UNITED INSURANCE HOLDINGS CORP.
Form 10-Q
May 13, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2009

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File number 000-52833

United Insurance Holdings Corp.

(exact name of Registrant as specified in the charter)

Delaware	**75-3241967**
(State of Incorporation)	*(IRS Employer Identification Number)*

360 Central Avenue, Suite 900

St. Petersburg, Florida 33701

(Address, including zip code, of principal executive offices)

727-895-7737

(Registrant s telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	x

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

As of May 8, 2009, 10,573,932 shares of common stock, par value $0.0001 per share, were issued and outstanding.

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UNITED INSURANCE HOLDINGS CORP.

PART I. FINANCIAL INFORMATION

Item 1: Financial Statements

Condensed Consolidated Balance Sheets

In thousands, except share and par value amounts

	March 31, 2009 *Unaudited*	**December 31, 2008**
ASSETS		
Investments available for sale, at fair value:		
Fixed maturities (amortized cost of $114,658 and $114,078, respectively)	$ 115,488	$ 115,332
Equity securities (cost of $11,266 and $14,229, respectively)	9,297	10,586
Other long-term investments (cost of $300)	300	300
Total investments	125,085	126,218
Cash and cash equivalents	47,241	31,689
Accrued investment income	1,460	1,392
Premiums receivable, net of allowances for credit losses of $359 and $305, respectively	10,809	10,216
Reinsurance recoverable on paid and unpaid losses	20,168	22,604
Prepaid reinsurance premiums	13,586	26,518
Deferred policy acquisition costs, net	9,731	9,075
Property and equipment at cost, net of accumulated depreciation and amortization of $274 and $254, respectively	274	294
Capitalized software, net of accumulated amortization of $109 and $53, respectively	1,232	1,232
Deferred income tax assets, net	2,415	2,744
Other assets	1,813	1,139
Total Assets	$ 233,814	$ 233,121
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Unpaid losses and loss adjustment expenses	$ 38,095	$ 40,098
Unearned premiums	75,041	74,384
Reinsurance payable	9,392	16,694
Advance premiums	5,472	2,152
Accounts payable and accrued expenses	14,323	12,871
Current portion of notes payable	4,915	4,621
Income taxes payable	2,549	1,366
Other liabilities	623	1,326
Long-term notes payable	36,486	36,682
Total Liabilities	186,896	190,194

Commitments and contingencies (Note 8)		
Stockholders Equity:		
Preferred stock, $0.0001 par value; 1,000,000 shares authorized; none issued or outstanding for 2009 and 2008		
Common stock, $0.0001 par value; 50,000,000 shares authorized; 10,573,932 and 10,548,932 issued and outstanding for 2009 and 2008, respectively	1	1
Additional paid-in capital	75	
Accumulated other comprehensive loss	(699)	(1,490)
Retained earnings	47,541	44,416
Total Stockholders Equity	46,918	42,927
Total Liabilities and Stockholders Equity	$ 233,814	$ 233,121

See accompanying notes to unaudited condensed consolidated financial statements.

UNITED INSURANCE HOLDINGS CORP.

Condensed Consolidated Statements of Income

(Unaudited)

In thousands, except share and per share amounts

	Three Months Ended March 31,	
	2009	**2008**
REVENUE:		
Gross premiums written	$ 37,031	$ 29,090
Gross premiums ceded	(1,901)	(1,362)
Net premiums written	35,130	27,728
Increase in net unearned premiums	(13,588)	(7,093)
Net premiums earned	21,542	20,635
Net investment income	1,395	1,633
Net realized investment losses	(2,686)	(157)
Commission and fees	766	647
Policy assumption bonus		2,912
Other revenue	967	780
Total revenue	21,984	26,450
EXPENSES:		
Losses and loss adjustment expenses	7,201	7,131
Policy acquisition costs	4,928	4,222
Operating and underwriting expenses	1,803	1,538
Salaries and wages	1,284	808
General and administrative expenses	1,013	1,337
Interest expense	754	865
Total expenses	16,983	15,901
Income before income taxes	5,001	10,549
Provision for income taxes	1,876	2,016
Net income	$ 3,125	$ 8,533
Weighted average shares outstanding		
Basic	10,550,876	10,548,932
Diluted	10,550,876	11,717,303

Earnings per share				
Basic	$	0.30	$	0.81
Diluted	$	0.30	$	0.73

PRO FORMA COMPUTATION OF INCOME TAXES FOR HISTORICAL PERIOD PRIOR TO THE MERGER (See Note 2):		
Historical income before income taxes	$	10,549
Pro forma provision for income taxes		4,069
Pro forma net income	$	6,480
Pro forma earnings per share		
Basic	$	0.61
Diluted	$	0.55

See accompanying notes to unaudited condensed consolidated financial statements.

UNITED INSURANCE HOLDINGS CORP.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

In thousands

	Three Months Ended March 31,	
	2009	2008
Cash flows provided by operating activities:		
Net income	$ 3,125	$ 8,533
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	310	168
Net realized investment losses	2,686	157
Amortization of discount on notes payable	98	
Provision for uncollectible premiums	44	
Deferred income taxes, net	(131)	(310)
Stock-based compensation	75	
Changes in operating assets and liabilities:		
Accrued investment income	(68)	129
Premiums receivable, net	(637)	(29)
Reinsurance recoverable on paid and unpaid losses	2,436	633
Prepaid reinsurance premiums	12,932	13,526
Deferred policy acquisition costs, net	(656)	602
Income taxes, net	1,183	(172)
Other assets	(674)	(808)
Unpaid loss and loss adjustment expenses	(2,003)	(3,878)
Unearned premiums	657	(6,433)
Reinsurance payable	(7,302)	(10,852)
Advance premiums	3,320	750
Accounts payable and accrued expenses	1,452	(971)
Other liabilities	(703)	270
Net cash provided by operating activities	16,144	1,315
Cash flows provided by (used in) investing activities:		
Proceeds from sales of investments available for sale	6,428	3,287
Purchases of investments available for sale	(6,965)	(10,468)
Cost of property and equipment acquired		(3)
Cost of capitalized software acquired	(55)	
Net cash used in investing activities	(592)	(7,184)
Cash flows provided by (used in) financing activities:		
Repayments of borrowings		(2,750)
Contributions by UIH members		63

Net cash provided by (used in) financing activities		(2,687)
Increase (decrease) in cash	15,552	(8,556)
Cash and cash equivalents at beginning of period	31,689	56,852
Cash and cash equivalents at end of period	$ 47,241	$ 48,296
Supplemental cash flows information:		
Cash paid during the period for:		
Interest	$ 143	$ 900
Income taxes paid	$ 825	$ 1,860

See accompanying notes to unaudited condensed consolidated financial statements.

UNITED INSURANCE HOLDINGS CORP.

Notes to Unaudited Condensed Consolidated Financial Statements

in thousands, except share and per share amounts

1) ORGANIZATION AND BUSINESS

United Insurance Holdings Corp. (UIHC , we , our), formerly known as FMG Acquisition Corp. (FMG), was formed under the laws of the State of Delaware. On September 30, 2008, we completed a merger by and among UIHC, United Subsidiary Corp. (Merger Sub), a Florida corporation and our wholly-owned subsidiary, and United Insurance Holdings, L.C. (UIH), a Florida limited liability company, whereby Merger Sub was merged into UIH, with UIH remaining as the surviving entity (the Merger).

Through our wholly-owned UIH subsidiary, and UIH s three wholly-owned subsidiaries, UIHC is engaged in the property and casualty insurance business in the State of Florida. The three subsidiaries of UIH include United Property & Casualty Insurance Company (UPCIC), United Insurance Management, L.C. (UIM) and Skyway Claims Services, LLC (Skyway). We operate under one business segment. All of our subsidiaries are included in our unaudited condensed consolidated financial statements.

UPCIC was formed in 1999 under the laws of the State of Florida and is authorized by the Florida Office of Insurance Regulation (OIR) to underwrite homeowner and dwelling property and casualty lines. We write our own policies throughout the State of Florida utilizing our independent agency network. We occasionally supplement those writings by assuming policies from Citizens Property Insurance Corporation (Citizens). The OIR has also authorized UPCIC to write flood coverage and a smaller commercial auto (Garage) line of business.

UIM is a managing general agent (MGA) formed in 1999 under the laws of the State of Florida. UIM manages all aspects of UPCIC s operations, including underwriting, policy administration, collections and disbursements, accounting and claims processes.

Skyway was formed in 2004 under the laws of the State of Florida to provide claims appraisal services. Skyway is currently one of several companies that provide such services to UPCIC, and it mainly provides appraisal services for claims arising from Dade, Broward and Palm Beach counties.

2) BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation

The accompanying condensed consolidated balance sheet as of December 31, 2008, which has been derived from audited consolidated financial statements, and the unaudited interim condensed consolidated financial statements were prepared in accordance with the instructions for Form 10-Q and Article 10 of Regulation S-X. In compliance with those instructions, certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted.

Results of operations and cash flows for the interim periods are not necessarily indicative of the results that may be expected for the entire year or any other future period as a result of the presentation described above.

All significant intercompany transactions and accounts have been eliminated.

In the opinion of management, our unaudited condensed consolidated interim financial statements include all the normal recurring adjustments necessary to fairly present our condensed consolidated balance sheets and our condensed consolidated statements of income and of cash flows as of March 31, 2009, and for all other periods presented. These unaudited condensed consolidated financial statements and footnotes should be read in conjunction with our consolidated financial statements included within our Annual Report filed on Form 10-K/A for the year ended December 31, 2008.

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Notes to Unaudited Condensed Consolidated Financial Statements

in thousands, except share and per share amounts

b) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

c) Reclassifications

Certain minimal amounts in the 2008 financial statements have been reclassified to conform to the 2009 presentation.

d) Pro Forma Income Taxes

On the unaudited Condensed Consolidated Statements of Income, the pro forma computation of income taxes for the three-month period ended March 31, 2008, represents the tax effect that would have been reported had all of our subsidiaries been subject to U.S. Federal and State income taxes on a consolidated tax return. Pro forma taxes are based upon the statutory income tax rates and adjustments to income for estimated permanent differences occurring during each period. Actual rates and expenses could have differed had all our subsidiaries actually been subject to U.S. Federal and State income taxes for the three months ended March 31, 2008. Therefore, the pro forma amounts are for informational purposes only and are not intended to be indicative of the results of operations had we been subject to U.S. Federal and State income taxes on a consolidated tax return for the three months ended March 31, 2008.

3) Recent Accounting Pronouncements

In April 2009, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP FAS 157-4). In FSP FAS 157-4, the FASB provides additional guidance for estimating fair value in accordance with Statement of Financial Accounting Standards (SFAS) No. 157 when the volume and level of activity for the asset or liability have significantly decreased, as well as offering guidance on identifying circumstances that indicate a transaction is not orderly. FSP FAS 157-4 will become effective for the first fiscal period ending after June 15, 2009. We do not expect FSP FAS 157-4 to have a material effect on our consolidated financial statements when we adopt the FSP in our fiscal quarter ended June 30, 2009.

In April 2009, FASB issued FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP FAS 107-1 and APB 28-1). In FSP FAS 107-1 and APB 28-1, the FASB requires disclosures about the fair value of financial instruments for interim reporting periods of publicly-traded companies as well as in annual financial statements. FSP FAS 107-1 and APB 28-1 will become effective for the first fiscal period ending after June 15, 2009. We do not expect FSP FAS 107-1 and APB 28-1 to have a material effect on our consolidated financial statements when we adopt the FSP FAS 107-1 and APB 28-1 in our fiscal quarter ended June 30, 2009.

In April 2009, FASB issued FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FSP FAS 115-2 and FAS 124-2). This FSP amends existing guidance for determining whether an impairment of debt securities is other-than-temporary. The FSP requires other-than-temporary impairments to be separated into the amount representing the decrease in cash flows expected to be collected from a security (referred to as credit losses) which is recognized in earnings and the amount related to other factors which is recognized in other comprehensive income. This noncredit loss component of the

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impairment may only be classified in other comprehensive income if the holder of the security concludes that it neither intends to sell the security nor is it more likely than not that it will be required to sell the security before it recovers its value. If these conditions are not met, the noncredit loss must also be recognized in earnings. When adopting the FSP, an entity is required to record a cumulative effect adjustment as of the beginning of the period of adoption to reclassify the noncredit component of a previously recognized other than temporary impairment from retained earnings to accumulated other comprehensive income. FSP FAS 115-2 and FAS 124-2 will become effective for the first fiscal period ending after June 15, 2009. We do not expect FSP FAS 115-2 and FAS 124-1 to have a material effect on our consolidated financial statements when we adopt the FSP in our fiscal quarter ended June 30, 2009.

4) EARNINGS PER SHARE

Earnings per share (EPS) amounts are calculated in accordance with SFAS No. 128, *Earnings per Share*. Basic EPS is computed by dividing net income by the weighted-average number of common stock shares outstanding for the period. Diluted EPS is computed by dividing net income by the weighted-average number of common stock shares and common stock equivalents outstanding, computed using the treasury stock method during the periods presented.

The table below reflects the diluted weighted-average number of common stock shares outstanding using the treasury stock method:

	Three Months Ended March 31,	
	2009	2008
Weighted-average shares basic	10,550,876	10,548,932
Effect of dilutive common stock equivalents:		
Warrants		1,168,371
Unit options		
Weighted-average shares diluted	10,550,876	11,717,303

We have a unit purchase option outstanding for 350,000 units; each unit consists of a share of common stock and a warrant to purchase a share of common stock. For the three-month period ended March 31, 2009, the unit purchase option was anti-dilutive; therefore, the shares associated with the unit purchase option are not included in the diluted weighted-average shares outstanding in the table above.

On the unaudited Condensed Consolidated Statement of Income, we retroactively restated EPS for the three-months ended March 31, 2008, as it was prior to the Merger. We accounted for the Merger as a reverse acquisition and recapitalization and since the consideration paid was cash and common stock, the shares outstanding at the time the Merger was effective were deemed to be the historical shares outstanding prior to the Merger.

5) FAIR VALUE MEASUREMENTS

SFAS No. 157 provides a revised definition of fair value, establishes a framework for measuring fair value and expands financial statement disclosure requirements for fair value information. Under SFAS No. 157, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants

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Notes to Unaudited Condensed Consolidated Financial Statements

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(an exit price). SFAS No. 157 establishes a fair value hierarchy that distinguishes between inputs based on market data from independent sources (observable inputs) and a reporting entity s internal assumptions based upon the best information available when external market data is limited or unavailable (unobservable inputs). The fair value hierarchy in SFAS No. 157 prioritizes fair value measurements into three levels based on the nature of the inputs as follows:

Level 1 Valuations based on quoted prices in active markets for identical assets and liabilities;

Level 2 Valuations based on observable inputs that do not meet the criteria for Level 1, including quoted prices in inactive markets and quoted prices in active markets for similar, but not identical instruments; and

Level 3 Valuations based on unobservable inputs.

We do not have any investments in our portfolio which require us to use unobservable inputs. For fair value measurements of securities for which quoted prices in active markets are unavailable, we use observable inputs such as quoted prices in inactive markets, quoted prices in active markets for similar instruments, benchmark interest rates, broker quotes and other relevant inputs.

The following table presents our fair value measurements of investments by level.

	March 31, 2009			
	Total	**Level 1**	**Level 2**	**Level 3**
Fixed maturities	$ 115,488	$ 3,579	$ 111,909	
Equity securities	9,297	9,297		
Other long-term investments	300	300		
Total investments	$ 125,085	$ 13,176	$ 111,909	

We perform an assessment of our investments to determine if any are impaired. An investment is impaired when the fair value of the investment declines to an amount that is lower than the cost or amortized cost of that investment. As part of our assessment process, we determine whether the impairment is temporary or other-than-temporary. We base our assessment on both quantitative criteria and qualitative information, and we consider a number of factors including, but not limited to: how long the security has been impaired, the amount of the impairment, whether we intend to hold the security or whether it is more likely than not that we will have to sell the security before we recover the cost or amortized cost, the financial condition and near-term prospects of the issuer, whether the issuer is current on contractually-obligated interest and principal payments, key corporate events pertaining to the issuer and whether the market decline was affected by macroeconomic conditions. The assessment of whether an other-than-temporary impairment (OTTI) exists involves a high degree of subjectivity and judgment, and such assessment is based on the information available to us at a given point in time. If we determine that the impairment is other- than- temporary, the cost or amortized cost is permanently reduced to fair value and a realized loss is recognized in operations. During 2009, we recorded an OTTI charge of $1,878, after determining that impairments related to certain of our investments were other-than-temporary. During 2008, we did not record an OTTI charge.

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Notes to Unaudited Condensed Consolidated Financial Statements

in thousands, except share and per share amounts

The following table depicts our realized investment losses by fixed maturities and equity securities:

	Three Months Ended March 31,	
	2009	**2008**
Fixed maturities	$ (6)	$
Equity securities:		
Realized losses	(802)	(157)
Other-than-temporary impairment	(1,878)	
Subtotal	(2,680)	(157)
Total realized investment losses	$ (2,686)	$ (157)

6) REINSURANCE

Our catastrophe reinsurance contracts provide us coverage against severe weather events. For our catastrophe reinsurance program, we entered into excess-of-loss contracts with a group of private reinsurers and with the Florida Hurricane Catastrophe Fund (FHCF). The private contract provides coverage against severe weather events such as hurricanes, tropical storms and tornadoes. The contract with the FHCF provides coverage only against storms that are designated as hurricanes by the National Hurricane Center. In addition, we have a non-catastrophe reinsurance contract that provides excess-of-loss coverage for losses arising out of property business up to $1,700 in excess of $1,000 per risk.

For our Garage program, we entered into a quota share reinsurance contract. We recognized commission revenue on our quota share contract totaling $143 and $145, for the three months ended March 31, 2009 and 2008, respectively.

We write flood insurance under contract with the National Flood Insurance Program (NFIP). Per the contract, we cede 100% of the premiums written and 100% of risk of loss. We earn commissions for the issuance of flood policies based upon a fixed percentage of net written premiums and the processing of flood claims based upon a fixed percentage of incurred losses and can earn additional commissions by meeting certain growth targets for the number of policies-in-force. We recognized commission revenue from our flood program of $198 and $37 for the three months ended March 31, 2009 and 2008, respectively.

We made no changes to our reinsurance structure during the three months ended March 31, 2009.

The table below summarizes the amounts of our premiums ceded under the various types of contracts.

	Three Months Ended March 31,

	2009	2008
Catastrophe excess-of-loss	$ 384	$ 492
Quota share	(650)	(603)
Flood	(1,635)	(1,251)
Total gross premiums ceded	$ (1,901)	$ (1,362)

We amortize our prepaid reinsurance premiums over the annual contract period, and we record that amortization in the Decrease in ceded unearned premiums account within the Increase in net unearned premiums line item on our unaudited Condensed Consolidated Statements of Income. The table below depicts the components of that line item:

	Three Months Ended March 31,	
	2009	2008
Decrease (increase) in gross unearned premiums	$ (656)	$ 6,433
Increase (decrease) in ceded unearned premiums	(12,932)	(13,526)
Decrease (increase) in net unearned premiums	$ (13,588)	$ (7,093)

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Notes to Unaudited Condensed Consolidated Financial Statements

in thousands, except share and per share amounts

7) POLICY ASSUMPTIONS

We are not a reinsurance entity by charter or by strategy; however, we occasionally supplement the natural growth of our book of business by assuming policies.

During the three months ended March 31, 2008, we recognized policy assumption bonus income of $2,912, which included $373 of interest income, from the 2004 and 2005 assumptions after renewing the assumed policies for the required three years.

In February 2009, we assumed approximately two thousand two hundred policies under the 2008 assumption agreement. As of March 31, 2009, after policyholder opt-outs and cancellations, policies assumed in February 2009 totaled approximately one thousand seven hundred, and we had recorded $2,489 of written premium assumed and $398 of assumed commissions incurred on those policies.

8) COMMITMENTS AND CONTINGENCIES

a) Litigation

We are involved in claims-related legal actions arising in the ordinary course of business. Amounts resulting from claims-related legal actions are accrued in Unpaid Losses and Loss Adjustment Expenses during the period an unfavorable outcome becomes probable and the amounts can be estimated. Revisions to our estimates are based on our analysis of subsequent information that we receive regarding various factors, including: (i) per claim information; (ii) company and industry historical loss experience; (iii) judicial decisions and legal developments in the awarding of damages, and (iv) trends in general economic conditions, including the effects of inflation. Management revises the estimates based on the results of their analysis. We are not currently involved in any material non-claims-related litigation.

b) Regulatory and Other

Our insurance subsidiary participates in mandatory assessments levied by Citizens, the Florida Hurricane Catastrophe Fund (FHCF) and the Florida Insurance Guaranty Association (FIGA). Citizens and the FHCF may levy assessments against all assessable insurers that write premiums in the State of Florida to cover operating deficiencies related to windstorm catastrophes. FIGA may levy assessments against all assessable insurers that write premiums in the State of Florida to cover the claims of policyholders of insurance companies in the State of Florida that have become insolvent. While we can recover these assessments from policyholders through premium rate increases, our payment of the assessments and our recoveries may not offset each other in the same fiscal period in our financial statements. During the first quarter of 2009, we did not have any new or additional assessments from the FHCF, FIGA or Citizens.

We are also subject to changing social, economic, and regulatory conditions. Regulatory authorities as well as legislative bodies in the State of Florida seek to influence and restrict premium rates, require premium refunds to policyholders, restrict the ability of insurers to cancel or non-renew policies, require insurers to continue to write new policies or limit their ability to write new policies. They can also limit insurers ability to change coverage terms or impose underwriting standards or impose additional regulations regarding agent and broker compensation. All of these items result in an expansion of the overall regulation of insurance products and the insurance industry.

Our Amended and Restated Agreement and Plan of Merger, dated August 15, 2008, as amended on September 23, 2008, provides for potential additional consideration of up to $5 million to be paid to the former members of UIH. We will pay

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Notes to Unaudited Condensed Consolidated Financial Statements

in thousands, except share and per share amounts

those former UIH members $2.00 in cash for each dollar of UIHC s net income (as defined in the Merger Agreement) that exceeds $25 million at the end of either of the periods of (i) July 1, 2008 through June 30, 2009, or (ii) January 1, 2009 through December 31, 2009. We will record any contingent consideration as a dividend if we exceed $25 million of net income at the end of either of the aforementioned measurement periods.

In relation to the notes issued on September 29, 2008, pursuant to a note repurchase agreement dated as of August 15, 2008, we agreed to certain covenants, the violation of which could cause an event of default. Among others, these covenants include refraining from incurring debt that could cause our aggregate debt balance to exceed $58.3 million, which includes the $18.3 million incurred under this note agreement and excludes the $20 million State Board of Administration of Florida note, and refraining from making any payments (e.g. dividends or distributions), whether in cash, securities or other property, that could reduce consolidated net worth, as defined in the note agreement, to less than $45 million. We were in compliance with the terms of the covenants at March 31, 2009; however, any dividends or distributions to our stockholders would be limited to an amount that would maintain a minimum consolidated net worth of $45 million.

Our loan agreement with CB&T contains certain covenants, including the maintenance of minimum specified financial ratios and balances. We were in compliance with the terms of the covenants at March 31, 2009.

9) RELATED PARTY TRANSACTIONS

Prior to consummation of the Merger on September 30, 2008, the owner of two independent insurance agencies that write our policies, Alpha Insurance Management and Comegys Insurance Corner, served on the Board of Directors of UIH. During the three months ended March 31, 2008, we incurred board fees and agents commissions related to the aforementioned agencies totaling $234. The commissions were determined in accordance with industry rates. After September 30, 2008, the owner of the aforementioned insurance agencies no longer served as a director, but remained a common stockholder.

We have entered into an investment-management agreement with Synovus Trust Company, N.A. (Synovus Trust), which provides investment-management services for the investment accounts of our subsidiaries. The agreement was effective October 8, 2003, and remains in effect until terminated by either party. Synovus Trust is owned by Synovus Financial Corporation (Synovus). Synovus owned 14.6% of our common stock outstanding at March 31, 2009. Our subsidiaries incurred combined fees under the agreement of $62 and $52 for the three months ended March 31, 2009 and 2008, respectively.

During 2009 and 2008, we had a secured loan agreement with Columbus Bank & Trust Company (CB&T). CB&T is a subsidiary of Synovus. The amount outstanding on the note payable executed in February 2007 was $4,327 at March 31, 2009 and December 31, 2008. Total interest incurred related to the CB&T loan agreements was $37 and $430 for the three months ended March 31, 2009 and 2008, respectively. The interest rates charged and earned were determined in accordance with industry rates.

During March 2009, we agreed to modify the note receivable from Prime Holdings Insurance Services, Inc. by delaying the next payment date from May 1, 2009 to July 15, 2009. All other terms and conditions remain unchanged.

During the first quarter of 2008, the notes receivable from certain officers in the amount of $100 plus the accrued interest of $15, were forgiven in March 2008.

During the first quarter of 2008, UIH s Chairman of the Board of Directors exercised an option for $63 to purchase 258 additional membership units of UIH. No further UIH equity purchase options exist.

10) COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) includes unrealized gains and losses, net of the related income tax effect, on debt and equity securities classified as available-for-sale, and is included as a component of stockholders equity.

	Three Months Ended March 31,	
	2009	2008
Net unrealized gains	$ 1,250	$ 2,679
Tax effect	(459)	(1,009)
Net unrealized gains, net of tax	$ 791	$ 1,670

UNITED INSURANCE HOLDINGS CORP.

Notes to Unaudited Condensed Consolidated Financial Statements

in thousands, except share and per share amounts

During the first quarter of 2009, we incurred an OTTI charge of $1,878 which was recorded as a realized loss and reduced the amount of our unrealized losses during the first quarter of 2009.

11) REGULATORY REQUIREMENTS AND RESTRICTIONS

We operate within a heavily regulated industry. Our insurance subsidiary is subject to state laws and regulations, as well as national regulatory agency requirements, which require it to maintain minimum amounts of statutory surplus and risk-based capital, restrict its ability to pay dividends, restrict the types and mix of investments, and subject it to assessments.

Florida law requires that UPCIC maintain capital and surplus equal to the greater of 10% of its total liabilities or $4,000. At March 31, 2009, our statutory capital surplus exceeded the minimum capital and surplus requirements. State law also requires UPCIC to adhere to prescribed premium-to-capital surplus ratios, with which we were in compliance at March 31, 2009.

The National Association of Insurance Commissioners (NAIC) established risk-based capital requirements for insurance companies that are designed to assess capital adequacy and to raise the level of protection that statutory surplus provides for policyholders. Insurers having less statutory surplus than required will be subject to varying degrees of regulatory action, depending on the level of capital inadequacy. The OIR, which follows these requirements, could require an insurer to cease operations in the event it fails to maintain the required statutory capital.

Florida law permits an insurer to pay dividends or make distributions out of that part of statutory surplus derived from net operating profit and net realized capital gains. The law further provides calculations to determine the amount of dividends or distributions that can be made without the prior approval of the OIR and the amount of dividends or distributions that would require prior approval of the OIR. The NAIC risk-based capital (RBC) requirements may further restrict UPCIC s ability to pay dividends or make distributions if the amount of the intended dividend or distribution would cause statutory surplus to fall below minimum RBC requirements.

Because we issued a surplus note as defined by statutory accounting principles (SAP), we are subject to the authority of the Insurance Commissioner of the State of Florida with regard to our ability to repay principal and interest on the surplus note. Any payment of principal or interest requires permission from the OIR.

Our insurance subsidiary s assets, liabilities and results of operations have been reported in accordance with GAAP, which varies from SAP prescribed or permitted by the NAIC, state laws and regulations, as well as by general industry practices. The following items are principal differences between SAP and GAAP:

SAP require that we exclude certain assets, called non-admitted assets, from the balance sheet.

SAP require us to expense policy acquisition costs when incurred, while GAAP allows us to defer and amortize policy acquisition costs over the estimated life of the policies.

We calculate deferred income taxes differently under SAP than we would under GAAP.

SAP require that we establish valuation allowances with regard to investments.

UNITED INSURANCE HOLDINGS CORP.

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in thousands, except share and per share amounts

Our insurance subsidiary must file with applicable state insurance regulatory authorities an Annual Statement which reports, among other items, net income (loss) and surplus as regards policyholders, which is called stockholder s equity under GAAP.

Statutory surplus, or surplus as regards policyholders, was $54,551 and $54,675 at March 31, 2009 and December 31, 2008, respectively. Statutory net income (loss) at our insurance subsidiary was $(884) and $1,454 for the three months ended March 31, 2009 and 2008, respectively.

12) STOCK-BASED COMPENSATION

On March 25, 2009, the Compensation Committee of our Board of Directors voted to award 12,500 shares of our common stock each to our CEO and CFO as a bonus for services performed. The 25,000 total shares were valued at $3.00 per share, which was the closing price of UIHC common stock on March 25, 2009, when the shares were authorized. As a result, we recorded $75 of bonus expense during the three months ended March 31, 2009. We do not have a formal stock compensation program as of March 31, 2009.

13) SUBSEQUENT EVENTS

As of April 30, 2009, we decided not to pursue an acquisition of Coral Enterprises, LLC, and/or its subsidiaries (Coral LLC); therefore, we will not purchase any of the assets of, nor assume any liabilities of, Coral LLC.

We have decided to discontinue offering our commercial product, called e-Z Pak Insurance, which was designed for auto-service professionals. The e-Z Pak Insurance product, which we refer to as our Garage line of business, represented approximately 4%, 3% and 2% of our gross premiums written for the fiscal years ended December 31, 2008, 2007 and 2006, respectively. We have entered into an agreement, effective April 1, 2009, granting the renewal rights on the Garage policies to another insurer (Acquiring Insurer) for one year. The one-year renewal period shall begin on the date the first renewal policy is written by the Acquiring Insurer following April 1, 2009. Currently, the anticipated one-year period is June 1, 2009 through May 31, 2010. We will not renew Garage policies on or after the date of the first policy written by the Acquiring Insurer. As consideration for these renewal rights, we will receive a percentage of the gross net written premium (adjusted for certain items) for any of the Garage policies that are underwritten by the Acquiring Insurer or its affiliates for the one-year renewal period. There is no assurance that we will receive any amounts pursuant to the foregoing agreement, as our Garage policyholders may choose not to renew their Garage insurance with the Acquiring Insurer.

On May 5, 2009, we entered into a Third Amendment to the note agreement with CB&T. The Third Amendment calls for interest-only payments to continue through February 20, 2010, the end of the original note term, on which date we will make a lump-sum payment of the remaining principal balance of $4,327, plus any remaining accrued interest.

UNITED INSURANCE HOLDINGS CORPORATION

Management s Discussion and Analysis of Financial Condition and Results of Operations

Item 2: Management s Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

Statements in this quarterly report on Form 10-Q for the three months ended March 31, 2009 (Form 10-Q) or in documents that are incorporated by reference that are not historical fact are forward-looking statements within the meaning of the Private Securities Reform Litigation Act of 1995. These forward-looking statements include statements about anticipated growth in revenues, earnings per share, estimated unpaid losses on insurance policies, investment returns and expectations about our liquidity. These statements are based on current expectations, estimates and projections about the industry and market in which we operate, and management s beliefs and assumptions. Without limiting the generality of the foregoing, words such as may, will, expect, believe, anticipate, intend, could, would, estimate, or continue or the negative oth thereof or comparable terminology are intended to identify forward-looking statements. Forward-looking statements are not guarantees of future performance and involve certain known and unknown risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. The risks and uncertainties include, without limitation, uncertainties related to estimates, assumptions and projections relating to unpaid losses and loss adjustment expenses and other accounting policies, losses from the hurricanes that occurred in 2005 and 2004 and in other estimates, assumptions and projections contained in this Form 10-Q; inflation and other changes in economic conditions (including changes in interest rates and financial markets); the impact of new regulations adopted in Florida which affect the property and casualty insurance market; the costs of reinsurance; assessments charged by various governmental agencies; pricing competition and other initiatives by competitors; our ability to obtain regulatory approval for requested rate changes and the timing thereof; legislative and regulatory developments; the outcome of litigation pending against us, including the terms of any settlements; risks related to the nature of our business; dependence on investment income and the composition of our investment portfolio; the adequacy of our liability for loss and loss adjustment expense; insurance agents; claims experience; ratings by industry services; catastrophe losses; reliance on key personnel; weather conditions (including the severity and frequency of storms, hurricanes, tornadoes and hail); and acts of war and terrorist activities. For additional information, see Risk Factors in our annual report on Form 10-K/A for the year ended December 31, 2008.

You are cautioned not to place reliance on these forward-looking statements, which are valid only as of the date they were made. We undertake no obligation to update or revise any forward-looking statements to reflect new information or the occurrence of unanticipated events or otherwise. In addition, readers should be aware that U.S. generally accepted accounting principles (GAAP) prescribe when a company may reserve for particular risks, including litigation exposures. Accordingly, results for a given reporting period could be significantly affected if and when a reserve is established for a major contingency. Reported results may therefore appear to be volatile in certain accounting periods.

COMPANY OVERVIEW

United Insurance Holdings Corp. (which is referred to herein as UIHC , United , we , or us) is a property and casualty insurance holding company Our insurance subsidiary was initially formed in 1999 to capitalize on legislation designed to attract capital to the Florida homeowner insurance market and our primary products are homeowner and dwelling property and casualty insurance policies. We offer standardized policies and price these policies in accordance with the rates approved by the Florida Office of Insurance Regulation (OIR). Our homeowner policy, which provides both structure and content coverage for a broad range of exposures, is a policy that includes coverage options for standard single-family homeowners, tenants (renters), and for condominium unit owners. Our dwelling policy allows policyholders to select from a range of standardized policies with differing types and levels of coverage.

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Another homeowner insurance coverage we offer is flood insurance (Flood), which is provided through the National Flood Insurance Program (NFIP). We retain no risk of loss with our Flood insurance program, but earn commissions for the issuance of Flood policies based upon a fixed percentage of net written premiums and the processing of Flood claims based upon a fixed percentage of incurred losses and we can earn additional commissions by meeting certain growth targets for the number of policies-in-force.

