty meeting the tax requirement to distribute an amount equal to at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, reduced by deductible expenses, to maintain our status as a RIC. Accordingly, we may have to sell some of our investments at times we would not consider advantageous, raise additional debt or equity capital or reduce new investment originations to meet these distribution requirements. If we are not able to obtain cash from other sources, we may fail to qualify as a RIC and thus be subject to corporate-level income tax. See "Material U.S. Federal Income Tax Considerations Taxation as a RIC."

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

**Regulations governing our operation as a BDC affect our ability to, and the way in which we, raise additional capital.**

We may issue debt securities or preferred stock, which we refer to collectively as "senior securities," and borrow money from banks or other financial institutions up to the maximum amount permitted by the 1940 Act. Under the provisions of the 1940 Act, we will be permitted, as a BDC, to incur indebtedness or issue senior securities only in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such incurrence or issuance. If the value of our assets declines, we may be unable to satisfy this test, which would prohibit us from paying dividends and could prevent us from maintaining our status as a RIC. If we cannot satisfy this test, we may be required to sell a portion of our investments and, depending on the nature of our leverage, repay a portion of our indebtedness at a time when such sales may be disadvantageous. As of December 31, 2004, our asset coverage for senior securities was 388%.

We are not generally able to issue and sell our common stock at a price below net asset value per share. We may, however, sell our common stock, or warrants, options or rights to acquire our common stock, at a price below the current net asset value of the common stock if our board of directors determines that such sale is in the best interests of Ares Capital and its stockholders, and our stockholders approve such sale. In any such case, the price at which our securities are to be issued and sold may not be less than a price which, in the determination of our board of directors, closely approximates the market value of such securities (less any commission or discount). If our common stock trades at a discount to net asset value, this restriction could adversely affect our ability to raise capital.

In addition, we may in the future seek to securitize our loans to generate cash for funding new investments. To securitize loans, we may create a wholly-owned subsidiary and contribute a pool of loans to the subsidiary. This could include the sale of interests in the subsidiary on a non-recourse basis to purchasers who we would expect to be willing to accept a lower interest rate to invest in investment grade loan pools, and we would retain a portion of the equity in the securitized pool of loans. An inability to successfully securitize our loan portfolio could limit our ability to grow our business, fully execute our business strategy and decrease our earnings, if any. The securitization market is subject to changing market conditions and we may not be able to access this market when we would otherwise deem appropriate. Moreover, the successful securitization of our loan portfolio might expose us to losses as the residual loans in which we do not sell interests will tend to be those that are riskier and

more apt to generate losses. The 1940 Act may also impose restrictions on the structure of any securitization.

**If our primary investments are deemed not to be qualifying assets, we could lose our status as a BDC or be precluded from investing according to our current business plan.**

If we are to maintain our status as a BDC, we must not acquire any assets other than "qualifying assets" unless, at the time of and after giving effect to such acquisition, at least 70% of our total assets are qualifying assets. If we acquire senior loans, mezzanine investments or equity securities from an issuer that has outstanding marginable securities at the time we make an investment, these acquired assets may not be treated as qualifying assets. See "Regulation Qualifying Assets." This results from the definition of "eligible portfolio company" under the 1940 Act, which in part looks to whether a company has outstanding marginable securities.

Amendments promulgated in 1998 by the Board of Governors of the Federal Reserve System to Regulation T under the Securities Exchange Act of 1934 (the "Exchange Act"), expanded the definition of marginable security to include any non-equity security. These amendments have raised questions as to whether a private company that has outstanding debt would qualify as an eligible portfolio company.

We believe that the senior loans and mezzanine investments that we propose to acquire should constitute qualifying assets because the privately held issuers will not, at the time of our investment, have outstanding marginable securities for the reasons set forth in this paragraph. First, we expect to make a large portion of our investments in companies that, to the extent they have any outstanding debt, have issued such debt on terms and in circumstances such that such debt should not, under existing legal precedent, be "securities" under the Exchange Act and therefore should not be deemed marginable securities under Regulation T. Second, we believe that, should a different position be taken such that those investments may be securities, they should still not be marginable securities. In particular, debt that does not trade in a public secondary market or is not rated investment grade is generally not a margin eligible security under the rules established by the self-regulatory organizations, including the New York Stock Exchange and National Association of Securities Dealers, that govern the terms on which broker-dealers may extend margin credit. Unless the questions raised by the amendments to Regulation T have been addressed by legislative, administrative or judicial action that contradicts our interpretation, we intend to treat as qualifying assets only those senior loans and mezzanine investments that, at the time of our investment, are issued by an issuer that does not have outstanding a class of margin eligible securities. Likewise, we will treat equity securities issued by a portfolio company as qualifying assets only if such securities are issued by a company that has no margin eligible securities outstanding at the time we purchase such securities.

If there were a court ruling or regulatory decision that conflicts with our interpretations, we could lose our status as a BDC or be precluded from investing in the manner described in this prospectus, either of which would have a material adverse effect on our business, financial condition and results of operations. See " Any failure on our part to maintain our status as a BDC would reduce our operating flexibility." Such a ruling or decision also may require that we dispose of investments that we made based on our interpretation of Regulation T. Such dispositions could have a material adverse effect on us and our stockholders. We may need to dispose of such investments quickly, which would make it difficult to dispose of such investments on favorable terms. In addition, because these types of investments will generally be illiquid, we may have difficulty in finding a buyer and, even if we do find a buyer, we may have to sell the investments at a substantial loss. See "Changes in laws or regulations governing our operations, or changes in the interpretation thereof, and any failure by us to comply with laws or regulations governing our operations may adversely affect our business."

On November 1, 2004, the Securities and Exchange Commission proposed for comment two new rules under the Investment Company Act of 1940 that are designed to realign the definition of eligible portfolio company set forth under the Investment Company Act of 1940, and the investment activities of BDCs, with their original purpose by (1) defining eligible portfolio company with reference to whether an issuer has any class of securities listed on a national securities exchange or on an automated interdealer quotation system of a national securities association ("NASDAQ") and (2) permitting BDCs to make certain additional ("follow-on") investments in those issuers even after they list their securities on a national securities exchange or on NASDAQ. The proposed rules are intended to expand the definition of eligible portfolio company in a manner that would promote the flow of capital to small, developing and financially troubled companies. We cannot assure you that these rules, or related rules arising out of the comment process, will be approved by the Securities and Exchange Commission.

Until the SEC or its staff has issued final rules with respect to the issue discussed above, we will continue to monitor this issue closely, and may be required to adjust our investment focus to comply with and/or take advantage of any future administrative position, judicial decision or legislative action.

**We borrow money, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing with us.**

As of December 31, 2004, we had \$55.5 million of outstanding borrowings under our Facility. In order for us to cover our annual interest payments on indebtedness, we must achieve annual returns on our December 31, 2004 total assets of at least 0.90%. The interest rate charged on our borrowings as of December 31, 2004 was 3.56%. We intend to continue borrowing under the Facility in the future and we may increase the size of the Facility or otherwise issue debt securities or other evidences of indebtedness following the consummation of this offering. Our ability to service our debt depends largely on our financial performance and will be subject to prevailing economic conditions and competitive pressures. The amount of leverage that we employ at any particular time will depend on our investment adviser's and our board of directors' assessment of market and other factors at the time of any proposed borrowing.

Our Facility imposes financial and operating covenants that restrict our business activities, including limitations that could hinder our ability to finance additional loans and investments or to make the distributions required to maintain our status as a regulated investment company under Subchapter M of the Internal Revenue Code. A failure to renew our Facility, or to add new or replacement debt facilities could have a material adverse effect on our business, financial condition and results of operations.

Borrowings, also known as leverage, magnify the potential for gain or loss on amounts invested and, therefore, increase the risks associated with investing in our securities. We currently borrow under our Facility and in the future may borrow from or issue senior debt securities to banks, insurance companies, and other lenders. Lenders of senior securities have fixed dollar claims on our consolidated assets that are superior to the claims of our common stockholders. If the value of our consolidated assets increases, then leveraging would cause the net asset value attributable to our common stock to increase more sharply than it would have had we not leveraged. Conversely, if the value of our consolidated assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had we not leveraged. Similarly, any increase in our consolidated income in excess of consolidated interest payable on the borrowed funds would cause our net income to increase more than it would without the leverage, while any decrease in our consolidated income would cause net income to decline more sharply than it would have had we not borrowed. Such a decline could negatively affect our ability to make common stock dividend payments. There is no assurance that a leveraging strategy will be successful.

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The following table is designed to illustrate the effect on return to a holder of our common stock of the leverage created by our use of borrowing, at the interest rate of 3.56% as of December 31, 2004 and assuming hypothetical annual returns on our portfolio of minus 15 to plus 15 percent.

Assumed Return on Portfolio (Net of Expenses)(1)	-15.0%	-10.0%	-5.0%	5.0%	10.0%	15.0%
Corresponding Return to Common Stockholders(2)	-21.9%	-15.0%	-8.1%	-1.2%	5.7%	19.5%

- (1) The assumed portfolio return is required by regulation of the SEC and is not a prediction of, and does not represent, our projected or actual performance.
- (2) In order to compute the "Corresponding Return to Common Stockholders," the "Assumed Return on Portfolio" is multiplied by the total value of our assets at December 31, 2004 to obtain an assumed return to us. From this amount, all interest accrued during the period is subtracted to determine the return available to stockholders. The return available to stockholders is then divided by the total value of our net assets as of December 31, 2004 to determine the "Corresponding Return to Common Stockholders."

### **We will be exposed to risks associated with changes in interest rates.**

General interest rate fluctuations may have a substantial negative impact on our investments and investment opportunities and, accordingly, may have a material adverse effect on investment objectives and our rate of return on invested capital. Because we borrow money to make investments, our net investment income is dependent upon the difference between the rate at which we borrow funds and the rate at which we invest 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 our net investment income. Trading prices for debt that pays a fixed rate of return tend to fall as interest rates rise. Trading prices tend to fluctuate more for fixed-rate securities that have longer maturities. Although we have no policy governing the maturities of our investments, under current market conditions we expect that we will invest in a portfolio of debt generally having maturities of up to 10 years. This means that we will be subject to greater risk (other things being equal) than a fund investment solely in shorter-term securities. A decline in the prices of the debt we own could adversely affect the trading price of our shares.

### **When we are required to repay the amount paid to underwriters by our investment adviser on our behalf in connection with our initial public offering, we may have to realize losses and the amount that we have available for investment may be reduced.**

In connection with our initial public offering, our investment adviser paid to the underwriters, on our behalf, an additional sales load with respect to the offering of our shares in the aggregate amount of \$2,475,000. We are obligated to repay this amount, together with accrued interest (a) if during any four calendar quarter period ending on or after October 8, 2005, the sum of (i) our aggregate distributions to our stockholders and (ii) our change in net assets (defined as total assets less indebtedness) equals or exceeds 7.0% of our net assets at the beginning of such period (as adjusted for any share issuances or repurchases) or (b) upon our liquidation. To meet our obligations to repay this amount while making distributions to our stockholders necessary to maintain our RIC status and avoid the imposition of federal income and excise taxes, we may have to dispose of a portion of our investments. Any such disposition could result in our realizing losses and reduce the amount that we have available for investment.

