

NIKE INC  
Form 4  
September 18, 2015

**FORM 4**

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

OMB APPROVAL

OMB Number: 3235-0287  
Expires: January 31, 2015  
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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

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

(Print or Type Responses)

1. Name and Address of Reporting Person \*  
Comstock Elizabeth J

(Last) (First) (Middle)  
  
ONE BOWERMAN DRIVE  
  
(Street)  
  
BEAVERTON, OR 97005

(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol  
NIKE INC [NKE]

3. Date of Earliest Transaction  
(Month/Day/Year)  
09/17/2015

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

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

Director  10% Owner  
 Officer (give title below)  Other (specify below)

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

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

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
			Code	V	Amount (A) or (D) Price		
Class B Common Stock	09/17/2015		A		1,389 (1) \$ 0 3,341	D	

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

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SEC 1474 (9-02)

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

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1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price of Derivative Security (Instr. 5)	9. Number of Derivative Securities Owned Following Transaction (Instr. 5)
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## Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Comstock Elizabeth J ONE BOWERMAN DRIVE BEAVERTON, OR 97005		X		

## Signatures

By: Evan S. Reynolds For: Elizabeth J. Comstock 09/18/2015

\*\*Signature of Reporting Person Date

## Explanation of Responses:

- \* If the form is filed by more than one reporting person, see Instruction 4(b)(v).
  - \*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- (1) Restricted shares granted on 09/17/2015 under the NIKE, Inc. Stock Incentive Plan. The restrictions lapse with respect to 100% of the shares on the earlier of the date of the next annual meeting of shareholders, or the first anniversary of the date of grant; and upon any termination of service, any shares as to which the restrictions have not expired shall be forfeited to NIKE for cancellation and become authorized but unissued shares.

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

Reporting Person	Relationship	Class of Securities	Quantity	Acquisition Date	Expiration Date	Price	Value	
imes, >	Retail	Fulton Holdings Corp.(12) Airport restaurant operator	First lien senior secured loan (\$43,000 par due 5/2018)	8.50%	5/10/2013	43,000	43,000(2)(12)	
imes, >	Common stock	(19,672 shares)	5/28/2010	1,461	2,086(2)	84,461	85,086	
Paper Source, Inc. and Pine Holdings, Inc.	Retailer of fine and artisanal papers, gifts, gift wrap, greeting cards and envelopes	First lien senior secured loan (\$18,952 par due 9/2018)	7.25% (Libor + 6.25%/Q)	9/23/2013	18,952	18,952(2)(25)	Class A common stock (36,364 shares)	
imes, >	Things Remembered, Inc. and TRM Holdings Corporation	Personalized gifts retailer	First lien senior secured loan (\$14,813 par due 5/2018)	8.00% (Libor + 6.50%/Q)	5/24/2012	14,813	14,813(4)(25)	
imes, >	Herzspace and Defense	Cadence Aerospace, LLC (fka PRV Aerospace, LLC)	Aerospace precision components manufacturer	First lien senior secured loan (\$4,459 par due 5/2018)	6.50% (Libor + 5.25%/Q)	5/15/2012	4,425	4,459(4)(25)
imes, >	ILC Industrial Design	ILC Industrial Design	Designer and manufacturer of protective cases and technically advanced lighting systems	First lien senior secured loan (\$19,192 par due 7/2018)	8.00% (Libor + 6.50%/Q)	7/13/2012	18,885	19,192(4)(25)



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Company(1)	Business Description	Investment	Interest(5)(11)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Wyle Laboratories, Inc. and Wyle Holdings, Inc.	Provider of specialized engineering, scientific and technical services	Senior preferred stock (775 shares)	8.00% PIK	1/17/2008	111	111(2)	
		Common stock (1,885,195 shares)		1/17/2008	2,291	1,722(2)	
					2,402	1,833	
					105,434	102,816	2.10%
<b>Chemicals</b>							
Argotec, LLC	Thermoplastic polyurethane films	First lien senior secured revolving loan (\$625 par due 5/2018)	7.00% (Base Rate + 3.75%/M)	5/31/2013	625	625(2)(25)	
		First lien senior secured loan (\$5,788 par due 5/2019)	5.75% (Libor + 4.75%/M)	5/31/2013	5,788	5,788(2)(25)	
		First lien senior secured loan (\$74 par due 5/2019)	7.00% (Base Rate + 3.75%/Q)	5/31/2013	74	74(2)(25)	
					6,487	6,487	
Emerald Performance Materials, LLC	Polymers and performance materials manufacturer	First lien senior secured loan (\$17,730 par due 5/2018)	6.75% (Libor + 5.50%/Q)	12/13/2013	18,256	18,262(25)	
K2 Pure Solutions Nocal, L.P.	Chemical producer	First lien senior secured revolving loan (\$2,256 par due 8/2019)	8.13% (Libor + 7.13%/M)	8/19/2013	2,256	2,211(2)(25)	
		First lien senior secured loan (\$41,500 par due 8/2019)	7.00% (Libor + 6.00%/M)	8/19/2013	41,500	40,670(2)(25)	
		First lien senior secured loan (\$40,000 par due 8/2019)	7.00% (Libor + 6.00%/M)	8/19/2013	40,000	39,200(3)(25)	
					83,756	82,081	
					108,499	106,830	2.18%
<b>Transportation</b>							
Eberle Design, Inc.	Provider of intelligent transportation systems products in the traffic and rail industries	First lien senior secured loan (\$30,500 par due 8/2018)	7.50% (Libor + 6.25%/Q)	8/26/2013	30,359	30,500(2)(25)	