All of our policies are written in the State of Florida, which is an area that is exposed to damage from hurricanes and severe storms. We attempt to mitigate our exposure to losses from major catastrophes by purchasing catastrophe reinsurance coverage. We have purchased reinsurance protection to our estimated one hundred-year probable maximum loss. However, a catastrophe, depending on its path and severity, could result in losses to us exceeding our reinsurance protection. During the first quarter of 2009, there were no catastrophes that occurred in Florida.

In order to reach a broad range of prospective policyholders, we use numerous independent agents who write policies for us (which we refer to as direct policies) and we also assume policies from Citizens Property Insurance Corporation (Citizens) (which we refer to as take-out or assumed policies). During August of 2008, we entered into an agreement with Citizens (2008 Citizens Agreement) to assume up to 75,000 additional policies. In February 2009, we assumed approximately 2,200 policies from Citizens and we do not anticipate assuming any additional policies from Citizens until October or December 2009. Policyholders may choose to opt out of our assumption and keep their policy with Citizens; therefore, the number of policies that we choose to assume from Citizens may be reduced.

At March 31, 2009, approximately 78% of our homeowner policies-in-force were direct policies written by agents and approximately 22% were assumed from Citizens; of our assumed policies, we assumed 2% during the first quarter of 2009. At March 31, 2009, we had approximately 85,900 homeowner policyholders, an increase of 37% over March 31, 2008, and an increase of 7% over December 31, 2008. During the first quarter of 2009 compared to the same period in 2008, our gross premiums written increased 27.3% primarily due to an increase in the number of net new policies, endorsements and coverage increases. At March 31, 2009, we had total assets of $233.8 million and stockholders equity of $46.9 million. During 2009, we recorded an other-than-temporary impairment (OTTI) of $1.9 million related to our investments. See our Total Investment section below for a detailed discussion of our investments.

As an insurance company, we are highly regulated. Our insurance subsidiary is subject to assessments by Citizens, the Florida Hurricane Catastrophe Fund (FHCF) and the Florida Insurance Guaranty Association (FIGA). Citizens and the FHCF may levy assessments against all assessable insurers that write premiums in the State of Florida to cover operating deficiencies related to windstorm catastrophes. FIGA may levy assessments against all assessable insurers that write premiums in the State of Florida to cover the claims of policyholders of insurance companies in the State of Florida that have become insolvent. During the first quarter of 2009, we did not have any new or additional assessments from the FHCF, FIGA or Citizens.

In the fourth quarter of 2007, the Florida legislature implemented a program designed to encourage homeowners to improve the ability of their insured residential structures to withstand hurricanes. Under this program, new construction must meet stronger building codes, and existing homes are eligible for an inspection program that allows homeowners to determine how their homes may be upgraded to mitigate storm damage. Homeowners will qualify for insurance premium discounts if their insured home meets the required standards. We implemented this program in the fourth quarter of 2007. Our underwriting and profitability models take into account the required premium credits, called wind mitigation credits, which ultimately reduce our average premium per policy when compared to prior years. The full effect of the wind mitigation credits as a decrease to gross premiums written was reflected in all of our policies-in-force at November 30, 2008. When we compare our average premium per policy during 2009 to the same period(s) during 2008, our average premium per policy is expected to be lower during 2009 as a result of these wind mitigation credits that were reflected in our policyholder s premium through November 2008.

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We have decided to discontinue offering our commercial product, called e-Z Pak Insurance, which was designed for auto-service professionals. The e-Z Pak Insurance product, which we refer to as our Garage line of business, represented approximately 4%, 3% and 2% of our gross premiums written for the fiscal years ended December 31, 2008, 2007 and 2006, respectively. We have entered into an agreement, effective April 1, 2009, granting the renewal rights on the Garage policies to another insurer (Acquiring Insurer) for one year. The one-year renewal period shall begin on the date the first renewal policy is written by the Acquiring Insurer following April 1, 2009. Currently, the anticipated one-year period is June 1, 2009 through May 31, 2010. We will not renew Garage policies on or after the date of the first policy written by the Acquiring Insurer. As consideration for these renewal rights, we will receive a percentage of the gross net written premium (adjusted for certain items) for any of the Garage policies that are underwritten by the Acquiring Insurer or its affiliates for the one-year renewal period. There is no assurance that we will receive any amounts pursuant to the foregoing agreement, as our Garage policyholders may choose not to renew their Garage insurance with the Acquiring Insurer.

OPERATIONAL RISKS

The following is a description of the most significant risks facing us and how we attempt to mitigate those risks:

i) LEGAL/REGULATORY RISK the risk that changes in the regulatory environment in which we operate could create additional expenses not anticipated by us in pricing our products. That is, regulatory initiatives designed to reduce our profits, restrict underwriting practices and risk classifications, or mandate rate reductions and refunds could create costs for us beyond those recorded in our consolidated financial statements, as could new legal theories or insurance company insolvencies (through guaranty fund assessments). We attempt to mitigate this risk by monitoring proposed regulatory legislation and by assessing the impact of new laws. As we write business only in the State of Florida, we are more exposed to this risk than more geographically-balanced companies. At March 31, 2009, we were in compliance with all regulatory requirements.

ii) CREDIT RISK the risk that financial instruments, which potentially subject us to concentrations of credit risk, may decline in value or default, or the risk that reinsurers, to which we cede some of our business and from which receivables are recorded on the balance sheet, may not pay. We attempt to minimize this risk by adhering to a conservative investment strategy and entering into reinsurance agreements with financially sound reinsurers and obtaining letters of credit from reinsurers, if necessary.

iii) INTEREST RATE RISK the risk that interest rates will change and cause a decrease in the value of our investments. To the extent liabilities come due more quickly than assets mature, we might have to sell assets prior to maturity and potentially recognize a gain or a loss. Our management team, our investment committee and our outside investment manager monitor our investment portfolio in an effort to manage this risk.

iv) GEOGRAPHIC, CATASTROPHIC AND/OR SEVERE EVENT RISK the risk associated with writing insurance policies that cover losses resulting from catastrophes and/or severe events, including hurricanes, tropical storms, tornadoes or other weather-related events in the state of Florida only. We attempt to mitigate our risk of these events through the use of reinsurance, forecast-modeling techniques and the monitoring of concentrations of risk, all of which are designed to protect our statutory surplus. We also attempt to mitigate our risk of these events through our underwriting, which diversifies our concentration of policies throughout the state of Florida.

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Management s Discussion and Analysis of Financial Condition and Results of Operations

CRITICAL ACCOUNTING POLICIES

Loss and Loss Adjustment Expenses Reserve

The most significant accounting estimate inherent in the preparation of our financial statements is our evaluation and determination of the liability for unpaid losses and loss adjustment expenses (LAE).

We establish reserves for unpaid losses and LAE which are comprised of reserves on known claims (case reserves) and reserves for IBNR claims. These reserves represent our best estimate of our liability for losses and LAE and are based on the application of various actuarial reserve estimation techniques as well as the consideration of other material facts and circumstances known at the balance sheet date. The process of establishing our reserves is complex and necessarily imprecise, as it involves using judgment that is affected by many variables. Due to the uncertain nature of any projection of the future, including the estimation of loss and LAE reserves, the ultimate loss and LAE payments made by us may be different from the recorded reserves. Please see our Form 10-K/A for the year ended December 31, 2008 for a more complete discussion of our critical accounting policy for determining our loss and LAE expenses reserves.

Reinsurance recoverables

We cede a portion of our business to reinsurance companies. This allows us to be reimbursed for the portion of claims we pay that are ceded to reinsurance companies. We record reinsurance recoverable for the estimated paid and unpaid portion of losses and LAE we have ceded. We use the same estimation techniques to estimate the reinsurance recoverable for unpaid ceded claims as we use in establishing our loss and LAE reserves.

Reinsurance recoverable represents our best estimate of the amount of losses and LAE we will ultimately be able to recover from our reinsurers. The process of establishing our unpaid losses and LAE is complex and necessarily imprecise, as it involves using judgment that is affected by many variables in determining our loss and LAE estimates. Due to the uncertain nature of any projection of the future, including the estimation of loss and LAE reserves, the ultimate loss and LAE amounts we recover from our reinsurers may be different from the recorded reinsurance recoverable.

Fair Market Value of Investments

As discussed in Note 5 to our unaudited condensed consolidated financial statements, certain of our investments are valued at fair market value using a Level 2 input. A Level 2 input is a valuation based on observable inputs that are not quoted prices in an active market, but are, for example, quoted prices in an inactive market or quoted prices in active markets for similar, but not identical instruments. The fair value for our fixed maturities is largely determined by one of two primary pricing methods: third-party pricing service market prices or independent broker quotations. Prices from third-party pricing services are often unavailable for securities that are rarely traded or are traded only in privately negotiated transactions and as a result, certain of our securities are priced via broker quotations. The fair market value prices and/or quotations could vary from one third-party pricing service/broker to another. Any change in the estimated fair market value of our securities could impact the amount of unrealized gain or loss we have recorded, which could change the amount we have recorded for our investments and comprehensive income on our Condensed Consolidated Balance Sheets.

Deferred Policy Acquisition Costs

We defer commissions, premium taxes and certain other costs that vary with and are primarily related to the acquisition of insurance contracts. The policy acquisition costs are capitalized and charged to expense in proportion to premium revenue recognized. The method followed in computing deferred policy acquisition costs limits the amount of such deferred costs to their estimated realizable value, which gives effect to the premium to be earned, anticipated losses and settlement expenses and certain other costs expected to be incurred as the premium is earned. Judgments as to ultimate recoverability of our deferred policy acquisition costs are highly dependent upon our estimated future loss and LAE associated with the written premiums. See the Loss and LAE Reserve critical accounting policy discussion above for the estimation techniques used to determine the Loss and LAE reserves.

Any change in the estimation of loss and LAE could change the amount of deferred policy acquisition costs we expense each period.

Investment Portfolio Impairments

We regularly perform an assessment of our investments to determine if any are impaired. An investment is impaired when the fair value of the investment declines to an amount that is lower than the cost or amortized cost of that investment. As part of our assessment process, we determine whether the impairment is temporary or other-than-temporary. We base our assessment on both quantitative criteria and qualitative information as discussed in the Total Investment section below. The process of determining if the impairment is temporary or other-than-temporary involves using judgment in evaluating the quantitative criteria and qualitative information. Significant changes in the factors we consider when evaluating investments for impairment losses could result in a significant change in impairment losses reported in our consolidated financial statements if future events, information and the passage of time cause us to determine that a decline in value is other-than-temporary. Any change in the determination of whether the impairment is temporary or other-than-temporary would affect our financial statements. If an impairment is determined to be temporary, then the impairment is recorded as an unrealized loss in comprehensive income; however, if an impairment is determined to be other-than-temporary, then the OTTI charge is recorded as a realized loss on the Statement of Income.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 3 to our interim unaudited condensed consolidated financial statements for a discussion of recent accounting pronouncements.

ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our accompanying interim unaudited condensed consolidated financial statements and related notes appearing elsewhere herein, and in conjunction with the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations included within our Form 10-K/A for the year ended December 31, 2008.

UNITED INSURANCE HOLDINGS CORPORATION

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ANALYSIS OF FINANCIAL CONDITION (March 31, 2009 versus December 31, 2008)

Total Investments

All of our investments are held as available-for-sale. Our investments at March 31, 2009 and at December 31, 2008, consist mainly of high-quality money market instruments, securities of the United States government and its agencies and securities of high-quality corporate issuers. The corporate bonds we hold are substantially all in the energy and technology/telecommunications industries. At March 31, 2009, approximately 86% of our fixed-maturity securities are U.S. Treasuries or corporate bonds rated A or better; the remaining 14% are corporate bonds rated BBB . Our equity holdings reflect a similar diversification, with most of our holdings being in the energy, healthcare, industrial and technology sectors.

We perform an assessment of our investments to determine if any are impaired. An investment is impaired when the fair value of the investment declines to an amount that is lower than the cost or amortized cost of that investment. As part of our assessment process, we determine whether the impairment is temporary or other-than-temporary. We base our assessment on both quantitative criteria and qualitative information, and we consider a number of factors including, but not limited to: how long the security has been impaired, the amount of the impairment, whether we intend to hold the security or whether it is more likely than not that we will have to sell the security before we recover the cost or amortized cost, the financial condition and near-term prospects of the issuer, whether the issuer is current on contractually-obligated interest and principal payments, key corporate events pertaining to the issuer and whether the market decline was affected by macroeconomic conditions. The assessment of whether an other-than-temporary impairment (OTTI) exists involves a high degree of subjectivity and judgment, and such assessment is based on the information available to us at a given point in time. If we determine that the impairment is other-than-temporary, the cost or amortized cost is permanently reduced to fair value and a realized loss is recognized in operations. During 2009, we recorded an OTTI charge of $1.9 million, after determining that impairments related to certain of our investments were other-than-temporary. During 2008, we did not record an OTTI charge.

At March 31, 2009, we have recorded $1.1 million of unrealized losses compared to $2.4 million at December 31, 2009. The decrease of $1.3 million of unrealized losses from December 31, 2008 to March 31, 2009 is primarily due to the $1.9 million OTTI charge we recorded during the first quarter of 2009; which is offset by a $0.6 million increase in unrealized losses during the first quarter of 2009. The $1.1 million of unrealized losses at March 31, 2009 is comprised of unrealized gains of $0.8 million related to our fixed-maturity investment portfolio and $1.9 million of unrealized losses related to our equities portfolio. Based upon our assessment of the equity securities using the criteria discussed above and given our current level of liquidity and our positive operating cash flows, we intend to hold these securities and it is more likely than not we have the ability to retain these securities for a period of time sufficient to allow for recovery in fair value. Therefore, these decreases in fair values compared to carrying cost are currently viewed as being temporary.

Our fixed-maturity securities and equity securities that are available-for-sale and carried at fair value represent 99.8% of our total investments at March 31, 2009 and December 31, 2008. Our other long-term investments of $0.3 million at March 31, 2009 and December 31, 2008, are invested in a certificate of deposit to secure the payment of our claims as required by the State of Florida. This certificate of deposit automatically renews every twelve months.

RESULTS OF OPERATIONS (Three Months Ended March 31, 2009 versus Three Months Ended March 31, 2008)

REVENUE

Gross Premiums Written

Gross premiums written increased $7.9 million, or 27.3%, to $37.0 million for the three months ended March 31, 2009, compared to $29.1 million for the three months ended March 31, 2008.

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Our number of homeowner policies-in-force at March 31, 2009, increased to approximately 85,900 from approximately 62,600 at March 31, 2008. Approximately 1,718 of our homeowner policies at March 31, 2009 were assumed from Citizens during 2009. The net new policies-in-force, endorsements and coverage increases are the primary reason that our gross premiums written increased $7.9 million during the first quarter of 2009 compared to the same period in 2008; $2.0 million of such increase relates to Citizens policies assumed under our 2008 Citizens Agreement.

The $2.0 million of gross premiums written for policies assumed under the 2008 Citizens Agreement during the three months ended March 31, 2009 is comprised of $2.5 million of gross written premiums related to policies assumed in February 2009 which was partially offset by a $0.5 million reduction of gross written premiums related to certain Citizen policyholders from the October and December 2008 assumptions, who chose to opt-out of the assumptions and keep their polices with Citizens during the three months ended March 31, 2009. We do not anticipate assuming any additional policies from Citizens until October or December 2009.

Our average premium per policy for our policies-in-force decreased from $2,107 at March 31, 2008 to $1,684 at March 31, 2009. The decrease in the average premium per policy of $423 is primarily due to the above-described wind mitigation credits that the Florida legislature required all property and casualty insurance companies to implement and which we implemented in the fourth quarter of 2007. See the Company Overview section above for a discussion on wind mitigation credits.

Gross Premiums Ceded

Gross premiums ceded increased by $0.5 million or 39.6% to $1.9 million for the three months ended March 31, 2009, compared to $1.4 million for the three months ended March 31, 2008. This increase resulted from an increase in gross premiums ceded for the Garage and Flood programs. The gross written premiums from our Garage and Flood programs are ceded 50% and 100%, respectively.

Increase in Net Unearned Premiums

Net unearned premiums increased $13.6 million for the three months ended March 31, 2009, compared to a $7.1 million increase for the three months ended March 31, 2008. The table below reflects the decrease (increase) in gross unearned premiums and the increase (decrease) in ceded unearned premiums that comprise the increase in net unearned premiums for the three months ended March 31, 2009 and 2008:

	Three Months Ended March 31,		
	2009	2008	Change
		(In millions)	
Decrease (increase) in gross unearned premiums	$ (0.7)	$ 6.4	$ (7.1)
Increase (decrease) in ceded unearned premiums	(12.9)	(13.5)	0.6
Decrease (increase) in net unearned premiums	$ (13.6)	$ (7.1)	$ (6.5)

The $7.1 million increase in gross unearned premiums relates primarily to the $7.9 million increase in gross written premiums as discussed in the Gross Written Premiums section above, which was partially offset by a $0.8 million increase in earned premiums during the three months ended March 31, 2009, compared to the same period in 2008.

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The increase in ceded unearned premiums of $0.6 million is primarily due to the increase in the gross premiums ceded as discussed in the Gross Premiums Ceded section above.

Net Investment Income

Net investment income decreased $0.2 million, or 14.6% from $1.4 million for the three months ended March 31, 2009, compared to $1.6 million for the same period during 2008. The lower net investment income during 2009 is primarily due to a reduction of $0.2 million in interest income on our cash and cash equivalents portfolio. The interest rates earned on our cash and cash equivalents portfolio are lower during the three months ended March 31, 2009 compared to the same period during 2008.

Net Realized Investment Losses

Net realized investment losses increased to $2.7 million for the three months ended March 31, 2009, compared to $0.2 million for the three months ended March 31, 2008. We performed an assessment of our investment portfolio using the criteria discussed above in the Total Investment section and we determined that impairments of certain of our equity securities were OTTI; therefore, we recorded an OTTI charge of $1.9 million during the first quarter of 2009. We recorded no OTTI charge during 2008.

The table below depicts the net realized investment losses by investment category:

	Three Months Ended March 31,	
	2009	2008
	(In thousands)	
Fixed maturities	$ (6)	$
Equity securities:		
Realized losses	(802)	(157)
Other-than-temporary impairment	(1,878)	
Subtotal equity securities	(2,680)	(157)
Total net realized investment losses	$ (2,686)	$ (157)

Policy Assumption Bonus

We received a bonus from Citizens for retaining policies we assumed during 2004 and 2005 for three years from the date of the policy assumption and for charging rates similar to Citizens at the date of the assumption. The policy assumption bonus, which includes interest income earned on the bonus amounts, was $2.9 million for the first quarter of 2008.

During 2008, we received a bonus from Citizens for retaining policies we assumed during 2004 and 2005 for three years. We did not assume any policies from Citizens during 2006 and 2007. The 2008 Citizens Agreement does not include a bonus provision; therefore, we will not receive any bonuses from Citizens during 2009.

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EXPENSES

Loss and Loss Adjustment Expenses

Loss and loss adjustment expenses (LAE), our most significant expense, represent actual payments made and changes in estimated future payments to be made to or on behalf of our policyholders, including expenses required to settle claims and losses. We revise our estimates based on the results of analysis of estimated future payments to be made. This process assumes that past experience, adjusted for the effects of current developments and anticipated trends, is an appropriate basis for predicting future events.

Loss and LAE was $7.2 million for the three months ended March 31, 2009, compared to $7.1 million for the three months ended March 31, 2008. During the first quarter of 2009 compared to the same period of 2008, our paid claims were $0.7 million lower, we had a higher estimated case loss and LAE of $1.6 million and we had lower estimated incurred but not reported (IBNR) loss and LAE of $0.8 million.

The increase of $1.6 million in our estimated case loss and LAE is primarily resulting from an increase in loss and LAE exposure risk related to our increase in homeowner policies from approximately 62,600 at March 31, 2008, to approximately 85,900 at March 31, 2009. The $0.8 million reduction in IBNR expenses reflects a $0.6 million reduction related to Tropical Storm Fay and a $0.2 million favorable loss development of our homeowners line of business.

For our catastrophic losses, we purchase reinsurance to help manage our loss exposure. Our reinsurance requirements and costs are based on an amount equal to our estimated 100-year probable maximum loss (PML). We analyze our PML on a regular basis through the use of our licensed in-house catastrophe-modeling software program. Our underwriting policies and procedures seek to minimize risk of loss while maximizing premium through the optimization of geographic exposure and the diversification of the portfolio with respect to our PML. The continued focus on disciplined underwriting and procedures to optimize our geographic exposure enables us to maximum our premiums to the risks associated with those premiums.

For homeowner non-catastrophe claims, we maintain a very simple reinsurance structure consisting of only one contract, an excess-of-loss reinsurance contract. To date, we have not experienced a non-catastrophic loss that required reimbursement through our excess-of-loss reinsurance contract.

The largest factor that can impact our losses and LAE are catastrophes. Catastrophes are an inherent risk of the property and liability insurance business, especially in the State of Florida, which may contribute to material year-to-year fluctuations in our results of operations and financial position. During the first quarter of 2009, there were no catastrophes that occurred in Florida.

There are inherent difficulties in estimating risks that impact the estimation of our ultimate losses and LAE for catastrophes. These difficulties also affect our ability to estimate reserves for catastrophes. The estimation of reserves related to hurricanes can be affected by the inability to access portions of the impacted areas, the complexity of factors contributing to the losses, the legal and regulatory uncertainties and the nature of the information available to establish the reserves. Complex factors include, but are not limited to, determining whether damage was caused by flooding versus wind; evaluating general liability and pollution exposures; estimating additional living expenses; the impact of demand surge; infrastructure disruption; fraud; the effect of mold damage; business interruption costs; and reinsurance collectibility. The timing of the occurrence of a catastrophe for instance at or near the end of a reporting period, can also affect the information available to us in estimating reserves for that reporting period. The estimated reserves related to catastrophes are adjusted as actual claims emerge and additional information becomes available. Because of the inherent uncertainty in estimating reserves for catastrophes, we cannot be sure our ultimate losses and loss adjustment expenses will not exceed our reserves. If and to the extent our reserves are inadequate, we will be required to increase our reserves for losses and

loss adjustment expenses and incur a charge to earnings in the period during which our reserves are increased, which could materially and adversely affect our financial condition and results of operations.

In addition to catastrophes, the accumulation of losses from smaller weather-related events in a fiscal quarter or year could materially and adversely impact our results of operations in those periods. While we believe our underwriting strategies as well as our reinsurance program limit the severity of future losses, we continue to be exposed to catastrophic losses that may exceed the limits of our reinsurance program.

We continue to revise our estimates of the ultimate financial impact of past storms. The revisions to our estimates are based on our analysis of subsequent information received regarding various factors, including: (i) per claim information; (ii) our company and industry historical loss experience; (iii) legislative enactments, judicial decisions, legal developments in the awarding of damages, and (iv) trends in general economic conditions, including the effects of inflation. We revise our estimate based on the results of our analysis. This process assumes that past experience, adjusted for the effects of current developments and anticipated trends, is an appropriate basis for estimating the ultimate settlement of all claims. There is no precise method for subsequently evaluating the impact of any specific factor on the adequacy of the reserves, because the eventual redundancy or deficiency is affected by multiple factors. At each year end, we receive an actuary s opinion as to the adequacy of our reserves and during the quarters our actuary reviews our loss reserve amounts. Except for catastrophe claims, we believe the severity and frequency of claims will remain relatively stable for the foreseeable future.

Policy Acquisition Costs

Policy acquisition costs consist of agents commissions, policy administration fees and premium taxes; these costs increased $0.7 million, or 16.7%, to $4.9 million for the three months ended March 31, 2009 compared to $4.2 million for the three months ended March 31, 2008. The increase was due to increases in policy administration fees, the rate we paid to agents for their commissions, our third-party administrator costs and other items. We amortize our policy acquisition costs over the period during which we earn the related premiums. We anticipate our policy acquisition costs will continue to increase slightly during 2009.

During 2008, we contracted with Computer Sciences Corporation (CSC) to become our new third-party administrator (TPA) related to policy processing and to perform all of the services currently provided by our former TPA. We believe that CSC provides us superior resources and is more capable of supporting our future growth objectives. On January 10, 2009, we began transitioning all of our in-force polices, excluding Garage policies, from our former TPA to CSC as each policy comes due. All new policies, excluding Garage and Flood policies, written during 2009 are and will be administered by CSC.

Salary and Wages

Salaries and wages increased $0.5 million to $1.3 million during the three months ended March 31, 2009, from $0.8 million for the same period of 2008. This increase is comprised of an increase in bonuses and an increase in personnel costs related to adding additional employees.

UNITED INSURANCE HOLDINGS CORPORATION

Management s Discussion and Analysis of Financial Condition and Results of Operations

General and Administrative Expenses

General and administrative expenses decreased $0.3 million, or 24.2%, to $1.0 million during the three months ended March 31, 2009, from $1.3 million during the same period in 2008. During the first quarter of 2008, we incurred various charges including increased auditing fees, consulting, printing costs and other fees related to preparing United Insurance Holdings L.C. (UIH) and its subsidiaries financial statements in the SEC-required format of a publicly-traded company.

During the next nine months, we anticipate that we will incur additional compliance costs that we have not incurred in the past. Specifically, we will incur compliance costs to document and test our internal control procedures as well as having management perform an assessment of our internal controls to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. Additionally, we anticipate that our costs related to our Board of Director fees and our professional insurance will increase, since we have become a public company.

Provision for Income Tax

During the first quarter of 2009 our effective tax rate was 37.5% compared to 19.1% for the first quarter of 2008. The 18.4% increase in our effective tax rate (even though the income before taxes decreased $5.5 million from 2008 to 2009) is due to recording corporate taxes on all of our entities during the first quarter of 2009; whereas, during the first quarter of 2008, only one of our subsidiaries, United Property & Casualty Insurance Company (UPCIC), recorded a provision for income taxes as the other subsidiaries were treated as partnerships for income tax purposes. Since the other subsidiaries were partnership entities, no provision for income taxes was required to be recorded on our unaudited interim Condensed Consolidated Statements of Income for those entities. Effective October 1, 2008, all of our subsidiaries were required to record a provision for income taxes as all of our subsidiaries were part of a consolidated C-corporation return. For 2009, our combined tax rate is 38.575%. We also used a tax rate of 38.575% in our 2008 pro forma calculations.

See our unaudited interim Condensed Consolidated Statements of Income for a pro forma calculation of the estimated corporate income taxes we would have recorded for the first quarter of 2008 if all of our subsidiaries had recorded corporate income tax provisions during the first quarter of 2008.

Net Income

As a result of the foregoing, our net income for the three months ended March 31, 2009 was $3.1 million compared to net income of $8.5 million for the three months ended March 31, 2008.

LIQUIDITY AND CAPITAL RESOURCES

Our operations provided net operating cash flow of $16.1 million during the first quarter of 2009, compared to $1.3 million during the same period in 2008. Our reconciliation of net operating cash flow is generally influenced by the collection of premiums in advance of paid losses, the quarterly payment of reinsurance premiums, the annual signing of new reinsurance contracts at the beginning of hurricane season, and the timing of our loss payments.

The $16.1 million of net cash provided by operating activities resulted primarily from cash inflows from our generation of $3.1 million of net income, a $12.9 million decrease in prepaid reinsurance premiums and a $3.3 million increase in advance premiums, which were offset by cash outflows resulting mainly from a $7.3 million decrease in reinsurance payable.

UNITED INSURANCE HOLDINGS CORPORATION

Management s Discussion and Analysis of Financial Condition and Results of Operations

Subject to catastrophic or severe weather-related occurrences, net operating cash flow is currently expected to be positive in both the short-term and the reasonably foreseeable future. During the first quarter of 2009, we did not have any hurricanes or tropical storms in the territories we insure.

Given that we insure property and casualty risks, a catastrophe like a hurricane or tropical storm that impacts any territory we insure will have an impact on us. Each year, we purchase reinsurance for hurricane catastrophes and non-hurricane catastrophes. For our catastrophe reinsurance treaty contract period of June 1, 2008, through May 31, 2009, we retain the first $15.5 million of losses and LAE on an individual hurricane and we retain the first $25.5 million of losses and LAE on an individual non-hurricane catastrophe. If a hurricane or non-hurricane catastrophe exceeds our reinsurance coverage, we will be liable for those losses and LAE as well. Also, we are dependent on the creditworthiness of our reinsurers and if they do not reimburse us for the claims they reinsure, we are ultimately liable for those claims. For those reinsurers that are not approved with the OIR and have a net recoverable balance due to us, we obtain a letter of credit. For more details regarding our reinsurance coverage, please see our Notes to Consolidated Financial Statements included within our Annual Report filed on Form 10-K/A for the year ended December 31, 2008.

For the first quarter of 2009, we used $0.6 million of cash in our net investing activities compared to $7.2 million during the first quarter of 2008. Our available-for-sale investment portfolio is highly liquid as it consists entirely of readily marketable securities. For 2009, we generated $6.4 million of cash proceeds from the sale of investments available-for-sale and we used $7.0 million of cash for the purchase of investments available-for-sale.

During the first quarter of 2009, we did not use any cash nor have any cash provided through financing activities. During the first quarter of 2008, we paid $2.8 million of principal payments on our Columbus Bank and Trust Company (CB&T) note. On May 5, 2009 we amended our CB&T note agreement, whereby there will be no principal payments on this note until the note matures on February 20, 2010.

At March 31, 2009, the interest rates on our notes were 2.11% for the State Board of Administration of Florida (SBA) note, 3.5% for the CB&T note and 11% for the five notes issued prior to the merger whereby a wholly-owned subsidiary of FMG Acquisition Corp., merged with and into UIH (the Merger).

We are not required to pay any principal on our $20 million SBA note until October 1, 2009, at which time the Florida Insurance Commissioner will approve any principal payments and determine if such payment substantially impairs the financial condition of our insurance subsidiary. Upon OIR approval, the principal payments on our SBA note are expected to be $0.3 million per quarter, commencing in the fourth quarter of 2009. We pay interest on this loan quarterly.

Prior to the Merger, we issued five notes (Merger Notes) with a combined principal of $18.3 million; however, no principal payments are required until the Merger Notes mature on September 29, 2011. Interest payments are payable semi-annually beginning April, 1, 2009.

Our parent company has no business operations of its own. There are no restrictions on the payment of dividends to our holding company by our non-insurance company subsidiaries other than state corporate laws regarding solvency. As a result, our non-insurance company subsidiaries generate revenues, profits and net cash flows that are generally unrestricted as to their availability for payment of dividends to UIHC.

The ability of our parent company to meet its debt payment obligations and pay our general and administrative expenses is largely dependent on cash dividends or inter-company loans from United Insurance Management, L.C. (UIM). UIM s primary source of revenue, from which dividends to us have been paid, is the management fee and commissions UIM receives from our insurance company, UPCIC, pursuant to a management agreement in effect between those entities. UPCIC is subject to extensive regulation by the Florida Office of Insurance Regulation (OIR), including approval of any management fee UPCIC pays to UIM for services rendered.

UNITED INSURANCE HOLDINGS CORPORATION

Management s Discussion and Analysis of Financial Condition and Results of Operations

The primary sources of cash flow for UPCIC are gross premiums written, loss reimbursements by our reinsurers, investment income, and proceeds from the sale or maturity of investments. Funds are used by UPCIC for ceded premium payments to reinsurers, loss and LAE payments, other underwriting expenses, purchases of investments and fee payments to UIM. Any dividends from UPCIC are regulated by the OIR.

There is a provision in the Amended and Restated Agreement and Plan of Merger, dated August 15, 2008, as amended on September 23, 2008, which provides for potential additional consideration to be paid to former UIH members of up to $5 million, which we will record as a dividend if we exceed $25 million of net income at the end of either of the measurement periods mentioned below. We will pay those former UIH members $2.00 in cash for each dollar exceeding UIHC s net income (as defined in the Merger Agreement) that exceeds $25 million at the end of either of the periods of (i) July 1, 2008 through June 30, 2009, or (ii) January 1, 2009 through December 31, 2009.

We believe we maintain sufficient liquidity to pay claims, operating expenses and other obligations as they come due. At March 31, 2009, we had $47.2 million of cash and cash equivalents. We monitor our expected loss and LAE payment needs and maintain a sufficient portion of our assets in cash and cash equivalents to enable us to fund our expected claim payments without having to sell longer-duration investments. As necessary, we adjust our short-term investments and cash and cash equivalent holdings to provide sufficient liquidity to respond to changes in the anticipated pattern of claims payments.

Our note agreement with CB&T contains certain covenants, including the maintenance of minimum specified financial ratios. We were in compliance with the terms of the covenants at March 31, 2009.

In relation to the Merger Notes issued on September 29, 2008, pursuant to a note repurchase agreement dated as of August 15, 2008, we agreed to certain covenants, the violation of which could cause an event of default. Among others, these covenants include refraining from incurring debt that would cause our aggregate debt balance to exceed $58.3 million, which includes the $18.3 million incurred under this note agreement and excludes the $20 million SBA note, and refraining from making any payments (e.g. dividends or distributions), whether in cash, securities or other property, that would reduce consolidated net worth, as defined in the note agreement, to less than $45 million. We were in compliance with the terms of the covenants at March 31, 2009; however, any dividends or distributions to our stockholders would be limited to an amount that would maintain a minimum consolidated net worth of $45 million.

The SBA note provides that the SBA may, among other things, declare its loan immediately due and payable for all defaults existing under the SBA note. In addition, the CB&T loan agreement provides that CB&T may elect to exercise its remedies described above for events of default under any loan agreements affecting us or our subsidiaries. We are not currently in default of these notes; however, if we were in default and either lender elected to pursue these default remedies, it would reduce our statutory surplus and could adversely affect our liquidity.

GAAP differs in some respects from reporting practices prescribed or permitted by the OIR. To retain our certificate of authority, the Florida insurance laws and regulations require UPCIC to maintain capital and surplus equal to the statutory minimum capital and surplus requirement which Florida Statutes define as the greater of 10% of the insurer s total liabilities or $4 million. UPCIC s statutory capital surplus was $54.6 million at March 31, 2009, and exceeded the minimum capital and surplus requirements. UPCIC is also required to adhere to prescribed premium-to-capital surplus ratios, with which we were in compliance at March 31, 2009.