**Many of our portfolio investments are recorded at fair value as determined in good faith by our board of directors. As a result, there will be uncertainty as to the value of our portfolio investments.**

A large percentage of our portfolio investments are not publicly traded. The fair value of investments that are not publicly traded may not be readily determinable. We value these investments quarterly at fair value as determined in good faith by our board of directors. However, we may be required to value our investments more frequently as determined in good faith by our board of directors to the extent necessary to reflect significant events affecting their value. Where appropriate, our board of directors may utilize the services of an independent valuation firm to aid it in determining fair value. The types of factors that may be considered in valuing our investments include the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings, the markets in which the portfolio company does business, comparison to publicly traded companies, discounted cash flow and other relevant factors. Because such valuations, and particularly valuations of private investments and private companies, are inherently uncertain, may fluctuate over short periods of time and may be based on estimates, our determinations of fair value may differ materially from the values that would have been used if a ready market for these investments existed. Our net asset value could be adversely affected if our determinations regarding the fair value of our investments are materially higher than the values that we ultimately realize.

**The lack of liquidity in our investments may adversely affect our business.**

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

**We may experience fluctuations in our quarterly results.**

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

**There are significant potential conflicts of interest that could impact our investment returns.**

Certain of our executive officers and directors, and members of the investment committee of our investment adviser serve or may serve as officers, directors or principals of other entities and affiliates of our adviser and investment funds managed by our affiliates. Accordingly, they may have obligations to investors in those entities, the fulfillment of which might not be in the best interests of us or our stockholders or that may require them to devote time to services for other entities, which could interfere with the time available to provide services to us. For example, Messrs. Ressler, Rosenthal, Kissick and Sachs each are and, following this offering, will continue to be, founding members of Ares with significant responsibilities for other Ares funds. Mr. Ressler and Mr. Rosenthal are required to devote a substantial majority of their business time, and Mr. Kissick is required to devote a majority of his business time, to the affairs of ACOF. Ares believes that the efforts of Messrs. Ressler, Rosenthal and Kissick relative to Ares Capital and ACOF will be synergistic with and beneficial to the affairs of each of Ares Capital and ACOF.



Although other Ares funds generally will have different primary investment objectives than Ares Capital, they may from time to time invest in asset classes similar to those targeted by Ares Capital. Ares Capital Management will endeavor to allocate investment opportunities in a fair and equitable manner, and in any event consistent with any fiduciary duties owed to Ares Capital. Nevertheless, it is possible that we may not be given the opportunity to participate in certain investments made by investment funds managed by investment managers affiliated with Ares Capital Management.

As a result of regulatory restrictions, we are not permitted to invest in any portfolio company in which Ares or any affiliate currently has an investment. However, we intend to apply for an exemptive order from the SEC that would permit us, subject to certain terms and conditions, to co-invest with the funds managed by Ares. Assuming receipt of a favorable exemptive order from the SEC, we anticipate that, subject to certain terms and conditions, Ares funds (other than ACOF) may invest in the same portfolio companies as the Company due to similarities in certain of their investment strategies.

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

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

The incentive fees payable to our investment adviser are subject to certain hurdles. To the extent we or Ares Capital Management are able to exert influence over our portfolio companies, these hurdles may provide Ares Capital Management (subject to its fiduciary duty to us) with an incentive to induce our portfolio companies to accelerate or defer interest or other obligations owed to us from one calendar quarter to another under circumstances where accrual would not otherwise occur, such as acceleration or deferral of the declaration of a dividend or the timing of a voluntary redemption. Acceleration of obligations may result in stockholders recognizing taxable gains earlier than anticipated, while deferral of obligations creates incremental risk of an obligation becoming uncollectible in whole or in part if the issuer of the security suffers subsequent deterioration in its financial condition. Any such inducement by the investment adviser solely for the purpose of adjusting the incentive fees would be a breach of the investment adviser's fiduciary duty to us.

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

We rent office space from Ares Administration, an affiliate of Ares Capital Management, and pay Ares Administration our allocable portion of overhead and other expenses incurred by Ares Administration in performing its obligations under the administration agreement, including rent and our allocable portion of the cost of our officers and their respective staffs. Furthermore, in connection with our initial public offering our investment adviser paid to the underwriters, on our behalf, an additional sales load with respect to the offering of our shares in the aggregate amount of \$2,475,000. This amount must be reimbursed under certain circumstances. As a result of these arrangements, there may be times when the management team of Ares Capital Management has interests that differ from those of our stockholders, giving rise to a conflict.

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

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

Our investment adviser has not assumed any responsibility to us other than to render the services described in the investment management agreement, and it will not be responsible for any action of our board of directors in declining to follow our investment adviser's advice or recommendations. Pursuant to the investment management agreement, our investment adviser and its managing members, officers and employees will not be liable to us for their acts, under the investment management agreement, absent willful misfeasance, bad faith, gross negligence or reckless disregard in the performance of their duties. We have agreed to indemnify, defend and protect our investment adviser and its managing members, officers and employees with respect to all damages, liabilities, costs and expenses resulting from acts of our investment adviser not arising out of willful misfeasance, bad faith, gross negligence or reckless disregard in the performance of their duties under the investment management agreement. These protections may lead our investment adviser to act in a riskier manner when acting on our behalf than it would when acting for its own account.

**We may be obligated to pay our manager incentive compensation even if we incur a loss.**

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

Under the investment advisory and management agreement, we will defer cash payment of any incentive fee otherwise earned by our investment adviser if, during the most recent four full calendar quarter period ending on or prior to the date such payment is to be made, the sum of (a) our aggregate distributions to our stockholders and (b) our change in net assets (defined as total assets less indebtedness) is less than 8.0% of our net assets at the beginning of such period. These calculations will be appropriately pro rated during the first three calendar quarters following the closing of this offering and will be adjusted for any share issuances or repurchases.

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

We and our portfolio companies are subject to regulation by laws at the local, state and federal levels. These laws and regulations, as well as their interpretation, may be changed from time to time.

Accordingly, any change in these laws or regulations, or their interpretation, or any failure by us to comply with these laws or regulations may adversely affect our business. As discussed above, there is a risk that certain investments that we intend to treat as qualifying assets will be determined to not be eligible for such treatment. Any such determination would have a material adverse effect on our business.

**Our ability to enter into transactions with our affiliates is restricted.**

We are prohibited under the 1940 Act from knowingly participating in certain transactions with our affiliates without the prior approval of our independent directors. Any person that owns, directly or indirectly, 5% or more of our outstanding voting securities is our affiliate for purposes of the 1940 Act and we are generally prohibited from buying or selling any security from or to such affiliate, absent the prior approval of our independent directors. The 1940 Act also prohibits "joint" transactions with an affiliate, which could include investments in the same portfolio company (whether at the same or different times), without prior approval of our independent directors. If a person acquires more than 25% of our voting securities, we are prohibited from buying or selling any security from or to such person, or entering into joint transactions with such person, absent the prior approval of the SEC.

**RISKS RELATING TO OUR INVESTMENTS**

**Our portfolio is concentrated in a limited number of portfolio companies, which subjects us to a risk of significant loss if any of these companies defaults on its obligations.**

We are currently invested in 20 portfolio companies, though after full investment of the net proceeds of this offering we anticipate that we will be invested in more than     companies. This number may be higher or lower depending on the amount of our assets under management at any given time, market conditions and the extent to which we employ leverage, and will likely fluctuate over time. A consequence of this limited number of investments is that the aggregate returns we realize may be significantly adversely affected if a small number of investments perform poorly or if we need to write down the value of any one investment. Beyond our income tax diversification requirements, we do not have fixed guidelines for diversification, and our investments could be concentrated in relatively few portfolio companies.

**Our investments may be risky, and you could lose all or part of your investment.**

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

In addition, investments in middle market companies involve a number of significant risks, including:

these companies may have limited financial resources and may be unable to meet their obligations, which may be accompanied by a deterioration in the value of any collateral

and a reduction in the likelihood of us realizing any guarantees we may have obtained in connection with our investment;

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

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

they generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position. In addition, our executive officers, directors and our investment adviser may, in the ordinary course of business, be named as defendants in litigation arising from our investments in the portfolio companies; and

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

When we invest in first and second lien senior loans or mezzanine debt, we may acquire warrants or other equity securities as well. Our goal is ultimately to dispose of such equity interests and realize gains upon our disposition of such interests. However, the equity interests we receive may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our equity interests, and any gains that we do realize on the disposition of any equity interests may not be sufficient to offset any other losses we experience.

**Economic recessions or downturns could impair our portfolio companies and harm our operating results.**

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

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

**There may be circumstances where our debt investments could be subordinated to claims of other creditors or we could be subject to lender liability claims.**

If one of our portfolio companies were to go bankrupt, even though we may have structured our interest as senior debt, depending on the facts and circumstances, including the extent to which we actually provided managerial assistance to that portfolio company, a bankruptcy court might recharacterize our debt holding and subordinate all or a portion of our claim to that of other creditors.

In addition, lenders can be subject to lender liability claims for actions taken by them where they become too involved in the borrower's business or exercise control over the borrower. It is possible that we could become subject to a lender's liability claim, including as a result of actions taken if we actually render significant managerial assistance.

**An investment strategy focused primarily on privately-held companies presents certain challenges, including the lack of available information about these companies and a greater vulnerability to economic downturns.**

We invest primarily in privately-held companies. Generally, little public information exists about these companies, and we are required to rely on the ability of Ares Capital Management's investment professionals to obtain adequate information to evaluate the potential returns from investing in these companies. These companies and their financial information are not subject to the Sarbanes-Oxley Act and other rules that govern public companies. If we are unable to uncover all material information about these companies, we may not make a fully informed investment decision, and we may lose money on our investments. Also, privately-held companies frequently have less diverse product lines and smaller market presence than larger competitors, subjecting them to greater vulnerability to economic downturns. These factors could affect our investment returns.

**Our portfolio companies may incur debt or issue equity securities that rank equally with, or senior to, our investments in such companies.**

Our portfolio companies usually have, or may be permitted to incur, other debt, or issue other equity securities, that rank equally with, or senior to, our investments. By their terms, such instruments may provide that the holders are entitled to receive payment of dividends, interest or principal on or before the dates on which we are entitled to receive payments in respect of our investments. These debt instruments usually prohibit the portfolio companies from paying interest on or repaying our investments in the event and during the continuance of a default under such debt. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of securities ranking senior to our investment in that portfolio company typically are entitled to receive payment in full before we receive any distribution in respect of our investment. After repaying such holders, the portfolio company may not have any remaining assets to use for repaying its obligation to us. In the case of securities ranking equally with our investments, we would have to share on an equal basis any distributions with other security holders in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant portfolio company.