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PODS Funding Corp. II	Storage and warehousing	First lien senior secured loan (\$35,897 par due 12/2018)	7.00% (Libor + 6.00%/Q)	12/19/2013	35,897	35,897(25)
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United Road Towing, Inc.	Towing company	Warrants to purchase up to 607 shares		4/1/2010		
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					66,256	66,397
						1.35%

**Printing, Publishing and Media**

Batanga, Inc.	Independent digital media company	First lien senior secured revolving loan (\$3,000 par due 4/2014)	8.50%	10/31/2012	3,000	3,000(2)(23)
		First lien senior secured loan (\$4,936 par due 11/2016)	9.60%	10/31/2012	4,936	5,030(2)(23)
		First lien senior secured loan (\$4,500 par due 9/2017)	9.60%	10/31/2012	4,500	4,500(2)(23)
					12,436	12,530

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Company(1)	Business Description	Investment	Interest(5)(11)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Earthcolor Group, LLC	Printing management services	Limited liability company interests (9.30%)		5/18/2012			
Encompass Digital Media, Inc.	Provider of outsourced network origination and transmission services for media companies	First lien senior secured loan (\$19,651 par due 8/2017)	6.75% (Libor + 5.50%/Q)	12/13/2013	20,233	20,241(25)	
The Teaching Company, LLC and The Teaching Company Holdings, Inc.	Education publications provider	First lien senior secured loan (\$20,886 par due 3/2017)	9.00% (Libor + 7.50%/Q)	9/29/2006	20,886	20,469(2)(25)	
		First lien senior secured loan (\$9,701 par due 3/2017)	9.00% (Libor + 7.50%/Q)	9/29/2006	9,701	9,507(4)(25)	
		Preferred stock (10,663 shares)		9/29/2006	1,066	2,282(2)	
		Common stock (15,393 shares)		9/29/2006	3	5(2)	
					31,656	32,263	
					64,325	65,034	1.33%

**Commercial Real Estate**

**Finance**

10th Street, LLC(6)	Real estate holding company	Senior subordinated loan (\$26,250 par due 11/2014)	8.93% Cash, 4.07% PIK	4/1/2010	26,250	26,250(2)	
		Member interest (10.00% interest)		4/1/2010	594	7,257	
		Option (25,000 units)		4/1/2010	25	25	
					26,869	33,532	
American Commercial Coatings, Inc.	Real estate property	Commercial mortgage loan (\$2,275 par due 12/2025)	8.75% (Libor + 7.50%/Q)	4/1/2010	664	1,500(25)	
Cleveland East Equity, LLC	Hotel operator	Real estate equity interests		4/1/2010	1,026	5,305	
Commons R-3, LLC	Real estate developer	Real estate equity interests		4/1/2010			
Crescent Hotels & Resorts, LLC and affiliates(7)	Hotel operator	Senior subordinated loan (\$2,236 par due 9/2011)		4/1/2010		(2)(24)	
		Senior subordinated loan (\$2,092 par due 6/2017)		4/1/2010		(2)(24)	
		Common equity interest		4/1/2010			

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Hot Light Brands, Inc.(7)	Real estate holding company	First lien senior secured loan (\$31,384 par due 2/2011)	4/1/2010	90	253(2)(24)
		Common stock (93,500 shares)	4/1/2010		(2)
				90	253
NPH, Inc.	Hotel property	Real estate equity interests	4/1/2010	5,291	5,532
				33,940	46,122
					0.94%
<b>Oil and Gas</b>					
Geotrace Technologies, Inc.	Reservoir processing and development	Warrants to purchase up to 69,978 shares of common stock	4/1/2010	88	(2)
		Warrants to purchase up to 210,453 shares of preferred stock	4/1/2010	2,805	638(2)
				2,893	638