Florida law permits an insurer to pay dividends or make distributions out of that part of statutory surplus derived from net operating profit and net realized capital gains. The law further provides calculations to determine the amount of dividends or distributions that can be made without the prior approval of the OIR and the amount of dividends or distributions that would require prior approval of the OIR. The NAIC risk-based capital (RBC) requirements may further restrict UPCIC s ability to pay dividends or make distributions if the amount of the intended dividend or distribution would cause statutory surplus to fall below minimum RBC requirements.

UNITED INSURANCE HOLDINGS CORPORATION

Management s Discussion and Analysis of Financial Condition and Results of Operations

We believe our current capital resources, together with cash flow from operations, will be sufficient to meet currently anticipated working capital requirements. There can be no assurance, however, that such will be the case in the future.

OFF-BALANCE SHEET ARRANGEMENTS

At March 31, 2009, we have no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

See Note 9 of our unaudited interim condensed consolidated financial statements for a discussion of our related party transactions.

UNITED INSURANCE HOLDINGS CORP.

Item 3: Quantitative and Qualitative Disclosures about Market Risk

Since we are a smaller reporting company, we are not required to furnish this information.

Item 4T: Controls and Procedures

(a) Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operations of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of the end of the period covered by this report. Based on our evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective such that the material information required to be included in our SEC reports is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. These disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by us in the reports we file or submit is accumulated and communicated to management, including our principal executive officer and our principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

(b) During the fiscal quarter ended March 31, 2009, there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1: Legal Proceedings

We are involved in claims-related legal actions arising in the ordinary course of business. Amounts resulting from claims-related legal actions are accrued in Unpaid Losses and Loss Adjustment Expenses during the period an unfavorable outcome becomes probable and the amounts can be estimated. Revisions to our estimates are based on our analysis of subsequent information that we receive regarding various factors, including: (i) per claim information; (ii) company and industry historical loss experience; (iii) judicial decisions and legal developments in the awarding of damages, and (iv) trends in general economic conditions, including the effects of inflation. Management revises the estimates based on the results of their analysis. We are not currently involved in any material non-claims-related litigation.

Item 1A: Risk Factors

Since we are a smaller reporting company, we are not required to furnish this information.

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

Unregistered Sales of Equity Securities. During the first quarter of 2009, we issued 25,000 shares of our common stock to two of our executives as part of their 2008 bonus compensation. These shares were valued at $75,000 using the quoted market price on the date the shares were authorized by our Board of Directors.

The issuance of common stock described in the prior paragraph was exempt from registration under the Securities Act of 1933 pursuant to Section 4(2) and Rule 506 of Regulation D promulgated under the Securities Act of 1933, and in reliance on similar exemptions under applicable state laws, as the offering was not a public offering. We placed restrictive legends on the certificates representing these securities stating that the securities were not registered under the Securities Act and are subject to restrictions on their transferability and resale.

UNITED INSURANCE HOLDINGS CORP.

Working Capital Restrictions and Other Limitations on Payment of Dividends. Under Florida law, a domestic insurer may not pay any dividend or distribute cash or other property to its stockholders except out of that part of its available and accumulated capital and surplus funds which is derived from realized net operating profits on its business and net realized capital gains. A Florida domestic insurer may not make dividend payments or distributions to stockholders without prior approval of the Florida OIR if the dividend or distribution would exceed the larger of (1) the lesser of (a) 10% of its capital surplus or (b) net income, not including realized capital gains, plus a two year carry forward, (2) 10% of capital surplus with dividends payable constrained to unassigned funds minus 25% of unrealized capital gains or (3) the lesser of (a) 10% of capital surplus or (b) net investment income plus a three-year carry forward with dividends payable constrained to unassigned funds minus 25% of unrealized capital gains. At March 31, 2009, we were in compliance with these requirements.

In relation to the notes issued on September 29, 2008, pursuant to a note repurchase agreement dated as of August 15, 2008, we agreed to certain covenants, the violation of which could cause an event of default. Among others, these covenants include refraining from incurring debt that would cause our aggregate debt balance to exceed $58.3 million, which includes the $18.3 million incurred under this note agreement and excludes the $20 million SBA note, and refraining from making any payments (e.g. dividends or distributions), whether in cash, securities or other property, that would reduce consolidated net worth, as defined in the note agreement, to less than $45 million. We were in compliance with the terms of the covenants at March 31, 2009; however, any dividends or distributions to our stockholders would be limited to an amount that would maintain a minimum consolidated net worth of $45 million.

Our loan agreement with CB&T contains certain covenants, including the maintenance of minimum specified financial ratios and balances. We were in compliance with the terms of the covenants at March 31, 2009.

Item 3: Defaults upon Senior Securities

None

Item 4: Submission of Matters to a Vote of Security Holders

None

Item 5: Other Information

None

UNITED INSURANCE HOLDINGS CORP.

Item 6: Exhibits

2.1	Second Amendment to Amended and Restated Agreement and Plan of Merger By and Among FMG Acquisition Corp., United Subsidiary Corp. and United Insurance Holdings, L.C., dated as of September 23, 2008.
10.1	Third Modification to Loan Agreement between United Insurance Holdings, L.C., United Insurance Management L.C. and Columbus Bank and Trust Company, dated May 5, 2009.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act.

SIGNATURES

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

UNITED INSURANCE HOLDINGS CORP.

	By: */s/ Donald J. Cronin*
May 13, 2009	Donald J. Cronin, President and Chief Executive Officer
	(Principal Executive Officer and duly authorized officer)
	/s/ Nicholas W. Griffin
May 13, 2009	Nicholas W. Griffin, Chief Financial Officer
	(Principal Financial Officer)

/FONT> $15.03 $17.97 $16.23 119.6%108.0%$0.36 Second quarter $15.10 $17.50 $16.36 115.9%108.3%$0.38 Third quarter $15.06 $17.51 $15.67 116.3%104.1%$0.40 Fourth quarter $15.17 $19.31 $17.39 127.3%114.6%$0.50(3)

Fiscal 2007

First quarter	$15.34	$20.46	$17.82	133.4%	116.2%	$0.41
Second quarter	$15.84	$18.84	$16.85	118.9%	106.4%	$0.41
Third quarter	$15.74	$17.53	$14.92	111.4%	94.8%	$0.42
Fourth quarter	$15.47	$17.47	$14.40	112.9%	93.1%	$0.42

Fiscal 2008

First quarter (through March 20, 2008)	*	$14.39	$12.14	*	*	$0.42

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

(2) Represents the dividend declared in the relevant quarter.

(3) Includes an additional cash dividend of $0.10 per share.

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

On March 20, 2008, the last reported sales price of our common stock on The NASDAQ Global Select Market was $13.10 per share, which represented a discount of approximately 15% to the net asset value per share reported by us as of December 31, 2007.

We currently intend to distribute quarterly dividends to our stockholders. Our quarterly dividends, if any, will be determined by our board of directors.

The following table summarizes our dividends declared to date:

Date Declared	Record Date	Payment Date	Amount
December 16, 2004	December 27, 2004	January 26, 2005	$ 0.30
Total declared for 2004			$ 0.30
February 23, 2005	March 7, 2005	April 15, 2005	$ 0.30
June 20, 2005	June 30, 2005	July 15, 2005	$ 0.32
September 6, 2005	September 16, 2005	September 30, 2005	$ 0.34
December 12, 2005	December 22, 2005	January 16, 2006	$ 0.34
Total declared for 2005			$ 1.30
February 28, 2006	March 24, 2006	April 14, 2006	$ 0.36
May 8, 2006	June 15, 2006	June 30, 2006	$ 0.38
August 9, 2006	September 15, 2006	September 29, 2006	$ 0.40
November 8, 2006	December 15, 2006	December 29, 2006	$ 0.40
November 8, 2006	December 15, 2006	December 29, 2006	$ 0.10
Total declared for 2006			$ 1.64
March 8, 2007	March 19, 2007	March 30, 2007	$ 0.41
May 10, 2007	June 15, 2007	June 29, 2007	$ 0.41
August 9, 2007	September 14, 2007	September 28, 2007	$ 0.42
November 8, 2007	December 14, 2007	December 31, 2007	$ 0.42
Total declared for 2007			$ 1.66
February 28, 2008	March 17, 2008	March 31, 2008	$ 0.42
Total declared for 2008			$ 0.42

To maintain our RIC status, we must timely 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 for each year. To avoid certain excise taxes imposed on RICs, we are generally required 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, plus (2) 98% of our capital gains in excess of capital losses for the one-year period ending on October 31 of the calendar year plus (3) any ordinary income and net capital gains for preceding years that were not distributed during such years. If this requirement is not met, we will be required to pay a nondeductible excise tax equal to 4% of the amount by which 98% of the current year's taxable income exceeds the distribution for the year. The taxable income on which an excise tax is paid is generally carried forward and distributed to stockholders in the next tax year. Depending on the level of taxable income earned in a tax year, we may choose to carry forward taxable income in excess of current year distributions into the next tax year and pay a 4% excise tax on such income, as required. Our excise tax liability for the year ended December 31, 2007 was approximately $100,000. We cannot assure you that we will achieve results that will permit the payment of any cash distributions.

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."

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION 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 Annual Report.

OVERVIEW

We are a specialty finance company that is a closed-end, non-diversified management investment company incorporated in Maryland. We have elected to be regulated as a business development company under the Investment Company Act. We were founded on April 16, 2004 and were initially funded on June 23, 2004 and on October 8, 2004 completed our initial public offering (the "IPO").

Our investment objective is to generate both current income and capital appreciation through debt and equity investments. We invest primarily in first and second lien senior loans and long-term mezzanine debt, which in some cases may include an equity component, and, to a lesser extent, in equity investments in private U.S. middle market companies.

We are externally managed by Ares Capital Management, an affiliate of Ares Management LLC, an independent international investment management firm that manages investment funds. Ares Administration, an affiliate of Ares Management, provides the administrative services necessary for us to operate.

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

We have qualified and elected to be treated as a RIC, under Subchapter M of the Code. To qualify as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements and timely distribute to our stockholders at lease 90% of our investment company taxable income, as defined by the Code, for each year. Pursuant to these elections, 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 ("GAAP"), and include the accounts of the Company and its wholly owned subsidiaries. The consolidated financial statements reflect all adjustments and reclassifications which, in the opinion of management, are necessary for the fair presentation of the results of the operations and financial condition for the periods presented. All significant intercompany balances and transactions have been eliminated.

Investments

Investment transactions are recorded on the trade date. Realized gains or losses are computed using the specific identification method. Investments for which market quotations are readily available are 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 based on the input of our management and audit committee. In addition, the board of directors currently receives input from independent valuation firms that have been engaged at the direction of the board to assist in the valuation of each portfolio investment at least once during a trailing 12 month period. The valuation process is conducted at the end of each fiscal quarter, with approximately a quarter of our valuations of portfolio companies without market quotations subject to review by an independent valuation firm each quarter. The types of factors that the board may take into account in determining the fair value of our investments generally focus on the enterprise value of a portfolio company, as well as other factors such as 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 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 may differ materially from the values that we may ultimately realize.

With respect to investments for which market quotations are not readily available, our board of directors undertakes a multi-step valuation process each quarter, as described below:

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

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

The audit committee of our board of directors reviews these preliminary valuations, as well as the input of an independent valuation firm with respect to the valuations of approximately a quarter of our portfolio companies.

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 management and audit committee and independent valuation firms.

Interest Income Recognition

Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis. Discounts and premiums on securities purchased are accreted/amortized over the life of the respective security using the effective yield method. The amortized cost of investments represents the original cost adjusted for the accretion of discounts and amortization of premiums.

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

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 and Other Income

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

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

Foreign Currency Translation

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

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

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

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

Federal Income Taxes

The Company has qualified and elected and intends to continue to qualify for the tax treatment applicable to RICs under Subchapter M of the Code and, among other things, has made and intends to continue to make the requisite distributions to its stockholders which will relieve the Company from Federal income taxes. In order to qualify as a RIC, among other factors, the Company is required to timely distribute to its stockholders at least 90% of investment company taxable income, as defined by the Code, for each year.

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

In accordance with GAAP, book and tax basis differences relating to stockholder distributions and other permanent book and tax differences are reclassified between, distributions less than (in excess of) net investment income, accumulated net realized gain on sale of investments and 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 GAAP, as highlighted in Note 6 to our consolidated financial statements.

Certain of our wholly owned subsidiaries are subject to Federal and state income taxes.

Dividends

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

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

Fair Value of Financial Instruments

The carrying value of the Company's financial instruments approximate fair value.

PORTFOLIO AND INVESTMENT ACTIVITY

	Year End December 31, (in millions, except number of companies, terms and percentages)		
	2007	2006	2005
New investments(1):			
New portfolio companies	$ 1,091.6	$ 812.5	$ 464.9
Existing portfolio companies	256.0	297.5	64.0
Total new investments	1,347.6	1,110.0	528.9
Less:			
Investments exited	654.1	404.9	105.2
Net investments	$ 693.5	$ 705.1	$ 423.7
New investments funded:			
New portfolio companies	$ 876.8	$ 736.1	$ 440.3
Existing portfolio companies	253.0	292.1	64.0
Total	$ 1,129.8	$ 1,028.2	$ 504.3
Principal amount of investments purchased:			
Senior term debt	$ 886.7	$ 726.4	$ 339.3
Senior subordinated debt	187.1	249.4	76.6
Equity and other	177.6	111.7	88.4
Total	$ 1,251.4	$ 1,087.5	$ 504.3
Principal amount of investments sold or repaid:			
Senior term debt	$ 608.3	$ 255.5	$ 63.4
Senior subordinated debt	89.8	99.2	27.2
Equity and other	20.6	75.3	17.8
Total	$ 718.7	$ 430.0	$ 108.4
Number of new investments(2)	47	54	31
Average new investment amount	$ 28.7	$ 19.0	$ 17.1
Weighted average term for new investments (in months)	69	69	78
Weighted average yield of debt and income producing securities funded during the period(3)	11.60%	12.14%	10.50%
Weighted average yield of debt and income producing securities sold or repaid during the period(3)	11.72%	11.95%	11.29%

[1] New investments includes new agreements to fund revolving credit facilities or delayed draw loans.

[2] Number of new investments represents each commitment to a particular portfolio company.

[3] When we refer to the "weighted average yield" in this report, we compute it with respect to particular securities by taking the (a) annual stated interest rate or yield earned plus the net annual amortization of original issue discount and market discount earned on accruing debt included in such securities, and dividing it by (b) total income producing securities and debt at fair value included in such securities.

The investment adviser employs an investment rating system to categorize our investments. In addition to various risk management and monitoring tools, the investment adviser grades all investments on a scale of 1 to 4 no less frequently than quarterly. This system is intended to reflect the performance of the portfolio company business, the collateral coverage of the investments and other factors considered relevant. Under this system, investments with a grade of 4 involve the least amount of risk in our portfolio. The portfolio company is performing above expectations and the trends and risk factors are generally favorable, including a potential exit. Investments graded 3 involve a level of risk that is similar to the risk at the time of origination. The portfolio company is performing as expected and the risk factors are neutral to favorable. All new investments are initially graded 3. Investments graded 2 involve a portfolio company performing below expectations and indicates that the investments risk has increased materially since origination. The portfolio company may be out of compliance with debt covenants, however, payments are generally not more than 120 days past due. For investments graded 2, we increase procedures to monitor the portfolio company and we will write down the fair value of the investment if it is deemed to be impaired. An investment grade of 1 indicates that the portfolio company is performing materially below expectations and that the investment risk has substantially increased since origination. Most or all of the debt covenants are out of compliance and payments are substantially delinquent. Investments graded 1 are not anticipated to be repaid in full and we will reduce the fair market value of the investment to the amount we anticipate will be recovered. The investment adviser employs half-point increments to reflect underlying trends in portfolio company operating or financial performance, as well as the general outlook. As of December 31, 2007, the weighted average investment grade of the investments in our portfolio was 3.0 and two loans were past-due or on non-accrual. The weighted average investment grade of the investments in our portfolio as of December 31, 2006 was 3.0. The distribution of the grades of our portfolio companies as of December 31, 2007 and 2006 is as follows:

	December 31, 2007		**December 31, 2006**	
	Fair Value	**Number of Companies**	**Fair Value**	**Number of Companies**
Grade 1	$ 13,927,200	1	$ 504,206	1
Grade 2	115,584,881	6	14,206,419	1
Grade 3	1,581,810,870	66	1,189,399,643	56
Grade 4	62,878,890	3	31,711,568	2
	1,774,201,841	76	$ 1,235,821,836	60

As of December 31, 2007, the weighted average yield of the debt and income producing equity securities in our portfolio was approximately 11.68%. As of December 31, 2007, the weighted average yield on our entire portfolio was 10.22%. The weighted average yield on our senior term debt, senior subordinated debt and income producing equity securities was 11.19%, 13.23% and 10.36%, respectively. Of the senior term debt, the weighted average yield attributable to first lien senior term debt and second lien senior term debt was 10.53% and 12.38%, respectively.

As of December 31, 2006, the weighted average yield of the debt and income producing equity securities in our portfolio was approximately 11.95%. As of December 31, 2006, the weighted average yield on our entire portfolio was 10.79%. The weighted average yield on our senior term debt, senior subordinated debt and income producing equity securities was 11.52%, 13.16% and 10.00%, respectively. Of the senior term debt, the weighted average yield attributable to first lien senior term debt and second lien senior term debt was 11.22% and 11.94%, respectively.

RESULTS OF OPERATIONS

For the years ended December 31, 2007, 2006 and 2005

Operating results for the years ended December 31, 2007, 2006 and 2005 are as follows:

	For the Year Ended December 31,		
	2007	**2006**	**2005**
Total Investment Income	$ 188,873,228	$ 120,020,908	$ 41,850,477
Total Expenses	94,750,617	58,458,015	14,568,677
Net Investment Income Before Income Taxes	94,122,611	61,562,893	27,281,800
Income Tax Expense (Benefit), Including Excise Tax	(826,437)	4,931,288	158,000
Net Investment Income	94,949,048	56,631,605	27,123,800
Net Realized Gains	6,544,492	27,616,431	10,341,713
Net Unrealized Gains (Losses)	(10,661,076)	(14,552,714)	4,385,563
Net Increase in Stockholders' Equity Resulting From Operations	$ 90,832,464	$ 69,695,322	$ 41,851,076

Investment Income

For the year ended December 31, 2007, total investment income increased $68.9 million, or 57%, from the year ended December 31, 2006. Interest income from investments increased $64.1 million, or 65%, to $162.4 million for the year ended December 31, 2007 from $98.3 million for the comparable period in 2006. The increase in interest income from investments was primarily due to the increase in the size of the portfolio. The average investments, at fair value, for the year increased to $1.5 billion for the year ended December 31, 2007 from $871.0 million for the comparable period in 2006. Of the approximately $162.4 million in interest income from investments, non-cash PIK interest income was $16.2 million. Capital structuring service fees increased $2.0 million, or 12%, to $18.0 million for the year ended December 31, 2007 from $16.0 million for the comparable period in 2006. The increase in capital structuring service fees was primarily due to the increased amount of new investments made. The amount of new investments made increased to $1.3 billion during the year ended December 31, 2007 from $1.1 billion for the comparable period in 2006.

For the year ended December 31, 2006, total investment income increased $78.2 million, or 187%, over the year ended December 31, 2005. Interest income from investments increased $64.4 million, or 190%, to $98.3 million for the year ended December 31, 2006 from $34.0 million for the comparable period in 2005. The increase in interest income from investments was primarily due to the increase in the size of the portfolio. The average investments, at fair value, for the year increased from $323.2 million for the year ended December 31, 2005 to $871.0 million in the comparable period in 2006. Of the approximately $64.4 million in interest income from investments, non-cash PIK interest income was $6.3 million. Capital structuring service fees increased $10.8 million, or 206%, to $16.0 million for the year ended December 31, 2006 from $5.2 million for the comparable period in 2005. The increase in capital structuring service fees was primarily due to the increased number of originations. The number of new investments increased from 31 during the year ended December 31, 2005 to 54 during the comparable period in 2006.

Operating Expenses

For the year ended December 31, 2007, total expenses increased $36.3 million, or 62%, from the year ended December 31, 2006. Base management fees increased $9.9 million, or 72%, to $23.5 million for the year ended December 31, 2007 from $13.6 million for the comparable period in 2006, primarily due to the increase in the size of the portfolio. Incentive fees related to pre-incentive fee net investment income increased $7.5 million, or 46%, to $23.5 million for the year ended December 31, 2007 from $16.1 million for the comparable period in 2006, primarily due to the increase in the size of the portfolio and the related increase in net investment income. Interest expense and credit facility fees increased $18.3 million, or 99%, to $36.9 million for the year ended December 31, 2007 from $18.6 million for the comparable period in 2006, primarily due to the significant increase in the outstanding borrowings. The average outstanding borrowings during the year ended December 31, 2007 were $567.9 million compared to average outstanding borrowings of $262.4 million for the comparable period in 2006. The increase in total expenses was partially offset by the decline in incentive fees related to realized gains. There were no incentive fees related to realized gains during the year ended December 31, 2007 compared to $3.4 million for the year ended December 31, 2006, due to gross unrealized depreciation offsetting net realized gains for the period. Net realized gains were $6.6 million during the year ended December 31, 2007 whereas gross unrealized depreciation recognized was $61.2 million.

For the year ended December 31, 2006, total expenses increased $43.9 million, or 301%, over the year ended December 31, 2005. Base management fees increased $8.5 million, or 165%, to $13.6 million for the year ended December 31, 2006 from $5.1 million for the comparable period in 2005, primarily due to the increase in the size of the portfolio. Incentive fees related to pre-incentive fee net investment income increased $12.8 million, or 399%, to $16.1 million for the year ended December 31, 2006 from $3.2 million for the comparable period in 2005, primarily due to the increase in the size of the portfolio and the related increase in net investment income. Incentive fees related to realized gains increased $2.5 million, or 252%, to $3.4 million for the year ended December 31, 2006 from $979,000 for the comparable period in 2005, primarily due to lower net realized gains and higher gross unrealized depreciation recognized during the year ended December 31, 2006 as compared to the year ended December 31, 2005. Net realized gains increased from $10.3 million during the year ended December 31, 2005 to $27.6 million during the year ended December 31, 2006. Gross unrealized depreciation increased from $6.8 million during the year ended December 31, 2005 to $8.9 million during the year ended December 31, 2006. Interest expense and credit facility fees increased $17.1 million, or 1,175%, to $18.6 million for the year ended December 31, 2006 from $1.5 million for the comparable period in 2005, primarily due to the significant increase in the borrowings outstanding. The average outstanding borrowings during the year ended December 31, 2005 was $17.9 million compared to average outstanding borrowings of $262.4 million for the comparable period in 2006. The increase in interest expense and credit facility fees was also due to an increase in the amortization of debt issuance costs, which was $1.8 million for the year ended December 31, 2006 compared to $465,000 for the comparable period in 2005. The increase in the amortization of debt issuance costs was primarily due to additional debt issuance costs capitalized during the end of 2005 as a result of entering into the Revolving Credit Facility and increasing the borrowing capacity of the CP Funding Facility, and also due to additional debt issuance costs capitalized during the year ended December 31, 2006 related to the Debt Securitization.

Income Tax Expense, Including Excise Tax

The Company has qualified and elected and intends to continue to qualify and elect for the tax treatment applicable to RICs under Subchapter M of the Code, and, among other things, has made and intends to continue to make the requisite distributions to its stockholders which will relieve the Company from federal income taxes.

Depending on the level of taxable income earned in a tax year, we may choose to carry forward taxable income in excess of current year dividend distributions into the next tax year and pay a 4% excise tax on such income, as required. To the extent that the Company determines that its estimated current year annual taxable income will be in excess of estimated current year dividend distributions, the Company accrues excise tax, if any, on estimated excess taxable income as taxable income is earned. For the years ended December 31, 2007, 2006 and 2005 provisions of approximately $100,000, $570,000 and $158,000 respectively, were recorded for federal excise tax.

Certain of our wholly owned subsidiaries are subject to federal and state income taxes. For the year ended December 31, 2007, we recorded a tax benefit of approximately $900,000 for these subsidiaries. For the year ended December 31, 2006, we recorded a tax provision of $4.4 million, for these subsidiaries. There was no provision recorded for the year ended December 31, 2005.

Net Realized Gains/Losses

During the year ended December 31, 2007, the Company had $725.2 million of sales and repayments resulting in $6.6 million of net realized gains. These sales and repayments included the $133.0 million of loans sold to Ivy Hill. Net realized gains were comprised of $16.2 million of gross realized gains and $9.7 million of gross realized losses. The most significant realized gains during the year ended December 31, 2007 were as a result of the sales and repayments of the investments in The GSI Group, Inc. ("GSI"), Varel Holdings, Inc. ("Varel") and Equinox SMU Partners LLC of $6.2 million, $4.0 million and $3.5 million, respectively, offset by an $8.8 million realized loss in Berkline/Benchcraft Holdings LLC ("Berkline").

During the year ended December 31, 2006, the Company had $457.7 million of sales and repayments resulting in $27.6 million of net realized gains. Net realized gains were comprised of $27.7 million of gross realized gains and $101,000 of gross realized losses. The most significant realized gains during the year ended December 31, 2006 were as a result of the sales and repayments of the investments in CICQ, LP ("CICQ"), United Site Services, Inc. and GCA Services Group, Inc. of $18.6 million, $4.5 million and $1.0 million, respectively.

During the year ended December 31, 2005, the Company had $118.8 million of sales and repayments resulting in $10.3 million of net realized gains. Net realized gains were comprised of $10.5 million of gross realized gains and $145,000 of gross realized losses. The most significant realized gains during the period were as a result of the sales of the investments in Reef Holdings, Inc. ("Reef"), Esselte, Inc. and Billing Concepts, Inc. of $4.8 million, $2.4 million and $1.8 million, respectively.

Net Unrealized Gains/Losses

For the year ended December 31, 2007, the Company had net unrealized losses of $11.5 million, which was comprised of $52.5 million in unrealized appreciation, $61.2 million in unrealized depreciation and $2.8 million relating to the reversal of prior period net unrealized appreciation. The most significant changes in unrealized appreciation were $27.2 million for the investment in Reflexite Corporation, $5.6 million for the investment in GSI, $4.0 million for the investment in Waste Pro, Inc., $3.6 million for the investment in Daily Candy, Inc., $3.2 million for the investment in Industrial Container Services, Inc., and $3.0 million for the investment in Varel. The most significant changes in unrealized depreciation were $10.5 million for the investment in MPBP Holdings, Inc., $10.0 million for the investment in FirstLight Financial Corporation, $8.0 million for the investment in Wear Me Apparel, LLC, $7.2 million for the investment in Universal Trailer Corporation ("Universal"), $5.6 million for the investment in Primis Marketing Group, Inc., $5.0 million for the investment in Making Memories Wholesale, Inc. ("Making Memories") and $3.2 million for the investment in WasteQuip, Inc. The reversal of prior period not unrealized appreciation was primarily due to the reversal for the appreciation of $5.6 million for the investment in GSI and $4.0 million for the investment in Varel offset by the reversal of depreciation of $8.3 million for the investment in Berkline.

For the year ended December 31, 2006, the Company's investments had a decrease in net unrealized gains/losses of $14.6 million, which was comprised of $9.2 million in unrealized appreciation, $8.9 million in unrealized depreciation and $14.9 million relating to the reversal of prior period net unrealized appreciation. The most significant changes in net unrealized appreciation were the unrealized appreciation for the investment in CICQ of $4.0 million, the unrealized appreciation for the investment in Universal of $3.4 million and the unrealized appreciation for the investment in Varel of $1.0 million, offset by the unrealized depreciation of $6.5 million for the investment in Berkline and unrealized depreciation of $2.4 million for the investment in Making Memories. The reversal of the prior period net unrealized appreciation was primarily due to the reversal of the appreciation of $13.3 million for the investment in CICQ.

For the year ended December 31, 2005, the Company's investments had an increase in net unrealized gains/losses of $4.4 million, which was comprised of $15.5 million in unrealized appreciation, $6.8 million in unrealized depreciation and $4.3 million relating to the reversal of prior period unrealized net appreciation. The most significant changes in net unrealized appreciation were unrealized appreciation of $9.3 million for the investment in CICQ and $4.8 million for the investment in Reef, offset by the unrealized depreciation in Berkline of $1.8 million and Universal of $3.4 million. The reversal of the prior period net unrealized appreciation was primarily due to the reversal of the appreciation of $4.8 million for the investment in Reef which was realized during 2005.

Net Increase in Stockholders' Equity Resulting From Operations

Net increase in stockholders' equity resulting from operations for the year ended December 31, 2007 was $90.8 million. Based on the weighted average shares outstanding during the year ended December 31, 2007, our net increase in stockholders' equity resulting from operations per common share was $1.37 for the year ended December 31, 2007.

Net increase in stockholders' equity resulting from operations for the year ended December 31, 2006 was $69.7 million. Based on the weighted average shares outstanding during the year ended December 31, 2006, our net increase in stockholders' equity resulting from operations per common share was $1.61 for the year ended December 31, 2006.

Net increase in stockholders' equity resulting from operations for the year ended December 31, 2005 was $41.9 million. Based on the weighted average shares outstanding during the year ended December 31, 2005, our net increase in stockholders' equity resulting from operations per common share was $1.78 for the year ended December 31, 2005.

FINANCIAL CONDITION, LIQUIDITY, AND CAPITAL RESOURCES

Since the Company's inception, the Company's liquidity and capital resources have been generated primarily from the net proceeds of our initial public offering and subsequent add-on public offerings of common stock, the Debt Securitization, advances from the CP Funding Facility and the Revolving Credit Facility, as well as cash flows from operations.

We expect to continue to raise new capital in order to fund our investment objective by issuing both debt and equity securities in the future, amending our Facilities and/or recycling lower yielding investments. However, the terms of any future debt and equity issuances, amendments or our ability to recycle cannot be determined and there can be no assurances that the debt or equity markets, amendments to our Facilities or the ability to recycle will be achievable to us on terms we deem acceptable or that our cost of capital will not increase.

Equity Offerings

The following table summarizes the total shares issued and proceeds we received net of underwriting and offering costs for the years ended December 31, 2007, 2006 and 2005 (in millions, except per share amounts):

	Shares issued	Offering price per share	Proceeds net of underwriting and offering costs
August 2007 public offering	2.6	$ 16.30	$ 42.3
April 2007 public offering	15.5	$ 17.97	267.2
February 2007 public offering	1.4	$ 19.95	27.2
Underwriters over-allotment option related to December 2006 public offering	0.4	$ 18.50	7.5
Total for the year ended December 31, 2007	20.0		$ 344.2
December 2006 public offering	2.7	$ 18.50	$ 49.8
July 2006 public offering	10.8	$ 15.67	162.0
Total for the year ended December 31, 2006	13.5		$ 211.8
October 2005 public offering	14.5	$ 15.46	$ 213.5
March 2005 public offering	12.1	$ 16.00	183.9
Total for the year ended December 31, 2005	26.6		$ 397.4

Part of the proceeds from our public offerings in 2007, 2006 and 2005 were used to repay outstanding indebtedness. The remaining unused portions of the proceeds from our public offerings were used to fund investments in portfolio companies in accordance with our investment objective and strategies and market conditions.

As of December 31, 2007, total market capitalization for the Company was $1.1 billion compared to $994.4 million as of December 31, 2006.

Debt Capital Activities

Our debt obligations consisted of the following as of December 31, 2007 and 2006 (in millions):

	December 31, 2007	December 31, 2006
Revolving Credit Facility	$ 282.5	$ 193.0
CP Funding Facility	85.0	15.0
Debt Securitization	314.0	314.0
	$ 681.5	$ 522.0

The weighted average interest rate and weighted average maturity of all our outstanding borrowings as of December 31, 2007 were 5.66% and 6.9 years, respectively.

The weighted average interest rate and weighted average maturity of all our outstanding borrowings as of December 31, 2006 were 6.06% and 9.0 years, respectively.

The ratio of total debt outstanding to stockholders' equity as of December 31, 2007 was 0.60:1:00 compared to 0.61:1.00 as of December 31, 2006.

A summary of our contractual payment obligations as of December 31, 2007 are as follows (in millions):

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Revolving Credit Facility	$ 282.5	$	$ 282.5	$	$
CP Funding Facility	85.0	85.0			
Debt Securitization	314.0				314.0
Total Debt	$ 681.5	$ 85.0	$ 282.5	$	$ 314.0

On November 3, 2004, through our wholly owned subsidiary, Ares Capital CP Funding LLC ("Ares Capital CP"), we entered into a revolving credit facility (the "CP Funding Facility") that, as amended, allows Ares Capital CP to issue up to $350.0 million of variable funding certificates ("VFC").

Under the CP Funding Facility, funds are loaned to Ares Capital CP by or through Wachovia Capital Markets, LLC at prevailing commercial paper rates, or, if the commercial paper market is at any time unavailable, at prevailing LIBOR rates, plus, in each case, an applicable spread. The funds are used for the simultaneous purchase by Ares Capital CP from the Company of loan investments originated or otherwise acquired by the Company. Through this simultaneous purchase from the Company by Ares Capital CP with funds obtained by Ares Capital CP from the CP Funding Facility, the Company is able to obtain the benefits of the CP Funding Facility.

As part of the CP Funding Facility, we are subject to limitations as to how borrowed funds may be used including restrictions on geographic concentrations, sector concentrations, loan size, payment frequency and status, average life, collateral interests and investment ratings as well as regulatory restrictions on leverage which may affect the amount of funds that Ares Capital CP may obtain. There are also certain requirements relating to portfolio performance, including required minimum portfolio yield and limitations on delinquencies and charge-offs, violation of which could result in the early amortization of the CP Funding Facility, limit further advances under the CP Funding 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 CP Funding Facility. The CP Funding Facility expires on October 8, 2008 unless extended prior to such date with the consent of the lender. If the CP Funding Facility is not extended, any principal amounts then outstanding will be amortized over a 24 month period through a termination date of October 6, 2010. Additionally, we are also required to pay a commitment fee (as described below) for any unused portion of the CP Funding Facility.