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

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

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

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

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

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

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

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

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

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

**Our incentive fee may induce Ares Capital Management to make certain investments, including speculative investments.**

The incentive fee payable by us to Ares Capital Management may create an incentive for Ares Capital Management to make investments on our behalf that are risky or more speculative than would be the case in the absence of such compensation arrangement. The way in which the incentive fee payable to our investment adviser is determined, which is calculated as a percentage of the return on invested capital, may encourage our investment adviser to use leverage to increase the return on our investments. Under certain circumstances, the use of leverage may increase the likelihood of default, which would disfavor the holders of our common stock, including investors in this offering. In addition, the investment adviser will receive the incentive fee based, in part, upon net capital gains realized on our investments. Unlike the portion of the incentive fee based on income, there is no hurdle rate applicable to the portion of the incentive fee based on net capital gains. As a result, the investment adviser may have a tendency to invest more in investments that are likely to result in capital gains as compared to income producing securities. Such a practice could result in our investing in more speculative securities than would otherwise be the case, which could result in higher investment losses, particularly during economic downturns. The part of the incentive fee payable by us that relates to our pre-incentive fee net investment income will be computed and paid on income that may include interest that is accrued but not yet received in cash. If a portfolio company defaults on a loan that is structured to provide accrued interest, it is possible that accrued interest previously used in the calculation of the incentive fee will become uncollectible. The investment adviser is not under any obligation to reimburse us for any part of the incentive fee it received that was based on accrued income that we never receive as a result of a default by an entity on the obligation that resulted in the accrual of such income.

Because of the structure of the incentive fee, it is possible that we may have to 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 for a quarter, we will pay the applicable incentive fee even if we have incurred a loss in that quarter due to realized capital losses. In addition, 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 investments in foreign debt may involve significant risks in addition to the risks inherent in U.S. investments. We may expose ourselves to risks if we engage in hedging transactions.**

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

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

If we engage in hedging transactions, we may expose ourselves to risks associated with such transactions. We may utilize instruments such as forward contracts, currency options and interest rate swaps, caps, collars and floors to seek to hedge against fluctuations in the relative values of our portfolio positions from changes in currency exchange rates and market interest rates. Use of these hedging instruments may include counter-party credit risk. Hedging against a decline in the values of our portfolio positions does not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of such positions decline. However, such hedging can establish other positions designed to gain from those same developments, thereby offsetting the decline in the value of such portfolio positions. Such hedging transactions may also limit the opportunity for gain if the values of the portfolio positions should increase. Moreover, it may not be possible to hedge against an exchange rate or interest rate fluctuation that is so generally anticipated that we are not able to enter into a hedging transaction at an acceptable price.

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

**We will initially invest a portion of the net proceeds of this offering primarily in high-quality short-term investments, which will generate lower rates of return than those expected from the interest generated on first and second lien loans and mezzanine debt.**

We will initially invest a portion of the net proceeds primarily in cash, cash equivalents, U.S. government securities and other high-quality short-term investments. These securities may earn yields substantially lower than the income that we anticipate receiving once we are fully invested in accordance with our investment objectives. As a result, we may not be able to achieve our investment objectives and/or pay any dividends during this period or, if we are able to do so, such dividends may be substantially lower than the dividends that we expect to pay when our portfolio is fully invested. If we do not realize yields in excess of our expenses, we may incur operating losses and the market price of our shares may decline.

**When we are a debt or minority equity investor in a portfolio company, we may not be in a position to control the entity, and management of the company may make decisions that could decrease the value of our portfolio holdings.**

We make both debt and minority equity investments; therefore, we are subject to the risk that a portfolio company may make business decisions with which we disagree, and the stockholders and management of such company may take risks or otherwise act in ways that do not serve our interests. As a result, a portfolio company may make decisions that could decrease the value of our portfolio holdings.

**Our board of directors may change our operating policies and strategies without prior notice or stockholder approval, the effects of which may be adverse.**

Our board of directors has the authority to modify or waive our current operating policies and our strategies without prior notice and without stockholder approval. We cannot predict the effect any changes to our current operating policies and strategies would have on our business, operating results and value of our stock. However, the effects might be adverse, which could negatively impact our ability to pay you dividends and cause you to lose all or part of your investment.

## **RISKS RELATING TO THIS OFFERING**

**There is a risk that you may not receive dividends or that our dividends may not grow over time.**

We intend to make distributions on a quarterly basis to our stockholders out of assets legally available for distribution. We cannot assure you that we will achieve investment results that will allow us to make a specified level of cash distributions or year-to-year increases in cash distributions. In addition, due to the asset coverage test applicable to us as a BDC, we may be limited in our ability to make distributions. Further, if we invest a greater amount of assets in equity securities that do not pay current dividends, it could reduce the amount available for distribution. See "Distributions."

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

The Maryland General Corporation Law, our charter and our bylaws contain provisions that may discourage, delay or make more difficult a change in control of Ares Capital or the removal of our directors. We are subject to the Maryland Business Combination Act, subject to any applicable requirements of the 1940 Act. Our board of directors has adopted a resolution exempting from the Business Combination Act any business combination between us and any other person, subject to prior approval of such business combination by our board, including approval by a majority of our disinterested directors. If the resolution exempting business combinations is repealed or our board does not approve a business combination, the Business Combination Act may discourage third parties from



trying to acquire control of us and increase the difficulty of consummating such an offer. Our bylaws exempt from the Maryland Control Share Acquisition Act acquisitions of our common stock by any person. If we amend our bylaws to repeal the exemption from the Control Share Acquisition Act, the Control Share Acquisition Act also may make it more difficult for a third party to obtain control of us and increase the difficulty of consummating such an offer.

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

**Investing in our shares may involve an above average degree of risk.**

The investments we make in accordance with our investment objectives may result in a higher amount of risk than alternative investment options and volatility or loss of principal. Our investments in portfolio companies may be highly speculative and aggressive, and therefore, an investment in our shares may not be suitable for someone with lower risk tolerance.

**The market price of our common stock may fluctuate significantly.**

The market price and liquidity of the market for shares of our common stock may be significantly affected by numerous factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include:

significant volatility in the market price and trading volume of securities of business development companies or other companies in our sector, which are not necessarily related to the operating performance of these companies;

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

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

loss of RIC status;

changes in earnings or variations in operating results;

changes in the value of our portfolio of investments;

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

departure of Ares Capital Management's key personnel;

operating performance of companies comparable to us;

general economic trends and other external factors; and

loss of a major funding source.

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

**We may allocate the net proceeds from this offering in ways with which you may not agree.**

We will have significant flexibility in investing the net proceeds of this offering and may use the net proceeds from this offering in ways with which you may not agree or for purposes other than those contemplated at the time of the offering.

**Our shares may trade at discounts from net asset value.**

Shares of closed-end investment companies frequently trade at a market price that is less than the net asset value that is attributable to those shares. This characteristic of closed-end investment companies is separate and distinct from the risk that our net asset value per share may decline. It is not possible to predict whether the shares offered hereby will trade at, above, or below net asset value.

**Investors in this offering will incur immediate dilution upon the closing of this offering.**

We expect the public offering price of our shares to be higher than the book value per share of our outstanding common stock. Accordingly, investors purchasing shares of common stock in this offering will pay a price per share that exceeds the tangible book value per share after this offering.

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

Upon consummation of this offering, we will have \_\_\_\_\_ shares of common stock outstanding (or \_\_\_\_\_ shares of common stock if the over-allotment option is fully exercised). Following this offering, sales of substantial amounts of our common stock, or the availability of such shares for sale, could adversely affect the prevailing market prices for our common stock. If this occurs and continues, it could impair our ability to raise additional capital through the sale of equity securities should we desire to do so.

**FORWARD-LOOKING STATEMENTS**

Some of the statements in this prospectus constitute forward-looking statements, which relate to future events or our future performance or financial condition. The forward-looking statements contained in this prospectus involve risks and uncertainties, including statements as to:

our future operating results;

our business prospects and the prospects of our portfolio companies;

the impact of investments that we expect to make;

our contractual arrangements and relationships with third parties;

the dependence of our future success on the general economy and its impact on the industries in which we invest;

the ability of our portfolio companies to achieve their objectives;

our expected financings and investments;

the adequacy of our cash resources and working capital;

the timing of cash flows, if any, from the operations of our portfolio companies; and

the ability of Ares Capital Management to locate suitable investments for us and to monitor and administer our investments.

We use words such as "anticipates," "believes," "expects," "intends" and similar expressions to identify forward-looking statements. Our actual results could differ materially from those projected in the forward-looking statements for any reason, including the factors set forth in "Risk Factors" and elsewhere in this prospectus.

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

You should understand that under Sections 27A(b)(2)(B) and (D) of the Securities Act of 1933 (the "Securities Act") and Sections 21E(b)(2)(B) and (D) of the Exchange Act, the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 do not apply to statements made in connection with this offering.

**USE OF PROCEEDS**

We estimate that the net proceeds we will receive from the sale of \_\_\_\_\_ shares of our common stock in this offering will be approximately \$ \_\_\_\_\_ (or approximately \$ \_\_\_\_\_ if the underwriters fully exercise their overallotment option), in each case assuming an initial public offering price of \$ \_\_\_\_\_ per share, after deducting the underwriting discounts and commissions of \$ \_\_\_\_\_ payable by us and estimated offering expenses of approximately \$ \_\_\_\_\_ payable by us.

We expect to use approximately \$55.5 million of the net proceeds of this offering to repay outstanding indebtedness under the Facility. The interest charged on the indebtedness incurred under the Facility is based on the commercial paper rate plus 1.25%. As of December 31, 2004, the commercial paper rate was 2.3152%. The Facility expires on November 3, 2005, unless extended. We intend to use the remainder of the net proceeds to fund investments in portfolio companies in accordance with our investment objectives and the strategies described in this prospectus and for general corporate purposes.

We intend to invest primarily in first and second lien senior loans and mezzanine debt of middle market companies, each of which may include an equity component, and, to a lesser extent, in equity securities in such companies. In addition to such investments, we may invest up to 30% of the portfolio in opportunistic investments, including high-yield bonds, debt and equity securities in collateralized debt obligation vehicles, distressed debt or equity securities of public companies. As part of this 30%, we may also invest in debt of middle market companies located outside of the United States, which investments are not anticipated to be in excess of 5% of the portfolio. Pending such investments, we will invest a portion of the net proceeds primarily in cash, cash equivalents, U.S. government securities and other high-quality short-term investments. These securities may earn yields substantially lower than the income that we anticipate receiving once we are fully invested in accordance with our investment objectives. As a result, we may not be able to achieve our investment objectives and/or pay any dividends during this period or, if we are able to do so, such dividends may be substantially lower than the dividends that we expect to pay when our portfolio is fully invested. If we do not realize yields in excess of our expenses, we may incur operating losses and the market price of our shares may decline. See "Regulation Temporary Investments" for additional information about temporary investments we may make while waiting to make longer-term investments in pursuit of our investment objectives.

**PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS**

Our common stock is quoted on The NASDAQ National Market under the symbol "ARCC." We completed the initial public offering of our common stock in October 2004 at the price of \$15.00 per share. Prior to such date there was no public market for our common stock. Our common stock continues to trade in excess of net asset value. There can be no assurance, however, that our shares will continue to trade at a premium to our net asset value.

The following table sets forth the range of high and low closing prices of our common stock as reported on The NASDAQ National Market and the dividends declared by us for each fiscal quarter since our initial public offering. The stock quotations are interdealer quotations and do not include markups, markdowns or commissions and may not necessarily represent actual transactions.

	NAV(1)	Price Range		Premium/ Discount of High Sales Price to NAV	Premium/ Discount of Low Sales Price to NAV	Cash Dividend Per Share(2)
		High	Low			
<b>Fiscal 2005</b>						
First quarter (through January, 2005)	*\$		\$	*	*	**
<b>Fiscal 2004</b>						
Fourth quarter	\$ 14.43	19.75	15.00	36.9%	4.0% \$	0.30

(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 each period.*

(2) *Represents the dividend declared in the specified quarter.*

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

\*\* *No dividend has yet been declared for this quarter.*

On February 1, 2005, the last reported sales price of our common stock on The NASDAQ National Market was \$18.38 per share. As of January 31, 2005, we had 3 stockholders of record (including Cede & Co.).

We currently intend to distribute quarterly dividends to our stockholders. Our quarterly dividends, if any, will be determined by our board of directors. On December 16, 2004, we declared an initial dividend of \$0.30 per share for the fourth quarter of 2004. Because of our limited operating history, this is the only dividend to date that we have declared on our common stock.

To maintain our RIC status, we must distribute an amount equal to at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, reduced by deductible expenses, out of the assets legally available for distribution. To avoid certain excise taxes imposed on RICs, we currently intend to distribute during each calendar year an amount at least equal to the sum of (1) 98% of our ordinary income for the calendar year, (2) 98% of our capital gains in excess of capital losses for the one-year period ending on October 31 of the calendar year and (3) any ordinary income and net capital gains for preceding years that were not distributed during such years. In addition, although we currently intend to distribute realized net capital gains (*i.e.*, net long-term capital gains in excess of short-term capital losses), if any, at least annually, out of the assets legally available for such distributions, we may in the future decide to retain such capital gains for investment. The consequences of our retention of net capital gains are as described under "Material U.S. Federal Income Tax Considerations." We cannot assure you that we will achieve results that will permit the payment of any cash distributions and, if we incur indebtedness or issue



senior securities, we will be prohibited from making distributions if doing so causes us to fail to maintain the asset coverage ratios stipulated by the 1940 Act or if distributions are limited by the terms of any of our borrowings.

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



**CAPITALIZATION**

The following table sets forth (1) our actual capitalization at December 31, 2004 and (2) our capitalization as adjusted to reflect the effects of the sale of our common stock in this offering at an assumed public offering price of \$ per share, after deducting the underwriting discounts and commissions and offering expenses payable by us and the application of the net proceeds from the offering to pay down outstanding borrowings under our Facility, which had \$55.5 million outstanding as of December 31, 2004, as described in "Use of Proceeds." You should read this table together with "Use of Proceeds" and our balance sheet included elsewhere in this prospectus.

	As of December 31, 2004	
	Actual	As Adjusted
Cash and cash equivalents	26,806,160	
<b>Debt</b>		
Credit facility	\$ 55,500,000	\$
<b>Stockholders' Equity</b>		
Common stock, par value \$.001 per share, 100,000,000 common shares authorized, 11,066,767 and common shares issued and outstanding, respectively	\$ 11,067	\$
Capital in excess of par value	159,602,706	
Net unrealized appreciation on investments	230,947	
Distributions in excess of net investment income	(136,415)	
<b>Total stockholders' equity</b>	<b>\$ 159,708,305</b>	<b>\$</b>
<b>Total capitalization</b>	<b>\$ 215,208,305</b>	<b>\$</b>

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND  
RESULTS OF OPERATIONS**

*The information contained in this section should be read in conjunction with the Selected Financial and Other Data and our financial statements and notes thereto appearing elsewhere in this prospectus.*

**OVERVIEW**

We were incorporated in Maryland on April 16, 2004 and initially funded on June 23, 2004. We commenced material operations on October 8, 2004. Our investment objectives are to generate both current income and capital appreciation through debt and equity investments. We invest primarily in first and second lien senior loans and long-term mezzanine debt, which in some cases may include an equity component, and, to a lesser extent, in equity investments in U.S. private middle market companies.

We are an externally managed, non-diversified, closed-end investment company that is a BDC. As a BDC, we are required to comply with certain regulatory requirements. For instance, we generally have to invest at least 70% of our total assets in "qualifying assets," including securities of private U.S. companies, cash, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less.

On October 8, 2004, we completed our initial public offering (the "IPO") of 11,000,000 shares of common stock at \$15.00 per share, less an underwriting discount and commissions totaling \$.675 per share. Ares Capital Management agreed to pay the underwriters of such offering \$0.225 per share, or \$2,475,000, in underwriting and commissions on the Company's behalf. We are obligated to repay this amount, together with the accrued interest (a) if during any four calendar periods ending on or after October 8, 2005 the sum of (i) the aggregate distributions to the stockholders and (ii) the change in net assets (defined as total assets less indebtedness) equals or exceeds 7.0% of the net assets at the beginning of such period (as adjusted for any share issuances or repurchases) or (b) upon the Company's liquidation. We received approximately \$159.8 million in net proceeds from the IPO.

We intend to elect to be treated as a regulated investment company, or a RIC, under Subchapter M of the Internal Revenue Code of 1986, as amended. To qualify as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements. Pursuant to this election, we generally will not have to pay corporate-level taxes on any income that we distribute to our stockholders.

**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 the Company and its wholly-owned subsidiary. 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 for the periods presented. All significant intercompany balances and transactions have been eliminated.

***Investments***

Investment transactions are recorded on trade date. Realized gains or losses are computed using the specific identification method. We carry our investments at fair value, as determined by our board of directors. Investments for which market quotations are readily available are valued at such market quotations. Debt and equity securities that are not publicly traded or whose market price is not readily available are valued at fair value as determined in good faith by our board of directors. The types of factors that we may take into account in fair value pricing of our investments include, as relevant, 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 to publicly traded securities 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 private equity 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 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 differ significantly from the values that would have been used had a ready market existed for such investments, and the differences could be material.

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.

Preliminary valuation conclusions are then documented and discussed with our senior management.

The audit committee of our board of directors reviews these preliminary valuations. Where appropriate, the committee may utilize an independent valuation firm selected by the board of directors.

The board of directors discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of our investment adviser and audit committee and, where appropriate, an independent valuation firm.

As defined in the 1940 Act, Affiliate investments are those in which we own more than 5% of the portfolio company's outstanding voting securities.

#### ***Interest Income Recognition***

Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis to the extent that such amounts are expected to be collected. The Company stops accruing interest on its investments when it is determined that interest is no longer collectible. If any cash is received after it is determined that interest is no longer collectible, we will treat the cash as payment on the principal balance until the entire principal balance has been repaid, before any interest income is recognized. 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 amortizations of premium on bonds.

#### ***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.

#### ***Capital Structuring Service Fees***

Our investment adviser seeks to provide assistance to the portfolio companies in connection with the Company's investments and in return we 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 the investment. The services that our 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 equity investors, restructuring existing loans, raising equity and debt capital, and providing general financial advice, which concludes upon closing of the loan. Our 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. 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 in the event that the Company does not provide significant services in connection with the investment, a portion of loan fees paid to the Company in such situations may be deferred and amortized over the estimated life of the loan.

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

Although the net assets and the fair values are presented at the foreign exchange rates at the end of the day, the Company does not isolate the portion of the results of the operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in fair value of investments. Such fluctuations are included with the net realized and unrealized gains or losses from investments. 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 revaluation of currencies and future adverse political and economic developments which could cause investments in their markets to be less liquid and prices more volatile than those of comparable U.S. companies.

### ***Federal Income Taxes***

The Company intends to qualify for the tax treatment applicable to regulated investment companies under Subchapter M of the Internal Revenue Code of 1986 (the "Code"), as amended, and, among other things, intends to make the requisite distributions to its stockholders which will relieve the Company from Federal income or excise taxes. Therefore, no provision has been recorded for Federal income or excise taxes.

In order to qualify as a RIC, the Company is required to distribute to its stockholders at least 90% of investment company taxable income, as defined by the Code.

In accordance with Statement of Position 93-2, "Determination, Disclosure, and Financial Statement Presentation of Income, Capital Gain, and Return of Capital Distributions by Investment Companies," book and tax basis differences relating to stockholder distributions and other permanent book and tax differences are reclassified to capital in excess of par. In addition, the character of income and gains to be distributed is determined in accordance with income tax regulations that may differ from accounting principles generally accepted in the United States of America, as highlighted in Note 6 to our consolidated financial statements.

### ***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 distributed at least annually.

We have adopted a dividend reinvestment plan that provides for reinvestment of our distributions 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 dividends.

*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.

*Fair Value of Financial Instruments*

The carrying value of the Company's financial instruments approximate fair value. The carrying value of interest and open trade receivables, accounts payable and accrued expenses, as well as the credit facility payable approximate fair value due to their short maturity.

**PORTFOLIO AND INVESTMENT ACTIVITY**

On September 16, 2004, we entered into an agreement with Royal Bank of Canada and its affiliates ("RBC") whereby we agreed to pay \$250,000 to RBC to acquire a right to purchase a portfolio of loans and equity investments comprising substantially of BDC qualifying assets (the "October Portfolio") that satisfy our investment objectives.

Following the completion of our IPO on October 8, 2004, we exercised our right to purchase substantially all of the assets in the October Portfolio from RBC for approximately \$122.3 million. We purchased additional assets originally included in the October Portfolio from RBC for approximately \$18.5 million on November 3, 2004.

Aside from the purchase of the October Portfolio, the Company also purchased (A) \$52.2 million of senior term debt, (B) \$34.6 million of senior subordinated debt, (C) \$6.1 million of senior notes, (D) \$0.3 million of investments in equity securities and (E) \$9.7 million of publicly traded fixed income securities during the period from October 8, 2004 (the date of the IPO and commencement of substantial investment operations) through December 31, 2004.

In addition, we sold (i) \$13.7 million of senior term debt, (ii) \$8.9 million of senior subordinated debt, (iii) \$0.8 million of investments in equity securities and (iv) \$9.7 million of publicly traded fixed income securities during the period from October 8, 2004 (the date of the IPO and commencement of substantial investment operations) through December 31, 2004. Also during the period, (A) \$6.9 million of senior term debt and (B) \$22.0 million of senior subordinated debt were redeemed.