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Company(1)	Business Description	Investment	Interest(5)(11)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
UL Holding Co., LLC and Universal Lubricants, LLC(6)	Petroleum product manufacturer	Second lien senior secured loan (\$10,093 par due 12/2014)		4/30/2012	9,519	7,260(2)(24)	
		Second lien senior secured loan (\$42,812 par due 12/2014)		4/30/2012	40,097	30,795(2)(24)	
		Second lien senior secured loan (\$4,994 par due 12/2014)		4/30/2012	4,668	3,592(2)(24)	
		Class A common units (151,236 units)		6/17/2011	1,512	(2)	
		Class B-5 common units (599,200 units)		4/25/2008	5,472	(2)	
		Class B-4 common units (50,000 units)		6/17/2011	500	(2)	
		Class C common units (758,546 units)		4/25/2008		(2)	
							61,768
					64,661	42,285	0.86%
<b>Health Clubs</b>							
Athletic Club Holdings, Inc.	Premier health club operator	First lien senior secured loan (\$34,000 par due 3/2019)	7.25% (Libor + 6.00%/M)	10/11/2007	34,000	34,000(2)(13)(25)	
CFW Co-Invest, L.P. and NCP Curves, L.P.	Health club franchisor	Limited partnership interest (4,152,165 shares)		7/31/2012	4,152	2,913(2)	
		Limited partnership interest (2,218,235 shares)		7/31/2012	2,218	1,556(2)	
					6,370	4,469	
					40,370	38,469	0.78%
<b>Telecommunications</b>							
American Broadband Communications, LLC, American Broadband Holding Company, and Cameron Holdings of NC, Inc.	Broadband communication services	Warrants to purchase up to 378 shares		11/7/2007		6,833(2)	
		Warrants to purchase up to 200 shares		9/1/2010		3,615(2)	
					0	10,448	
EUNetworks Group Limited(8)	Broadband bandwidth infrastructure	First lien senior secured loan (\$20,567 par due 5/2019)	7.50% (Libor + 6.50%/Q)	12/13/2013	21,192	21,185(25)	



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provider						
Quantance, Inc.	Designer of semiconductor products to the mobile wireless market	First lien senior secured loan (\$3,500 par due 9/2016)	10.25%	8/23/2013	3,402	3,465(2)
		Warrant to purchase up to 130,432 shares of Series D preferred stock		8/23/2013	74	74(2)
					3,476	3,539
Startec Equity, LLC(7)	Communication services	Member interest		4/1/2010		
Wilcon Holdings LLC	Communications infrastructure provider	Class A common stock (2,000,000 shares)		12/13/2013	1,829	1,829
					26,497	37,001
						0.75%

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Company(1)	Business Description	Investment	Interest(5)(11)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
<b>Environmental Services</b>							
Genomatica, Inc.	Developer of a biotechnology platform for the production of chemical products	First lien senior secured loan (\$1,500 par due 10/2016)	9.26%	3/28/2013	1,439	1,500(2)	
		Warrant to purchase 322,422 shares of Series D preferred stock		3/28/2013		6(2)	
					1,439	1,506	
RE Community Holdings II, Inc. and Pegasus Community Energy, LLC.	Operator of municipal recycling facilities	Preferred stock (1,000 shares)		3/1/2011	8,839	532(2)	
Waste Pro USA, Inc	Waste management services	Preferred Class A common equity (611,615 shares)		11/9/2006	12,263	27,898(2)	
					22,541	29,936	0.61%
<b>Food and Beverage</b>							
Apple & Eve, LLC and US Juice Partners, LLC(6)	Juice manufacturer	Senior units (50,000 units)		10/5/2007	5,000	5,205	
Charter Baking Company, Inc.	Baked goods manufacturer	Senior subordinated loan (\$2,750 par due 6/2015)	17.50% PIK	2/6/2008	2,750	2,750(2)	
		Preferred stock (6,258 shares)		9/1/2006	2,567	2,260(2)	
					5,317	5,010	
Distant Lands Trading Co.	Coffee manufacturer	Class A common stock (1,294 shares)		4/1/2010	980	(2)	
		Class A-1 common stock (2,157 shares)		4/1/2010		(2)	
					980		
					11,297	10,215	0.21%
<b>Wholesale Distribution</b>							
BECO Holding Company, Inc.	Wholesale distributor of first response fire protection equipment and related parts	Common stock (25,000 shares)		7/30/2010	2,500	3,103(2)	