The interest rate charged on the CP Funding Facility is based on the commercial paper rate plus 1.00% and payable quarterly. On October 18, 2007, we entered into an amendment to increase the interest rate charged on the CP Funding Facility from the commercial paper rate plus 0.70% to the commercial paper rate plus 1.00%. As of December 31, 2007, the commercial paper rate was 5.114%. The commitment fee for unused portions of the credit facility ranges from 0.10% to 0.125%, depending on funding levels. The available amount for borrowing under the CP Funding Facility is $350.0 million (see Note 8 to the consolidated financial statements for more detail on the CP Funding Facility arrangement). As of December 31, 2007 and March 20, 2008, there was $85.0 million outstanding under the CP Funding Facility.

On December 28, 2005, we entered into the Revolving Credit Facility with the lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent, together with various supporting documentation, including a guarantee and security agreement. On November 13, 2007, the lenders entered into an amendment that increased the aggregate principal amount available for borrowing from $350.0 million to $510.0 million at any one time outstanding and up to a maximum of $765.0 million if we fully exercise the "accordian" feature of the Revolving Credit Facility. As of December 31, 2007, the aggregate principal amount of commitments under the Revolving Credit Facility was $510.0 million.

The Revolving Credit Facility provides also for issuing letters of credit. The Revolving Credit Facility is a five-year revolving facility (with a stated maturity date of December 28, 2010) and with certain exceptions is secured by substantially all of the assets in our portfolio (other than investments held by Ares Capital CP under the CP Funding Facility and investments held by ARCC CLO under the Debt Securitization (as defined below)).

Subject to certain exceptions, the interest rate payable under the Revolving Credit Facility is 100 basis points over LIBOR and the commitment fee for unused portions of the credit facility is 0.20%.

Under the Revolving Credit Facility, we have made certain representations and warranties and are required to comply with various covenants, reporting requirements and other customary requirements for similar revolving credit facilities, including, without limitation, covenants related to: (a) limitations on the incurrence of additional indebtedness and liens, (b) limitations on certain investments, (c) limitations on certain restricted payments, (d) maintaining a certain minimum stockholders' equity, (e) maintaining a ratio of total assets (less total liabilities) to total indebtedness, of Ares Capital and its subsidiaries, of not less than 2.0:1.0, (f) maintaining minimum liquidity, and (g) limitations on the creation or existence of agreements that prohibit liens on certain properties of Ares Capital and its subsidiaries.

In addition to the asset coverage ratio described above, borrowings under the Revolving Credit Facility (and the incurrence of certain other permitted debt) will be subject to compliance with a borrowing base that will apply different advance rates to different types of assets in our portfolio. The Revolving Credit Facility also includes an "accordion" feature that allows us to increase the size of the Revolving Credit Facility to a maximum of $765.0 million under certain circumstances. The Revolving Credit Facility also includes usual and customary events of default for senior secured revolving credit facilities of this nature.

The total outstanding committed amount for borrowing under the Revolving Credit Facility is $510.0 million. As of December 31, 2007 and March 20, 2008, there was $282.5 million and $450.2 million outstanding, respectively, under the Revolving Credit Facility. The Revolving Credit Facility expires on December 28, 2010.

On July 7, 2006, through our newly formed, wholly owned Delaware subsidiary, ARCC CLO 2006 LLC ("ARCC CLO"), we completed a $400.0 million debt securitization (the "Debt Securitization") where approximately $314.0 million principal amount of asset-backed notes (including $50.0 million revolving notes, all of which have been drawn down as of September 30, 2007) (the "CLO Notes") were issued to third parties and secured by a pool of middle market loans that have been purchased or originated by the Company. We retained approximately $86.0 million of certain BBB and non-rated securities in the debt securitization (the "Retained Notes"). The blended pricing of the CLO Notes, excluding fees, is approximately 3-month LIBOR plus 34 basis points. The Debt Securitization is an on-balance-sheet financing for the Company. As of December 31, 2007 and March 20, 2008, $314.0 million was outstanding under the Debt Securitization (not including the Retained Notes). The CLO Notes mature on December 20, 2019.

In July 2007, we received a long-term issuer rating of Baa3 from Moody's Investor Service and a long-term counterparty credit rating from Standard & Poor's Ratings Service of BBB, which we believe will provide access to broader financing sources and further diversify our capital raising alternatives.

OFF BALANCE SHEET ARRANGEMENTS

As of December 31, 2007, the Company had committed to make a total of approximately $323.6 million of investments in various revolving senior secured loans. As of December 31, 2007, $244.4 million was unfunded. Included within the $323.6 million commitment in revolving secured loans is a commitment to issue up to $11.0 million in standby letters of credit through a financial intermediary on behalf of certain portfolio companies. Under these arrangements, the Company would be required to make payments to third-party beneficiaries if the portfolio companies were to default on their related payment obligations. As of December 31, 2007, the Company had $8.8 million in standby letters of credit issued and outstanding on behalf of the portfolio companies, of which no amounts were recorded as a liability. Of these letters of credit, $1.3 million expire on June 10, 2013, $500,000 expire on August 31, 2010, $4.6 million expire on February 28, 2009 and $2.4 million expire on September 30, 2008. These letters of credit may be extended under substantially similar terms for additional one-year terms at the Company's option until the Revolving Credit Facility, under which the letters of credit were issued, matures on December 28, 2010.

As of December 31, 2007, the Company was subject to subscription agreements to fund up to $111.8 million of equity commitments, substantially all at the discretion of the Company in private equity investment partnerships. As of December 31, 2007, $1.3 million was funded to these partnerships.

As of December 31, 2006, the Company had committed to make a total of approximately $174.0 million of investments in various revolving senior secured and subordinated loans. As of December 31, 2006, $117.0 million was unfunded. Additionally, $129.8 million of the $174.0 million in commitments extended beyond the maturity date of our Revolving Credit Facility. Included within the $174.0 million in commitments in revolving secured and subordinated loans were commitments to issue up to $3.8 million in standby letters of credit through a financial intermediary on behalf of certain portfolio companies. Under these arrangements, the Company would be required to make payments to third-party beneficiaries if the portfolio companies were to default on their related payment obligations. As of December 31, 2006, the Company had $2.8 million in standby letters of credit issued and outstanding on behalf of the portfolio companies, of which no amounts were recorded as a liability.

As of December 31, 2006, the Company was subject to a subscription agreement to fund up to $10.0 million of equity commitments, substantially all at the discretion of the Company in a private equity investment partnership. As of December 31, 2006, $225,000 was funded to this partnership.

We intend to fund these commitments and prospective investment opportunities with existing cash, through cash flow from operations before new investments, through borrowings under our Facilities or other long-term debt agreements, or through the sale or issuance of new equity capital.

Quantitative And Qualitative Disclosures About Market Risk

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

Interest Rate Risk

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

As of December 31, 2007, approximately 36% of the investments at fair value in our portfolio were at fixed rates while approximately 52% were at variable rates and 12% were non-interest earning. In addition, the Debt Securitization, the CP Funding Facility and the Revolving Credit Facility all feature variable rates.

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

On January 7, 2005, 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 agreement allows us to receive an interest payment when the 3-month LIBOR exceeds 6.5% and obligates us to pay an interest payment when the 3-month LIBOR is less than 2.72%. The costless collar resets quarterly based on the 3-month LIBOR. As of December 31, 2007, the 3-month LIBOR was 4.70%. As of December 31, 2007, this agreement had no fair value.

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.

Based on our December 31, 2007 balance sheet, the following table shows the impact on net income of base rate changes in interest rates assuming no changes in our investment and borrowing structure (in millions).

Basis Point Change	Interest Income	Interest Expense	Net Income
Up 300 basis points	$ 24.4	$ 20.4	$ 4.0
Up 200 basis points	$ 16.3	$ 13.6	$ 2.7
Up 100 basis points	$ 8.1	$ 6.8	$ 1.3
Down 100 basis points	$ (8.1)	$ (6.8)	$ (1.3)
Down 200 basis points	$ (16.3)	$ (13.6)	$ (2.7)
Down 300 basis points	$ (24.4)	$ (20.4)	$ (4.0)

Portfolio Valuation

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 based on the input of our management and audit committee. In addition, the board of directors currently receives input from independent valuation firms that have been engaged at the direction of the board to assist in the valuation of each portfolio investment at least once during a trailing 12 month period. The valuation process is conducted at the end of each fiscal quarter, with approximately a quarter of our valuations of portfolio companies subject to review by an independent valuation firm each quarter. The types of factors that the board may take into account in fair value valuation of our investments include, as relevant, the enterprise value of a portfolio company, 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 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 may differ materially from the values that we may ultimately realize.

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

With respect to investments for which market quotations are not readily available, our board of directors undertakes a multi-step valuation process each quarter, as described below:

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

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

The audit committee of our board of directors reviews these preliminary valuations, as well as the input of an independent valuation firm with respect to the valuations of approximately a quarter of our portfolio companies.

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 management and audit committee and independent valuation firms.

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 report of our independent registered public accounting firm on the senior securities table of December 31, 2004, 2005, 2006 and 2007 is attached as an exhibit to the registration statement of which this prospectus is a part. The " " indicates information that the SEC expressly does not require to be disclosed for certain types of senior securities.

Class and Year	Total Amount Outstanding Exclusive of Treasury Securities(1)	Asset Coverage Per Unit(2)	Involuntary Liquidating Preference Per Unit(3)	Average Market Value Per Unit(4)
Debt Securitization				
Fiscal 2007	$ 314,000,000	$ 1,220.95	$	N/A
Fiscal 2006	$ 274,000,000	$ 1,499.51	$	N/A
CP Funding Facility				
Fiscal 2007	$ 85,000,000	$ 330.07	$	N/A
Fiscal 2006	$ 15,000,000	$ 82.09	$	N/A
Fiscal 2005	$ 18,000,000	$ 32,645.12	$	N/A
Fiscal 2004	$ 55,500,000	$ 3,877.62	$	N/A
Revolving Credit Facility				
Fiscal 2007	$ 282,528,056	$ 1,098.58	$	N/A
Fiscal 2006	$ 193,000,000	$ 1,056.23	$	N/A
Fiscal 2005	$	$	$	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. In order to determine the specific Asset Coverage Per Unit for each of the Debt Securitization, CP Funding Facility and the Revolving Credit Facility, the total Asset Coverage Per Unit was divided based on the amount outstanding at the end of the period for each.

(3) The amount to which such class of senior security would be entitled upon the involuntary liquidation of the issuer in preference to any security junior to it.

(4) Not applicable, as senior securities are not registered for public trading.

BUSINESS

GENERAL

Ares Capital is a specialty finance company that is a closed-end, non-diversified management investment company incorporated in Maryland. We have elected to be regulated as a BDC under the Investment Company Act. We were founded in April 2004 and completed our initial public offering on October 8, 2004. Ares Capital's investment objective is to generate both current income and capital appreciation through debt and equity investments. We primarily invest in U.S. middle market companies, where we believe the supply of primary capital is limited and the investment opportunities are most attractive. However, we may from time to time invest in larger companies.

We invest primarily 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 instruments. Our investments have generally ranged between $10 million and $50 million each, although the investment sizes may be more or less than the targeted range and are expected to grow with our capital availability. We also, to a lesser extent, make equity investments in private middle market companies. These investments have generally been less than $10 million each but may grow with our capital availability and are usually made in conjunction with loans we make to these companies. In addition, the proportion of these investments will change over time given our views on, among other things, the economic and credit environment we are operating in. In connection with our investing activities, we may make commitments with respect to indebtedness or securities of a potential portfolio company substantially in excess of our final investment. In such situations, while we may initially agree to fund up to a certain dollar amount of an investment, we may syndicate a portion of such amount to third parties prior to closing such investment, such that we make a smaller investment than what was reflected in our original commitment.

The first and second lien senior loans generally have stated terms of three to 10 years and the mezzanine debt investments generally have stated terms of up to 10 years, but the expected average life of such first and second lien loans and mezzanine debt is generally between three and seven years. However, there is no limit on the maturity or duration of any security in our portfolio. The debt that we invest in typically is not initially 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 Investors Service or lower than "BBB-" by Standard & Poor's Corporation). We may invest without limit in debt of any rating, as well as debt that has not been rated by any nationally recognized statistical rating organization.

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 investing in senior loans, high yield bonds, mezzanine debt and private equity. The Company has access to the Ares staff of approximately 98 investment professionals and to the 94 administrative professionals employed by Ares who provide assistance in accounting, legal, compliance, technology 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.

In addition to making investments in the Ares Capital portfolio, we manage a senior debt fund, Ivy Hill Middle Market Credit Fund, Ltd. ("Ivy Hill"), which was established during 2007. Our wholly owned subsidiary, Ivy Hill Asset Management, L.P., manages Ivy Hill.

About Ares

Ares is an independent international firm with approximately $20.0 billion of total committed capital and over 220 employees as of the date of this prospectus. 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 $13.5 billion of committed capital, focusing primarily on syndicated senior secured loans, high yield bonds, distressed debt, other liquid fixed income investments and other publicly traded debt securities.

Private Debt Group. The Ares Private Debt Group manages the assets of Ares Capital and ACE. 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 currently has approximately $2.8 billion of total committed capital. ACOF generally makes private equity investments in companies 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 31 investment professionals led by our President, Michael Arougheti, and the partners of Ares Capital Management, Eric Beckman, Kipp deVeer, Mitchell Goldstein and Michael Smith. Ares Capital Management leverages off of Ares' entire investment platform and benefits from the significant capital markets, trading and research expertise of all of Ares' investment professionals. Ares funds currently hold over 600 investments in over 30 different industries and have made investments in over 1,600 companies since inception. Ares Capital Management's investment committee has eight members, including Mr. Arougheti, several Ares Capital Management partners, and four founding members of Ares.

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 and loan 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.

We believe that current credit market dislocation has brought a reduction in competition, a widening of interest spreads, increasing fees and generally more conservative capital structures and deal terms.

COMPETITIVE ADVANTAGES

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

Existing investment platform

Ares currently manages approximately $20.0 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

John Kissick, Antony Ressler, Bennett Rosenthal 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 Arougheti, leads a dedicated origination and transaction development team of 31 investment professionals, including Mr. Arougheti and the partners of Ares Capital Management, Eric Beckman, Kipp deVeer, Mitch Goldstein and Michael Smith. As a result of Ares' extensive investment experience and the history of its seasoned management team, Ares has developed a strong reputation in the capital markets. We believe that Ares' long history in the market and the extensive experience of the principals investing across market cycles provides Ares Capital Management with real competitive advantage in identifying, investing in, and managing a portfolio of investments in middle market companies.

Experience and focus on middle market companies

Ares has historically focused on investments in middle market companies and we benefit from this experience. In sourcing and analyzing deals 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 believe this network enables us to attract well-positioned prospective portfolio company investments. Our investment adviser works closely with the Ares investment professionals who oversee a portfolio of investments in over 600 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 16 years ago by its founders. Specifically, Ares Capital Management's investment philosophy, portfolio construction and portfolio management involve an assessment of the overall macroeconomic environment, financial markets and company-specific research and analysis. Our investment approach emphasizes capital preservation, low volatility and minimization of downside risk. Our investment adviser and members of our investment committee have significant experience investing across market cycles. 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 1,600 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. 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 objective. In addition, we have the ability to hold larger investments than many of our middle market competitors. The ability to underwrite, syndicate and hold larger investments (i) increases flexibility, (ii) potentially increases net fee income and earnings through syndication, (iii) broadens market relationships and deal flow and (iv) allows us to optimize portfolio composition. We also focus on acting as agent for or leading many of our investments. In these situations we tend to have (i) greater control over deal terms, pricing and structure and (ii) a closer relationship with issuers leading to more active portfolio management.

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 (although we may co-invest on a concurrent basis with funds managed by Ares, subject to compliance with existing regulatory guidance, applicable regulations and our allocation procedures). Some of these co-investments would only be permitted pursuant to an exemptive order from the SEC and we have currently determined not to pursue obtaining such an order.

Also, while we are permitted to finance investments using debt, our ability to use debt is limited in certain significant respects. We borrow funds to make additional investments. See "Regulation." We have elected 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

Ares Capital Corporation portfolio

We have created a diversified portfolio that includes first and second lien senior loans and mezzanine debt by investing a range of $10 million to $50 million of capital, on average, although the investment sizes may be more or less and depending on capital availability, are expected to grow. We also, to a lesser extent, make equity investments in private middle market companies. These investments have generally been less than $10 million each but may grow with our capital availability and are usually made in conjunction with loans we make to these companies. In addition, the proportion of these investments will change over time given our views on, among other things, the economic and credit environment we are operating in. In connection with our investing activities, we may make commitments with respect to indebtedness or securities of a potential portfolio company substantially in excess of our final investment. In such situations, while we may initially agree to fund up to a certain dollar amount of an investment, we may syndicate a portion of such amount to third parties prior to closing such investment, such that we make a smaller investment than what was reflected in our original commitment. 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.

In making an equity 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.

Our principal focus is investing in first and second lien senior loans and mezzanine debt and, to a lesser extent, equity capital, of middle market companies in a variety of industries. We generally target companies that generate positive cash flows. Ares has a staff of 98 investment professionals who specialize in specific industries. We 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

Cargo Transport

Chemicals

Consumer Products

Containers/Packaging

Education

Energy

Environmental Services

Farming and Agriculture

Financial

Food and Beverage

Gaming

Health Care

Homebuilding

Lodging and Leisure

Manufacturing

Metals/Mining

Paper and Forest Products

Printing/Publishing/Media

Retail

Restaurants

Supermarket and Drug

Technology

Utilities

Wireless and Wireline Telecom

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

The industry and geographic compositions of the portfolio at fair value at December 31, 2007 and December 31, 2006 were as follows:

	December 31	
Industry	2007	2006
Health Care	17.1	14.4%
Financial	9.9	5.6
Business Services	8.5	4.7
Printing/Publishing/Media	7.3	9.5
Education	6.9	5.1
Retail	6.5	6.0
Beverage/Food/Tobacco	6.2	4.3
Other Services	5.8	7.5
Consumer Products	5.6	8.0
Environmental Services	4.9	5.4
Manufacturing	4.7	7.7
Restaurants	4.2	6.4
Containers/Packaging	2.7	6.7
Aerospace and Defense	2.5	2.1
Computers/Electronics	2.0	1.8
Health Clubs	1.9	
Grocery	1.5	
Cargo Transport	0.8	1.0
Homebuilding	0.5	0.8
Telecommunications	0.5	
Broadcasting/Cable		2.1
Farming and Agriculture		0.9
Total	100.0%	100.0%

	December 31	
Geographic Region	2007	2006
Mid-Atlantic	22.9%	29.4%
Midwest	22.6	19.2
West	19.0	21.6
Southeast	18.3	21.3
International	12.7	2.8
Northeast	4.5	5.7
Total	100.0%	100.0%

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 (although we may co-invest on a concurrent basis with funds managed by Ares, subject to compliance with existing regulatory guidance, applicable regulations and our allocation procedures). Some of these co-investments would only be permitted pursuant to an exemptive order from the SEC and we have currently determined not to pursue obtaining such an order.

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.

Managed funds portfolio

We manage a middle market credit fund, Ivy Hill, in exchange for a 0.50% management fee on the average total assets of Ivy Hill. Ivy Hill primarily invests in first and second lien bank debt of middle market companies. Ivy Hill was initially funded in November 2007 with $404.0 million of capital including a $56.0 million investment by the Company consisting of $40.0 million of Class B notes and $16.0 million of subordinated notes.

Ivy Hill purchased $133.0 million of investments from the Company in the fourth quarter of 2007 and may from time to time, buy additional investments from the Company.

INVESTMENT SELECTION

Ares' investment philosophy was developed over the past 16 years and has remained consistent throughout a number of economic cycles. In managing the Company, Ares Capital Management employs 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 management construction 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 follows a rigorous process based on:

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

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

Intensive due diligence

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

meeting with 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;

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' long-standing, consistent investment approach, 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 and other investment professionals are in favor of the potential investment, then it is first presented to an underwriting committee which is comprised of Mr. Arougheti and the partners of Ares Capital Management. If the underwriting committee approves of the potential investment it is then presented to the investment committee.

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

Investment structure

Once we have determined that a prospective portfolio company is suitable for investment, we work with the management of that company and its other capital providers, including senior, junior, and equity capital providers, to structure an investment. We 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. Approximately 5% of the investments initially reviewed eventually result in the issuance of formal commitments.

Debt investments

We invest in portfolio companies primarily in the form of first and second lien senior loans and long-term mezzanine debt. The first and second lien senior loans generally have terms of three to 10 years. We generally obtain security interests in the assets of our portfolio companies that will serve as

collateral in support of the repayment of the first and second lien senior loans. This collateral may take the form of first or second priority liens on the assets of a portfolio company.

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. The mezzanine debt investments generally have terms of up to 10 years. These loans typically have interest-only payments in the early years, with amortization of principal deferred to the later years of the mezzanine debt. In some cases, 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, we require 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 portfolio company, upon the occurrence of specified events. In many cases, we 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 dividends and distributions on liquidation. In some cases, we may acquire common equity. In general, our equity investments are not control-oriented investments and in many cases we 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, these investments have generally been less than $10 million each but may grow with our capital availability and are usually made in conjunction with loans we make to these companies. 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 closely monitors each investment we make, maintains a regular dialogue with both the management team and other stakeholders and seeks specifically tailored financial reporting. In addition, senior investment professionals of Ares sometimes take board seats or obtain board observation rights. As of December 31, 2007, of the 76 funded portfolio companies Ares Capital Management had board seats or board observation rights on more than 38% of the operating companies in our portfolio.

Post-investment, in addition to covenants and other contractual rights, Ares seeks 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 invested to other portfolio companies to capitalize on complementary business activities and best practices.

In addition to various risk management and monitoring tools, our investment adviser grades all investments on a scale of 1 to 4 no less frequently than quarterly. This system is intended to reflect the performance of the portfolio company business, the collateral coverage of the investments and other factors considered relevant.

Under this system, investments with a grade of 4 involve the least amount of risk in our portfolio. The portfolio company is performing above expectations and the trends and risk factors are generally favorable, including a potential exit. Investments graded 3 involve a level of risk that is similar to the risk at the time of origination. The portfolio company is performing as expected and the risk factors are neutral to favorable. All new investments are initially graded 3. Investments graded 2 involve a portfolio company performing below expectations and indicates that the investment risk has increased materially since origination. The portfolio company may be out of compliance with debt covenants, however, payments are generally not more than 120 days past due. For investments graded 2, we increase procedures to monitor the portfolio company and we will write down the fair value of the investment if it is deemed to be impaired. An investment grade of 1 indicates that the portfolio company is performing materially below expectations and that the investment risk has substantially increased since origination. Most or all of the debt covenants are out of compliance and payments are substantially delinquent. Investments graded 1 are not anticipated to be repaid in full and we will reduce the fair market value of the investment to the amount we anticipate will be recovered. The investment adviser employs half-point increments to reflect underlying trends in portfolio company operating or financial performance, as well as the general outlook. As of December 31, 2007, the weighted average investment grade of the investments in our portfolio was 3.0 and two loans were past due or on non-accrual.

MANAGERIAL ASSISTANCE

As a BDC, we 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.

COMPETITION

Our primary competitors to provide financing to middle market companies include public and private funds, commercial and investment banks, commercial financing companies and private equity funds. Many of our competitors are substantially larger and have considerably greater financial 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 Investment Company Act imposes on us as a BDC. We use the industry information of Ares' investment professionals to which we have access to assess investment risks and determine appropriate pricing for our investments in portfolio companies. In addition, we believe that the relationships of the members of Ares Capital Management's investment committees and of the senior principals of Ares, 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."

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 are 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 Arougheti, our President, Ares Capital Management has 31 investment professionals who focus on origination and transaction development and the ongoing monitoring of our investments. See "Management Investment Advisory and Management Agreement." In addition, we reimburse Ares Administration for our allocable portion of expenses incurred by it in performing its obligations under the administration agreement, including our allocable portion of the cost of our officers and their respective staffs. See "Management Administration Agreement."

PROPERTIES

We do not own any real estate or other physical properties materially important to our operation. Our headquarters are currently located at 280 Park Avenue, 22nd Floor, Building East, New York, New York 10017. We rent office space directly from a third party pursuant to a lease that expires on February 27, 2011. In addition, we have entered into a sublease with Ares Management LLC whereby Ares Management LLC subleases approximately 25% of the office space for a fixed rent equal to 25% of the basic annual rent payable by us under the lease, plus certain additional costs and expenses.

LEGAL PROCEEDINGS

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

PORTFOLIO COMPANIES

Our investment adviser employs an investment rating system to categorize our investments. See "Business Ongoing Relationships With and Monitoring of Portfolio Companies." As of December 31, 2007, the weighted average investment grade of the debt in our portfolio was 3.0. As of December 31, 2007, the weighted average yield of debt and income producing equity securities in our portfolio was approximately 11.68% (computed as (a) the annual stated interest rate or yield earned plus the net annual amortization of original issue discount and market discount on accruing debt divided by (b) total debt and income producing equity securities at fair value).

The following table describes each of the businesses included in our portfolio and reflects data as of December 31, 2007. Percentages shown for class of investment securities held by us represent percentage of the class owned and do not necessarily represent voting ownership. Percentages shown for equity securities, other than warrants or options, represent the actual percentage of the class of security held before dilution. Percentages shown for warrants and options held represent the percentage of class of security we may own assuming we exercise our warrants or options before dilution.

We have indicated by footnote portfolio companies where we directly or indirectly own more than 25% of the outstanding voting securities of such portfolio company and, therefore, are presumed to be controlled by us under the Investment Company Act and companies that represent portfolio companies where we directly or indirectly own 5% to 25% of the outstanding voting securities of such portfolio company or where we hold one or more seats on the portfolio company's board of directors and, therefore, are deemed to be an affiliated person under the Investment Company Act. We directly or indirectly own less than 5% of the outstanding voting securities of all other portfolio companies (or have no other affiliations with such portfolio companies) listed on the table. We offer to make significant managerial assistance to our portfolio companies. We may receive rights to observe the meetings of our portfolio companies' boards of directors.

ARES CAPITAL CORPORATION AND SUBSIDIARIES
PORTFOLIO COMPANIES
As of December 31, 2007

Company	Industry	Investment	Interest(1)	Maturity	% of Class Held	Fair Value
3091779 Nova Scotia Inc.	Baked goods	Junior secured loan	11.50%	11/3/2012		$ 14,021,000
2700 Matheson Blvd.	manufacturer	Common stock warrants			2.25%	$ (2)
East, Ste. 800, East Tower						
Mississauga, Ontario						
L4W 4V9, Canada						
Abingdon Investments	Investment	Ordinary shares			9.49%	$ 7,745,166
Limited(32)	company					
P. O. Box 44						
Dorey Court, Admiral						
Park						
St. Peter Port						
Guernsey GYI 3BG						
ADF Capital, Inc. & ADF	Restaurant owner	Senior secured revolving loan	8.88% (Libor + 3.50%/Q)	11/27/2013		$ 2,000,000(3)
Restaurant Group, LLC	and operator	Senior secured revolving loan	9.75% (Base Rate + 2.50%/D)	11/27/2013		$ 2,236,726(3)
165 Passaic Avenue		Senior secured loan	13.88% (Libor + 8.50%/Q)	11/27/2012		$ 19,606,317
Suite 301		Senior secured loan	13.88% (Libor + 8.50%/Q)	11/27/2012		$ 990,000
Fairfield, NJ 07004		Senior secured loan	13.88% (Libor + 8.50%/Q)	11/27/2012		$ 14,053,683
		Promissory note	10.00% PIK	11/27/2016		$ 10,725,191
		Common stock warrants			45.70%	$ (2)
American Broadband	Broadband	Senior subordinated loan	8.00% cash, 8.00% PIK	11/7/2014		$ 9,327,115
Communications, LLC	communication	Common stock warrants			17.00%	$ (2)
and American Broadband	services	Senior secured revolving loan		11/7/2014		$ (4)
Holding Company						
401 North Tryon						
10th Floor						
Charlotte, NC 28202						
American Renal	Dialysis provider	Senior secured loan	8.36% (Libor+ 3.25%/S)	12/31/2010		$ 2,131,147
Associates, Inc.		Senior secured loan	8.45% (Libor + 3.25%/Q)	12/31/2011		$ 16,393

Company	Industry	Investment	Interest(1)	Maturity	% of Class Held	Fair Value	
5 Cherry Hill Drive, Suite 120 Danvers, MA 01923		Senior secured loan	9.00% (Base Rate + 1.75%/D)	12/31/2010		$ 196,721	
		Senior secured loan	8.36% (Libor + 3.25%/S)	12/31/2011		$ 5,770,491	
		Senior secured loan	9.00% (Base Rate + 1.75%/D)	12/31/2011		$ 27,868	
		Senior secured loan	8.36% (Libor + 3.25%/S)	12/31/2011		$ 261,997	
		Senior secured loan	8.48% (Libor + 3.25%/Q)	12/31/2011		$ 2,619,971	
		Senior secured revolving loan		12/31/2010		$	(5)
American Residential Services, LLC 860 Ridge Lake Blvd A3-1860 Memphis, TN 38120	Plumbing, heating and air-conditioning services	Junior secured loan	10.00% Cash, 2.00% PIK	4/1/2015		$ 20,101,111	

AP Global Holdings, Inc. 1043 N. 47th Avenue Phoenix, Arizona 85043	Safety and security equipment manufacturer	Senior secured loan	9.73% (Libor + 4.50%/M)	10/26/2013		$	20,000,000
Apogee Retail, LLC 1387 Cope Ave E Maplewood, MN 55109	For-profit thrift retailer	Senior secured loan	10.39% (Libor + 5.25%/S)	3/27/2012		$	9,373,422
		Senior secured loan	10.39% (Libor + 5.25%/S)	3/27/2012		$	19,850,000
		Senior secured loan	10.39% (Libor + 5.25%/S)	3/27/2012		$	11,910,000
		Senior secured revolving loan		3/27/2012		$	(6)
Apple & Eve, LLC and US Juice Partners, LLC(32) PO Box K Roslyn, NY 11576	Juice manufacturer	Senior secured revolving loan	10.93% (Libor + 6.00%/M)	10/5/2013		$	1,846,000(7)
		Senior secured revolving loan	10.93% (Libor + 6.00%/M)	10/5/2013		$	1,000,000(7)
		Senior secured loan	10.93% (Libor + 6.00%/M)	10/5/2013		$	33,915,000
		Senior secured loan	10.93% (Libor + 6.00%/M)	10/5/2013		$	11,970,000
		Senior units			9.71%	$	5,000,000
Arrow Group Industries, Inc. 1680 Route 23 North Wayne, NJ 07470	Residential and outdoor shed manufacturer	Senior secured loan	10.20% (Libor + 5.00%/Q)	4/1/2010		$	5,616,000
Athletic Club Holdings, Inc. 5201 East Tudor Road Anchorage, AK 99504	Premier health club operator	Senior secured loan	9.63% (Libor + 4.5%/Q)	10/11/2013		$	29,423,559
		Senior secured loan	9.63% (Libor + 4.5%/Q)	10/11/2013		$	4,488,339
		Senior secured loan	9.47% (Libor + 4.50/Q)	10/11/2013		$	50,125
		Senior secured loan	9.47% (Libor + 4.50/Q)	10/11/2013		$	7,646
		Senior secured loan	10.75% (Libor + 3.50%/Q)	10/11/2013		$	26,316
		Senior secured loan	10.75% (Libor + 3.50%/Q)	10/11/2013		$	4,015
		Senior secured revolving loan		10/11/2013		$	(8)
AWTP, LLC 2080 Lunt Avenue Elk Grove Village, IL 60007	Water treatment services	Junior secured loan	13.43% (Libor + 8.50%/Q)	12/23/2013		$	1,612,343
		Junior secured loan	13.43% (Libor + 8.50%/Q)	12/23/2013		$	12,061,413
Badanco Enterprises, Inc. 994 Riverview Drive Totowa, NJ 07512	Luggage manufacturer	Senior secured revolving loan	10.50% (Base Rate + 3.25%/D)	1/24/2012		$	2,150,000(9)
		Senior secured loan	10.50% (Base Rate + 3.25%/D)	1/24/2012		$	312,500
		Senior secured loan	9.37% (Libor + 4.50%/M)	1/24/2012		$	5,937,500
		Senior secured loan	9.39% (Libor + 4.50%/B)	1/24/2012		$	4,375,000
Best Brands Corporation 1765 Yankee Doodle Road Eagan, MN 55121	Baked goods manufacturer	Junior secured loan	17.23% (Libor + 12.00%/Q)	6/30/2013		$	27,115,462
		Junior secured loan	17.23% (Libor + 12.00%/Q)	6/30/2013		$	12,168,314
Canon Communications LLC 11444 W. Olympic Blvd. Los Angeles, CA 90064	Print publications services	Junior secured loan	11.60% (Libor + 6.75%/M)	11/30/2011		$	7,525,000
		Junior secured loan	11.60% (Libor + 6.75%/M)	11/30/2011		$	4,250,000
		Junior secured loan	11.60% (Libor + 6.75%/M)	11/30/2011		$	12,000,000
Capella Healthcare, Inc. Two Corporate Center, Suite 200 501 Corporate Center Drive Franklin, TN 37067	Acute care hospital operator	Junior secured loan	10.34% (Libor + 5.50%/Q)	11/30/2013		$	19,000,000
		Junior secured loan	10.34% (Libor + 5.50%/Q)	11/30/2013		$	30,000,000
Captive Plastics, Inc. 251 Circle Drive North Piscataway, NJ 08854	Plastics container manufacturer	Junior secured loan	12.34% (Libor + 7.25%/Q)	2/28/2012		$	3,500,000
		Junior secured loan	12.34% (Libor + 7.25%/Q)	2/28/2012		$	12,000,000
Charter Baking Company, Inc. 3300 Walnut Street Unit C Boulder, CO 80301	Baked goods manufacturer	Preferred stock			3.00%	$	2,499,998
Courtside Acquisition Corp. 1700 Broadway New York, NY 10019	Community newspaper publisher	Senior subordinated loan	15.00% PIK	6/29/2014		$	32,279,694