Our investment adviser employs an investment rating system to categorize our investments. See "Business Ongoing Relationships With and Monitoring of Portfolio Companies." We believe that as of December 31, 2004, the weighted average investment grade of the debt in our portfolio is 3.0 and the weighted average yield of such debt is approximately 12.22% (computed as (a) the annual stated interest rate (or, in the case of equity securities, dividend rate) plus the annual amortization of loan, origination fees, original issue discount and market discount on accruing loans, debt and income producing equity securities) divided by (b) total loans, debt and income producing equity securities at value.

**RESULTS OF OPERATIONS**

We were incorporated on April 16, 2004 and commenced material operations in October 2004. Therefore, there is no period with which to compare the results of operations for the year ended December 31, 2004.

***For the period from June 23, 2004 (inception) through December 31, 2004***

Results for the period from June 23, 2004 (inception) through December 31, 2004 are as follows:

Investment Income	\$ 4,380,848
Total Expenses	1,665,753
	<hr/>
Net Investment Income	2,715,095
Net Realized Gain	244,446
Net Unrealized Gain	230,947
	<hr/>
Net Increase in Stockholders' Equity Resulting From Operations	\$ 3,190,488
	<hr/>

**Investment Income**

Investment income for the period consisted of approximately \$3.57 million in interest income from investments, \$39,000 in interest income from cash and cash equivalents, \$191,000 in dividend income, \$542,000 in capital structuring service fees from the closing of newly originated loans, and \$34,000 in facility fees and other income. Of the approximately \$3.57 million in interest income from investments, non-cash PIK interest income was \$509,000.

**Total Expenses**

Total expenses for the period consisted of approximately \$472,000 in base management fees, \$95,000 in incentive management fees, \$136,000 in general and administrative expenses, \$336,000 in professional fees, \$120,000 for director fees, \$162,000 in insurance expenses, \$96,000 in interest expense and facility fees, \$41,000 in amortization of debt issuance cost, \$8,000 in other expense, and a one-time charge of \$199,000 in organizational expenses.

**Net Increase in Stockholders' Equity Resulting From Operations**

Net increase in stockholders' equity resulting from operations for the period was approximately \$3.2 million. Our net increase in stockholders' equity resulting from operations per common share for the period from June 23, 2004 (inception) through December 31, 2004 was \$0.29.

**FINANCIAL CONDITION, LIQUIDITY, AND CAPITAL RESOURCES**

On October 8, 2004, we completed our IPO of 11,000,000 shares of common stock at \$15.00 per share, less an underwriting discount and commissions totaling \$.675 per share. Ares Capital Management agreed to pay the underwriters \$.225 per share, or \$2,475,000, in underwriting and commissions on the Company's behalf. We are obligated to repay this amount, together with the accrued interest (a) if during any four calendar periods ending on or after October 8, 2005 the sum of (i) the aggregate distributions to the stockholders and (ii) the change in net assets (defined as total assets less indebtedness) equals or exceeds 7.0% of the net assets at the beginning of such period (as adjusted for any share issuances or repurchases) or (b) upon the Company's liquidation. We received approximately \$159.8 million in net proceeds from the IPO.



strategies and for general corporate purposes.



#### **OFF BALANCE SHEET ARRANGEMENTS**

As of December 31, 2004, the Company had committed to make a total of approximately \$14.2 million of investments in various revolving senior secured loans. As of December 31, 2004, \$13.8 million was unfunded.

As a part of the IPO, our investment adviser, on our behalf, agreed to pay the underwriters \$0.225 of the \$0.675 per share in underwriting discount and commissions for a total of approximately \$2.5 million. We are obligated to repay this amount, together with accrued interest (a) if during any four calendar quarter period ending on or after October 8, 2005 the sum of (i) the aggregate distributions to the stockholders and (ii) the change in net assets (defined as total assets less indebtedness) equals or exceeds 7.0% of the net assets at the beginning of such period (as adjusted for any share issuances or repurchases) or (b) upon the Company's liquidation.

#### **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are subject to financial market risks, including changes in interest rates. As of December 31, 2004, approximately 46% of the investments at fair value in our portfolio were at fixed rates while approximately 37% were at variable rates. In addition, the Facility is a variable rate borrowing facility. As of December 31, 2004, we employed no hedging against the fixed rate positions of the portfolio.

On January 7, 2005, as required by the Facility, we entered into a costless collar agreement in order to manage the exposure to changing interest rates related to the Company's fixed rate investments. The costless collar agreement was for a notional amount of \$20 million, has a cap of 6.5%, a floor of 2.72% and matures in 2008. The costless collar resets quarterly based on the 3-month LIBOR.

While hedging activities may mitigate our exposure to adverse fluctuations in interest rates, certain hedging transactions that we may enter into in the future, such as interest rate swap agreements, may also limit our ability to participate in the benefits of lower interest rates with respect to our portfolio investments.

## SENIOR SECURITIES

Information about our senior securities is shown in the following tables as of each fiscal year ended December 31 since the Fund commenced operations, unless otherwise noted. The " " indicates information which the SEC expressly does not require to be disclosed for certain types of senior securities.

Class and Year	Total Amount Outstanding Exclusive of Treasury Securities(1)	Asset Coverage Per Unit(2)	Involuntary Liquidating Preference Per Unit(3)	Average Market Value Per Unit(4)
<b>Facility</b>				
2004 (as of December 31, 2004)	\$ 55,500,000	\$ 3,877.62	\$	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 our 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.
- (3) The amount to which such class of senior security would be entitled upon the involuntary liquidation of the issuer in preference to any security junior to it.
- (4) Not applicable, as senior securities are not registered for public trading.

In addition, in connection with our initial public offering our investment adviser paid to underwriters, on our behalf, an aggregate of \$2,475,000 in additional sales load. This amount accrues interest at a variable rate that adjusts quarterly equal to the three-month LIBOR plus 2.00% per annum, compounded quarterly. We are obligated to repay this amount, together with accrued interest (a) if during any four calendar quarter period ending on or after the one year anniversary of the closing of the offering, the sum of (i) our aggregate distributions to our stockholders and (ii) our change in net assets (defined as total assets less indebtedness) equals or exceeds 7.0% of our net assets at the beginning of such period (as adjusted for any share issuances or repurchases) or (b) upon our liquidation.

## BUSINESS

### GENERAL

Ares Capital is a closed-end, non-diversified management investment company that is regulated as a BDC under the 1940 Act. We were founded in April 2004 and completed an initial public offering of our common stock on October 8, 2004. Ares Capital's investment objectives are to generate both current income and capital appreciation through debt and equity investments by primarily investing in U.S. middle market companies, where we believe the supply of primary capital is limited and the investment opportunities are most attractive.

We primarily invest in first and second lien senior loans and long-term mezzanine debt. In some cases, we may also receive warrants or options in connection with our debt investments. Our investments will initially range between \$10 million and \$30 million each, although the investment sizes may be more or less than the targeted range. We also, to a lesser extent, make equity investments in private middle market companies. These investments are generally less than \$10 million each and made in conjunction with loans we make to these companies.

The first and second lien senior loans generally have stated terms of three to ten years and the mezzanine debt investments generally have stated terms of up to ten years, but the expected average life of such first and second lien loans and mezzanine debt is generally between three and seven years. However, there is no limit on the maturity or duration of any security in our portfolio. The debt that we invest in typically is not rated by any rating agency, but we believe that if such investments were rated, they would be below investment grade (rated lower than "Baa3" by Moody's or lower than "BBB-" by Standard & Poor's). We may invest without limit in debt of any rating, including securities that have not been rated by any nationally recognized statistical rating organization.

We believe that our investment adviser, Ares Capital Management, is able to leverage Ares' current investment platform, resources and existing relationships with financial sponsors, financial institutions, hedge funds and other investment firms to provide us with attractive investments. In addition to deal flow, the Ares investment platform assists our investment adviser in analyzing, structuring and monitoring investments. Ares' senior principals have worked together for many years and have substantial experience in investing in senior loans, high yield bonds, mezzanine debt and private equity. The Company has access to the Ares staff of approximately 38 investment professionals and to the 20 administrative professionals employed by Ares who provide assistance in accounting, legal, compliance and investor relations.

While our primary focus is to generate current income and capital appreciation through investments in first and second lien senior loans and mezzanine debt and, to a lesser extent, equity securities of private companies, we also may invest up to 30% of the portfolio in opportunistic investments. Such investments may include investments in high-yield bonds, debt and equity securities in collateralized debt obligation vehicles and distressed debt or equity securities of public companies. We expect that these public companies generally will have debt that are non-investment grade. As part of this 30% of the portfolio, we may also invest in debt of middle market companies located outside of the United States, which investments are not anticipated to be in excess of 5% of the portfolio at the time such investments are made.

### About Ares

Ares is an independent Los Angeles based firm with 78 employees that manages investment funds that have approximately \$6.1 billion of committed capital. Ares was founded in 1997 by a group of highly experienced investment professionals.

Ares specializes in originating and managing assets in both the leveraged finance and private equity markets. Ares' leveraged finance activities include the acquisition and management of senior

loans, high yield bonds, mezzanine 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 secured floating rate debt to common equity.

Ares is comprised of the following groups:

**Capital Markets Group.** The Ares Capital Markets Group currently manages a variety of funds and investment vehicles that have approximately \$5.0 billion of committed capital, primarily focusing on syndicated senior secured loans, high yield bonds, distressed debt and other liquid fixed income investments. The Capital Markets Group focuses primarily on liquid fixed income debt securities and other publicly traded debt securities.

**Private Debt Group.** The Ares Private Debt Group manages the assets of Ares Capital. The Private Debt Group focuses primarily on non-syndicated first and second lien senior loans and mezzanine debt.

**Private Equity Group.** The Ares Private Equity Group manages ACOF, which has \$750 million of committed capital. ACOF generally makes private equity investments in middle market companies and in amounts substantially larger than the private equity investments anticipated to be made by Ares Capital. 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, our investment adviser, is served by a dedicated origination and transaction development team of 8 investment professionals, including our President, Michael J. Arougheti, which team is augmented by Ares' additional investment professionals, primarily its 18 member Capital Markets Group. Ares Capital Management's investment committee has five members, including Mr. Arougheti and 4 founding members of Ares. In addition, Ares Capital Management leverages off of Ares' entire investment platform and benefits from Ares' investment professionals' significant capital markets, trading and research expertise developed through Ares industry analysts. Ares' industry analysts currently maintain research on over 600 companies. Ares funds have made investments in over 650 companies in over 30 different industries and currently hold over 300 investments in over 30 different industries.

#### **MARKET OPPORTUNITY**

We believe the environment for investing in middle market companies is attractive for the following reasons:

**Consolidation of senior lenders.** Between January 1990 and September 2003, the broad-based consolidation in the U.S. financial services industry has reduced the number of FDIC-insured financial institutions from approximately 15,000 to 9,000. We believe that the remaining financial institutions have de-emphasized their service and product offerings to middle-market businesses in recent years in favor of lending to large corporate clients and managing capital markets transactions.