	2,500	3,103	0.06%
	\$ 7,537,403	\$ 7,632,897	155.63%

- (1) Other than the Company's investments listed in footnote 7 below (subject to the limitations set forth therein), the Company does not "Control" any of its portfolio companies, for the purposes of the Investment Company Act of 1940, as amended (together with the rules and regulations promulgated thereunder, the "Investment Company Act"). In general, under the Investment Company Act, the Company would "Control" a portfolio company if the Company owned more than 25% of its outstanding voting securities (i.e., securities with the right to elect directors) and/or had the power to exercise control over the management or policies of such portfolio company. All of the Company's portfolio company investments, which as of December 31, 2013 represented 156% of the Company's net assets or 94% of the Company's total assets, are subject to legal restrictions on sales.
- (2) These assets are pledged as collateral for the Revolving Credit Facility and, as a result, are not directly available to the creditors of the Company to satisfy any obligations of the Company other than the Company's obligations under the Revolving Credit Facility (see Note 5 to the consolidated financial statements).
- (3) These assets are owned by the Company's consolidated subsidiary Ares Capital CP, are pledged as collateral for the Revolving Funding Facility and, as a result, are not directly available to the creditors of the Company to satisfy any obligations of the Company other than Ares Capital CP's obligations under the Revolving Funding Facility (see Note 5 to the consolidated financial statements).
- (4) These assets are owned by the Company's consolidated subsidiary Ares Capital JB Funding LLC ("ACJB"), are pledged as collateral for the SMBC Funding Facility and, as a result, are not directly available to the creditors of the Company to satisfy any obligations of the Company other than ACJB's obligations under the SMBC Funding Facility (see Note 5 to the consolidated financial statements).
- (5) Investments without an interest rate are non income producing.

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(6)

As defined in the Investment Company Act, the Company is deemed to be an "Affiliated Person" of a portfolio company because it owns 5% or more of the portfolio company's outstanding voting securities or it has the power to exercise control over the management or policies of such portfolio company (including through a management agreement). Transactions during the year ended December 31, 2013 in which the issuer was an Affiliated Person (but not a portfolio company that the Company is deemed to Control) are as follows:

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

(7)

As defined in the Investment Company Act, the Company is deemed to be both an "Affiliated Person" and "Control" this portfolio company because it owns more than 25% of the portfolio company's outstanding voting securities or it has the power to exercise control over the management or policies of such portfolio company (including through a management agreement). Transactions during the period for the year ended December 31, 2013 in which the issuer was both an Affiliated Person and a portfolio company that the Company is deemed to Control are as follows:

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

\*

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

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- (8) Non U.S. company or principal place of business outside the U.S. and as a result is not a qualifying asset under Section 55(a) of the Investment Company Act. Under the Investment Company Act, the Company may not acquire any non qualifying asset unless, at the time such acquisition is made, qualifying assets represent at least 70% of the Company's total assets.
- (9) Excepted from the definition of investment company under Section 3(c) of the Investment Company Act and as a result is not a qualifying asset under Section 55(a) of the Investment Company Act. Under the Investment Company Act, the Company may not acquire any non qualifying asset unless, at the time such acquisition is made, qualifying assets represent at least 70% of the Company's total assets.
- (10) In the first quarter of 2011, the staff of the Securities and Exchange Commission (the "Staff") informally communicated to certain business development companies the Staff's belief that certain entities, which would be classified as an "investment company" under the Investment Company Act but for the exception from the definition of "investment company" set forth in Rule 3a 7 promulgated under the Investment Company Act, could not be treated as eligible portfolio companies (as defined in Section 2(a)(46) under the Investment Company Act) (i.e., not eligible to be included in a BDC's 70% "qualifying assets" basket). Subsequently, in August 2011 the Securities and Exchange Commission issued a concept release (the "Concept Release") which stated that "[a]s a general matter, the Commission presently does not believe that Rule 3a 7 issuers are the type of small, developing and financially troubled businesses in which the U.S. Congress intended BDCs primarily to invest" and requested comment on whether or not a 3a 7 issuer should be considered an "eligible portfolio company". The Company provided a comment letter in respect of the Concept Release and continues to believe that the language of Section 2(a)(46) of the Investment Company Act permits a BDC to treat as "eligible portfolio companies" entities that rely on the 3a 7 exception. However, given the current uncertainty in this area (including the language in the Concept Release) and subsequent discussions with the Staff, the Company has, solely

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for purposes of calculating the composition of its portfolio pursuant to Section 55(a) of the Investment Company Act, identified such entities, which include the SSLP, as "non qualifying assets" should the Staff ultimately disagree with the Company's position.