CT Technologies Intermediate Holdings, Inc. and CT Technologies Holdings, LLC(32) 8901 Farrow Rd Columbia, SC 29203	Healthcare information management services	Senior secured revolving loan	10.38% (Libor + 5.00%/Q)	6/15/2013		$	810,000(10)
		Senior secured revolving loan	10.25% (Libor + 5.00%/M)	6/15/2013		$	810,000(10)
		Senior secured revolving loan	10.15% (Libor + 5.00%/Q)	6/15/2013		$	810,000(10)
		Senior secured loan	10.38% (Libor + 5.00%/S)	6/15/2013		$	13,000,000
		Senior secured loan	10.38% (Libor + 5.00%/S)	6/15/2013		$	4,000,000
		Senior secured loan	10.25% (Libor + 5.00%/M)	6/15/2013		$	6,500,000
		Senior secured loan	10.25% (Libor + 5.00%/M)	6/15/2013		$	2,000,000
		Senior secured loan	10.15% (Libor + 5.00%/Q)	6/15/2013		$	19,500,000
		Senior secured loan	10.15% (Libor + 5.00%/Q)	6/15/2013		$	6,000,000
		Preferred stock			20.00%	$	6,000,000
		Common stock			5.90%	$	4,000,003
		Common stock			20.00%	$	
		Senior secured revolving loan		6/17/2013		$	(11)
Daily Candy, Inc.(32) c/o Pilot Group LP 745 Fifth Avenue, 24th Floor New York, NY 10151	Internet publication provider	Senior secured loan	9.72% (Libor + 5.00%/S)	5/29/2009		$	497,406
		Senior secured loan	9.72% (Libor + 5.00%/S)	5/29/2009		$	11,629,133
		Senior secured loan	9.72% (Libor + 5.00%/S)	5/29/2009		$	4,520
		Senior secured loan	9.72% (Libor + 5.00%/S)	5/29/2009		$	105,674
		Senior secured loan	9.84% (Libor + 5.00%/Q)	5/29/2009		$	2,836
		Senior secured loan	9.84% (Libor + 5.00%/Q)	5/29/2009		$	66,298
		Common stock			5.00%	$	4,085,000
		Common stock warrants			5.00%	$	4,514,997(2)
Direct Buy Holdings, Inc. and Direct Buy Investors LP(32) 8450 Broadway Merrillville, IN 46410	Membership-based buying club franchisor and operator from the manufacturer	Senior secured loan	9.74% (Libor + 4.50%/M)	11/30/2012		$	2,400,000
		Partnership interests			19.31%	$	10,000,000
Diversified Collection Services, Inc. 333 North Canyons Pkwy. Livermore, CA 94551	Collections services	Senior secured loan	10.60% (Libor + 5.75%/M)	2/4/2011		$	760,744
		Senior secured loan	10.60% (Libor + 5.75%/M)	2/4/2011		$	4,260,167
		Senior secured loan	13.35% (Libor + 8.50%/M)	8/4/2011		$	1,358,781
		Senior secured loan	13.35% (Libor + 8.50%/M)	8/4/2011		$	5,271,219
		Preferred stock			0.56%	$	
		Common stock			0.68%	$	

DSI Renal, Inc.	Dialysis provider	Senior subordinated note	12.00% Cash, 2.00% PIK	4/7/2014		$	53,932,626
511 Union Street		Senior subordinated note	12.00% Cash, 2.00% PIK	4/7/2014		$	11,576,507
Suite 1800		Senior secured revolving loan	10.25% (Base Rate + 3.00%/D)	3/31/2013		$	3,024,000(12)
Nashville, TN 37219		Senior secured revolving loan	8.19% (Libor + 3.00%/Q)	3/31/2013		$	1,440,000(12)
		Senior secured revolving loan	8.13% (Libor + 3.00%/Q)	3/31/2013		$	1,296,000(12)
ELC Acquisition	Developer,	Senior secured revolving loan	9.18% (Libor + 3.75%/Q)	11/29/2012		$	2,707,304(13)
Corporation	manufacturer and	Senior secured loan	9.18% (Libor + 3.75%/Q)	11/30/2012		$	354,578
2 Lower Ragsdale Drive	retailer of	Junior secured loan	12.11% (Libor + 7.00%/Q)	11/29/2013		$	8,333,333
Monterey, CA 93940	educational						
	products						
Emerald Performance	Polymers and	Senior secured loan	9.00% (Base Rate + 1.75%/D)	5/22/2011		$	10,164,115
Materials, LLC	performance	Senior secured loan	10.75% (Base Rate + 3.50%/D)	5/22/2011		$	1,522,742
2020 Front Street,	materials	Senior secured loan	13.00%	5/22/2011		$	4,422,077
Suite 100	manufacturer						
Cuyahoga Falls, OH							
44221							
Encanto Restaurants, Inc.	Restaurant owner	Junior secured loan	7.50% Cash, 3.50% PIK	8/2/2013		$	24,352,333
c/o Harvest Partners, Inc.	and operator	Junior secured loan	7.50% Cash, 3.50% PIK	8/2/2013		$	1,014,681
280 Park Avenue,							
33rd Floor							
New York, NY 10017							
Equinox EIC	Medical school	Senior secured revolving loan	11.36% (Libor + 6.00%/Q)	12/31/2012		$	3,000,000(14)
Partners, LLC and	operator	Senior secured revolving loan	12.75% (Base Rate + 5.00%/D)	12/31/2012		$	3,138,503(14)
MUA Management(33)		Senior secured revolving loan	12.75% (Base Rate + 5.00%/D)	12/31/2012		$	2,000,000(15)
Company, Ltd.		Senior secured revolving loan	11.24% (Libor + 6.00%/Q)	12/31/2012		$	2,000,000(15)
1750 W. Broadway St.		Senior secured loan	10.86% (Libor + 6.00%/Q)	12/31/2012		$	5,474,738
#222		Senior secured loan	11.11% (Libor + 6.00%/Q)	12/31/2012		$	14,112,565
Oviedo, FL 32765		Senior secured loan	11.21% (Libor + 6.00%/Q)	12/31/2012		$	7,450,000
		Common membership interest			26.27%	$	15,000,000
Firstlight Financial	Investment	Senior subordinated loan	10.00% PIK	12/31/2016		$	64,944,323
Corporation(32)	company	Common stock			20.00%	$	7,500,000
1700 E. Putnum Ave.		Common stock			100.00%	$	22,500,000
Old Greenwich, CT							
06870							
GCA Services	Custodial	Senior secured loan	12.00%	12/31/2011		$	30,000,000
Group, Inc.	services	Senior secured loan	12.00%	12/31/2011		$	12,000,000
300 Four Falls Corporate							
Center, Suite 650							
West Conshohocken, PA							
19428							
GG Merger Sub I, Inc.	Drug testing	Senior secured loan	9% (Libor + 4.00%/S)	12/13/2014		$	23,330,000
12120 Sunset Hills Road,	services						
Suite 600							
Reston, VA 20190							
Growing Family, Inc.	Photography	Senior secured revolving loan	8.02% (Libor + 3.00%/Q)	3/16/2011		$	480,000(16)
and GFH Holdings, LLC	services	Senior secured revolving loan	8.26% (Libor + 3.00%/Q)	3/16/2011		$	732,000(16)
3613 Mueller Road		Senior secured loan	8.56% (Libor + 3.50%/Q)	3/16/2011		$	352,272
Saint Charles, MO 63301		Senior secured loan	8.56% (Libor + 3.50%/Q)	3/16/2011		$	9,259,728
		Senior secured loan	8.47% (Libor + 3.50%/Q)	3/16/2011		$	67,728
		Senior secured loan	8.47% (Libor + 3.50%/Q)	3/16/2011		$	1,780,272
		Senior secured loan	10.97% (Libor + 6.00%/Q)	3/16/2011		$	3,147,309
		Senior secured loan	10.97% (Libor + 6.00%/Q)	3/16/2011		$	45,834
		Common stock			1.77%	$	90,002
HB&G Building	Synthetic and	Senior subordinated loan	13.00% cash, 3.00% PIK	3/7/2011		$	8,839,106
Products	wood product	Common stock			2.40%	$	376,447
P.O. Box 589	manufacturer	Common stock warrants			3.90%	$	326,255(2)
Troy, AL 36081							
ILC Industries, Inc.	Industrial	Junior secured loan	11.50%	8/24/2012		$	12,000,000
105 Wilbur Place	products provider						

Bohemia, NY 11716						
Imperial Capital	Investment	Common units			5.00%	$ 14,997,160
Group, LLC(32)	banking services	Common units			5.00%	$ 2,526
2000 Avenue of the		Common units			4.99%	$ 315
Stars, 9th Floor S						
Los Angeles, CA 90067						
Industrial Container	Industrial	Senior secured revolving loan	10.25% (Base Rate + 3.00%/D)	9/30/2011		$ 1,858,696(17)
Services, LLC	container	Senior secured revolving loan	8.93% (Libor + 4.00%/M)	9/30/2011		$ 4,130,435(17)
1540 Greenwood	manufacturer,	Senior secured loan	8.93% (Libor + 4.00%/M)	9/30/2011		$ 5,896,523
Avenue	reconditioner and	Senior secured loan	8.93% (Libor + 4.00%/M)	9/30/2011		$ 989,873
Montebello, CA 90640	servicer	Senior secured loan	8.93% (Libor + 4.00%/M)	9/30/2011		$ 15,160,594
		Common stock			11.41%	$ 5,000,004
Innovative Brands, LLC	Consumer	Senior secured loan	11.13%	9/22/2011		$ 12,837,500
4729 East Union Hills	products and	Senior secured loan	11.13%	9/22/2011		$ 11,880,000
Drive, Suite #103	personal care					
Phoenix, AZ 85050	manufacturer					
Instituto de Banca y	Private school	Senior secured revolving loan	8.10% (Libor + 3.00%/M)	3/15/2014		$ 1,125,000(18)
Comercio, Inc.	operator	Senior secured loan	9.96% (Libor + 5.00%/Q)	3/15/2014		$ 12,377,500
Calle Santa Ana 1660		Senior secured loan	9.96% (Libor + 5.00%/Q)	3/15/2014		$ 11,940,000
Santurce, PR		Senior secured revolving loan		3/15/2014		$ (19)
00909-2309						
Investor Group	Financial	Senior secured loan	12.00%	6/23/2011		$ 1,000,000
Services, LLC(32)	services	Limited liability company membership interest			10.00%	$
2020 Front Street,						
Suite 100		Senior secured revolving loan		6/26/2011		$ (20)
Boston, MA 02116						
Ivy Hill Middle Market	Investment	Class B deferrable interest notes	11.00% (Libor + 6.00%/Q)	11/20/2018		$ 40,000,000
Credit Fund, Ltd.(33)	company					
280 Park Avenue,		Subordinated notes		11/20/2018	25.00%	$ 16,000,000
22nd Floor East						
New York, NY 10017						
The Kenan Advantage	Fuel	Senior subordinated notes	9.50% cash, 3.50% PIK	12/16/2013		$ 9,524,320
Group, Inc.	transportation	Senior secured loan	7.58% (Libor + 2.75%/Q)	12/16/2011		$ 2,205,022
4895 Dressler Road,	provider	Preferred stock			1.15%	$ 1,292,984
N.W. #100		Common stock			1.04%	$ 35,993
Canton, OH 44718		Senior secured revolving loan		12/16/2011		$ (21)

Lakeland Finance, LLC	Private school	Senior secured note	11.50%	12/15/2012		$	18,000,000	
590 Peter Jefferson	operator	Senior secured note	11.50%	12/15/2012		$	15,000,000	
Parkway, Suite 30								
Charlottesville, VA 22911								
LVCG Holdings LLC(33)	Commercial	Membership interests			56.53%	$	6,600,000	
4265 W Sunset Rd	printer							
Las Vegas, NV 89118								
Mactec, Inc.	Engineering and	Common stock			0.01%	$	334	
1105 Sanctuary Parkway,	environmental	Common stock			0.01%	$	115,444	
Suite 300	services							
Alpharetta, GA 30004								
Making Memories	Scrapbooking	Senior secured loan	9.75% (Base Rate + 2.50%/D)	3/31/2011		$	7,125,000	
Wholesale, Inc.(32)	branded products	Senior subordinated loan	12.00% cash, 4.00% PIK	5/6/2012		$	6,802,200	
1168 West 500 North	manufacturer	Preferred stock			9.64%	$		
Centerville, UT 84014		Senior secured revolving loan		3/31/2011		$		(22)
Miller Heiman, Inc.	Sales consulting	Senior secured loan	8.31% (Libor + 3.25%/Q)	6/6/2010		$	1,427,901	
10509 Professional Circle,	services	Senior secured loan	8.58% (Libor + 3.75%/Q)	6/6/2012		$	3,976,803	
Suite 100		Senior secured revolving loan		6/6/2010		$		(23)
Reno, NV 89521								
MPBP Holdings, Inc.,	Healthcare	Junior secured loan	11.53% (Libor + 6.25%/Q)	1/31/2014		$	15,000,000	
Cohr Holdings, Inc. and	equipment	Junior secured loan	11.53% (Libor + 6.25%/Q)	1/31/2014		$	9,000,000	
MPBP	services	Common stock			2.90%	$	2,500,000	
Acquisition Co., Inc.								
21540 Plummer Street								
Chatsworth, CA 91311								
MWD Acquisition	Dental services	Junior secured loan	11.57% (Libor + 6.25%/Q)	5/3/2013		$	5,000,000	
Sub, Inc.								
680 Hehli Way								
PO Box 69								
Mondovi, WI 54755								
National Print Group, Inc.	Printing	Senior secured revolving loan	9.75% (Base Rate + 2.50%/D)	3/2/2012		$	834,692	
2464 Amicola Highway	management	Senior secured revolving loan	8.75% (Libor + 3.50%/M)	3/2/2012		$	1,369,565(24)	
Chattanooga, TN 37406	services	Senior secured loan	8.33% (Libor + 3.50%/Q)	3/2/2012		$	4,774,539(24)	
		Senior secured loan	8.58% (Libor + 3.50%/Q)	3/2/2012		$	5,110,685	
		Senior secured loan	12.09% (Libor + 7.00%/B)	8/2/2012		$	406,132	
		Senior secured loan	11.96% (Libor + 7.00%/Q)	8/2/2012		$	349,802	
		Preferred stock		3/2/2012	10.94%	$	2,000,000	
NPA Acquisition, LLC	Powersport	Junior secured loan	12.50% (Base	2/24/2013		$	12,000,000	
c/o Transportation	vehicle auction	Common units	Rate + 5.25%/D)		1.94%	$	1,500,000	
Resources Partners, L.P.	operator							
2555 Telegraph Rd.								
Bloomfield Hills, MI								
48302								
OnCURE Medical Corp.	Radiation	Senior subordinated note	11.00% Cash, 1.50% PIK	8/18/2013		$	26,056,205	
610 Newport Center	oncology care	Common stock			3.30%	$	3,000,000	
Drive, Suite 650	provider	Senior secured revolving loan	9.25% (Libor + 3.50%/Q)	8/23/2008		$		(25)
Newport Beach, CA								
92660								
Partnership Capital	Investment	Limited partnership interest			25.00%	$	1,317,082	
Growth Fund I, L.P.	partnership							
One Embarcadero,								
Suite 3810								
San Francisco, CA 94111								
Pillar Holdings LLC and	Mortgage	Senior secured revolving loan	10.37% (Libor + 5.50%/M)	11/20/13		$	500,000(26)	
PHL Holding Co.(32)	services	Senior secured loan	10.33% (Libor + 5.50%/Q)	11/20/13		$	55,000,000	
7420 E. Pinnacle Peak		Common stock			9.66%	$	4,000,000	
Road Suite124								
Scottsdale, AZ 85255								

Planet Organic Health Corp. 7917 - 104 Street Edmonton Alberta Canada TGE 4E1	Organic grocery store operator	Senior secured loan Senior secured loan Senior subordinated loan Senior secured revolving loan	10.45% (Libor + 5.50%/Q) 10.45% (Libor + 5.50%/Q) 11.00% Cash, 2.00% PIK	7/3/2014 7/3/2014 7/3/2012 7/3/2014		$ 7,000,000 $ 10,500,000 $ 9,332,430 $	 (27)
Primis Marketing Group, Inc. and Primis Holdings, LLC(32) c/o Pcap Managers, LLC 75 State Street, 26th Floor Boston, MA 02109	Database marketing services	Senior subordinated note Preferred units Common units	11.00% Cash, 2.50% PIK	2/27/2013	 8.02% 7.38%	$ 8,586,770 $ $	
Prommis Solutions, LLC, E-Default Services, LLC, Statewide Tax and Title Services, LLC & Statewide Publishing Services, LLC (formerly known as MR Processing Holding Corp.) 1544 Old Alabama Road Roswell, GA 30076	Bankruptcy and foreclosure processing services	Senior subordinated notes Senior subordinated notes Preferred stock	11.50% Cash, 2.00% PIK 11.50% Cash, 2.00% PIK	2/23/2014 2/23/2014	 3.30%	$ 21,557,337 $ 29,522,650 $ 4,500,000	
Qualitor, Inc. 24800 Denso Drive, Suite 255 Southfield, MI 48034	Automotive aftermarket components supplier	Senior secured loan Junior secured loan	9.08% (Libor + 4.25%/Q) 12.08% (Libor + 7.25%/Q)	12/31/2011 6/30/2012		$ 1,774,785 $ 5,000,000	
R2 Acquisition Corp. Modern Media Building 207 NW Park Ave Portland, OR 97209	Marketing services	Common stock Senior secured revolving loan		 5/29/2013	0.33%	$ 250,000 $	 (28)
RedPrairie Corporation c/o Francisco Partners 2882 Sand Hill Road, Suite 280 Menlo Park, CA 94045	Software manufacturer	Junior secured loan Junior secured loan	11.39% (Libor + 6.50%/Q) 11.39% (Libor + 6.50%/Q)	1/20/2013 1/20/2013		$ 6,500,000 $ 12,000,000	
Reflexite Corporation(33) 120 Darling Drive Avon, CT 06001	Developer and manufacturer of high-visibility reflective products	Common stock			36.01%	$ 54,666,494	
Savers, Inc. and SAI Acquisition Corporation 11400 SE 6th St. Suite 220 Bellevue, WA 98004	For-profit thrift retailer	Senior subordinated notes Common stock	10.00% cash, 2.00% PIK	8/11/2014	 1.87%	$ 28,281,392 $ 4,500,000	

Saw Mill PCG Partners LLC 31005 Solon Road Solon, OH 44139	Precision components manufacturer	Common units			2.57%	$	400,000
Shoes for Crews, LLC 1400 Centerpark Blvd., Suite 310 West Palm Beach, FL 33401	Safety footwear and slip-related mats	Senior secured revolving loan	9.25% (Base Rate + 2.00%/D)	7/6/2010		$	2,333,333(29)
		Senior secured loan	7.72% (Libor + 3.00%/S)	7/6/2010		$	970,875
		Senior secured loan	9.25% (Base Rate + 2.00%/D)	7/6/2010		$	74,683
Sigma International Group, Inc. 700 Goldman Drive Cream Ridge, NJ 08514	Water treatment parts manufacturer	Junior secured loan	12.37% (Libor + 7.50%/Q)	10/10/13		$	1,833,333
		Junior secured loan	12.37% (Libor + 7.50%/Q)	10/10/13		$	4,000,000
		Junior secured loan	12.73% (Libor + 7.50/M)	10/10/13		$	2,750,000
		Junior secured loan	12.73% (Libor + 7.50/M)	10/10/13		$	6,000,000
		Junior secured loan	12.29% (Libor + 7.50%/S)	10/10/13		$	916,667
		Junior secured loan	12.29% (Libor + 7.50%/S)	10/10/13		$	2,000,000
Summit Business Media, LLC 375 Park Avenue New York, NY 10152-0002	Business media consulting services	Junior secured loan	11.85% (Libor + 7.00%/M)	11/3/2013		$	10,000,000
The Teaching Company, LLC and The Teaching Company Holdings, Inc. 4151 Lafayette Center Drive, No. 100 Chantilly, VA 20151	Education publications provider	Senior secured loan	10.50%	9/29/2012		$	28,000,000
		Preferred stock			3.64%	$	3,995,924
		Common stock			3.64%	$	4,105
Thermal Solutions LLC and TSI Group, Inc. 94 Tide Mill Road Hampton, NH 03842	Thermal management and electronics packaging manufacturer	Senior secured loan	10.50% (Base Rate + 3.25%/D)	3/27/2012		$	2,752,490
		Senior secured loan	10.00% (Base Rate + 2.75%/D)	3/27/2011		$	1,164,276
		Senior subordinated notes	11.50% cash, 2.75% PIK	3/27/2012		$	2,016,523
		Senior subordinated notes	11.50% cash, 2.75% PIK	3/27/2012		$	3,184,843
		Senior subordinated notes	11.50% cash, 2.50% PIK	3/27/2013		$	2,516,567
		Preferred stock			1.32%	$	693,482
		Common stock			1.06%	$	14,164
Things Remembered, Inc. and TRM Holdings Corporation 5500 Avion Park Drive Highland Heights, OH 44143	Personalized gifts retailer	Senior secured loan	9.95% (Libor + 4.75%/M)	9/29/2012		$	4,632,000
		Senior secured loan	11.00% (Base Rate + 3.75%/D)	9/29/2012		$	120,000
		Senior secured loan	11.20% (Libor + 6.00%/M)	9/29/2012		$	14,000,000
		Senior secured loan	11.20% (Libor + 6.00%/M)	9/29/2012		$	14,000,000
		Senior secured loan	11.20% (Libor + 6.00%/M)	9/29/2012		$	7,200,000
		Preferred stock			4.10%	$	1,800,000
		Common stock			4.10%	$	200,000
		Senior secured revolving loan		9/29/2012		$	(30)
The Thymes, LLC(33) 629 9th Street SE Minneapolis, MN 55414	Cosmetic products manufacturer	Preferred stock	8.00% PIK		70.34%	$	7,188,536
		Common stock			70.34%	$	
Triad Laboratory Alliance, LLC 4380 Federal Drive, Suite 100 Greensboro, NC 27410	Laboratory services	Senior subordinated loan	12.00% cash, 1.75% PIK	12/23/2012		$	15,090,532
		Senior secured loan	8.08% (Libor + 3.25%/Q)	12/23/2011		$	6,174,000
		Senior secured loan	8.08% (Libor + 3.25%/Q)	12/23/2011		$	2,646,000
Universal Lubricants, LLC 2820 N. Ohio Wichita, KS 67219	Oil lubricants manufacturer	Senior secured revolving loan		12/24/2012		$	(31)
Universal Trailer Corporation(32) 11590 Century Blvd., Suite 103 Cincinnati, OH 45246	Livestock and specialty trailer manufacturer	Common stock			9.51%	$	484,711
		Common stock warrants		5/15/2012	50.00%	$	215,289(2)

VSS-Tranzact Holdings, LLC(32) 2200 Fletcher Avenue, 4th Floor Fort Lee, NJ 07024	Management Consulting Services	Common membership interest			8.51%	$ 10,000,000
Waste Pro USA, Inc. 2101 West State Road 434, Suite 315 Longwood, FL 32779	Waste management services	Senior subordinated loan	11.50%	11/9/2013		$ 25,000,000
		Preferred stock	10.00% PIK		22.59%	$ 15,000,000
		Common stock warrants		11/9/2013	3.75%	$ 3,999,999
Wastequip, Inc.(32) 25800 Science Park Drive, Suite 140 Beachwood, OH 44122	Waste management equipment manufacturer	Senior subordinated loan	12.00%	2/5/2015		$ 10,210,488
		Common stock			5.34%	$ 694,445
Wear Me Apparel, LLC(32) 31 W 34th Street New York, NY 10001-3009	Clothing manufacturer	Senior subordinated notes	12.60% cash, 1.00% PIK	4/2/2013		$ 22,559,191
		Common stock			12.30%	$ 2,000,000
X-rite, Incorporated 3100 44th Street SW Grandville, MI 49418	Artwork software manufacturer	Junior secured loan	12.38% (Libor + 7.50%/Q)	10/24/2013		$ 4,800,000
		Junior secured loan	12.38% (Libor + 7.50%/Q)	10/24/2013		$ 12,000,000
Total						$ 1,774,201,841

[1] All interest is payable in cash unless otherwise indicated. A majority of the variable rate loans to our portfolio companies bear interest at a rate that may be determined by reference to either LIBOR or an alternate Base Rate (commonly based on the Federal Funds Rate or the Prime Rate), at the borrower's option, which reset daily (D), monthly (M), bi-monthly (B), quarterly (Q) or semi-annually (S). For each such loan, we have provided the current interest rate in effect as of December 31, 2007.

[2] Percentages shown for warrants or convertible preferred stock held represent the percentages 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] $763,274 of total commitment of $5,000,000 for the revolver remains unfunded as of December 31, 2007.

[4] Total commitment of $15,000,000 remains unfunded as of December 31, 2007.

[5] Total commitment of $3,278,689 remains unfunded as of December 31, 2007.

[6] Total commitment of $19,505,495 remains unfunded as of December 31, 2007.

[7] $9,654,000 of total commitment of $12,500,000 for the revolver remains unfunded as of December 31, 2007.

(8) Total commitment of $10,000,000 remains unfunded as of December 31, 2007.

(9) $5,350,000 of total commitment of $7,500,000 remains unfunded as of December 31, 2007.

(10) $5,284,268 of total commitment of $9,000,000 for the revolver remains unfunded as of December 31, 2007.

(11) Total commitment of $35,000,000 remains unfunded as of December 31, 2007.

(12) $5,600,000 of total commitment of $12,000,000 for the revolver remains unfunded as of December 31, 2007.

(13) $378,410 of total commitment of $3,085,714 for the revolver remains unfunded as of December 31, 2007.

(14) $13,861,497 of total commitment of $20,000,000 for the revolver remains unfunded as of December 31, 2007.

(15) $8,500,000 of total commitment of $12,500,000 for the revolver remains unfunded as of December 31, 2007.

(16) $1,237,500 of total commitment of $2,500,000 for the revolver remains unfunded as of December 31, 2007.

(17) $7,268,559 of total commitment of $15,695,652 for the revolver remains unfunded as of December 31, 2007.

(18) $9,301,076 of total commitment of $15,000,000 for the revolver remains unfunded as of December 31, 2007.

(19) Total commitment of $7,500,000 for the revolver remains unfunded as of December 31, 2007.

(20) $2,000,000 of total commitment of $2,500,000 for the revolver remains unfunded as of December 31, 2007.

(21) Total commitment of $1,612,903 remains unfunded as of December 31, 2007.

(22) Total commitment of $333,333 remains unfunded as of December 31, 2007.

(23) Total commitment of $1,057,705 remains unfunded as of December 31, 2007.

(24) $3,274,004 of total commitment of $5,478,261 remains unfunded as of December 31, 2007.

(25) Total commitment of $4,500,000 remains unfunded as of December 31, 2007.

(26) $4,500,000 of total commitment of $5,000,000 remains unfunded as of December 31, 2007.

(27) Total commitment of $2,500,000 remains unfunded as of December 31, 2007.

(28) Total commitment of $8,000,000 remains unfunded as of December 31, 2007.

(29) $6,000,001 of total commitment of $8,333,334 remains unfunded as of December 31, 2007.

(30) Total commitment of $5,000,000 remains unfunded as of December 31, 2007.

(31)

Total commitment of $37,000,000 remains unfunded as of December 31, 2007.

(32) As defined in the Investment Company Act, we are an "Affiliate" of this portfolio company because we own 5% or more of the portfolio company's outstanding voting securities.

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

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 as of December 31, 2007.

FirstLight Financial Corporation

FirstLight Financial Corporation ("FirstLight") is a specialty finance company providing financing solutions to middle market clients. FirstLight has a focus on single tranche one stop financings and first and second lien financings for acquisitions, buyouts, recapitalizations and restructurings, with segment expertise in healthcare, media, telecommunications and energy.

MANAGEMENT

Our business and affairs are managed under the direction of our board of directors. The responsibilities of the board of directors include, among other things, the quarterly valuation of our assets. 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 Investment Company 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. The board of directors maintains an audit committee and nominating committee, and may establish additional committees from time to time as necessary.

EXECUTIVE OFFICERS AND BOARD OF DIRECTORS

Under 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 qualifies.

Directors

Information regarding the board of directors is as follows:

Name	Age	Position	Director Since	Expiration of Term
Independent Directors				
Douglas E. Coltharp	46	Director	2004	2008
Frank E. O'Bryan	74	Director	2005	2010
Eric B. Siegel	50	Director	2004	2010
Interested Directors				
Robert L. Rosen	61	Director	2004	2009
Bennett Rosenthal	44	Chairman and Director	2004	2009

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:

Name	Age	Position
Michael J. Arougheti	35	President
Richard S. Davis	49	Chief Financial Officer
Merritt S. Hooper	46	Secretary and Assistant Treasurer
Daniel F. Nguyen	36	Treasurer
Karen A. Tallman	50	Chief Compliance Officer
Michael D. Weiner	55	Vice President and General Counsel

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 Investment Company Act.

Independent directors

Douglas E. Coltharp, 46, has served as a director of the Company since 2004. Mr. Coltharp is a partner at Arlington Capital Advisors, a Birmingham-based investment banking and private equity firm. Prior to that, from November 1996 to May 2007, he was the Executive Vice President and Chief Financial Officer of Saks Incorporated. Prior to joining Saks Incorporated Mr. Coltharp spent ten years in the Corporate Finance Department of NationsBank (now known as Bank of America), most recently as Senior Vice President and head of the Southeast Corporate Finance Group headquartered in Atlanta. Mr. Coltharp holds a B.S. in Finance and Economics from Lehigh University in Bethlehem, Pennsylvania and an M.B.A. from the Wharton School, University of Pennsylvania, in Philadelphia, Pennsylvania. Mr. Coltharp also serves on the boards of directors of Stratus Technologies, Inc. and Under Armour, Inc.

Frank E. O'Bryan, 74, has served as a director of the Company since 2005. Mr. O'Bryan served as Chairman of the Board of WMC Mortgage Company from 1997 to 2003 and as a Vice Chairman until 2004 when the company was sold to General Electric Corporation. Mr. O'Bryan served as Vice Chairman of Shearson/American Express Mortgage Corp. (formerly Western Pacific Financial) and as a Director of Shearson American Express from 1981 to 1985 and prior to that served as a Director and senior executive of Shearson Hayden Stone from 1979 to 1981. Mr. O'Bryan has been a Director of The First American Corporation since 1994. Mr. O'Bryan is a past member of the boards of directors of Damon Corporation, Grubb & Ellis, Standard Pacific Corporation and Farmers & Merchants Bank.

Eric B. Siegel, 50, has served as a director of the Company since 2004. Since 1995, Mr. Siegel has been an independent business consultant providing advice through a limited liability company owned by Mr. Siegel, principally with respect to acquisition strategy and structuring, and the subsequent management of acquired entities. Mr. Siegel is currently a member of the Advisory Board of and consultant to the Milwaukee Brewers Baseball Club and a Director and Chairman of the Executive Committee of El Paso Electric Company, an NYSE publicly traded utility company. Mr. Siegel is also a past member of the boards of directors of a number of public companies, including Kerzner International Ltd. until it went private in 2006. Mr. Siegel 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 of the Friends of the Los Angeles Free Clinic and a board member of Reprise! Broadway's Best, a non-profit theatre organization. Mr. Siegel holds his Bachelor of Arts degree Summa Cum Laude and Phi Beta Kappa and law degree Order of the Coif from the University of California at Los Angeles.

Interested directors

Robert L. Rosen, 61, has served as a director of the Company since 2004. Mr. Rosen is managing partner of RLR Capital Partners and RLR Focus Fund which invests principally in the securities of publicly traded North American companies. Mr. Rosen served from 2003 until 2005 as co-Managing Partner of Dolphin Domestic Fund II. 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. Mr. Rosen also serves on the board of directors of Marietta Corporation. From time to time Ares Management is in discussions with Mr. Rosen regarding expanding his relationship with Ares Management. If those discussions were to bear fruit, Mr. Rosen may no longer be considered an "independent" director of Ares Capital. As a result, in an abundance of caution, we treat Mr. Rosen as an "interested person" of the Company as defined in section 2(a)(19) of the Investment Company Act. However, the Board may recharacterize Mr. Rosen as an "independent" director in the future if such discussions do not result in any relationships that would cause Mr. Rosen to be an "interested person."

Bennett Rosenthal, 44, has served as Chairman of the Company's Board of Directors since 2004. Mr. Rosenthal is a founding member of Ares Management, a member of Ares and is a Senior Partner in the Private Equity Group. Prior to joining Ares, Mr. Rosenthal was a Managing Director in the Global Leveraged Finance Group of Merrill Lynch and was responsible for originating, structuring and negotiating many leveraged loan and high yield financings. Mr. Rosenthal was also a senior member of Merrill Lynch's Leveraged Transaction Commitment Committee. Mr. Rosenthal is a member of the following boards of directors: AmeriQual Group LLC, Aspen Dental Management, Inc., Hanger Orthopedic Group, Inc. and National Bedding Company LLC (Serta). Mr. Rosenthal graduated summa cum laude with a BS in Economics from the University of Pennsylvania's Wharton School of Business where he also received his MBA with distinction. Mr. Rosenthal is an "interested person" of the Company as defined in section 2(a)(19) of the Investment Company Act because he is on the investment committee of Ares Capital Management, the Company's investment adviser, and is a member of Ares Partners Management Company LLC, the parent of Ares Management, the managing member of the investment adviser.

Executive officers who are not directors

Michael J. Arougheti, 35, is President of the Company and joined Ares Management in May 2004 and is a member of Ares. Mr. Arougheti is also a Partner in the Private Debt Group of Ares and serves on the Investment Committee of Ares Capital Management and all Ares European Credit Funds. From 2001 to 2004, Mr. Arougheti was employed by Royal Bank of Canada, where he was a Managing Partner of the Principal Finance Group of RBC Capital Partners and a member of the firm's Mezzanine Investment Committee. At RBC Capital Partners, Mr. Arougheti oversaw an investment team that originated, managed and monitored a diverse portfolio of middle market leveraged loans, senior and junior subordinated debt, preferred equity, and common stock and warrants on behalf of RBC and other third-party institutional investors. Mr. Arougheti joined Royal Bank of Canada in October 2001 from Indosuez Capital, where he was a Principal, responsible for originating, structuring and executing leveraged transactions across a broad range of products and asset classes. Mr. Arougheti sat on the firm's Investment Committee and was also active in the firm's private equity fund investment and fund of funds program. Prior to joining Indosuez in 1994, Mr. Arougheti worked at Kidder Peabody & Co., where he was a member of the firm's Mergers and Acquisitions Group advising clients in various industries, including natural resources, pharmaceuticals and consumer products. Mr. Arougheti has extensive experience in leveraged finance, including senior bank loans, mezzanine debt and private equity. He has worked on a range of transactions for companies in the consumer products, manufacturing, healthcare, retail and technology industries. Mr. Arougheti received a BA in Ethics, Politics and Economics, cum laude, from Yale University.