***Increase in demand for primary capital.*** A continuing preference for high-yield bond issues above \$150 million and a lack of alternative financing sources have also resulted in a significant increase in demand for primary capital, resulting in higher rates of return with lower risk characteristics. As evidence of this trend, the average deal size in the high-yield market has grown from approximately \$159 million in 1992 to almost \$275 million in 2003 and, in 2003, fewer than 8% of the high-yield issues raised less than \$100 million.

***Large pool of uninvested private equity capital.*** We also believe there is a large pool of uninvested private equity capital for middle market companies. We expect that private equity firms will be active investors in middle market companies and that these private equity funds will seek to leverage their investments by combining capital with senior secured loans and mezzanine debt from other sources. During the past five years, Ares has co-invested with more than 30 private equity and venture capital funds. Through these relationships and contacts, we anticipate that we will have access to investment opportunities.

## **COMPETITIVE ADVANTAGES**

We believe that we have the following competitive advantages over other capital providers in middle market companies:

### **Existing investment platform**

Ares currently manages approximately \$6.1 billion of committed capital in the related asset classes of syndicated loans, high yield bonds, mezzanine debt and private equity. We believe Ares' current investment platform provides a competitive advantage in terms of access to origination and marketing activities and diligence for Ares Capital.

### **Seasoned management team**

Antony Ressler, Bennett Rosenthal, John Kissick and David Sachs are all founding members of Ares who serve on Ares Capital Management's investment committee. These professionals 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. In addition, our President, Michael J. Arougheti also serves on the investment committee and leads a dedicated origination and transaction development team of 8 investment professionals (including Mr. Arougheti), which team will be augmented by Ares' additional investment professionals, primarily its 18 member Capital Markets Group. As a result of Ares' extensive investment experience, Ares and its senior principals have developed a strong reputation in the capital markets. We believe that this experience affords Ares Capital a competitive advantage in identifying and investing in middle market companies with the potential to generate positive returns.

### **Experience and focus on middle market companies**

Ares has historically focused on investments in middle market companies and we will benefit from this experience. Our 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. We expect this network will enable us to attract well-positioned prospective portfolio company investments. In particular, our investment adviser works closely with the Ares' Capital Markets Group investment professionals who oversee a portfolio of investments in over 300 companies and provide access to an extensive network of relationships and special insights into industry trends and the state of the capital markets.

### **Disciplined investment philosophy**

In making its investment decisions, our investment adviser has adopted Ares' long-standing, consistent investment approach that was developed over 12 years ago by several of its founders. Ares Capital Management's investment philosophy and portfolio construction involves an assessment of the overall macroeconomic environment, financial markets and company-specific research and analysis. Our 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**

We concentrate our investing activities in industries with a history of predictable and dependable cash flows and in which the Ares investment professionals historically have had extensive investment experience. Since its inception in 1997, Ares investment professionals have invested in over 650 companies in over 30 different industries. Ares' Capital Markets Group provides a large team of in-house analysts with significant expertise and relationships in industries in which we are likely to invest. The Capital Markets Group financial analysts maintain research on over 600 companies. Ares investment professionals have developed long-term relationships with management teams and management consultants in these industries, as well as substantial information concerning these industries and potential trends within these industries. The experience of Ares' investment professionals in investing across these industries throughout various stages of the economic cycle provides our investment adviser with access to ongoing market insights and favorable investment opportunities.

### **Flexible transaction structuring**

We are flexible in structuring investments, the types of securities in which we invest 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. This approach and experience should enable our investment adviser to identify attractive investment opportunities throughout the economic cycle and across a company's capital structure so that we can make investments consistent with our stated objectives.

### **Co-investment opportunities**

We intend to co-invest with Ares funds (other than ACOF) when we believe it will be advantageous for us to do so. As a BDC, we would not generally be permitted to invest in any portfolio company in which Ares or any of its affiliates currently has an investment or make any co-investments with Ares or its affiliates. Consequently, we intend to apply for an exemptive order from the SEC that would permit us 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, we cannot assure you that the Company will be permitted to co-invest with funds managed by Ares.



## OPERATING AND REGULATORY STRUCTURE

Our investment activities are managed by Ares Capital Management and supervised by our 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 Advisers Act. Under our investment advisory and management agreement, we have agreed to pay Ares Capital Management an annual base management fee based on our total assets (other than cash and cash equivalents, but including assets purchased with borrowed funds), and an incentive fee based on our performance. See "Management Investment Advisory and Management Agreement."

As a BDC, we are required to comply with certain regulatory requirements. For example, we would not generally be permitted to invest in any portfolio company in which Ares or any of its affiliates currently has an investment or make any co-investments with Ares or its affiliates. However, we intend to apply for an exemptive order from the SEC that would permit us, subject to certain terms and conditions, to co-invest with funds managed by Ares. Assuming receipt of a favorable exemptive order from the SEC, we anticipate that, subject to certain terms and conditions, funds managed by Ares (other than ACOF) may co-invest in the same portfolio companies as the Company due to similarities in certain of their investment strategies. Such co-investments will be on terms and conditions that are the same in all material respects, subject to the availability of capital for investment on the part of the Company and each such Ares fund and certain other considerations.

Also, while we are permitted to finance investments using debt, our ability to use debt is limited in certain significant respects. We expect to borrow funds to make additional investments. See "Regulation." We intend to elect to be treated for federal income tax purposes as a regulated investment company, or a RIC, under Subchapter M of the Code. See "Material U.S. Federal Income Tax Considerations."

## INVESTMENTS

We seek to create a diversified portfolio that will include first and second lien senior loans and mezzanine debt by investing a range of \$10 million to \$30 million of capital, on average, although the investment sizes may be more or less. We also anticipate, to a lesser extent, making equity investments in private middle market companies. These investments will generally be less than \$10 million each and made in conjunction with loans we make to these companies. We expect that our target portfolio over time will include both first and second lien senior loans and mezzanine debt, and, to a lesser extent, private equity securities. In addition to originating investments, we may 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. 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.

We also intend, to a lesser extent, to make equity investments in private middle market companies. In making an investment, in addition to considering the factors discussed below under "Investment Selection," we also consider the anticipated timing of a liquidity event, such as a public offering, sale of the company or redemption of our equity securities.



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Our principal focus is to invest 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. We generally target companies that generate positive cash flows. Ares has a staff of 16 investment professionals who specialize in specific industries. We will generally seek to invest in companies from the industries in which Ares' 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

Chemicals

Consumer Products

Energy

Environmental Services

Food and Beverage

Gaming

Health Care

Homebuilding

Lodging and Leisure

Metals/Mining

Paper and Forest Products

Retail

Supermarket and Drug

Technology

Wireless Telecom and Wireline Telecom

However, we may invest in other industries if we are presented with attractive opportunities.

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As a result of regulatory restrictions, we are not permitted to invest in any portfolio company in which Ares or any affiliate currently has an investment. However, we intend to apply for an exemptive order from the SEC that would permit us, subject to certain terms and conditions, to co-invest with funds managed by Ares (other than ACOF). Assuming receipt of a favorable exemptive order from the SEC, we anticipate that, subject to certain terms and conditions, funds managed by Ares (other than ACOF) may co-invest in the same portfolio companies as the Company due to similarities in certain of their investment strategies. Such co-investments will be on terms and conditions that are the same in all material respects, subject to the availability of capital for investment on the part of the Company and each such Ares fund and certain other considerations.

In addition to such investments, we may invest up to 30% of the portfolio in opportunistic investments in high-yield bonds, debt and equity securities in collateralized debt obligation vehicles, distressed debt or equity securities of public companies. We expect that these public companies generally will have debt that is non-investment grade. We also may invest in debt of middle market companies located outside of the United States, which investments are not anticipated to be in excess of 5% of the portfolio at the time such investments are made.

## **INVESTMENT SELECTION**

Ares' investment philosophy was developed over the past 12 years and has remained consistent throughout a number of economic cycles. In managing the Company, Ares Capital Management will employ the same investment philosophy and portfolio management methodologies used by the investment professionals of Ares in Ares' private investment funds.

Ares Capital Management's investment philosophy and portfolio construction will involve:

an assessment of the overall macroeconomic environment and financial markets;

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 strict sales discipline based on both market technicals and fundamental value-oriented research and diversification strategy. Ares Capital Management will follow 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;

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. Though each transaction will involve a somewhat different approach, the regular due diligence steps generally to be undertaken include:

meeting with management to get an insider's view of the business, and to probe for potential weaknesses in business prospects;

checking management backgrounds and references;

performing a detailed review of historical financial performance and the quality of earnings;

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visiting headquarters and company operations and meeting 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 (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.

### **Selective investment process**

Ares Capital Management employs Ares' credit recommendation process, which is focused on selectively narrowing investment opportunities through a process designed to identify the most attractive opportunities. Ares reviews and analyzes numerous investment opportunities on behalf of its funds to determine which investments should be consummated.

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 investment professional is in favor of the potential investment, then it is presented to the investment committee. Members of the investment committee have an average of over 20 years of experience in the leveraged finance markets. The investment generally requires the substantial consensus of the investment committee. Additional due diligence with respect to any investment may be conducted on our behalf by attorneys and independent accountants prior to the closing of the investment, as well as other outside advisers, as appropriate.

### **Investment structure**

Once we have determined that a prospective portfolio company is suitable for investment, we will work with the management of that company and its other capital providers, including senior, junior, and equity capital providers, to structure an investment. We will negotiate among these parties to agree on how our investment is expected to perform relative to the other capital in the portfolio company's capital structure.

### ***Debt investments***

We invest in portfolio companies in the form of first and second lien senior loans. These loans generally to have terms of three to ten years. We generally obtain security interests in the assets of our portfolio companies that will serve as collateral in support of the repayment of these loans. This collateral may take the form of first or second priority liens on the assets of a portfolio company.

We structure our mezzanine investments primarily as unsecured, subordinated loans that provide for relatively high, fixed interest rates that provide us with significant current interest income. 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, we 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 our investment. Also, in some cases our mezzanine debt will be collateralized by a subordinated lien on some or all of the assets of the borrower.

In some cases our 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.

In the case of our first and second lien senior loans and mezzanine debt, we tailor 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 our rights and manage our 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 our portfolio companies, we will seek, where appropriate, to limit the downside potential of our investments by:

requiring a total return on our investments (including both interest and potential equity appreciation) that compensates us for credit risk;

incorporating "put" rights and call protection into the investment structure; and

negotiating covenants in connection with our investments that afford our portfolio companies as much flexibility in managing their businesses as possible, consistent with preservation of our 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.

In general, Ares Capital Management includes financial covenants and terms that require an issuer to reduce leverage, thereby enhancing credit quality. These methods include: (i) maintenance leverage covenants requiring a decreasing ratio of debt to cash flow; (ii) maintenance cash flow covenants requiring an increasing ratio of cash flow to the sum of interest expense and capital expenditures; and (iii) debt incurrence prohibitions, limiting a company's ability to re-lever. In addition, limitations on asset sales and capital expenditures should prevent a company from changing the nature of its business or capitalization without consent.