- (11) Variable rate loans to the Company's portfolio companies bear interest at a rate that may be determined by reference to either LIBOR or an alternate base rate (commonly based on the Federal Funds Rate or the Prime Rate), at the borrower's option, which reset annually (A), semi annually (S), quarterly (Q), bi monthly (B), monthly (M) or daily (D). For each such loan, the Company has provided the interest rate in effect on the date presented.
- (12) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 6.00% on \$12 million aggregate principal amount of a "first out" tranche of the portfolio company's senior term debt previously syndicated by the Company into "first out" and "last out" tranches, whereby the "first out" tranche will have priority as to the "last out" tranche with respect to payments of principal, interest and any other amounts due thereunder.
- (13) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 3.00% on \$17 million aggregate principal amount of a "first out" tranche of the portfolio company's senior term debt previously syndicated by the Company into "first out" and "last out" tranches, whereby the "first out" tranche will have priority as to the "last out" tranche with respect to payments of principal, interest and any other amounts due thereunder.
- (14) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 3.25% on \$60 million aggregate principal amount of a "first out" tranche of the portfolio company's senior term debt previously syndicated by the Company into "first out" and "last out" tranches, whereby the "first out" tranche will have priority as to the "last out" tranche with respect to payments of principal, interest and any other amounts due thereunder.
- (15) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 1.13% on \$18 million aggregate principal amount of a "first out" tranche of the portfolio company's senior term debt previously syndicated by the Company into "first out" and "last out" tranches, whereby the "first out" tranche will have priority as to the "last out" tranche with respect to payments of principal, interest and any other amounts due thereunder.
- (16) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 2.00% on \$97 million aggregate principal amount of a "first out" tranche of the portfolio company's senior term debt previously syndicated by the Company into "first out" and "last out" tranches, whereby the "first out" tranche will have priority as to the "last out" tranche with respect to payments of principal, interest and any other amounts due thereunder.
- (17) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 3.13% on \$55 million aggregate principal amount of a "first out" tranche of the portfolio company's senior term debt previously syndicated by the Company into "first out" and "last out" tranches, whereby the "first out" tranche will have priority as to the "last out" tranche with respect to payments of principal, interest and any other amounts due thereunder.
- (18) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 3.00% on \$27 million aggregate principal amount of a "first out" tranche of the portfolio company's first lien senior secured loans, whereby the "first out" tranche will have priority as to the "last out" tranche with respect to payments of principal, interest and any other amounts due thereunder.
- (19) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 3.75% on \$25 million aggregate principal amount of a "first out" tranche of the portfolio company's first lien senior secured loans, whereby the "first out" tranche will have priority as to the "last out" tranche with respect to payments of principal, interest and any other amounts due thereunder.
- (20) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 5.00% on \$23 million aggregate principal amount of a "first out" tranche of the portfolio company's first lien senior secured loans, whereby the "first out" tranche will have priority as to the "last out" tranche with respect to payments of principal, interest and any other amounts due thereunder.
- (21) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 0.75% on \$45 million aggregate principal amount of a "first out" tranche of the portfolio company's first lien senior secured loans, whereby the "first out" tranche will have priority as to the "last out" tranche with respect to payments of principal, interest and any other amounts due thereunder.
- (22) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 3.75% on \$36 million aggregate principal amount of a "first out" tranche of the portfolio company's first lien senior secured loans, whereby the "first out" tranche will have priority as to the "last out" tranche with respect to payments of principal, interest and any other amounts due thereunder.
- (23)

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

- (24) Loan was on non accrual status as of December 31, 2013.
- (25) Loan includes interest rate floor feature.
- (26) In addition to the interest earned based on the stated contractual interest rate of this security, the certificates entitle the holders thereof to receive a portion of the excess cash flow from the SSLP's loan portfolio, which may result in a return to the Company greater than the contractual stated interest rate.
- (27) As of December 31, 2013, no amounts were funded by the Company under this first lien senior secured revolving loan; however, there were letters of credit issued and outstanding through a financial intermediary under the loan. See Note 7 to the consolidated financial statements for further information on letters of credit commitments related to certain portfolio companies.
- (28) As of December 31, 2013, in addition to the amounts funded by the Company under this first lien senior secured revolving loan, there were also letters of credit issued and outstanding through a financial intermediary under the loan. See Note 7 to the consolidated financial statements for further information on letters of credit commitments related to certain portfolio companies.
- (29) As of December 31, 2013, no amounts were funded by the Company under this letter of credit facility; however, there were letters of credit issued and outstanding through a financial intermediary under the letter of credit facility. See Note 7 to the consolidated financial statements for further information on letters of credit commitments related to certain portfolio companies.