Richard S. Davis, 49, is Chief Financial Officer of the Company and joined Ares Management in June 2006. From December 1997 to May 2006, Mr. Davis was with Arden Realty, Inc., a real estate investment trust and formerly the largest publicly traded office owner in Southern California, serving as its Executive Vice President, Chief Financial Officer from July 2000. From 1996 to 1997, Mr. Davis was with Catellus Development Corporation where he was responsible for accounting and finance for the asset management and development divisions. From 1985 to 1996, Mr. Davis served as a member of the audit staff of both KPMG LLP and Price Waterhouse LLP. Mr. Davis is a Certified Public Accountant in the states of California and Missouri and a member of the American Institute of CPAs. Mr. Davis received his Bachelor of Science Degree in Accounting from the University of Missouri at Kansas City.

Merritt S. Hooper, 46, is Secretary and Assistant Treasurer of the Company. From July 2004 to March 2007, Ms. Hooper served as Treasurer of the Company and, from July 2004 to May 2007, as Vice President of Investor Relations of the Company. Ms. Hooper is a founding member of Ares Management and is the Senior Vice President and Director of Investor Relations/Marketing for all Ares funds as well as a senior investment analyst in the Capital Markets Group. Prior to Ares, Ms. Hooper was associated with Lion Advisors (an affiliate of Apollo Management, L.P.) from 1991 to 1997 and worked as a senior credit analyst participating in both portfolio management and strategy. From 1987 until 1991, Ms. Hooper was with Columbia Savings and Loan, most recently as Vice President in the Investment Management Division. Ms. Hooper serves on the executive and investment boards of Cedars-Sinai Medical Center in Los Angeles. Ms. Hooper graduated from the University of California at Los Angeles (UCLA) with a BA in Mathematics and received her MBA in Finance from UCLA's Anderson School of Management.

Daniel F. Nguyen, 36, is Treasurer of the Company and joined Ares Management in August 2000 and currently is its Chief Financial Officer. From 1996 to 2000, Mr. Nguyen was with Arthur Andersen LLP, where he was in charge of conducting business audits on numerous financial clients, performing due diligence investigation of potential mergers and acquisitions, and analyzing changes in accounting guidelines for derivatives. At Arthur Andersen LLP, Mr. Nguyen also focused on treasury risk management and on mortgage-backed securities and other types of structured financing. Mr. Nguyen graduated with a BS in Accounting from the University of Southern California's Leventhal School of Accounting and received an MBA in Global Business from Pepperdine University's Graziadio School of Business and Management. Mr. Nguyen also studied European business at Oxford University in England as part of the MBA curriculum. Mr. Nguyen is a CFA charterholder and a Certified Public Accountant.

Karen A. Tallman, 50, is Chief Compliance Officer of the Company and joined Ares Management in June 2007. From April 2006 to June 2007, Ms. Tallman acted as counsel to Ares Management. Prior to joining Ares, Ms. Tallman was General Counsel of Continuum Commerce LLC, a direct response marketing firm. From 1997 to 2002, Ms. Tallman was General Counsel and Secretary of Merisel, Inc., a NASDAQ-listed computer products distributor, and served as Senior Vice President beginning in 2001. From 1992 to 1997, Ms. Tallman was employed by CB Commercial Real Estate Group, Inc., most recently in the positions of Vice President, Secretary and Senior Counsel. Previously, Ms. Tallman was a corporate attorney for nine years at the law firm of Skadden, Arps, Slate, Meagher & Flom LLP.

Michael D. Weiner, 55, is Vice President and General Counsel of the Company. Mr. Weiner joined Ares Management in September 2006 as its Chief Legal Officer and Co-Chief Operating Officer and currently is a member of Ares. Previously, Mr. Weiner served as general counsel to Apollo Management L.P. and had been an officer of the corporate general partners of Apollo since 1992. Prior to joining Apollo, Mr. Weiner was a partner in the law firm of Morgan, Lewis & Bockius specializing in corporate and alternative financing transactions, securities law and general partnership and corporate and regulatory matters. Mr. Weiner has served and continues to serve on the boards of directors of several corporations including Hughes Communications, Inc. and SkyTerra Communications, Inc. Mr. Weiner also serves on the Board of Governors of the Cedars Sinai Medical Center in Los Angeles. Mr. Weiner graduated with a BS in Business and Finance from the University of California at Berkeley and a JD from the University of Santa Clara.

INVESTMENT COMMITTEE

Information regarding the members of Ares Capital Management's investment committee is as follows:

Name	Age	Position
Michael J. Arougheti	35	President of the Company, Member of Investment Committee
R. Kipp deVeer	35	Member of Investment Committee, Portfolio Manager
Mitchell Goldstein	41	Member of Investment Committee, Portfolio Manager
John Kissick	66	Member of Investment Committee
Antony P. Ressler	47	Member of Investment Committee
Bennett Rosenthal	44	Chairman and Director of the Company, Member of Investment Committee
David Sachs	48	Member of Investment Committee
Michael L. Smith	36	Member of Investment Committee, Portfolio Manager

The address for each member of Ares Capital Management's investment committee is c/o Ares Capital Corporation, 1999 Avenue of the Stars, Suite 1900, Los Angeles, California, 90067.

Members of Ares Capital Management's investment committee who are not directors or officers of the Company

R. Kipp deVeer Mr. deVeer joined Ares Management in May 2004 and is a Partner in the Private Debt Group and on the Investment Committee of Ares Capital Management. Prior to joining Ares, Mr. deVeer was a partner at RBC Capital Partners, a division of Royal Bank of Canada, which led the firm's middle market financing and principal investment business. Mr. deVeer joined RBC in October 2001 from Indosuez Capital, where he was Vice President in the Merchant Banking Group. Mr. deVeer has also worked at J.P. Morgan and Co., both in the Special Investment Group of J.P. Morgan Investment Management, Inc. and the Investment Banking Division of J.P. Morgan Securities Inc. Mr. deVeer received a BA from Yale University and an MBA from Stanford University's Graduate School of Business.

Mitchell Goldstein Mr. Goldstein joined Ares Management in May 2005 and is a Partner in the Private Debt Group and on the Investment Committee of Ares Capital Management. Prior to joining Ares, Mr. Goldstein worked at Credit Suisse First Boston, where he was a Managing Director in the Financial Sponsors Group. At CSFB, Mr. Goldstein was responsible for providing investment banking services to private equity funds and hedge funds with a focus on M&A and restructurings and capital raisings, including high yield, bank debt, mezzanine debt, and IPOs. Mr. Goldstein joined CSFB in 2000 at the completion of the merger with Donaldson Lufkin and Jenrette. From 1998 to 2000, Mr. Goldstein was at Indosuez Capital, where he was a member of the Investment Committee and a Principal, responsible for originating, structuring and executing leveraged transactions across a broad range of products and asset classes. From 1993 to 1998, Mr. Goldstein worked at Bankers Trust, where he was responsible for financing and advising clients in various industries including media and telecommunications, consumer products, automotive and healthcare. Mr. Goldstein began his career as a CPA at Ernst & Young. Mr. Goldstein graduated summa cum laude from SUNY Binghamton with a BS in Accounting and received an MBA from Columbia Business School.

John Kissick Mr. Kissick is a founding member of Ares Management, a member of Ares and is a Senior Partner in the Private Equity Group. Mr. Kissick is a Senior Advisor to the Capital Markets Group and serves on the Investment Committee of Ares Capital Management and all Ares funds. Prior to Ares, Mr. Kissick was a co-founder of Apollo Management, L.P. in 1990 and was a member of Apollo's original six-member management team. Together with Antony Ressler, Mr. Kissick oversaw and led the capital markets activities of Apollo Management, L.P. and Lion Advisors, L.P., an affiliate of Apollo Management L.P., from 1990 until 1997, particularly focusing on high yield bonds, leveraged loans and other fixed income assets. Prior to 1990, Mr. Kissick served as a Senior Executive Vice President of Drexel Burnham Lambert, where he began in 1975, eventually heading its Corporate Finance Department. Mr. Kissick serves on the boards of the Cedars-Sinai Medical Center in Los Angeles, the Stanford University Graduate School of Business and Athletic Department and Mentor LA, which helps economically disadvantaged children graduate from high school through a variety of mentoring and other programs. Mr. Kissick graduated from Yale University with a BA in Economics and with highest honors from the Stanford Business School with an MBA in Finance.

Antony P. Ressler Mr. Ressler is a founding member of Ares Management, a member of Ares and is a Senior Partner in the Private Equity Group. Mr. Ressler is a Senior Advisor to the Capital Markets Group and serves on the Investment Committee of Ares Capital Management and all Ares Private Equity and Private Debt funds. Prior to Ares, Mr. Ressler was a co-founder of Apollo Management, L.P. in 1990 and was a member of Apollo's original six-member management team. Together with Mr. Kissick, Mr. Ressler oversaw and led the capital markets activities of Apollo Management, L.P. and Lion Advisors, L.P. from 1990 until 1997, particularly focusing on high yield bonds, leveraged loans and other fixed income assets. Prior to 1990, Mr. Ressler served as a Senior Vice President in the High Yield Bond Department of Drexel Burnham Lambert Incorporated, with responsibility for the New Issue/Syndicate Desk. Mr. Ressler serves on several boards of directors including Kinetics Holdings LLC, National Bedding Company LLC and WCA Waste Corporation. Mr. Ressler also is a member of the the Board of Trustees of the Center for Early Education, the Los Angeles County Museum of Art ("LACMA"), the Alliance for College-Ready Public Schools, the Small School Alliance, the Asia Society of Southern California and is involved in the U.S. Chapter of Right to Play (formerly known as Olympic Aid), an international humanitarian organization that is committed to improving the lives of the most disadvantaged children through sports and play, currently operating in over 20 countries worldwide. Mr. Ressler is also one of the founding members of the Board of directors of the Painted Turtle Camp, a $40 million southern California based facility created to serve children dealing with chronic and life threatening illnesses by creating memorable, old-fashioned camping experiences. Mr. Ressler received his BSFS from Georgetown University's School of Foreign Service and received his MBA from Columbia University's Graduate School of Business.

David Sachs Mr. Sachs is a founding member of Ares Management, a member of Ares is the Co-Head of the Investment Oversight Committee for the Capital Markets Group and serves on the Investment Committee of Ares Capital Management and all Ares funds. From 1994 until 1997, Mr. Sachs was a principal of Onyx Partners, Inc. specializing in merchant banking and related capital raising activities in the private equity and mezzanine debt markets. From 1990 to 1994, Mr. Sachs was employed by Taylor & Co., an investment manager providing investment advisory and consulting services to members of the Bass Family of Fort Worth, Texas. From 1984 to 1990, Mr. Sachs was with Columbia Savings and Loan Association, most recently as Executive Vice President, responsible for all asset-liability management as well as running the Investment Management Department. Mr. Sachs serves on the Board of Directors of Terex Corporation. Mr. Sachs graduated from Northwestern University with a BS in Industrial Engineering and Management Science.

Michael L. Smith Mr. Smith joined Ares Management in May 2004 and is a Partner in the Private Debt Group and on the Investment Committee of Ares Capital Management. Prior to joining Ares, Mr. Smith was a partner at RBC Capital Partners, a division of Royal Bank of Canada, which led the firm's middle market financing and principal investment business. Mr. Smith joined RBC in

October 2001 from Indosuez Capital, where he was a Vice President in the Merchant Banking Group. Previously, Mr. Smith worked at Kenter, Glastris & Company, a private equity investment firm specializing in leveraged management buyouts and at Salomon Brothers Inc., in their Debt Capital Markets Group and Financial Institutions Group. Mr. Smith received a Masters in Management from the J.L. Kellogg Graduate School of Management and a BS in Business Administration, cum laude, from the University of Notre Dame.

COMMITTEES OF THE BOARD OF DIRECTORS

Our board of directors has established an audit committee and a nominating committee. We do not have a compensation committee because our executive officers do not receive any direct compensation from us. During 2007, the board of directors held fourteen formal meetings, the audit committee held five formal meetings and the nominating committee held one formal meeting. The Company encourages, but does not require, the directors to attend the Company's annual meeting of its stockholders.

Audit committee

The members of the audit committee are Messrs. Coltharp, O'Bryan and Siegel, each of whom is independent for purposes of the Investment Company Act and The NASDAQ Global Select Market's corporate governance regulations. Mr. Coltharp serves as chairman of the audit committee. The audit committee is responsible for approving our independent accountants, reviewing with our independent accountants the plans and results of the audit engagement, approving professional services provided by our independent accountants, reviewing the independence of our independent accountants and reviewing the adequacy of our internal accounting controls. The audit committee is also responsible for aiding our board of directors in fair value pricing debt and equity securities that are not publicly traded or for which current market values are not readily available. The audit committee also currently receives input from independent valuation firms that have been engaged at the direction of the board to value each portfolio investment at least once during a trailing 12 month period.

Nominating committee

The members of the nominating committee are Messrs. Coltharp, O'Bryan and Siegel, each of whom is independent for purposes of the Investment Company Act and The NASDAQ Global Select Market corporate governance regulations. Mr. Siegel serves as chairman of the nominating committee. The nominating committee is responsible for selecting, researching and nominating directors for election by our stockholders, selecting nominees to fill vacancies on the board or a committee of the board, developing and recommending to the board a set of corporate governance principles and overseeing the evaluation of the board and our management.

The nominating committee may consider recommendations for nomination of directors from our stockholders. Nominations made by stockholders must be delivered to or mailed (setting forth the information required by our bylaws) and received at our principal executive offices not earlier than 150 days nor fewer than 120 days in advance of the first anniversary of the date on which we first mailed our proxy materials for the previous year's annual meeting of stockholders; provided, however, that if the date of the annual meeting has changed by more than 30 days from the prior year, the nomination must be received not earlier than the 150th day prior to the date of such annual meeting nor later than the later of (i) the 120th day prior to the date of such annual meeting or (ii) the 10th day following the day on which public announcement of such meeting date is first made.

Compensation committee

We do not have a compensation committee because our executive officers do not receive any direct compensation from us.

The following table sets forth the dollar range of our equity securities based on the closing price of the Company's common stock on March 20, 2008 and the number of shares beneficially owned by each of our directors as of December 31, 2007. We are not part of a "family of investment companies," as that term is defined in the Investment Company Act.

Name of Director	Aggregate Dollar Range of Equity Securities in Ares Capital(1)(2)
Independent Directors(3)	
Douglas E. Coltharp	None
Frank E. O'Bryan	None
Eric B. Siegel	$100,001 $500,000
Interested Directors	
Robert L. Rosen	None
Bennett Rosenthal	None

(1) Dollar ranges are as follows: none, $1-$10,000, $10,001-$50,000, $50,001-$100,000, $100,001-$500,000, $500,001-$1,000,000 or over $1,000,000.

(2) Beneficial ownership determined in accordance with Rule 16a-1(a)(2) under the Exchange Act.

(3) As of March 20, 2008, to the best of the Company's knowledge, other than as specified in the table, none of the independent directors or nominees, nor any of their immediate family members, had any interest in the Company, the Company's investment adviser, or any person or entity directly or indirectly controlling, controlled by, or under common control with the Company.

COMPENSATION TABLE

The following table shows information regarding the compensation received by the directors, none of which is an employee of the Company, for the fiscal year ending December 31, 2007. No compensation is paid by the Company to directors who are or are being treated as "interested persons." No information has been provided with respect to executive officers of the Company, since our executive officers do not receive any direct compensation from us.

Name	Fess Earned or Paid in Cash	All Other Compensation	Total
Independent directors			
Douglas E. Coltharp	$ 96,000	None	$ 96,000
Frank E. O'Bryan	$ 91,000	None	$ 91,000
Eric B. Siegel	$ 93,000	None	$ 93,000
Interested directors			
Robert L. Rosen(3)	None	None	None
Bennett Rosenthal	None	None	None

(1) For a discussion of the independent directors' compensation, see below.

(2) We do not have a stock or option plan, non-equity incentive plan or pension plan for our directors.

(3) While Mr. Rosen did not receive any compensation from the Company for the fiscal year ended December 31, 2007, he did receive $85,000 from Ares Management LLC for such period in connection with his service as a director of the Company.

The independent directors receive an annual fee of $50,000. They also receive $2,500 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each board meeting and will receive $1,000 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each committee meeting. In addition, the chairman of the audit committee receives an annual fee of $5,000 and each chairman of any other committee receives an annual fee of $2,000 for their additional services in these capacities. In addition, we purchase directors' and officers' liability insurance on behalf of our directors and officers. Independent directors have the option to receive their directors' fees paid in shares of our common stock issued at a price per share equal to the greater of net asset value or the market price at the time of payment.

PORTFOLIO MANAGERS

The following individuals function as portfolio managers primarily responsible for the day-to-day management of the Company's portfolio. The portfolio managers are comprised of (i) the underwriting committee, whose primary responsibility is to recommend investments for approval to the Investment Committee and (ii) members of the Investment Committee who are not otherwise on the underwriting committee.

Name	Position	Length of Service with Ares (years)	Principal Occupation(s) During Past 5 Years
Michael J. Arougheti	President of the Company	3.5	Mr. Arougheti is President of the Company and joined Ares Management in May 2004 and is a member of Ares. From 2001 to 2004, Mr. Arougheti was employed by Royal Bank of Canada, where he was a Managing Partner of the Principal Finance Group of RBC Capital Partners and a member of the firm's Mezzanine Investment Committee. Mr. Arougheti is also a Partner in the Private Debt Group of Ares and serves on the Investment Committee of Ares Capital Management and all Ares European Credit Funds.
Eric B. Beckman	Partner in Private Debt Group	9	Mr. Beckman joined Ares Management in 1998 and serves as a Partner in the Private Debt Group. Before joining the Private Debt Group, Mr. Beckman served as a Senior Partner of the Private Equity Group of Ares Management and a member of its Investment Committee, and as a member of the team responsible for Ares' mezzanine debt investments.
R. Kipp deVeer	Partner in Private Debt Group	3.5	Mr. deVeer joined Ares Management in May 2004 and is a Partner in the Private Debt Group and on the Investment Committee of Ares Capital Management. From 2001 until joining Ares, Mr. deVeer was a Partner at RBC Capital Partners, a division of Royal Bank of Canada, in the Principal Finance Group, which led the firm's middle market financing and principal investment business.
Mitchell Goldstein	Partner in Private Debt Group	2.5	Mr. Goldstein joined Ares Management in May 2005 and is a Partner in the Private Debt Group and on the Investment Committee of Ares Capital Management. Prior to joining Ares, Mr. Goldstein worked at Credit Suisse First Boston, where he was a Managing Director in the Financial Sponsors Group. Mr. Goldstein joined CSFB in 2000 at the completion of the merger with Donaldson Lufkin and Jenrette.

John Kissick	Senior Partner in Private Equity Group	10.5	Mr. Kissick has been with Ares since its founding in 1997, is a member of Ares and a Senior Partner in the Private Equity Group. Mr. Kissick is a Senior Advisor to the Capital Markets Group and serves on the Investment Committee of Ares Capital Management and all Ares funds.
Antony Ressler	Senior Partner in Private Equity Group	10.5	Mr. Ressler has been with Ares since its founding in 1997, is a member of Ares and a Senior Partner in the Private Equity Group. Mr. Ressler is a Senior Advisor to the Capital Markets Group and serves on the Investment Committee of Ares Capital Management and all Ares Private Equity and Private Debt funds.
Bennett Rosenthal	Chairman of the Board of Directors of the Company; Senior Partner in Private Equity Group	10.5	Mr. Rosenthal has served as Chairman of the Company's Board of Directors since 2004. Mr. Rosenthal has been with Ares since its founding in 1997, is a member of Ares and a Senior Partner in the Private Equity Group.
David Sachs	Co-Head of the Capital Investment Oversight Committee for the Capital Markets Group	10.5	Mr. Sachs has been with Ares since its founding in 1997, is a member of Ares and Co-Head of the Capital Investment Oversight Committee for the Capital Markets Group. Mr. Sachs serves on the Investment Committee of Ares Capital Management and all Ares funds.
Michael L. Smith	Partner in Private Debt Group	3.5	Mr. Smith joined Ares Management in May 2004 and serves as a Partner in the Private Debt Group and on the Investment Committee of Ares Capital Management. From 2001 until joining Ares, Mr. Smith was a Partner at RBC Capital Partners, a division of Royal Bank of Canada, in the Principal Finance Group, which led the firm's middle market financing and principal investment business.

None of the individuals listed above is primarily responsible for the day-to-day management of the portfolio of any other account, except that Messrs. Kissick, Ressler, Rosenthal and Sachs are each founding members of Ares with significant responsibilities for other Ares funds, which as of December 31, 2007 had approximately $20 billion (including the Company) of managed committed capital used to calculate Ares' advisory fees related to such funds. See "Risk Factors There are significant potential conflicts of interest that could impact our investment returns."

Each of Messrs. Arougheti, Beckman, deVeer, Goldstein and Smith is equally responsible for deal origination, execution and portfolio management. Mr. Arougheti, as our President, spends a greater amount of his time on corporate and administrative activities in his role as an officer.

As of December 31, 2007, each of Messrs. Arougheti, Beckman, deVeer, Goldstein and Smith is a full-time employee of Ares Capital Management LLC and receives a fixed salary for the services he provides to the Company. Each will also receive an annual amount that is equal to a fixed percentage of any incentive fee received by Ares Capital Management LLC from the Company for a fiscal year. None of the portfolio managers receive any direct compensation from the Company.

The following table sets forth the dollar range of equity securities of the Company based on the closing price of the Company's common stock on March 20, 2008 and the number of shares beneficially owned by each of the portfolio managers described above as of December 31, 2007.

Name	Aggregate Dollar Range of Equity Securities in Ares Capital(1)
Michael J. Arougheti	$100,001 $500,000(2)
Eric B. Beckman	$100,001 $500,000
R. Kipp deVeer	None
Mitchell Goldstein	None
John Kissick	None(2)
Antony Ressler	None(2)
Bennett Rosenthal	None(2)
David Sachs	None(2)
Michael L. Smith	None

(1) Dollar ranges are as follows: none, $1-$10,000, $10,001-$50,000, $50,001-$100,000, $100,001-$500,000, $500,001-$1,000,000 or over $1,000,000.

(2) Ares Investments LLC, whose sole manager is Ares Partners Management Company LLC, owned 1,216,667 shares of our common stock as of March 20, 2008. Each of the members of Ares Partners Management Company LLC (which include Messrs. Arougheti, Kissick, Ressler, Rosenthal and Sachs or vehicles controlled by them) disclaims beneficial ownership of all shares of Ares Capital common stock owned by Ares Investments LLC, except to the extent of any pecuniary interest therein.

INVESTMENT ADVISORY AND MANAGEMENT AGREEMENT

Management services

Ares Capital Management serves as our investment adviser. Ares Capital Management is an investment adviser that is registered as an investment adviser under the Advisers Act. Subject to the overall supervision of our board of directors, the investment adviser manages the day-to-day operations of, and provides investment advisory and management services to, Ares Capital. Under the terms of the investment advisory and management agreement, Ares Capital Management:

- determines the composition of our portfolio, the nature and timing of the changes to our portfolio and the manner of implementing such changes;

- identifies, evaluates and negotiates the structure of the investments we make (including performing due diligence on our prospective portfolio companies);

- closes and monitors the investments we make; and

- determines the securities and other assets that we purchase, retain or sell.

Ares Capital Management was initially formed to provide investment advisory services to us and it has not previously provided investment advisory services to anyone else. However, its services to us under the investment advisory and management agreement are not exclusive, and it is free to furnish similar services to other entities.

The sole member of Ares Capital Management is Ares Management LLC, an independent international investment management firm that currently manages investment funds that have approximately $20.0 billion of committed capital.

Management fee

Pursuant to the investment advisory and management agreement, we pay Ares Capital Management a fee for investment advisory and management services consisting of two components a base management fee and an incentive fee.

The base management fee is calculated at an annual rate of 1.5% of our total assets (other than cash or cash equivalents but including assets purchased with borrowed funds). The base management fee is payable quarterly in arrears. The base management fee is calculated based on the average value of our total assets (other than cash or cash equivalents but including assets purchased with borrowed funds) at the end of the two most recently completed calendar quarters, and appropriately adjusted for any share issuances or repurchases during the current calendar quarter. Base management fees for any partial month or quarter will be appropriately pro rated.

The incentive fee has the following two parts:

One part is calculated and payable quarterly in arrears based on our pre-incentive fee net investment income for the quarter. Pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees or other fees that we receive from portfolio companies) accrued during the calendar quarter, minus our operating expenses for the quarter (including the base management fee, expenses payable under the administration agreement, and any interest expense and dividends paid on any outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature (such as market discount, debt instruments with payment-in-kind interest, preferred stock with payment-in-kind dividends and zero coupon securities), accrued income that we have not yet received in cash. The investment adviser is not under any obligation to reimburse us for any part of the incentive fee it received that was based on accrued 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.

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

Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets (defined as total assets less indebtedness) at the end of the immediately preceding calendar quarter, will be compared to a fixed "hurdle rate" of 2.00% per quarter. If market interest rates rise, we may be able to invest our funds in debt instruments that provide for a higher return, which would increase our pre-incentive fee net investment income and make it easier for our investment adviser to surpass the fixed hurdle rate and receive an incentive fee based on such net investment income. Our pre-incentive fee net investment income used to calculate this part of the incentive fee is also included in the amount of our total assets (other than cash and cash equivalents but including assets purchased with borrowed funds) used to calculate the 1.5% base management fee.

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

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

100% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.50% in any calendar quarter. We refer to this portion of our pre-incentive fee net investment income (which exceeds the hurdle rate but is less than 2.50%) as the "catch-up." The "catch-up" is meant to provide our investment adviser with 20% of our pre-incentive fee net investment income as if a hurdle rate did not apply if this net investment income exceeds 2.50% in any calendar quarter; and

20% of the amount of our pre-incentive fee net investment income, if any, that exceeds 2.50% in any calendar quarter.

The following is a graphical representation of the calculation of the income-related portion of the incentive fee:

Quarterly Incentive Fee Based on Net Investment Income

Pre-incentive fee net investment income
(expressed as a percentage of the value of net assets)

Percentage of pre-incentive fee net investment income
allocated to income-related portion of incentive fee

These calculations will be appropriately pro rated for any period of less than three months and adjusted for any share issuances or repurchases during the current quarter.

The second part of the incentive fee (the "Capital Gains Fee") is determined and payable in arrears as of the end of each calendar year (or upon termination of the investment advisory and management agreement, as of the termination date) and is calculated at the end of each applicable year by subtracting (a) the sum of the our cumulative aggregate realized capital losses and aggregate unrealized capital depreciation from (b) our cumulative aggregate realized capital gains, in each case calculated from October 8, 2004. If such amount is positive at the end of such year, then the Capital Gains Fee for such year is equal to 20.0% of such amount, less the aggregate amount of Capital Gains Fees paid in all prior years. If such amount is negative, then there is no Capital Gains Fee for such year.

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

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

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

Examples of Quarterly Incentive Fee Calculation

Example 1: Income Related Portion of Incentive Fee(1):

Assumptions

Hurdle rate(2) = 2.00%
Management fee(3) = 0.375%
Other expenses (legal, accounting, custodian, transfer agent, etc.)(4) = 0.20%

Alternative 1

Additional Assumptions

Investment income (including interest, dividends, fees, etc.) = 1.25%
Pre-incentive fee net investment income
(investment income - (management fee + other expenses)) = 0.675%

Pre-incentive fee net investment income does not exceed hurdle rate, therefore there is no incentive fee.

Alternative 2

Additional Assumptions

Investment income (including interest, dividends, fees, etc.) = 2.70%
Pre-incentive fee net investment income
(investment income - (management fee + other expenses)) = 2.125%

Pre-incentive fee net investment income exceeds hurdle rate, therefore there is an incentive fee.

Incentive Fee	=	100% × "Catch-Up" + the greater of 0% **AND** (20% × (pre-incentive fee net investment income - 2.50%)
	=	(100% × (2.125% - 2.00%)) + 0%
	=	100% × 0.125%
	=	0.125%

(1) The hypothetical amount of pre-incentive fee net investment income shown is based on a percentage of total net assets. In addition, the example assumes that during the most recent four full calendar quarter period ending on or prior to the date the payment set forth in the example is to be made, the sum of (a) our aggregate distributions to our stockholders and (b) our change in net assets (defined as total assets less indebtedness) is at least 8.0% of our net assets at the beginning of such period (as adjusted for any share issuances or repurchases).

(2) Represents 8.0% annualized hurdle rate.

(3) Represents 1.5% annualized management fee.

(4) Excludes offering expenses.

Alternative 3

Additional Assumptions

Investment income (including interest, dividends, fees, etc.) = 3.50%

Pre-incentive fee net investment income
(investment income - (management fee + other expenses)) = 2.925%

Pre-incentive fee net investment income exceeds hurdle rate, therefore there is an incentive fee.

Incentive Fee = 100% × "Catch-Up" + the greater of 0% **AND** (20% × (pre-incentive fee net investment income - 2.50%)

= (100% × (2.50% - 2.00%)) + (20% × (2.925% - 2.50%))

= 0.50% + (20% × 0.425%)

= 0.50% + 0.085%

= 0.585%

Example 2: Capital Gains Portion of Incentive Fee:

Alternative 1:

Assumptions

Year 1: $20 million investment made in Company A ("Investment A"), and $30 million investment made in Company B ("Investment B")

Year 2: Investment A is sold for $50 million and fair market value ("FMV") of Investment B determined to be $32 million

Year 3: FMV of Investment B determined to be $25 million

Year 4: Investment B sold for $31 million

The capital gains portion of the incentive fee, if any, would be:

Year 1: None

Year 2: $6 million (20% multiplied by $30 million realized capital gains on sale of Investment A)

Year 3: None; $5 million (20% multiplied by ($30 million realized cumulative capital gains less $5 million cumulative capital depreciation)) less $6 million (previous capital gains fee paid in Year 2)

Year 4: $200,000; $6.2 million (20% multiplied by $31 million cumulative realized capital gains) less $6 million (capital gains fee paid in Year 2)

Alternative 2

Assumptions

Year 1: $20 million investment made in Company A ("Investment A"), $30 million investment made in Company B ("Investment B") and $25 million investment made in Company C ("Investment C")

Year 2: Investment A sold for $50 million, FMV of Investment B determined to be $25 million and FMV of Investment C determined to be $25 million

Year 3: FMV of Investment B determined to be $27 million and Investment C sold for $30 million

Year 4: FMV of Investment B determined to be $35 million

Year 5: Investment B sold for $20 million

The capital gains portion of the incentive fee, if any, would be:

Year 1: None

Year 2: $5 million (20% multiplied by $25 million ($30 million realized capital gains on Investment A less $5 million unrealized capital depreciation on Investment B))

Year 3: $1.4 million ($6.4 million (20% multiplied by $32 million ($35 million cumulative realized capital gains less $3 million unrealized capital depreciation)) less $5 million (capital gains fee paid in Year 2))

Year 4: None

Year 5: None ($5 million (20% multiplied by $25 million (cumulative realized capital gains of $35 million less realized capital losses of $10 million)) less $6.4 million (cumulative capital gains fee paid in Year 2 and Year 3))

For the year ended December 31, 2007, we incurred $23,530,805 in base management fees, $23,521,695 in incentive management fees related to pre-incentive fee net investment income and no incentive management fees related to realized capital gains. As of December 31, 2007, $13,041,060 was unpaid.

For the year ended December 31, 2006, we incurred $13,645,724 in base management fees, $16,067,931 in incentive management fees related to pre-incentive fee net investment income and $3,448,462 in incentive management fees related to realized capital gains.

For the year ended December 31, 2005, we incurred $5,147,492 in base management fees, $3,222,690 in incentive management fees related to pre-incentive fee net investment income and $979,388 in incentive management fees related to realized capital gains.

Payment of our expenses

All investment professionals of the investment adviser and its staff when and to the extent engaged in providing investment advisory and management services, and the compensation and routine overhead expenses of such personnel allocable to such services, are provided and paid for by Ares Capital Management. We bear all other costs and expenses of our operations and transactions, including those relating to: organization; calculation of our net asset value (including the cost and expenses of any independent valuation firm); expenses incurred by Ares Capital Management payable to third parties, including agents, consultants or other advisers, in monitoring our financial and legal affairs and in monitoring our investments and performing due diligence on our prospective portfolio companies; interest payable on debt, if any, incurred to finance our investments; offerings of our common stock and other securities; investment advisory and management fees; administration fees; fees payable to third parties, including agents, consultants or other advisers, relating to, or associated with, evaluating and making investments; transfer agent and custodial fees; registration fees; listing fees; taxes; independent directors' fees and expenses; costs of preparing and filing reports or other documents of the SEC; the costs of any reports, proxy statements or other notices to stockholders, including printing costs; to the extent we are covered by any joint insurance policies, our allocable portion of the insurance premiums for such policies; direct costs and expenses of administration, including auditor and legal costs; and all other expenses incurred by us or Ares Administration in connection with administering our business, such as our allocable portion of overhead under the administration agreement, including our allocable portion of the salary and cost of our officers (including our chief compliance officer, our chief financial officer and our vice president of investor relations and treasurer) and their respective staffs (including travel).

Duration and termination

The amended and restated investment advisory and management agreement was approved by our stockholders on May 30, 2006 and entered into on June 1, 2006. Unless terminated earlier, it will continue in effect until June 1, 2008, and will automatically renew for successive annual periods thereafter if approved annually by our board of directors or by the affirmative vote of the holders of a majority of our outstanding voting securities, including, in either case, approval by a majority of our directors who are not interested persons. The investment advisory and management agreement will automatically terminate in the event of its assignment. The investment advisory and management agreement may be terminated by either party without penalty upon 60 days' written notice to the other. Moreover, conflicts of interest may arise if our investment adviser seeks to change the terms of our investment advisory and management agreement, including, for example, the terms for compensation. While any material change to the investment advisory and management agreement must be submitted to stockholders for approval under the Investment Company Act, we may from time to time decide it is appropriate to seek stockholder approval to change the terms of the agreement. See "Risk Factors Risks Relating to our Business We are dependent upon Ares Capital Management's key personnel for our future success and upon their access to Ares investment professionals."