Our debt investments may include equity features, such as warrants or options to buy a minority interest in the portfolio company. Warrants we receive with our debt may require only a nominal cost to exercise, and thus, as a portfolio company appreciates in value, we may achieve additional investment return from this equity interest. We may structure the warrants to provide provisions protecting our rights as a minority-interest holder, as well as puts, or rights to sell such securities back to the company, upon the occurrence of specified events. In many cases, we will also obtain registration rights in connection with these equity interests, which may include demand and "piggyback" registration rights.

#### ***Equity investments***

Our 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 distributions on liquidation and dividends. In some cases, we may acquire common equity. In general, our equity investments will not be control-oriented investments and we expect that in many cases we will acquire equity securities as part of a group of private equity investors in which we are not the lead investor. With respect to preferred or common equity investments, we expect to make investments that will generally be less than \$10 million each and made in conjunction with loans that we make to the issuers. In many cases, we will also obtain registration rights in connection with these equity interests, which may include demand and "piggyback" registration rights.

#### **ONGOING RELATIONSHIPS WITH AND MONITORING OF PORTFOLIO COMPANIES**

Ares Capital Management will closely monitor each investment we make, maintain a regular dialogue with both the management team and other stakeholders and seek specifically tailored financial reporting. In addition, senior investment professionals of Ares sometimes take board seats or board observation seats. Currently we have board seats or board observation seats on more than 50% of the operating companies in our portfolio.

Post-investment, in addition to covenants and other contractual rights, Ares will seek to exert significant influence through board participation, when appropriate, and by actively working with management on strategic initiatives. Ares often introduces managers of companies in which they have

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invested to other portfolio companies to capitalize on complementary business activities and best practices.

In addition to various risk management and monitoring tools, we intend to grade all loans on a scale of 1 to 4. This system is intended to reflect the performance of the borrower's business, the collateral coverage of the loans and other factors considered relevant.

Under this system, loans with a grade of 4 involve the least amount of risk in our portfolio. The borrower is performing above expectations and the trends and risk factors are generally favorable. Loans graded 3 involve a level of risk that is similar to the risk at the time of origination. The borrower is performing as expected and the risk factors are neutral to favorable. All new loans are initially graded 3. Loans graded 2 involve a borrower performing below expectations and indicates that the loan's risk has increased materially since origination. The borrower is generally out of compliance with debt covenants, however, loan payments are generally not more than 120 days past due. For loans graded 2, we expect to increase procedures to monitor the borrower and the fair value generally will be lowered. A loan grade of 1 indicates that the borrower is performing materially below expectations and that the loan risk has substantially increased since origination. Most or all of the debt covenants are out of compliance and payments are substantially delinquent. Loans graded 1 are not anticipated to be repaid in full.

### **MANAGERIAL ASSISTANCE**

As a BDC, we will offer, and must provide upon request, managerial assistance to our portfolio companies. This assistance could involve, among other things, monitoring the operations of our portfolio companies, participating in board and management meetings, consulting with and advising officers of portfolio companies and providing other organizational and financial guidance. We may receive fees for these services. Ares Administration will provide such managerial assistance on our behalf to portfolio companies that request this assistance.

### **COMPETITION**

Our primary competitors to provide financing to middle market companies will include public and private funds, commercial and investment banks, commercial financing companies and private equity funds. Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, some competitors may have access to funding sources that are not available to us. In addition, some of our 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 us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act will impose on us as a BDC. We expect to use the industry information of Ares' investment professionals to which we will have access to assess investment risks and determine appropriate pricing for our investments in portfolio companies. In addition, we expect that the relationships of the members of Ares Capital Management's investment committees and of the senior principals of Ares, will enable us to learn about, and compete effectively for, financing opportunities with attractive middle market companies in the industries in which we seek to invest. For additional information concerning the competitive risks we face, see "Risk Factors Risks Relating to our Business We operate in a highly competitive market for investment opportunities."

### **LEVERAGE**

In October 2004, our wholly owned subsidiary Ares Capital CP Funding LLC ("Ares Capital CP"), a single member, special purpose, limited liability company was established for the purpose of acquiring and holding certain loans originated by us. On November 3, 2004, Ares Capital CP entered

into the Facility, pursuant to which Ares Capital CP may obtain up to \$150,000,000 in financing from the conduits and institutional lenders.

The Facility allows Ares Capital CP to issue up to \$150.0 million of VFCs. As part of the 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 Facility and limit further advances under the Facility and in some cases could be an event of default. Such limitations, requirements, and associated defined terms are as provided for in the documents governing the Facility. The interest charged on the VFC is based on the commercial paper rate plus 1.25% and payable quarterly. As of December 31, 2004, the commercial paper rate was 2.3152%. The Facility expires on November 2, 2005 unless extended prior to such date for an additional 364 day period with the consent of the lender. If the Facility is not extended, any principal amounts then outstanding will be amortized over a 24 month period through a termination date of November 2, 2007. Under the terms of the Facility, we are required to pay a one-time 0.25% structuring fee and a 0.375% renewal fee on each of the two years following the closing date of the Facility. Additionally, we are also required to pay a 0.175% commitment fee for any unused portion of the Facility.

As of December 31, 2004, the principal amount outstanding under the Facility was \$55.5 million and our asset coverage for senior securities was 388%.

We intend to continue borrowing under the Facility in the future and we may increase the size of the Facility or otherwise issue debt securities or other evidences of indebtedness following the consummation of this offering.

## **STAFFING**

We do not currently have any employees and do not expect to have any employees. Services necessary for our business are provided by individuals who are employees of Ares Capital Management and Ares Administration, pursuant to the terms of the management agreement and the administration agreement. Each of our executive officers described under "Management" is an employee of Ares Administration and/or Ares Capital Management. Our day-to-day investment operations will be managed by our investment adviser. Most of the services necessary for the origination and administration of our investment portfolio are provided by investment professionals employed by Ares Capital Management. Including Michael J. Arougheti, our President who will also serve on Ares Capital Management's investment committee, Ares Capital Management has 8 investment professionals who focus on origination and transaction development and monitoring of our investments. See "Management Investment Advisory and Management Agreement." In addition, we will reimburse Ares Administration for our allocable portion of expenses incurred by it in performing its obligations under the administration agreement, including rent and our allocable portion of the cost of our officers and their respective staffs. See "Management Administration Agreement."

## **PROPERTIES**

Our administrative offices are located at 1999 Avenue of the Stars, Suite 1900, Los Angeles, California, 90067, telephone number (310) 201-4200; and our executive offices are located at 780 Third Avenue, 46th Floor, New York, New York 10017, telephone number (212) 750-7300. In conjunction with the management of Ares Capital, our investment adviser may lease additional office facilities in New York to facilitate origination and marketing activities for Ares Capital.

## **LEGAL PROCEEDINGS**

Neither we nor Ares Capital Management are currently subject to any material legal proceedings.



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**PORTFOLIO COMPANIES**

Our investment adviser employs an investment rating system to categorize our investments. See "Business Ongoing Relationships With and Monitoring of Portfolio Companies." We believe as of December 31, 2004, the weighted average investment grade of the debt in our portfolio is 3.0. As of December 31, 2004, the weighted average yield of the debt and income producing equity securities in our portfolio was approximately 12.22% (computed as (a) the annual stated interest rate (or, in the case of equity securities, dividend rate) plus the annual amortization of loan, origination fees, original issue discount and market discount on accruing loans, debt and income producing equity securities) divided by (b) total loans, debt and income producing equity securities at value.

The following table describes each of the businesses included in our portfolio and reflects data as of December 31, 2004. We own less than 15% of the equity of, and do not control any of, the businesses included in our portfolio. We offer to make significant managerial assistance to our portfolio companies. We may receive rights to observe the meetings of our portfolio companies' board of directors.

<b>Name and Address of Portfolio Company</b>	<b>Nature of Business</b>	<b>Type of Investment</b>	<b>Interest(1)</b>	<b>Maturity</b>	<b>% of Class Held(2)</b>	<b>Fair Value</b>
Aircast, Inc. 92 River Road Summit, NJ 07901	Manufacturer of orthopedic braces, supports and vascular systems	Senior Secured Loan	Libor + 2.75%	12/7/2010		\$1,500,000
		Junior Secured Term Loan	Libor + 7.00%	6/7/2011		\$1,000,000
Berkline/BenchCraft Holdings LLC One Berkline Drive Morristown, TN	Furniture manufacturer and distributor	Junior Secured Term Loan	Libor + 8.00%	5/3/2012		\$5,000,000
		Common Unit Warrants		3/26/2012	4.27%	\$2,752,559
		Preferred Stock			4.27%	\$1,046,343
Billing Concepts, Inc. 2700 Patriot Road, Suite 150 Glenview, IL 60025	Billing clearinghouse	Senior Secured Loan	Libor + 8.50%	12/15/2005		\$10,042,007
		Senior Subordinated Loan	14% cash, 4% PIK	6/15/2008		\$5,232,490
		Series D Shares		12/15/2013	1.10%	\$150,578
Diversified Collection Services, Inc. 333 North Canyons Pkwy. Livermore, CA 94551	Collections Services	Senior Secured Loan	Libor + 4.00%	1/8/2009		\$4,036,107
		Senior Secured Revolving Loan	Libor + 4.00%	1/8/2009		(3)
		Senior Subordinated Loan	12% cash, 3.75% PIK	7/8/2010		\$2,060,150
		Participating Preferred Stock			0.60%	\$483,709
Esselte	Office supply products	Senior Notes	7.625%	3/15/2011		\$5,997,645
FlexSol Packaging Corp. 1531 N.W. 12th Avenue Pompano Beach, FL 33069	Manufacturer of value-added plastic films and flexible packaging	Senior Secured Loan	Libor + 3.25%	12/31/2012		\$1,000,000
		Junior Secured Term Loan	Libor + 7.00%	12/31/2012		\$2,000,000
Foxe Basin CLO 2003, Ltd.	Collateralized debt obligation	Structured Finance Obligation Mandatorily Redeemable Preference Shares		12/15/2015	8.82%	\$3,011,552
HB&G Building Products P.O. Box 589 Troy, AL 36081	Synthetic and wood product manufacturer	Senior Subordinated Loan	10% cash, 5% PIK	3/7/2011		\$8,142,855
		Common Stock			2.40%	\$752,888
		Common Stock Warrants		3/7/2013	3.90%	\$652,503
Hudson Straits CLO 2004, Ltd.	Collateralized debt obligation	Structured Finance Obligation Mandatorily Redeemable Preference Shares		10/15/2016	1.97%	\$752,888
Mactec, Inc. 1105 Sanctuary Parkway, Suite 300 Alpharetta, GA 30004	Engineering and environmental consulting services	Common Stock			0.01%	\$0
Mechanical Dynamics & Analysis (MD&A) 29 British American Blvd. Latham, NY 12110	Steam power generator repair	Senior Subordinated Loan	13% cash, 5% PIK	3/29/2010		\$10,694,664
		Common Stock Warrants		9/29/2013	3.60%	\$150,578