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**ARES CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**

**For the Three Months Ended March 31, 2014**

(in thousands, except per share data)

(unaudited)

	Common Stock			Accumulated Net Realized Loss on Investments, Foreign Currency Transactions, and Extinguishment of Debt and Other Assets	Accumulated Net Unrealized Gain on Investments and Foreign Currency Transactions	Total Stockholders' Equity
	Shares	Amount	Capital in Excess of Par Value			
Balance at December 31, 2013	297,971	\$ 298	\$ 4,982,477	\$ (8,785)	\$ (165,040)	\$ 95,494 \$ 4,904,444
Shares issued in connection with dividend reinvestment plan	299		5,257			5,257
Net increase in stockholders' equity resulting from operations				112,336	12,045	(7,389) 116,992
Dividends declared and payable (\$0.43 per share)				(128,127)		(128,127)
Balance at March 31, 2014	298,270	\$ 298	\$ 4,987,734	\$ (24,576)	\$ (152,995)	\$ 88,105 \$ 4,898,566

See accompanying notes to consolidated financial statements.

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## ARES CAPITAL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)

	For the three months ended	
	March 31, 2014 (unaudited)	March 31, 2013 (unaudited)
<b>OPERATING ACTIVITIES:</b>		
Net increase in stockholders' equity resulting from operations	\$ 116,992	\$ 80,342
Adjustments to reconcile net increase in stockholders' equity resulting from operations:		
Realized losses on extinguishment of debt	72	
Net realized gains on investments and foreign currency transactions	(12,117)	(11,678)
Net unrealized losses on investments and foreign currency transactions	7,389	30,433
Net accretion of discount on investments	(339)	(1,566)
Increase in payment-in-kind interest and dividends	(2,900)	(6,110)
Collections of payment-in-kind interest and dividends	1,611	1,198
Amortization of debt issuance costs	3,948	3,497
Accretion of discount on notes payable	3,718	3,256
Depreciation	210	205
Proceeds from sales and repayments of investments	790,066	237,033
Purchases of investments	(828,092)	(351,275)
Changes in operating assets and liabilities:		
Interest receivable	(17,267)	(6,993)
Other assets	(674)	(7,706)
Management and incentive fees payable	(16,359)	(18,985)
Accounts payable and other liabilities	8,614	(3,916)
Interest and facility fees payable	(1,445)	(2,627)
<b>Net cash provided by (used in) operating activities</b>	<b>53,427</b>	<b>(54,892)</b>
<b>FINANCING ACTIVITIES:</b>		
Borrowings on debt	254,050	397,000
Repayments and repurchases of debt	(185,424)	(417,000)
Debt issuance costs	(2,319)	(1,609)
Dividends paid	(122,724)	(90,091)
<b>Net cash used in financing activities</b>	<b>(56,417)</b>	<b>(111,700)</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(2,990)</b>	<b>(166,592)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>149,629</b>	<b>269,043</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 146,639</b>	<b>\$ 102,451</b>
<b>Supplemental Information:</b>		
Interest paid during the period	\$ 45,224	\$ 32,997
Taxes, including excise tax, paid during the period	\$ 12,880	\$ 10,329

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Dividends declared and payable for the period	\$	128,127	\$	94,488
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See accompanying notes to consolidated financial statements.

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**ARES CAPITAL CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**As of March 31, 2014**

**(unaudited)**

**(in thousands, except per share data, percentages and as otherwise indicated;  
for example, with the words "million," "billion" or otherwise)**

**1. ORGANIZATION**

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

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

The Company is externally managed by Ares Capital Management LLC ("Ares Capital Management" or the Company's "investment adviser"), a wholly owned subsidiary of Ares Management LLC ("Ares Management"), a global alternative asset manager and a Securities and Exchange Commission ("SEC") registered investment adviser. Ares Operations LLC ("Ares Operations" or the Company's "administrator"), a wholly owned subsidiary of Ares Management, provides the administrative services necessary for the Company to operate.

**2. SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Presentation*

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

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

***Cash and Cash Equivalents***

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

***Concentration of Credit Risk***

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

***Investments***

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

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

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

Because there is not a readily available market value for most of the investments in its portfolio, the Company values substantially all of its portfolio investments at fair value as determined in good faith by its board of directors, as described herein. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of the Company's investments may fluctuate from period to period. Additionally, the fair value of the Company's investments may differ significantly from the values that would have been used had a ready

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market existed for such investments and may differ materially from the values that the Company may ultimately realize. Further, such investments are generally subject to legal and other restrictions on resale or otherwise are less liquid than publicly traded securities. If the Company was required to liquidate a portfolio investment in a forced or liquidation sale, the Company could realize significantly less than the value at which the Company has recorded it.