Indemnification

The investment advisory and management agreement provides that, absent willful misfeasance, bad faith or gross negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations, Ares Capital Management, its members and their respective officers, managers, partners, agents, employees, controlling persons, members and any other person or entity affiliated with it are entitled to indemnification from Ares Capital for any damages, liabilities, costs and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) arising from the rendering of Ares Capital Management's services under the investment advisory and management agreement or otherwise as an investment adviser of Ares Capital.

Organization of the investment adviser

Ares Capital Management LLC is a Delaware limited liability company that is registered as an investment adviser under the Advisers Act. The principal executive offices of Ares Capital Management are located at 1999 Avenue of the Stars, Suite 1900, Los Angeles, California 90067.

Board Consideration of the Investment Advisory and Management Agreement

At a meeting of the board of directors of the Company held on February 24, 2006, the board of directors, including all of the directors who are not "interested persons" of the Company as defined in the Investment Company Act, unanimously voted to approve the investment advisory and management agreement. The independent directors had the opportunity to consult in executive session with counsel to the Company regarding the approval of such agreement. In reaching a decision to approve the investment advisory and management agreement, the board of directors reviewed a significant amount of information and considered, among other things:

(i) the nature, extent and quality of the advisory and other services to be provided to the Company by the investment adviser;

(ii) the investment performance of the Company and the investment adviser;

(iii) the costs of the services to be provided by the investment adviser (including management fees, advisory fees and expense ratios) and the profits realized by the investment adviser;

(iv) the limited potential for economies of scale in investment management associated with a larger capital base for investments in first and second lien senior loans and mezzanine debt and whether such limited economies of scale would benefit our stockholders;

(v) our investment adviser's estimated pro forma profitability with respect to managing us;

(vi) the limited potential for additional benefits to be derived by our investment adviser and its affiliates as a result of our relationship with our investment adviser; and

(vii) various other matters.

In approving the investment advisory and management agreement, the entire board of directors, including all of the directors who are not "interested persons" made the following conclusions:

Nature, Extent and Quality of Services. The board of directors considered the nature, extent and quality of the investment selection process employed by our investment adviser, including the flow of transaction opportunities resulting from Ares Capital Management's investment professionals' significant capital markets, trading and research expertise, the employment of Ares Capital Management's investment philosophy, diligence procedures, credit recommendation process, investment structuring, and ongoing relationships with and monitoring of portfolio companies, in light of the investment objective of the Company. The board of directors also considered our investment adviser's personnel and their prior experience in connection with the types of investments made by us, including such personnel's network of relationships with intermediaries focused on middle market companies. In addition, the board of directors considered the other terms and conditions of the investment advisory and management agreement. The board of directors concluded that the substantive terms of the investment advisory management agreement, including the services to be provided, are generally the same as those of comparable business development companies described in the available market data and that it would be difficult to obtain similar services from other third party services providers or through an internally managed structure. In addition, the board of directors considered the fact that we have the ability to terminate the investment advisory and management agreement without penalty upon 60 days' written notice to the investment adviser. The board of directors further concluded that our investment adviser is served by a dedicated origination team of investment professionals, and that these investment professionals have historically focused on investments in middle market companies and have developed an investment process and an extensive network of relationships with intermediaries focused on middle market companies, which experience and relationships coincide with our investment objective and generally equal or exceed those of the management teams of other comparable business development companies described in the available market data.

Investment Performance. The board of directors reviewed the long-term and short-term investment performance of the Company and the investment adviser, as well as comparative data with respect to the long-term and short-term investment performance of other business development companies and their externally managed investment advisers. The board of directors concluded that the investment adviser was delivering results consistent with the investment objective of the Company and that the Company's investment performance was generally above average when compared to comparable business development companies.

Costs of the Services Provided to the Company and the Profits Realized by the Investment Adviser. The board of directors considered comparative data based on publicly available information with respect to services rendered and the advisory fees (including the management fees and incentive fees) of other business development companies with similar investment objectives, our projected operating expenses and expense ratio compared to other business development companies with similar investment objectives, as well as the administrative services that our administrator, Ares Operations, LLC, will provide to us at cost. Based upon its review, the board of directors concluded that the fees to be paid under the investment advisory and management agreement are generally less than those payable under agreements of comparable business development companies described in the available market data. In addition, the board of directors concluded that our expected expenses as a percentage of net assets attributable to common stock are generally equal to or less than those typically incurred by comparable business development companies described in the available market data.

Economies of Scale. The board of directors considered information about the potential of stockholders to experience economies of scale as the Company grows in size. The board of directors considered that because there are no break points in the investment adviser's fees, any benefits resulting from the growth in the Company's assets where the Company's fixed costs did not increase proportionately, would not inure to the benefit of the stockholders.

Profitability of Investment Adviser. The board of directors concluded that the investment adviser's pro forma profitability with respect to managing us was generally less than the profitability of investment advisers managing comparable business development companies described in the available market data.

Additional Benefits Derived by Investment Adviser. The board of directors concluded that there is limited potential for additional benefits, such as soft dollar arrangements with brokers, to be derived by our investment adviser and its affiliates as a result of our relationship with our investment adviser.

Other Matters Considered. In addition, our board of directors considered the interests of senior management described in "Certain Relationships and Related Transactions" and concluded that the judgment and performance of our senior management will not be impaired by those interests. Our investment adviser does not manage any other accounts.

In view of the wide variety of factors that our board of directors considered in connection with its evaluation of the investment advisory and management agreement, it is not practical to quantify, rank or otherwise assign relative weights to the specific factors it considered in reaching its decision. The board of directors did not undertake to make any specific determination as to whether any particular factor, or any aspect of any particular factor, was favorable or unfavorable to the ultimate determination of the board of directors. Rather, our board of directors based its approval on the totality of information presented to, and the investigation conducted by, it. In considering the factors discussed above, individual directors may have given different weights to different factors. Based on its review of the abovementioned factors and discussion of the investment advisory and management agreement, the board of directors (including a majority of the directors who are not "interested persons") concluded that the investment advisory and management fee rates are fair and reasonable in relation to the services to be provided and approved the investment advisory and management agreement as being in the best interests of the Company and the Company's stockholders. The board of directors then directed that the investment advisory and management agreement be submitted to stockholders for approval with the board of directors' recommendation that stockholders of the Company vote to approve the investment advisory and management agreement.

Our stockholders approved the investment advisory and management agreement on May 30, 2006. A similar discussion regarding the basis for our board of directors' approval of our investment advisory and management agreement is also included in our proxy statement for the 2006 annual stockholders meeting.

ADMINISTRATION AGREEMENT

We are also party to a separate administration agreement with our administrator, Ares Administration. Our board of directors approved an amended and restated administration agreement on May 30, 2007, which extended the term of the agreement until June 1, 2008. Pursuant to the administration agreement, Ares Administration furnishes us with office equipment and clerical, bookkeeping and record keeping services at our office facilities. Under the administration agreement, Ares Administration also performs, or oversees the performance of, our required administrative services, which include, among other things, being responsible for the financial records which we are required to maintain and preparing reports to our stockholders and reports filed with the SEC. In addition, Ares Administration assists us in determining and publishing our net asset value, oversees the preparation and filing of our tax returns and the printing and dissemination of reports to our stockholders, and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. Payments under the administration agreement will be equal to an amount based upon our allocable portion of Ares Administration's overhead in performing its obligations under the administration agreement, including our allocable portion of the cost of our officers and their respective staffs. The administration agreement may be terminated by either party without penalty upon 60-days' written notice to the other party.

For the year ended December 31, 2007, we incurred $997,470 in administrative fees. For the year ended December 31, 2006, we incurred $953,400 in administrative fees. For the year ended December 31, 2005, we incurred $888,081 in administrative fees.

Indemnification

The administration agreement provides that, absent willful misfeasance, bad faith or negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations, Ares Administration, its members and their respective officers, managers, partners, agents, employees, controlling persons, members and any other person or entity affiliated with it are entitled to indemnification from Ares Capital for any damages, liabilities, costs and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) arising from the rendering of Ares Administration's services under the administration agreement or otherwise as administrator for Ares Capital.

CERTAIN RELATIONSHIPS

We are party to an investment advisory and management agreement with Ares Capital Management, whose sole member is Ares Management LLC, an entity in which certain members of our senior management and our chairman of the board have indirect ownership and financial interests. Certain members of our senior management also serve as principals of other investment managers affiliated with Ares Management LLC that may in the future manage investment funds with investment objectives similar to ours. In addition, certain of our executive officers and directors and the members of the investment committee of our investment adviser, Ares Capital Management, serve or may serve as officers, directors or principals of entities that operate in the same or related line of business as we do or of investment funds managed by our affiliates. Accordingly, we may not be given the opportunity to participate in certain investments made by investment funds managed by advisers affiliated with Ares Management LLC. However, our investment adviser and other members of Ares intend to allocate investment opportunities in a fair and equitable manner that meet our investment objective and strategies so that we are not disadvantaged in relation to any other client. See "Risk Factors Risks Relating to our Business There are significant potential conflicts of interest that could impact our investment returns."

Pursuant to the terms of the administration agreement, Ares Administration currently provides us with the administrative services necessary to conduct our day-to-day operations. Ares Management LLC is the sole member of and controls Ares Administration. We lease office space directly from a third party. In addition, we have a sublease agreement with Ares Management LLC whereby Ares Management LLC subleases approximately 25% of our office space for a fixed rent equal to 25% of the basic annual rent payable by us under our lease, plus certain additional costs and expenses.

We have also entered into a license agreement with Ares pursuant to which Ares has agreed to grant us a non-exclusive, royalty-free license to use the name "Ares." Under this agreement, we will have a right to use the Ares name, for so long as Ares Capital Management or one of its affiliates remains our investment adviser. Other than with respect to this limited license, we will have no legal right to the "Ares" name. This license agreement will remain in effect for so long as the investment advisory and management agreement with our investment adviser is in effect.

In connection with our initial public offering, our investment adviser paid to underwriters, on our behalf, an additional sales load of $2,475,000. This amount accrued interest at a variable rate that adjusted quarterly equal to the three-month LIBOR plus 2.00% per annum. We repaid this amount in full, plus accrued and unpaid interest, in February 2006.

In connection with the offering, Ares Investments, a current stockholder and an affiliate of our investment adviser, Ares Capital Management, has indicated that it intends to over-subscribe for up to a total investment of $50 million in shares of our common stock. Any over-subscription by Ares Investments will be effected in accordance with the pro-rata allocation of shares in connection with the over-subscription privilege.

CONTROL PERSONS AND PRINCIPAL STOCKHOLDERS

To our knowledge, as of March 20, 2008, there were no persons that owned 25% or more of our outstanding voting securities, and no person would be deemed to control us, as such term is defined in the Investment Company Act.

The following table sets forth, as of March 20, 2008, the number of shares of the Company's common stock beneficially owned by each of its current directors and executive officers, all directors and executive officers as a group, and certain beneficial owners, according to information furnished to the Company by such persons.

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the securities. Ownership information for those persons who beneficially own 5% or more of our shares of common stock is based upon Schedule 13D, Schedule 13G or other filings by such persons with the SEC and other information obtained from such persons.

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

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class(1)
Beneficial Owners of more than 5%:		
Non-Management Beneficial Owners		
FMR LLC(2)	8,603,165	11.84%
Entities affiliated with Merrill Lynch & Co.(3)	4,650,219	6.39%
Entities affiliated with John S. Osterweis(4)	3,712,590	5.11%
Directors and Executive Officers:		
Interested Directors		
Robert L. Rosen	None	
Bennett Rosenthal	None(5)	
Independent Directors		
Douglas E. Coltharp	None	
Frank E. O'Bryan	None	
Eric B. Siegel	14,840	*
Executive Officers		
Michael J. Arougheti	28,000(5)	*
Richard S. Davis	23,100	*
Merritt S. Hooper	None	
Daniel F. Nguyen	2,500	*
Karen A. Tallman	10,000	*
Michael D. Weiner	4,000(5)	*
All Directors and Executive Officers as a Group (11 persons)	82,440(5)	*

* Represents less than 1%.

(1) Based on 72,684,090 shares of common stock outstanding as of March 20, 2008.

(2) Fidelity Management & Research Company ("Fidelity"), a wholly owned subsidiary of FMR LLC, is the beneficial owner of 7,418,282 shares of our common stock as a result of acting as an investment adviser to various investment companies registered under Section 8 of the Investment Company Act. Edward C. Johnson III is Chairman of FMR LLC and members of his family are the predominant owners, directly or through trusts, of Series B shares of common stock of FMR LLC, representing 49% of the voting power of FMR LLC. As a result, members of the Johnson family may be deemed to form a controlling group with respect to FMR LLC. Neither FMR LLC nor Edward C. Johnson III has the sole power to

vote or direct the voting of the shares owned directly by the funds managed by Fidelity, which power resides with the funds' Boards of Trustees. Fidelity carries out the voting of the shares under written guidelines established by the funds' Boards of Trustees. The address for each of FMR LLC, Fidelity and Edward C. Johnson III is 82 Devonshire Street, Boston, Massachusetts 02109.

(3) Of the 4,650,219 shares, Merrill Lynch International holds 49,224 shares, Merrill Lynch Financial Markets, Inc. holds 115,900 shares and Merrill Lynch, Pierce, Fenner & Smith Incorporated holds 4,485,095 shares. Each of these entities is a wholly owned subsidiary of Merrill Lynch & Co., Inc. Merrill Lynch & Co., Inc. disclaims beneficial ownership in all shares of Ares Capital Corporation. The address for each of Merrill Lynch & Co., Inc., Merrill Lynch Financial Markets, Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated is 4 World Financial Center, 250 Vesey St. New York, New York 10080. The address for Merrill Lynch International is 2 King Edward Street, London EC1A 1HQ, England.

(4) Osterweis Capital Management, Inc. holds 568,582 of these shares and Osterweis Capital Management, LLC holds 1,287,713 of these shares. John S. Osterweis is the President of both Osterweis Capital Management, Inc. and Osterweis Capital Management, LLC and as a result may be deemed to be the indirect beneficial owner of the shares beneficially owned by Osterweis Capital Management, Inc. and Osterweis Capital Management, LLC. The address for each of Osterweis Capital Management, Inc., Osterweis Capital Management, LLC and John S. Osterweis is One Maritime Plaza, Suite 800, San Francisco, California, 94111.

(5) Ares Investments LLC, whose sole manager is Ares Partners Management Company LLC, owned 1,216,667 shares of our common stock as of March 20, 2008. Each of the members of Ares Partners Management Company LLC (which include Messrs. Rosenthal, Arougheti and Weiner or vehicles controlled by them) disclaims beneficial ownership of all shares of Ares Capital common stock owned by Ares Investments LLC, except to the extent of any indirect pecuniary interest therein. Ares Investments has indicated that it intends to over-subscribe for up to a total investment of $50 million in shares of our common stock. Any over-subscription by Ares Investments will be effected in accordance with the pro-rata allocation of shares in connection with the over-subscription privilege.

DETERMINATION OF NET ASSET VALUE

The net asset value per share of our outstanding shares of common stock is determined quarterly by dividing the value of total assets minus liabilities by the total number of shares outstanding.

In calculating the value of our total assets, investment transactions are recorded on the trade date. Realized gains or losses are computed using the specific identification method. Investments for which market quotations are readily available are 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 based on the input of our management and audit committee. In addition, the board of directors currently receives input from independent valuation firms that have been engaged at the direction of the board to assist in the valuation of each portfolio investment at least once during a trailing 12 month period. The valuation process is conducted at the end of each fiscal quarter, with approximately a quarter of our valuations of portfolio companies without market quotations subject to review by an independent valuation firm each quarter. The types of factors that the board may take into account in determining the fair value of our investments generally focus on the enterprise value of a portfolio company, as well as other factors such as 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 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 may differ materially from the values that we may ultimately realize.

With respect to investments for which market quotations are not readily available, our board of directors undertakes a multi-step valuation process each quarter, as described below:

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

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

The audit committee of our board of directors reviews these preliminary valuations, as well as the input of an independent valuation firm with respect to the valuations of approximately a quarter of our portfolio companies.

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 management and audit committee and independent valuation firms.

DIVIDEND REINVESTMENT PLAN

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 provided below. 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.

No action is required on the part of a registered stockholder to have their cash dividend reinvested in shares of our common stock. A registered stockholder may elect to receive an entire dividend in cash by notifying Computershare Trust Company, Inc., the plan administrator and an affiliate of our transfer agent and registrar, in writing so that such notice is received by the plan administrator no later than the record date for dividends to stockholders. The plan administrator will set up an account for shares acquired through the plan for each stockholder who has not elected to receive dividends in cash and hold such shares in non-certificated form. Upon request by a stockholder participating in the plan, received in writing no later than 10 days prior to the record date, the plan administrator will, instead of crediting shares to the participant's account, issue a certificate registered in the participant's name for the number of whole shares of our common stock and a check for any fractional share.

Those stockholders whose shares are held by a broker or other financial intermediary may receive dividends in cash by notifying their broker or other financial intermediary of their election.

We intend to use primarily newly issued shares to implement the plan, whether our shares are trading at a premium or at a discount to net asset value. However, we reserve the right to purchase shares in the open market in connection with our obligations under the plan. The number of shares to be issued to a stockholder is determined by dividing the total dollar amount of the dividend payable to such stockholder by the market price per share of our common stock at the close of regular trading on The NASDAQ Global Select Market on the valuation date for such dividend. Market price per share on that date will be the closing price for such shares on The NASDAQ Global Select Market or, if no sale is reported for such day, at the average of their reported bid and asked prices. The number of shares of our common stock to be outstanding after giving effect to payment of the dividend cannot be established until the value per share at which additional shares will be issued has been determined and elections of our stockholders have been tabulated.

There are no brokerage charges or other charges to stockholders who participate in the plan. The plan administrator's fees under the plan are paid by us. If a participant elects by written notice to the plan administrator to have the plan administrator sell part or all of the shares held by the plan administrator in the participant's account and remit the proceeds to the participant, the plan administrator is authorized to deduct a $15 transaction fee plus a $0.12 per share brokerage commission from the proceeds.

Stockholders who receive dividends in the form of stock are subject to the same federal, state and local tax consequences as are stockholders who elect to receive their dividends in cash. A stockholder's basis for determining gain or loss upon the sale of stock received in a dividend from us will be equal to the total dollar amount of the dividend payable to the stockholder. Any stock received in a dividend will have a new holding period for tax purposes commencing on the day following the day on which the shares are credited to the U.S. stockholder's account.

Participants may terminate their accounts under the plan by notifying the plan administrator via its website at *www.computershare.com*, by filling out the transaction request form located at bottom of their statement and sending it to the plan administrator at 2 N. LaSalle Street, Chicago, IL 60602 or by calling the plan administrator's hotline at 1-877-292-9685.

The plan may be terminated by us upon notice in writing mailed to each participant at least 30 days prior to any record date for the payment of any dividend by us. All correspondence concerning the plan should be directed to the plan administrator by mail at 2 N. LaSalle Street, Chicago, IL 60602 or by telephone at (312) 588-4993.

MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following discussion is a general summary of the material U.S. federal income tax considerations applicable to us and to an investment in our preferred stock or common stock. This summary does not purport to be a complete description of the income tax considerations applicable to such an investment. For example, we have not described tax consequences that we assume to be generally known by investors or certain considerations that may be relevant to certain types of holders subject to special treatment under U.S. federal income tax laws, including stockholders subject to the alternative minimum tax, tax-exempt organizations, insurance companies, dealers in securities, pension plans and trusts, and financial institutions. This summary assumes that investors hold our preferred stock or common stock as capital assets (within the meaning of the Code). The discussion is based upon the Code, Treasury regulations, and administrative and judicial interpretations, each as of the date of this prospectus and all of which are subject to change, possibly retroactively, which could affect the continuing validity of this discussion. We have not sought and will not seek any ruling from the Internal Revenue Service regarding the offering pursuant to this prospectus. This summary does not discuss any aspects of U.S. estate or gift tax or foreign, state or local tax. It does not discuss the special treatment under U.S. federal income tax laws that could result if we invested in tax-exempt securities or certain other investment assets.

A "U.S. stockholder" is a beneficial owner of shares of our preferred stock or common stock that is for U.S. federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or any state thereof or the District of Columbia;
- a trust, if a court within the United States has primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions, or the trust has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person; or
- an estate, the income of which is subject to U.S. federal income taxation regardless of its source.

A "Non-U.S. stockholder" is a beneficial owner of shares of our preferred stock or common stock that is not a U.S. stockholder.

If a partnership (including an entity treated as a partnership for U.S. federal income tax purposes) holds shares of our preferred stock or common stock, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. A prospective stockholder that is a partnership holding shares of our preferred stock or common stock or a partner of such a partnership should consult his, her or its tax advisers with respect to the purchase, ownership and disposition of shares of our preferred stock or common stock.

Tax matters are very complicated and the tax consequences to an investor of an investment in our shares will depend on the facts of his, her or its particular situation. We encourage investors to consult their own tax advisers regarding the specific consequences of such an investment, including tax reporting requirements, the applicability of federal, state, local and foreign tax laws, eligibility for the benefits of any applicable tax treaty and the effect of any possible changes in the tax laws.

ELECTION TO BE TAXED AS A RIC

As a BDC, we have elected to be treated as a RIC under Subchapter M of the Code. 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 qualify as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements (as described below). In addition, we must distribute to our stockholders, for each taxable year, an amount equal to at least 90% of our "investment company taxable income," which is generally our ordinary income plus the excess of net short-term capital gain over net long-term capital loss, reduced by deductible expenses (the "Annual Distribution Requirement"). See "Risk Factors We will be subject to corporate-level income tax if we are unable to qualify as a RIC."

TAXATION AS A RIC

If we:

- qualify as a RIC; and
- satisfy the Annual Distribution Requirement;

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

We will be subject to a 4% nondeductible federal excise tax on certain undistributed income of RICs unless we distribute in a timely manner an amount at least equal to the sum of (1) 98% of our ordinary income for each calendar year, (2) 98% of our capital gain net income for the one-year period ending October 31 in that calendar year and (3) any income realized, but not distributed, in preceding years (the "Excise Tax Avoidance Requirement"). We have in the past and can be expected to pay such excise tax on a portion of our income.

To qualify as a RIC for federal income tax purposes, we generally must, among other things:

- qualify to be treated as a BDC under the Investment Company Act at all times during each taxable year;
- derive in each taxable year at least 90% of our gross income from dividends, interest, payments with respect to certain securities loans, gains from the sale of stock or other securities, or other income derived with respect to our business of investing in such stock or securities (the "90% Income Test"); and
- diversify our holdings so that at the end of each quarter of the taxable year:
    - at least 50% of the value of our assets consists of cash, cash equivalents, U.S. Government securities, securities of other RICs, and other securities if such other securities of any one issuer do not represent more than 5% of the value of our assets or more than 10% of the outstanding voting securities of the issuer; and
    - no more than 25% of the value of our assets is invested in the securities, other than U.S. Government securities or securities of other RICs, of one issuer or of two or more issuers that are controlled, as determined under applicable tax rules, by us and that are engaged in the same or similar or related trades or businesses (the "Diversification Tests").

We may be required to recognize taxable income in circumstances in which we do not receive cash. For example, if we hold debt obligations that are treated under applicable tax rules as having original issue discount (such as debt instruments with payment-in-kind interest or, in certain cases, increasing interest rates or issued with warrants), we must include in income each year a portion of the original issue discount that accrues over the life of the obligation, regardless of whether cash

representing such income is received by us in the same taxable year. Because any original issue discount accrued will be included in our investment company taxable income for the year of accrual, we may be required to make a distribution to our stockholders in order to satisfy the Annual Distribution Requirement and the Excise Tax Avoidance Requirement, even though we will not have received any corresponding cash amount.

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

Gain or loss realized by us from warrants acquired by us as well as any loss attributable to the lapse of such warrants generally will be treated as capital gain or loss. Such gain or loss generally will be long-term or short-term, depending on how long we held a particular warrant.

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

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

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

If we borrow money, we may be prevented by loan covenants from declaring and paying dividends in certain circumstances. Limits on our payment of dividends may prevent us from meeting the Annual Distribution Requirement, and may, therefore, jeopardize our qualification for taxation as a RIC, or subject us to the 4% excise tax.

We are authorized to borrow funds and to sell assets in order to satisfy distribution requirements. However, under the Investment Company Act, we are not permitted to make distributions to our stockholders while our debt obligations and senior securities are outstanding unless certain "asset coverage" tests are met. See "Regulation Indebtedness and Senior Securities." Moreover, our ability to dispose of assets to meet our distribution requirements may be limited by (1) the illiquid nature of our portfolio and (2) other requirements relating to our status as a RIC, including the Diversification Tests. If we dispose of assets to meet the Annual Distribution Requirement, the Diversification Test, or the Excise Tax Avoidance Requirement, we may make such dispositions at times that, from an investment standpoint, are not advantageous.

If we fail to satisfy the Annual Distribution Requirement or otherwise fail to qualify as a RIC in any taxable year, we will be subject to tax in that year on all of our taxable income, regardless of whether we make any distributions to our stockholders. In that case, all of our income will be subject to corporate-level federal income tax, reducing the amount available to be distributed to our stockholders. In contrast, assuming we qualify as a RIC, our corporate-level federal income tax should be substantially reduced or eliminated. See "Election to be Taxed as a RIC" and "Risk Factors We will be subject to corporate-level income tax if we are unable to qualify as a RIC."

The remainder of this discussion assumes that we qualify as a RIC and have satisfied the Annual Distribution Requirement.

TAXATION OF U.S. STOCKHOLDERS

Distributions by us generally are taxable to U.S. stockholders as ordinary income or long-term capital gain. Distributions of our "investment company taxable income" (which is, generally, our ordinary income plus net short-term capital gain in excess of net long-term capital loss, reduced by deductible expenses) will be taxable as ordinary income to U.S. stockholders to the extent of our current and accumulated earnings and profits, whether paid in cash or reinvested in additional common stock. To the extent such distributions paid by us to non-corporate stockholders (including individuals) are attributable to dividends from certain U.S. and foreign corporations, such distributions generally will be eligible for a maximum tax rate of 15% provided that certain holding period requirements are met. Distributions of our net capital gain (which is generally our net long-term capital gain in excess of net short-term capital loss) properly designated by us as "capital gain dividends" will be taxable to a U.S. stockholder as long-term capital gains, at a maximum rate of 15% in the case of non-corporate U.S. stockholders, regardless of the U.S. stockholder's holding period for his, her or its preferred stock or common stock and regardless of whether paid in cash or reinvested in additional common stock. Distributions in excess of our earnings and profits first will reduce a U.S. stockholder's adjusted tax basis in such stockholder's preferred stock or common stock and, after the adjusted basis is reduced to zero, will constitute capital gain to such U.S. stockholder.

Although we currently intend to distribute any long-term capital gain at least annually, we may in the future decide to retain some or all of our long-term capital gain, but designate the retained amount as a "deemed distribution." In that case, among other consequences, we will pay tax on the retained amount, each U.S. stockholder will be required to include his, her or its share of the deemed distribution in income as if it had been actually distributed to the U.S. stockholder, and the U.S. stockholder will be entitled to claim a credit equal to his, her or its allocable share of the tax paid thereon by us. The amount of the deemed distribution net of such tax will be added to the U.S. stockholder's tax basis for his, her or its preferred stock or common stock. Since we expect to pay tax on any retained capital gain at our regular corporate tax rate, and since that rate is in excess of the maximum rate currently payable by individuals on long-term capital gain, the amount of tax that individual stockholders will be treated as having paid and for which they will receive a credit will exceed the tax they owe on the retained net capital gain. Such excess generally may be claimed as a credit against the U.S. stockholder's other federal income tax obligations or may be refunded to the extent it exceeds a stockholder's liability for federal income tax. A U.S. stockholder that is not subject to federal income tax or otherwise required to file a federal income tax return would be required to file a federal income tax return on the appropriate form in order to claim a refund for the taxes we paid. In order to utilize the deemed distribution approach, we must provide written notice to our stockholders prior to the expiration of 60 days after the close of the relevant taxable year. We cannot treat any of our investment company taxable income as a "deemed distribution."

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

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

If an investor purchases shares of our preferred stock or common stock shortly before the record date of a distribution, the price of the shares will include the value of the distribution and the investor will be subject to tax on the distribution even though it represents a return of his, her or its investment.

A U.S. stockholder generally will recognize taxable gain or loss if the U.S. stockholder sells or otherwise disposes of his, her or its shares of our preferred stock or common stock. Any gain arising from such sale or disposition generally will be treated as long-term capital gain or loss if the stockholder has held his, her or its shares for more than one year. Otherwise, it would be classified as short-term capital gain or loss. However, any capital loss arising from the sale or disposition of shares of our preferred stock or common stock held for six months or less will be treated as long-term capital loss to the extent of the amount of capital gain dividends received, or undistributed capital gain deemed received, with respect to such shares. In addition, all or a portion of any loss recognized upon a disposition of shares of our preferred stock or common stock may be disallowed if other shares of our preferred stock or common stock are purchased (whether through reinvestment of distributions or otherwise) within 30 days before or after the disposition.

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

We will send to each of our U.S. stockholders, as promptly as possible after the end of each calendar year, a notice detailing, on a per share and per distribution basis, the amounts includible in such U.S. stockholder's taxable income for such year as ordinary income and as long-term capital gain.

In addition, the federal tax status of each year's distributions generally will be reported to the Internal Revenue Service (including the amount of dividends, if any, eligible for the 15% maximum rate). Distributions may also be subject to additional state, local and foreign taxes depending on a U.S. stockholder's particular situation. The Company's ordinary income dividends, but not capital gain dividends, to corporate U.S. stockholders, may, if certain conditions are met, qualify for the 70% dividends received deduction to the extent that the Company has received qualifying dividends during the taxable year.

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

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

TAXATION OF NON-U.S. STOCKHOLDERS

Whether an investment in the shares of our preferred stock or common stock is appropriate for a Non-U.S. stockholder will depend upon that person's particular circumstances. An investment in the shares of our preferred stock or common stock by a Non-U.S. stockholder may have adverse tax consequences. Non-U.S. stockholders should consult their tax advisers before investing in our preferred stock or common stock.

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

However, "interest-related dividends" and "short-term capital gain dividends" paid to our Non-U.S. stockholders with respect to taxable years beginning on or after January 1, 2005 and ending on or before December 31, 2007 will not be subject to withholding of U.S. federal income tax if the requirements below are satisfied. The amount of "interest-related dividends" that we may pay each year is limited to the amount of "qualified interest income" that we receive during that year, less the amount of our expenses properly allocable to such interest income. "Qualified interest income" includes, among other items, interest paid on debt obligations of a U.S. issuer, interest paid on deposits with U.S. banks and any "interest-related dividends" from another RIC. The exemption from withholding tax on "interest-related dividends," however, does not apply to distributions to a Non-U.S. stockholder (i) that has not complied with applicable certification requirements, (ii) of interest on an obligation issued by the Non-U.S. stockholder or by an issuer of which the Non-U.S. stockholder is a 10% shareholder, (iii) that is within certain foreign countries that have inadequate information exchange with the United States, or (iv) of interest paid by a person that is a related person of the Non-U.S. stockholder and the Non-U.S. stockholder is a controlled foreign corporation. The amount of "short-term capital gain dividends" that we may pay each year generally is limited to the excess of our net short-term capital gains over our net long-term capital losses, without any reduction for our expenses allocable to such gains. The exemption from U.S. tax on "short-term capital gain dividends", however, does not apply with respect to an individual Non-U.S. stockholder who is present in the United States for 183 days or more during the taxable year of the distribution. If our income for a taxable year includes "qualified interest income" or net short-term capital gains, we may designate dividends as "interest-related dividends" or "short-term capital gain dividends" by written notice mailed to Non-U.S. stockholders not later than 60 days after the close of our taxable year. As indicated above, these provisions apply only to dividends paid with respect to taxable years beginning on or after January 1, 2005 and will not apply to dividends paid with respect to taxable years beginning after December 31, 2007. These provisions may be extended retroactively, but we cannot provide any assurances to that effect. You should consult with your own tax advisor regarding any such potential extensions. If a Non-U.S. stockholder holds our shares of preferred stock or common stock through a brokerage account, no assurance can be given that the exemptions to taxation described in this paragraph will apply to you. Furthermore, no assurance can be given that we will designate any of our distributions as interest-related dividends or short-term capital gain dividends, even if we are permitted to do so.

Actual or deemed distributions of our net capital gain to a Non-U.S. stockholder, and gains realized by a Non-U.S. stockholder upon the sale of our preferred stock or common stock, will not be subject to withholding of U.S. federal income tax and generally will not be subject to U.S. federal income tax (a) unless the distributions or gains, as the case may be, are effectively connected with a U.S. trade or business of the Non-U.S. stockholder and, if an income tax treaty applies, are attributable to a permanent establishment maintained by the Non-U.S. stockholder in the United States or (b) the Non-U.S. stockholder is an individual, has been present in the United States for 183 days or more during the taxable year, and certain other conditions are satisfied.

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

Accordingly, investment in our shares of our preferred stock or common stock may not be appropriate for a Non-U.S. stockholder.

A Non-U.S. stockholder who is a non-resident alien individual, and who is otherwise subject to withholding of federal income tax, may be subject to information reporting and backup withholding of federal income tax on dividends unless the Non-U.S. stockholder provides us or the dividend paying agent with an IRS Form W-8BEN (or an acceptable substitute form) or otherwise meets documentary evidence requirements for establishing that it is a Non-U.S. stockholder or otherwise establishes an exemption from backup withholding.

Non-U.S. persons should consult their own tax advisers with respect to the U.S. federal income tax and withholding tax, and state, local and foreign tax consequences of an investment in the shares of our preferred stock or common stock.