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Name and Address of Portfolio Company	Nature of Business	Type of Investment	Interest(1)	Maturity	% of Class Held(2)	Fair Value
MINCS-Glace Bay, Ltd.	Collateralized debt obligation	Structured Finance Obligation Floating Rate Third Priority Secured Notes (BBB rated)	Libor + 5.00%	7/20/2014		\$4,517,328
PHNS, Inc. 15851 Dallas Parkway, Suite 925 Addison, TX 75001	Information technology and business process outsourcing company	Senior Subordinated Loan	11.5% cash, 2.25% PIK	11/1/2011		\$16,000,000
Qualitor, Inc. 24800 Denso Drive, Suite 255 Southfield, MI 48034	Supplier of aftermarket components for the automotive and truck industries	Senior Secured Loan Junior Secured Term Loan	Libor + 4.00% Libor + 7.00%	12/31/2009 6/30/2012		\$2,000,000 \$5,000,000
Reef Holdings, Inc. 9660 Chesapeake Drive San Diego, CA 92123	Shoe designer, marketer and distributor	Senior Secured Loan Common Stock Common Stock Warrants	Libor + 8.50%	12/21/2009 5/10/2012	 3.70% 2.10%	\$17,500,000 \$2,258,666 \$752,888

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Reflexite Corporation 120 Darling Drive Avon, CT 06001	Developer and manufacturer of high visibility reflective products	Senior Subordinated Loan	11% cash, 3% PIK	12/30/2011	\$10,000,833	
Shoes For Crews, LLC 1400 Centerpark Blvd., Suite 310 West Palm Beach, FL 33401	Safety footwear and slip-resistant mats	Senior Secured Loan	Libor + 4.75%	7/6/2010	\$1,731,282	
		Senior Secured Revolving Loan	Libor + 4.75%	7/6/2010	\$334,617(4)	
United Site Services, Inc. 31 Middlesex Road, 2nd Floor Mansfield, MA 02048	Portable restroom and site services	Junior Secured Term Loan	Libor + 8.00%	6/30/2010	\$10,000,000	
		Senior Subordinated Loan	12% cash, 4% PIK	12/18/2010	\$8,574,034	
		Common Stock			1.80%	\$1,353,851
Universal Trailer Corporation 11590 Century Blvd., Suite 103 Cincinnati, OH 45246	Livestock and specialty trailer manufacturer	Senior Secured Loan	Libor + 4.00%	3/31/2007	\$1,974,665	
		Senior Subordinated Loan	13.50%	9/30/2008	\$7,528,880	
		Senior Secured Revolving Loan	Libor + 4.00%	3/31/2007	(5) \$6,424,645	
		Common Stock			7.90%	\$1,505,776
		Common Stock Warrants			3.75%	
York Label Holdings, Inc. 405 Willow Springs Lane York, PA 17402	Consumer product labels	Senior Subordinated Loan	10% cash, 4% PIK	2/16/2010	\$9,935,689	
		Preferred Stock	10%		\$3,387,069	
		Common Stock Warrants		9/16/2012	\$5,320,408	

- (1) All interest is payable in cash unless otherwise indicated.
- (2) Percentages shown for warrants and convertible preferred stock held represent the percentage of common stock we may own, on a fully diluted basis, assuming we exercise our warrants or convert our preferred stock to common stock.
- (3) Total commitment of \$2,500,000 unfunded as of December 31, 2004.
- (4) Total commitment of \$6,666,667; \$6,333,334 unfunded as of December 31, 2004.
- (5) Total commitment of \$5,000,000 unfunded as of December 31, 2004.

### PORTFOLIO COMPANIES

Set forth below is a brief description of each portfolio company in which we have made an investment that represents greater than 5% of our total assets.

#### **Billing Concepts, Inc.**

Billings Concepts, Inc. ("BCI") is a provider of LEC clearinghouse and information management services to the telecommunications industry. BCI tracks and processes bills for telecommunications services that range from local and long distance calling to paging, voice mail, Caller ID and others. BCI's call center for LEC clearinghouse handles over 13,000 customer service calls a day. BCI has a diversified customer base with over a 95% retention rate. BCI sells to a diverse customer base, with no single customer representing more than % of revenue.

#### **PHNS, Inc.**

PHNS, Inc. ("PHNS") is a hospital services cooperative that helps hospitals improve their delivery of healthcare services and reduce costs by outsourcing Information Technology ("IT"), Health Information Management ("HIM") and general Business Process Solutions. Each of these lines of service offer a menu of services to hospital partners and customers, including: electronic medical records, data center management,

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clinical applications management and implementation and transcription and coding services. PHNS has over      experienced healthcare, IT and HIM professionals and provides services to more than      hospitals. PHNS partners with its hospital customers through an innovative outsourcing model that aligns goals and incentives. Today, hospital partners own in excess of      % of PHNS and represent a third of its Board of Directors. Its core customers are subject to long-term contracts, which provide stability and revenue visibility, but do yield some customer concentration.      % of PHNS's revenues are concentrated at its top four customers.

### **Reef Holdings, Inc.**

Reef Holdings, Inc. ("Reef"), and its wholly-owned subsidiary South Cone, Inc., is a designer, marketer and distributor of beach sport and casual sandals and a complementary portfolio of active and

casual shoes and apparel, all sold under the Reef and Reef Brazil brand names. Reef has made authentic, surf-inspired footwear since 1984. Today, Reef is an independent branded beach sandal company with a loyal following among its core customers of active youth and action sports enthusiasts. Reef has a diverse customer base, with no domestic customer representing more than % of revenue. Reef sells into over retail doors internationally.

**United Site Services, Inc.**

United Site Services, Inc. ("USS") is a national provider of portable restroom and site services. The Company purchases, rents and services portable restrooms to a diverse mix of residential and commercial construction contractors, special event planners, government agencies and other commercial and individual customers. USS is a national portable restroom services business and a consolidator of sub-scale operators around the U.S. USS sells to a highly diverse customer base, with the top ten customers accounting for less than % of revenues.

**Universal Trailer Corporation**

Universal Trailer Corporation ("UTC") is a designer and manufacturer of aluminum horse and livestock trailers and steel framed enclosed cargo trailers. UTC markets its trailers under the Haulmark(TM), Exiss(TM) and Sooner(TM) brands and primarily sells its products through a broad, nationwide network of independent dealers. UTC sells its products to a diverse customer base, with no single customer representing more than % of revenue.

**York Label Holdings, Inc.**

York Label Holdings, Inc. ("York") was founded in 1947 and is a supplier of high-end pressure sensitive label solutions, operating one of the largest flexographic label printing facilities in North America. York's strategy is to be a leading supplier of pressure sensitive labels in end-use markets that are growing rapidly, demand high impact graphics, or require technically challenging solutions. Some of these end-use markets include consumer products, health & beauty aids, security, pharmaceuticals and direct mail. York's customers include many Fortune 500 companies. York sells to a diverse customer base, with the top ten customers representing % of revenue.

**MANAGEMENT**

Our business and affairs are managed under the direction of our board of directors. The board of directors currently consists of five members, three of whom are not "interested persons" of Ares Capital as defined in Section 2(a)(19) of the 1940 Act. We refer to these individuals as our independent directors. Our board of directors elects our officers, who will serve at the discretion of the board of directors.

**EXECUTIVE OFFICERS AND BOARD OF DIRECTORS**

Under our charter, our directors are divided into three classes. Each class of directors will hold office for a three year term. However, the initial members of the three classes have initial terms of one, two and three years, respectively. At each annual meeting of our stockholders, the successors to the class of directors whose terms expire at such meeting will be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election. 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 qualified.

**Directors**

Information regarding the board of directors is as follows:

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Director Since</b>	<b>Expiration of Term</b>
<b>Interested Directors</b>				
Antony P. Ressler	44	Co-Chairman and Director	2004	2007
Bennett Rosenthal	41	Co-Chairman and Director	2004	2006
<b>Independent Directors</b>				
Douglas E. Coltharp	43	Director	2004	2005
Robert L. Rosen	58	Director	2004	2006
Eric B. Siegel	46	Director	2004	2007

The address for each director is c/o Ares Capital Corporation, 1999 Avenue of the Stars, Suite 1900, Los Angeles, California, 90067.

**Executive officers who are not directors**

Information regarding our executive officers who are not directors is as follows:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Michael J. Arougheti	32	President
Daniel F. Nguyen	33	Chief Financial Officer
Kevin A. Frankel	43	Chief Compliance Officer and Secretary
Merritt S. Hooper	43	Vice President of Investor Relations and Treasurer

The address for each executive officer is c/o Ares Capital Corporation, 1999 Avenue of the Stars, Suite 1900, Los Angeles, California, 90067.

## Biographical information

### *Directors*

Our directors have been divided into two groups interested directors and independent directors. Interested directors are interested persons as defined in the 1940 Act.

### Independent directors

**Douglas E. Coltharp** Mr. Coltharp joined Saks Incorporated as Executive Vice President and Chief Financial Officer in November 1996. Saks Incorporated (NYSE "SKS") is comprised of two business segments, Saks Department Store Group, which operates 241 department stores under various nameplates in 24 states and Saks Fifth Avenue Enterprises, which operates Saks Fifth Avenue luxury department stores (62 stores in 26 states) and Off 5th Saks Fifth Avenue Outlet (53 stores in 23 states). Prior to joining Saks Incorporated Mr. Coltharp spent ten years in the Corporate Finance Department of 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 Boards of Directors of Stratus Technologies, Inc. and Under Armour, Inc.

**Robert L. Rosen** Mr. Rosen currently serves as co-Managing Partner of Dolphin Domestic Fund II, a diversified private investment partnership that invests primarily in publicly-traded North American 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 1987 to the 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. 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.

**Eric B. Siegel** Mr. Siegel is a Director and Chairman of the Executive Committee of El Paso Electric Company, an NYSE publicly traded utility company. Since 1995, Mr. Siegel has been a business consultant, and is currently a member of the Board of Directors of Kerzner International Limited, an NYSE publicly traded company that develops and operates destination casino resorts, luxury resort hotels and gaming properties worldwide. He is the Chairman of the Audit and Compensation Committees at Kerzner International. 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, where he also serves as Finance Chair, a member of the Board of Directors and Treasurer of the Friends of the Los Angeles Free Clinic and a board member and Vice-President, Finance, of Reprise! Broadway's Best, a non-profit theatre organization. Mr. Siegel holds his Bachelor of Arts degree Summa Cum Laude and law degree Order of the Coif from the University of California at Los Angeles.

### Interested directors

**Antony P. Ressler** Mr. Ressler founded Ares in 1997 and serves in the Ares Private Equity Group and as a Senior Advisor to the Ares Capital Markets Group. Mr. Ressler also serves as an Investment Committee member on all Ares funds. Prior to that, he was a co-founder of Apollo Management, L.P. in 1990 where he oversaw and led capital markets activities from inception until