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

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

The Company's quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals responsible for the portfolio investment in conjunction with the Company's portfolio management team.

Preliminary valuations are reviewed and discussed with the Company's investment adviser's management and investment professionals, and then valuation recommendations are presented to the Company's board of directors.

The audit committee of the Company's board of directors reviews these valuations, as well as the input of third parties, including independent third-party valuation firms who review a minimum of 50% of the Company's portfolio at fair value.

The Company's board of directors discusses valuations and ultimately determines the fair value of each investment in the Company's portfolio without a readily available market quotation in good faith based on, among other things, the input of the Company's investment adviser, audit committee and, where applicable, independent third-party valuation firms.

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

### ***Interest and Dividend Income Recognition***

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

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

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

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

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

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

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

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

***Foreign Currency Translation***

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

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

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

***Accounting for Derivative Instruments***

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

***Equity Offering Expenses***

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

***Debt Issuance Costs***

Debt issuance costs are amortized over the life of the related debt instrument using the straight line method, which closely approximates the effective yield method.

***Income Taxes***

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

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

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

***Dividends to Common Stockholders***

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

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

***Use of Estimates in the Preparation of Financial Statements***

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

liabilities at the date of the financial statements and the reported 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.

### 3. AGREEMENTS

#### *Investment Advisory and Management Agreement*

The Company is party to an investment advisory and management agreement (the "investment advisory and management agreement") with Ares Capital Management. Subject to the overall supervision of the Company's board of directors, Ares Capital Management provides investment advisory and management services to the Company. For providing these services, Ares Capital Management receives a fee from the Company consisting of two components a base management fee and an incentive fee.

The base management fee is calculated at an annual rate of 1.5% based on the average value of the Company's total assets (other than cash or cash equivalents but including assets purchased with borrowed funds) at the end of the two most recently completed calendar quarters. The base management fee is payable quarterly in arrears.

The incentive fee has two parts. The first part is calculated and payable quarterly in arrears based on the Company's pre-incentive fee net investment income for the quarter. Pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees such as commitment, origination, structuring, diligence and consulting fees or other fees that the Company receives from portfolio companies but excluding fees for providing managerial assistance) accrued during the calendar quarter, minus operating expenses for the quarter (including the base management fee, any expenses payable under the administration agreement, and any interest expense and dividends paid on any outstanding preferred stock, but excluding the 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 PIK interest, preferred stock with PIK dividends and zero coupon securities, accrued income that the Company has not yet received in cash. The Company's investment adviser is not under any obligation to reimburse the Company for any part of the incentive fees it received that was based on accrued interest that the Company never actually received.

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

Pre-incentive fee net investment income, expressed as a rate of return on the value of the Company's net assets (defined as total assets less indebtedness and before taking into account any incentive fees payable during the period) at the end of the immediately preceding calendar quarter, is compared to a fixed "hurdle rate" of 1.75% per quarter. If market credit spreads rise, the Company may be able to invest its funds in debt instruments that provide for a higher return, which may increase the Company's pre-incentive fee net investment income and make it easier for the Company's investment adviser to surpass the fixed hurdle rate and receive an incentive fee based on such net investment income. To the extent the Company has retained pre-incentive fee net investment income that has been used to calculate this part of the incentive fee, it is also included in the amount of the Company's total assets (other than cash and cash equivalents but including assets purchased with borrowed funds) used to calculate the 1.5% base management fee.



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

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

100% of the Company's pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.1875% in any calendar quarter. The Company refers to this portion of its pre-incentive fee net investment income (which exceeds the hurdle rate but is less than 2.1875%) as the "catch-up" provision. The "catch-up" is meant to provide the Company's investment adviser with 20% of the pre-incentive fee net investment income as if a hurdle rate did not apply if this net investment income exceeded 2.1875% in any calendar quarter; and

20% of the amount of the Company's pre-incentive fee net investment income, if any, that exceeds 2.1875% in any calendar quarter.

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

The 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 Company's cumulative aggregate realized capital losses and aggregate unrealized capital depreciation from (b) the Company's cumulative aggregate realized capital gains, in each case calculated from October 8, 2004 (the date the Company completed its initial public offering). Realized capital gains and losses include gains and losses on investments and foreign currencies, as well as gains and losses on extinguishment of debt and other assets. If such amount is positive at the end of such year, then the Capital Gains Fee for such year is equal to 20% of such amount, less the aggregate amount of Capital Gains Fees paid in all prior years. If such amount is negative, then there is no Capital Gains Fee for such year.