FAILURE TO QUALIFY AS A RIC

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

DESCRIPTION OF OUR CAPITAL STOCK

The following description is based on relevant portions of the Maryland General Corporation Law and on our charter and bylaws. This summary is not necessarily complete, and we refer you to the Maryland General Corporation Law and our charter and bylaws for a more detailed description of the provisions summarized below.

STOCK

Our authorized stock consists of 200,000,000 shares of stock, par value $0.001 per share, all of which are currently designated as common stock. Our common stock is traded on The NASDAQ Global Select Market under the symbol "ARCC." On March 20, 2008, the last reported sales price of our common stock on The NASDAQ Global Select Market was $13.10 per share. There are no outstanding options or warrants to purchase our stock. No stock has been authorized for issuance under any equity compensation plans. Under Maryland law, our stockholders generally are not personally liable for our debts or obligations.

Under our charter, our board of directors is authorized to classify and reclassify any unissued shares of stock into other classes or series of stock and authorize the issuance of shares of stock without obtaining stockholder approval. As permitted by the Maryland General Corporation Law, our charter provides that the board of directors, without any action by our stockholders, may amend the charter from time to time to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that we have authority to issue.

Common Stock

All shares of our common stock have equal rights as to earnings, assets, dividends and voting and, when they are issued, will be duly authorized, validly issued, fully paid and nonassessable. Distributions may be paid to the holders of our common stock if, as and when authorized by our board of directors and declared by us out of funds legally available therefor. Shares of our common stock have no preemptive, exchange, conversion or redemption rights and are freely transferable, except where their transfer is restricted by federal and state securities laws or by contract. In the event of a liquidation, dissolution or winding up of Ares Capital, each share of our common stock would be entitled to share ratably in all of our assets that are legally available for distribution after we pay all debts and other liabilities and subject to any preferential rights of holders of our preferred stock, if any preferred stock is outstanding at such time. Each share of our common stock is entitled to one vote on all matters submitted to a vote of stockholders, including the election of directors. Except as provided with respect to any other class or series of stock, the holders of our common stock will possess exclusive voting power. There is no cumulative voting in the election of directors, which means that holders of a majority of the outstanding shares of common stock can elect all of our directors, and holders of less than a majority of such shares will be unable to elect any director.

The following are our outstanding classes of capital stock as of March 20, 2008:

(1) Title of Class	(2) Amount Authorized	(3) Amount Held by Registrant or for its Account	(4) Amount Outstanding Exclusive of Amount Shown Under(3)
Common Stock	200,000,000		72,684,090

Preferred Stock

Our charter authorizes our board of directors to classify and reclassify any unissued shares of stock into other classes or series of stock, including preferred stock. Prior to issuance of shares of each class or series, the board of directors is required by Maryland law and by our charter to set the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each class or series. Thus, the board of directors could authorize the issuance of shares of preferred stock with terms and conditions that could have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for holders of our common stock or otherwise be in their best interest. You should note, however, that any issuance of preferred stock must comply with the requirements of the Investment Company Act. The Investment Company Act requires, among other things, that (1) immediately after issuance and before any dividend or other distribution is made with respect to our common stock and before any purchase of common stock is made, such preferred stock together with all other indebtedness and senior securities must not exceed an amount equal to 50% of our total assets after deducting the amount of such dividend, distribution or purchase price, as the case may be, and (2) the holders of shares of preferred stock, if any are issued, must be entitled as a class to elect two directors at all times and to elect a majority of the directors if dividends on such preferred stock are in arrears by two years or more. Certain matters under the Investment Company Act require the separate vote of the holders of any issued and outstanding preferred stock. For example, holders of preferred stock would vote separately from the holders of common stock on a proposal to cease operations as a BDC. We believe that the availability for issuance of preferred stock will provide us with increased flexibility in structuring future financings and acquisitions.

LIMITATION ON LIABILITY OF DIRECTORS AND OFFICERS; INDEMNIFICATION AND ADVANCE OF EXPENSES

Maryland law permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages except for liability resulting from (a) actual receipt of an improper benefit or profit in money, property or services or (b) active and deliberate dishonesty established by a final judgment as being material to the cause of action. Our charter contains such a provision which eliminates directors' and officers' liability to the maximum extent permitted by Maryland law, subject to the requirements of the Investment Company Act.

Our charter authorizes us and our bylaws obligate us, to the maximum extent permitted by Maryland law and subject to the requirements of the Investment Company Act, to indemnify any present or former director or officer or any individual who, while a director or officer and at our request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee, from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her status as a present or former director or officer and to pay or reimburse their reasonable expenses in advance of final disposition of a proceeding. The charter and bylaws also permit us to indemnify and advance expenses to any person who served a predecessor of us in any of the capacities described above and any of our employees or agents or any employees or agents of our predecessor. In accordance with the Investment Company Act, we will not indemnify any person for any liability to which such person would be subject by reason of such person's willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office. In addition to the indemnification provided for in our bylaws, we have entered into indemnification agreements with each of our current directors and officers and with members of our investment adviser's investment committee and we intend to enter into indemnification agreements with each of our future directors and officers. The indemnification agreements attempt to provide these directors and senior officers the maximum indemnification permitted under Maryland law and the Investment Company Act. The agreements provide, among other things, for the advancement of expenses and indemnification for liabilities incurred which such person may incur by reason of his status as a present or former director or officer or member of our investment adviser's investment committee in any action or proceeding arising out of the performance of such person's services as a present or former director or officer or member of our investment adviser's investment committee.

Maryland law requires a corporation (unless its charter provides otherwise, which our charter does not) to indemnify a director or officer who has been successful, on the merits or otherwise, in the defense of any proceeding to which he or she is made or threatened to be made a party by reason of his or her service in that capacity. Maryland law permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made or are threatened to be made a party by reason of their service in those or other capacities unless it is established that (a) the act or omission of the director or officer was material to the matter giving rise to the proceeding and (1) was committed in bad faith or (2) was the result of active and deliberate dishonesty, (b) the director or officer actually received an improper personal benefit in money, property or services or (c) in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. However, under Maryland law, a Maryland corporation may not indemnify for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis that a personal benefit was improperly received, unless in either case a court orders indemnification, and then only for expenses. In addition, Maryland law permits a corporation to advance reasonable expenses to a director or officer upon the corporation's receipt of (a) a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation and (b) a written undertaking by him or her or on his or her behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the standard of conduct was not met.

PROVISIONS OF THE MARYLAND GENERAL CORPORATION LAW AND OUR CHARTER AND BYLAWS

The Maryland General Corporation Law and our charter and bylaws contain provisions that could make it more difficult for a potential acquiror to acquire us by means of a tender offer, proxy contest or otherwise. These provisions are expected to discourage certain coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of us to negotiate first with our board of directors. We believe that the benefits of these provisions outweigh the potential disadvantages of discouraging any such acquisition proposals because, among other things, the negotiation of such proposals may improve their terms.

Classified board of directors

Our board of directors is divided into three classes of directors serving staggered three-year terms, with the term of office of only one of the three classes expiring each year. A classified board may render a change in control of us or removal of our incumbent management more difficult. We believe, however, that the longer time required to elect a majority of a classified board of directors will help to ensure the continuity and stability of our management and policies.

Election of directors

Our charter and bylaws provide that the affirmative vote of the holders of a majority of the outstanding shares of stock entitled to vote in the election of directors will be required to elect a director. Pursuant to the charter, our board of directors may amend the bylaws to alter the vote required to elect directors.

Number of directors; vacancies; removal

Our charter provides that the number of directors will be set only by the board of directors in accordance with our bylaws. Our bylaws provide that a majority of our entire board of directors may at any time increase or decrease the number of directors. However, unless our bylaws are amended, the number of directors may never be less than four nor more than eight. Our charter sets forth our election, subject to certain requirements, to be subject to the provision of Subtitle 8 of Title 3 of the Maryland General Corporation Law regarding the filling of vacancies on the board of directors. Accordingly, at such time, except as may be provided by the board of directors in setting the terms of any class or series of preferred stock, any and all vacancies on the board of directors may be filled only by the affirmative vote of a majority of the remaining directors in office, even if the remaining directors do not constitute a quorum, and any director elected to fill a vacancy will serve for the remainder of the full term of the directorship in which the vacancy occurred and until a successor is elected and qualifies, subject to any applicable requirements of the Investment Company Act.

Our charter provides that a director may be removed only for cause, as defined in our charter, and then only by the affirmative vote of at least two-thirds of the votes entitled to be cast in the election of directors.

Action by stockholders

Under the Maryland General Corporation Law, stockholder action can be taken only at an annual or special meeting of stockholders or by unanimous written or electronically transmitted consent in lieu of a meeting. These provisions, combined with the requirements of our bylaws regarding the calling of a stockholder-requested special meeting of stockholders discussed below, may have the effect of delaying consideration of a stockholder proposal until the next annual meeting.

Advance notice provisions for stockholder nominations and stockholder proposals

Our bylaws provide that with respect to an annual meeting of stockholders, nominations of individuals for election to the board of directors and the proposal of business to be considered by stockholders may be made only (1) pursuant to our notice of the meeting, (2) by the board of directors or (3) by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice procedures of the bylaws. With respect to special meetings of stockholders, only the business specified in our notice of the meeting may be brought before the meeting. Nominations of individuals for election to the board of directors at a special meeting may be made only (1) pursuant to our notice of the meeting, (2) by the board of directors or (3) provided that the board of directors has determined that directors will be elected at the meeting, by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice provisions of the bylaws.

The purpose of requiring stockholders to give us advance notice of nominations and other business is to afford our board of directors a meaningful opportunity to consider the qualifications of the proposed nominees and the advisability of any other proposed business and, to the extent deemed necessary or desirable by our board of directors, to inform stockholders and make recommendations about such qualifications or business, as well as to provide a more orderly procedure for conducting meetings of stockholders. Although our bylaws do not give our board of directors any power to disapprove stockholder nominations for the election of directors or proposals recommending certain action, they may have the effect of precluding a contest for the election of directors or the consideration of stockholder proposals if proper procedures are not followed and of discouraging or deterring a third party from conducting a solicitation of proxies to elect its own slate of directors or to approve its own proposal without regard to whether consideration of such nominees or proposals might be harmful or beneficial to us and our stockholders.

Calling of special meetings of stockholders

Our bylaws provide that special meetings of stockholders may be called by our board of directors and certain of our officers. Additionally, our bylaws provide that, subject to the satisfaction of certain procedural and informational requirements by the stockholders requesting the meeting, a special meeting of stockholders will be called by the secretary of the corporation upon the written request of stockholders entitled to cast not less than a majority of all the votes entitled to be cast at such meeting.

Approval of extraordinary corporate action; amendment of charter and bylaws

Under Maryland law, a Maryland corporation generally cannot dissolve, amend its charter, merge, sell all or substantially all of its assets, engage in a share exchange or engage in similar transactions outside the ordinary course of business, unless approved by the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter. See "Risk Factors 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." However, a Maryland corporation may provide in its charter for approval of these matters by a lesser percentage, but not less than a majority of all of the votes entitled to be cast on the matter. Our charter generally provides for approval of charter amendments and extraordinary transactions by the stockholders entitled to cast at least a majority of the votes entitled to be cast on the matter. Our charter also provides that certain charter amendments and any proposal for our conversion, whether by merger or otherwise, from a closed-end company to an open-end company or any proposal for our liquidation or dissolution requires the approval of the stockholders entitled to cast at least 80 percent of the votes entitled to be cast on such matter. However, if such amendment or proposal is approved by at least two-thirds of our continuing directors (in addition to approval by our board of directors), such amendment or proposal may be approved by a majority of the votes entitled to be cast on such a matter. The "continuing directors" are defined in our charter as our current directors as well as those directors whose nomination for election by the stockholders or whose election by the directors to fill vacancies is approved by a majority of the continuing directors then on the board of directors.

Our charter and bylaws provide that the board of directors will have the exclusive power to adopt, alter or repeal any provision of our bylaws and to make new bylaws.

No appraisal rights

Except with respect to appraisal rights arising in connection with the Maryland Control Share Acquisition Act discussed below, as permitted by the Maryland General Corporation Law, our charter provides that stockholders will not be entitled to exercise appraisal rights unless a majority of our board of directors determines that such rights will apply.

Control share acquisitions

The Control Share Acquisition Act provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter. Shares owned by the acquiror, by officers or by employees who are directors of the corporation are excluded from shares entitled to vote on the matter. Control shares are voting shares of stock which, if aggregated with all other shares of stock owned by the acquiror or in respect of which the acquiror is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquiror to exercise voting power in electing directors within one of the following ranges of voting power:

- one-tenth or more but less than one-third;
- one-third or more but less than a majority; or

a majority or more of all voting power.

The requisite stockholder approval must be obtained each time an acquiror crosses one of the thresholds of voting power set forth above. Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A control share acquisition means the acquisition of control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition may compel the board of directors of the corporation to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the shares. The right to compel the calling of a special meeting is subject to the satisfaction of certain conditions, including an undertaking to pay the expenses of the meeting. If no request for a meeting is made, the corporation may itself present the question at any stockholders meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the statute, then the corporation may repurchase for fair value any or all of the control shares, except those for which voting rights have previously been approved. The right of the corporation to repurchase control shares is subject to certain conditions and limitations, including, as provided in our bylaws, compliance with the Investment Company Act, which will prohibit any such repurchase other than in limited circumstances. Fair value is determined, without regard to the absence of voting rights for the control shares, as of the date of the last control share acquisition by the acquiror or of any meeting of stockholders at which the voting rights of the shares are considered and not approved. If voting rights for control shares are approved at a stockholders meeting and the acquiror becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of appraisal rights may not be less than the highest price per share paid by the acquiror in the control share acquisition.

The Control Share Acquisition Act does not apply (a) to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction or (b) to acquisitions approved or exempted by the charter or bylaws of the corporation.

Our bylaws contain a provision exempting from the Control Share Acquisition Act any and all acquisitions by any person of our shares of stock. Such provision could also be amended or eliminated at any time in the future. However, we will amend our bylaws to be subject to the Control Share Acquisition Act only if the board of directors determines that it would be in our best interests based on our determination that our being subject to the Control Share Acquisition Act does not conflict with the Investment Company Act.

Business combinations

Under Maryland law, "business combinations" between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested stockholder is defined as:

any person who beneficially owns 10% or more of the voting power of the corporation's shares; or

an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding voting stock of the corporation.

A person is not an interested stockholder under this statute if the board of directors approved in advance the transaction by which he otherwise would have become an interested stockholder. However, in approving a transaction, the board of directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board.

After the five-year prohibition, any business combination between the corporation and an interested stockholder generally must be recommended by the board of directors of the corporation and approved by the affirmative vote of at least:

80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation; and

two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder.

These super-majority vote requirements do not apply if the corporation's common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares.

The statute permits various exemptions from its provisions, including business combinations that are exempted by the board of directors before the time that the interested stockholder becomes an interested stockholder. Our board of directors has adopted a resolution that any business combination between us and any other person is exempted from the provisions of the Business Combination Act, provided that the business combination is first approved by the board of directors, including a majority of the directors who are not interested persons as defined in the Investment Company Act. This resolution, however, may be altered or repealed in whole or in part at any time. If this resolution is repealed, or the board of directors does not otherwise approve a business combination, the statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer.

Conflict with the Investment Company Act

Our bylaws provide that, if and to the extent that any provision of the Maryland General Corporation Law, including the Control Share Acquisition Act (if we amend our bylaws to be subject to such Act) and the Business Combination Act, or any provision of our charter or bylaws conflicts with any provision of the Investment Company Act, the applicable provision of the Investment Company Act will control.

REGULATION

We have elected to be regulated as a BDC under the Investment Company Act and have elected to be treated as a RIC under Subchapter M of the Code. As with other companies regulated by the Investment Company Act, a BDC must adhere to certain substantive regulatory requirements. The Investment Company Act contains prohibitions and restrictions relating to transactions between BDCs and their affiliates (including any investment advisers or sub-advisers), principal underwriters and certain affiliates of those affiliates or underwriters. Among other things, we cannot invest in any portfolio company in which any of the funds managed by Ares currently has an investment (although we may co-invest on a concurrent basis with other funds managed by Ares, subject to compliance with existing regulatory guidance, applicable regulations and our allocation procedures). Some of these co-investments would only be permitted pursuant to an exemptive order from the SEC and we have currently determined not to pursue obtaining such an order. The Investment Company Act also requires that a majority of the directors be persons other than "interested persons," as that term is defined in the Investment Company Act. In addition, the Investment Company Act provides that we may not change the nature of our business so as to cease to be, or to withdraw our election as, a BDC unless that change is approved by a majority of our outstanding voting securities. A majority of the outstanding voting securities of a company is defined under the Investment Company Act as the lesser of: (i) 67% or more of such company's shares present at a meeting if more than 50% of the outstanding shares of such company are present and represented by proxy or (ii) more than 50% of the outstanding shares of such company.

We may invest up to 100% of our assets in securities acquired directly from issuers in privately negotiated transactions. With respect to such securities, we may, for the purpose of public resale, be deemed an "underwriter" as that term is defined in the Securities Act. We also do not intend to acquire securities issued by any investment company that exceed the limits imposed by the Investment Company Act. Under these limits, we generally cannot acquire more than 3% of the voting stock of any investment company (as defined in the Investment Company Act), invest more than 5% of the value of our total assets in the securities of one investment company or invest more than 10% of the value of our total assets in the securities of investment companies in the aggregate. With regard to that portion of our portfolio invested in securities issued by investment companies, it should be noted that such investments might subject our stockholders to additional expenses. We may change each of the foregoing policies without stockholder approval.

QUALIFYING ASSETS

A BDC must have been organized and have its principal place of business in the United States and must be operated for the purpose of making investments in the types of securities described in (1), (2) or (3) below. Thus, under the Investment Company Act, a BDC may not acquire any asset other than assets of the type listed in Section 55(a) of the Investment Company Act, which are referred to as qualifying assets, unless, at the time the acquisition is made, qualifying assets represent at least 70% of the company's total assets. The principal categories of qualifying assets relevant to our proposed business are the following:

(1) Securities purchased in transactions not involving any public offering from the issuer of such securities, which issuer (subject to certain limited exceptions):

(A) is an eligible portfolio company, or from any person who is, or has been during the preceding 13 months, an affiliated person of an eligible portfolio company, or from any other person, subject to such rules as may be prescribed by the SEC. An eligible portfolio company is defined in the Investment Company Act as any issuer which:

(i) is organized under the laws of, and has its principal place of business in, the United States;

(ii) is not an investment company (other than a small business investment company wholly owned by the BDC) or a company that would be an investment company but for certain exclusions under the Investment Company Act; and

(iii) does not have any class of securities listed on a national securities exchange.

(B) is a company that meets the requirements of (A)(i) and (ii) above, but is not an eligible portfolio company because it has issued a class of securities on a national securities exchange, if:

(i) at the time of the purchase, we own at least 50% of the (a) greatest number of equity securities of such issuer and securities convertible into or exchangeable for such securities; and (b) the greatest amount of debt securities of such issuer, held by us at any point in time during the period when such issuer was an eligible portfolio company; and

(ii) we are one of the 20 largest holders of record of such issuer's outstanding voting securities.

(2) Securities of any eligible portfolio company which we control.

(3) Securities purchased in a private transaction from a U.S. issuer that is not an investment company or from an affiliated person of the issuer, or in transactions incident thereto, if the issuer is in bankruptcy and subject to reorganization or if the issuer, immediately prior to the purchase of its securities was unable to meet its obligations as they came due without material assistance other than conventional lending or financing arrangements.

(4) Securities of an eligible portfolio company purchased from any person in a private transaction if there is no ready market for such securities and we already own 60% of the outstanding equity of the eligible portfolio company.

(5) Securities received in exchange for or distributed on or with respect to securities described in (1) through (4) above, or pursuant to the exercise of warrants or rights relating to such securities.

(6) Cash, cash equivalents, U.S. Government securities or high-quality debt securities maturing in one year or less from the time of investment.

MANAGERIAL ASSISTANCE TO PORTFOLIO COMPANIES

In order to count portfolio securities as qualifying assets for the purpose of the 70% test discussed above under "Qualifying Assets," the BDC must either control the issuer of the securities or must offer to make available to the issuer of the securities (other than small and solvent companies described above) significant managerial assistance; except that, where the BDC purchases such securities in conjunction with one or more other persons acting together, one of the other persons in the group may make available such managerial assistance. Making available managerial assistance means, among other things, any arrangement whereby the BDC, through its directors, officers or employees, offers to provide, and, if the offer is accepted, does so provide, significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company.

TEMPORARY INVESTMENTS

Pending investment in other types of "qualifying assets," as described above, our investments may consist of cash, cash equivalents, U.S. Government securities or high-quality debt securities maturing in one year or less from the time of investment, which we refer to, collectively, as temporary

investments, so that 70% of our assets are qualifying assets. Typically, we will invest in U.S. Treasury bills or in repurchase agreements, provided that such agreements are fully collateralized by cash or securities issued by the U.S. Government or its agencies. A repurchase agreement involves the purchase by an investor, such as us, of a specified security and the simultaneous agreement by the seller to repurchase it at an agreed-upon future date and at a price which is greater than the purchase price by an amount that reflects an agreed-upon interest rate. There is no percentage restriction on the proportion of our assets that may be invested in such repurchase agreements. However, if more than 25% of our total assets constitute repurchase agreements from a single counterparty, we would not meet the Diversification Tests in order to qualify as a RIC for federal income tax purposes. Thus, we do not intend to enter into repurchase agreements with a single counterparty in excess of this limit. Our investment adviser will monitor the creditworthiness of the counterparties with which we enter into repurchase agreement transactions.

INDEBTEDNESS AND SENIOR SECURITIES

We are permitted, under specified conditions, to issue multiple classes of indebtedness and one class of stock senior to our common stock if our asset coverage, as defined in the Investment Company Act, is at least equal to 200% immediately after each such issuance. In addition, while any indebtedness and senior securities remain outstanding, we must make provisions to prohibit any distribution to our stockholders or the repurchase of such securities or shares unless we meet the applicable asset coverage ratios at the time of the distribution or repurchase. We may also borrow amounts up to 5% of the value of our total assets for temporary or emergency purposes without regard to asset coverage. For a discussion of the risks associated with leverage, see "Risk Factors Risks Relating to our Business Regulations governing our operation as a BDC affect our ability to, and the way in which we, raise additional capital."

CODE OF ETHICS

We and Ares Capital Management have each adopted a code of ethics pursuant to Rule 17j-1 under the Investment Company Act that establishes procedures for personal investments and restricts certain personal securities transactions. Personnel subject to each code may invest in securities for their personal investment accounts, including securities that may be purchased or held by us, so long as such investments are made in accordance with the code's requirements. Our code of ethics is filed as an exhibit to our registration statement of which this prospectus is a part. For information on how to obtain a copy of the code of ethics, see "Available Information."

PROXY VOTING POLICIES AND PROCEDURES

SEC-registered advisers that have the authority to vote (client) proxies (which authority may be implied from a general grant of investment discretion) are required to adopt policies and procedures reasonably designed to ensure that the adviser votes proxies in the best interests of its clients. Registered advisers also must maintain certain records on proxy voting. In most cases, Ares Capital invests in securities that do not generally entitle it to voting rights in its portfolio companies. When Ares Capital does have voting rights, it delegates the exercise of such rights to Ares Capital Management. Ares Capital Management's proxy voting policies and procedures are summarized below:

In determining how to vote, officers of our investment adviser consults with each other and other investment professionals of Ares, taking into account the interests of Ares Capital and its investors as well as any potential conflicts of interest. Our investment adviser consults with legal counsel to identify potential conflicts of interest. Where a potential conflict of interest exists, our investment adviser may, if it so elects, resolve it by following the recommendation of a disinterested third party, by seeking the direction of the independent directors of Ares Capital or, in extreme cases, by abstaining from voting. While our investment adviser may retain an outside service to provide voting recommendations and to assist in analyzing votes, our investment adviser will not delegate its voting authority to any third party.

An officer of Ares Capital Management keeps a written record of how all such proxies are voted. Our investment adviser retains records of (1) proxy voting policies and procedures, (2) all proxy statements received (or it may rely on proxy statements filed on the SEC's EDGAR system in lieu thereof), (3) all votes cast, (4) investor requests for voting information, and (5) any specific documents prepared or received in connection with a decision on a proxy vote. If it uses an outside service, our investment adviser may rely on such service to maintain copies of proxy statements and records, so long as such service will provide a copy of such documents promptly upon request.

Our investment adviser's proxy voting policies are not exhaustive and are designed to be responsive to the wide range of issues that may be subject to a proxy vote. In general, our investment adviser votes our proxies in accordance with these guidelines unless: (1) it has determined otherwise due to the specific and unusual facts and circumstances with respect to a particular vote, (2) the subject matter of the vote is not covered by these guidelines, (3) a material conflict of interest is present, or (4) we find it necessary to vote contrary to our general guidelines to maximize stockholder value or the best interests of Ares Capital. In reviewing proxy issues, our investment adviser generally uses the following guidelines:

Elections of Directors: In general, our investment adviser will vote in favor of the management-proposed slate of directors. If there is a proxy fight for seats on a portfolio company's board of directors, or our investment adviser determines that there are other compelling reasons for withholding our vote, it will determine the appropriate vote on the matter. We may withhold votes for directors that fail to act on key issues, such as failure to: (1) implement proposals to declassify a board, (2) implement a majority vote requirement, (3) submit a rights plan to a stockholder vote or (4) act on tender offers where a majority of stockholders have tendered their shares. Finally, our investment adviser may withhold votes for directors of non-U.S. issuers where there is insufficient information about the nominees disclosed in the proxy statement.

Appointment of Auditors: We believe that a portfolio company remains in the best position to choose its independent auditors and our investment adviser will generally support management's recommendation in this regard.

Changes in Capital Structure: Changes in a portfolio company's charter or bylaws may be required by state or federal regulation. In general, our investment adviser will cast our votes in accordance with the management on such proposals. However, our investment adviser will consider carefully any proposal regarding a change in corporate structure that is not required by state or federal regulation.

Corporate Restructurings, Mergers and Acquisitions: We believe proxy votes dealing with corporate reorganizations are an extension of the investment decision. Accordingly, our investment adviser will analyze such proposals on a case-by-case basis and vote in accordance with its perception of our interests.

Proposals Affecting Stockholder Rights: We will generally vote in favor of proposals that give stockholders a greater voice in the affairs of a portfolio company and oppose any measure that seeks to limit such rights. However, when analyzing such proposals, our investment adviser will balance the financial impact of the proposal against any impairment of stockholder rights as well as of our investment in the portfolio company.

Corporate Governance: We recognize the importance of good corporate governance. Accordingly, our investment adviser will generally favor proposals that promote transparency and accountability within a portfolio company.

Anti-Takeover Measures: Our investment adviser will evaluate, on a case-by-case basis, any proposals regarding anti-takeover measures to determine the measure's likely effect on stockholder value dilution.

Stock Splits: Our investment adviser will generally vote with management on stock split matters.

Limited Liability of Directors: Our investment adviser will generally vote with management on matters that could adversely affect the limited liability of directors.

Social and Corporate Responsibility: Our investment adviser will review proposals related to social, political and environmental issues to determine whether they may adversely affect stockholder value. Our investment adviser may abstain from voting on such proposals where they do not have a readily determinable financial impact on stockholder value.

Stockholders may obtain information regarding how we voted proxies with respect to our portfolio securities free of charge by making a written request for proxy voting information to: Ares Capital Corporation, 1999 Avenue of the Stars, Suite 1900, Los Angeles, California 90067.

PRIVACY PRINCIPLES

We are committed to maintaining the privacy of our stockholders and to safeguarding their non-public personal information. The following information is provided to help you understand what personal information we collect, how we protect that information and why, in certain cases, we may share information with select other parties.

Generally, we do not receive any non-public personal information relating to our stockholders, although certain non-public personal information of our stockholders may become available to us. We do not disclose any non-public personal information about our stockholders or former stockholders to anyone, except as permitted by law or as is necessary in order to service stockholder accounts (for example, to a transfer agent or third party administrator).

We restrict access to non-public personal information about our stockholders to employees of our investment adviser and its affiliates with a legitimate business need for the information. We maintain physical, electronic and procedural safeguards designed to protect the non-public personal information of our stockholders.

OTHER

We will be periodically examined by the SEC for compliance with the Investment Company Act.

We are required to provide and maintain a bond issued by a reputable fidelity insurance company to protect us against larceny and embezzlement. Furthermore, as a BDC, we are prohibited from protecting any director or officer against any liability to Ares Capital or our stockholders arising from willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person's office.

Compliance with the Sarbanes-Oxley Act of 2002 and The NASDAQ Global Select Market Corporate Governance Regulations

The Sarbanes-Oxley Act of 2002 imposes a wide variety of regulatory requirements on publicly-held companies and their insiders. Many of these requirements affect us. The Sarbanes-Oxley Act has required us to review our policies and procedures to determine whether we comply with the Sarbanes-Oxley Act and the regulations promulgated thereunder. We will continue to monitor our compliance with all future regulations that are adopted under the Sarbanes-Oxley Act and will take actions necessary to ensure that we are in compliance therewith.

In addition, The NASDAQ Global Select Market has adopted various corporate governance requirements as part of its listing standards. We believe we are in compliance with such corporate governance listing standards. We will continue to monitor our compliance with all future listing standards and will take actions necessary to ensure that we are in compliance therewith.

CUSTODIAN, TRANSFER AND DIVIDEND PAYING AGENT AND REGISTRAR

Our securities are held under a custody agreement by U.S. Bank National Association. The address of the custodian is Corporate Trust Services, One Federal Street, 3rd Floor, Boston, MA 02110. Computershare Investor Services, LLC will act as our transfer agent, dividend paying agent and registrar. The principal business address of Computershare is 2 N. LaSalle Street Chicago, IL 60602, telephone number: (312) 588-4993.

BROKERAGE ALLOCATION AND OTHER PRACTICES

Since we will generally acquire and dispose of our investments in privately negotiated transactions, we will infrequently use brokers in the normal course of our business. Subject to policies established by our board of directors, the investment adviser will be primarily responsible for the execution of the publicly traded securities portion of our portfolio transactions and the allocation of brokerage commissions. The investment adviser does not expect to execute transactions through any particular broker or dealer, but will seek to obtain the best net results for Ares Capital, taking into account such factors as price (including the applicable brokerage commission or dealer spread), size of order, difficulty of execution, and operational facilities of the firm and the firm's risk and skill in positioning blocks of securities. While the investment adviser generally will seek reasonably competitive trade execution costs, Ares Capital will not necessarily pay the lowest spread or commission available. Subject to applicable legal requirements, the investment adviser may select a broker based partly upon brokerage or research services provided to the investment adviser and Ares Capital and any other clients. In return for such services, we may pay a higher commission than other brokers would charge if the investment adviser determines in good faith that such commission is reasonable in relation to the services provided.

LEGAL MATTERS

The legality of the securities offered hereby will be passed upon for Ares Capital by Proskauer Rose LLP, New York, New York, Sutherland Asbill & Brennan LLP, Washington, D.C. and Venable LLP, Baltimore, Maryland. Certain legal matters in connection with the offering will be passed upon for the dealer managers by Fried, Frank, Harris, Shriver & Jacobson LLP, New York, New York.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

KPMG LLP, located at 355 South Grand Avenue, Los Angeles, California 90071, is the independent registered public accounting firm of Ares Capital.

AVAILABLE INFORMATION

We have filed with the SEC a registration statement on Form N-2, together with all amendments and related exhibits, under the Securities Act of 1933, with respect to the securities offered by this prospectus. The registration statement contains additional information about us and the securities being offered by this prospectus.

We file with or submit to the SEC annual, quarterly and current periodic reports, proxy statements and other information meeting the informational requirements of the Exchange Act. This information is available free of charge by calling us collect at (310) 201-4200 or on our website at *www.arescapitalcorp.com.* You also may inspect and copy these reports, proxy statements and other information, as well as the registration statement and related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street, NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information filed electronically by us with the SEC which are available on the SEC's Internet site at *www.sec.gov*. Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following e-mail address: *publicinfo@sec.gov*, or by writing the SEC's Public Reference Room, 100 F Street, NE, Washington, D.C. 20549-0102.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Ares Capital Corporation:

We have audited the accompanying consolidated balance sheets of Ares Capital Corporation (and subsidiaries) (the Company) as of December 31, 2007 and 2006, including the consolidated schedule of investments as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2007. We also have audited the Company's internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying management's report on internal controls over financial reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ares Capital Corporation (and subsidiaries) as of December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Ares Capital Corporation (and subsidiaries) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

KPMG LLP

Los Angeles, CA
February 25, 2008

ARES CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	As of			
	December 31, 2007		December 31, 2006	
ASSETS				
Investments at fair value (amortized cost of $1,795,620,922 and $1,245,758,040, respectively)				
Non-control/non-affiliate investments	$	1,167,200,429	$	991,529,464
Non-controlled affiliate company investments		430,370,575		244,292,372
Controlled affiliate company investments		176,630,837		
Total investments at fair value		1,774,201,841		1,235,821,836
Cash and cash equivalents		21,142,004		91,538,878
Receivable for open trades		1,342,588		1,026,053
Interest receivable		23,730,490		10,121,104
Other assets		8,987,814		9,483,083
Total assets	$	1,829,404,737	$	1,347,990,954
LIABILITIES				
Debt	$	681,528,056	$	482,000,000
Payable for open trades				60,000,000
Accounts payable and other liabilities		5,516,257		2,027,948
Management and incentive fees payable		13,041,060		12,485,016
Interest and facility fees payable		4,769,441		2,044,586
Total liabilities	$	704,854,814	$	558,557,550
Commitments and contingencies (Note 7)				
STOCKHOLDERS' EQUITY				
Common stock, par value $.001 per share, 100,000,000 common shares authorized, 72,684,090 and 52,036,527 common shares issued and outstanding, respectively		72,683		52,037
Capital in excess of par value		1,136,598,754		785,192,573
Accumulated undistributed net investment income		7,004,815		7,038,469
Accumulated net realized gain on sale of investments		1,470,951		7,086,529
Net unrealized (depreciation) appreciation on investments		(20,597,280)		(9,936,204)
Total stockholders' equity		1,124,549,923		789,433,404
Total liabilities and stockholders' equity	$	1,829,404,737	$	1,347,990,954