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

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

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

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

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The Company defers cash payment of any incentive fee otherwise earned by the Company's investment adviser if during the most recent four full calendar quarter period ending on or prior to the date such payment is to be made the sum of (a) the aggregate distributions to the Company's stockholders and (b) the change in net assets (defined as total assets less indebtedness and before taking into account any incentive fees payable during the period) is less than 7.0% of the Company's net assets (defined as total assets less indebtedness) at the beginning of such period. Any deferred incentive fees are carried over for payment in subsequent calculation periods to the extent such payment is payable under the investment advisory and management agreement.

The Capital Gains Fee payable to the Company's investment adviser as calculated under the investment advisory and management agreement (as described above) for the three months ended March 31, 2014 was \$0. However, in accordance with GAAP, the Company had cumulatively accrued a capital gains incentive fee of \$64,447 as of March 31, 2014 that is not currently due under the investment advisory and management agreement. GAAP requires that the capital gains incentive fee accrual consider the cumulative aggregate unrealized capital appreciation in the calculation, as a capital gains incentive fee would be payable if such unrealized capital appreciation were realized, even though such unrealized capital appreciation is not permitted to be considered in calculating the fee actually payable under the investment advisory and management agreement. This GAAP accrual is calculated using the aggregate cumulative realized capital gains and losses and aggregate cumulative unrealized capital depreciation included in the calculation of the Capital Gains Fee plus the aggregate cumulative unrealized capital appreciation. If such amount is positive at the end of a period, then GAAP requires the Company to record a capital gains incentive fee equal to 20% of such cumulative amount, less the aggregate amount of actual Capital Gains Fees paid or capital gains incentive fees accrued under GAAP in all prior periods. As of March 31, 2014, the Company has paid Capital Gains Fees since inception totaling \$33,411, of which \$17,425 was paid in the first quarter of 2014. The resulting accrual for any capital gains incentive fee under GAAP in a given period may result in an additional expense if such cumulative amount is greater than in the prior period or a reversal of previously recorded expense if such cumulative amount is less than in the prior period. If such cumulative amount is negative, then there is no accrual. There can be no assurance that such unrealized capital appreciation will be realized in the future.

For the three months ended March 31, 2014, base management fees were \$30,084, incentive fees related to pre-incentive fee net investment income were \$28,318 and accrued incentive fees related to capital gains calculated in accordance with GAAP were \$935. As of March 31, 2014, \$122,849 was included in "management and incentive fees payable" in the accompanying consolidated balance sheet, of which \$58,402 was currently payable to the Company's investment adviser under the investment advisory and management agreement.

For the three months ended March 31, 2013, base management fees were \$23,218, incentive fees related to pre-incentive fee net investment income were \$23,836, and the reduction of incentive fees related to capital gains calculated in accordance with GAAP was \$3,751.

### *Administration Agreement*

The Company is party to an administration agreement, referred to herein as the "administration agreement", with its administrator, Ares Operations. Pursuant to the administration agreement, Ares Operations furnishes the Company with office equipment and clerical, bookkeeping and record keeping services at the Company's office facilities. Under the administration agreement, Ares Operations also performs, or oversees the performance of, the Company's required administrative services, which include, among other things, providing assistance in accounting, legal, compliance, operations, investor relations and technology being responsible for the financial records that the Company is required to maintain and preparing reports to its stockholders and reports filed with the SEC. In addition, Ares Operations assists the Company in determining and publishing its net asset value, assists the Company

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in providing managerial assistance to its portfolio companies, oversees the preparation and filing of the Company's tax returns and the printing and dissemination of reports to its stockholders, and generally oversees the payment of its expenses and the performance of administrative and professional services rendered to the Company by others. Payments under the Company's administration agreement are equal to an amount based upon its allocable portion of Ares Operations' overhead and other expenses (including travel expenses) incurred by Ares Operations in performing its obligations under the administration agreement, including the Company's allocable portion of the compensation of certain of its officers (including the Company's chief compliance officer, chief financial officer, chief accounting officer, general counsel, treasurer and assistant treasurer) and their respective staffs. The administration agreement may be terminated by either party without penalty upon 60 days' written notice to the other party.

For the three months ended March 31, 2014 and 2013, the Company incurred \$3,743 and \$2,592, respectively, in administrative fees. As of March 31, 2014, \$3,743 of these fees were unpaid and included in "accounts payable and other liabilities" in the accompanying consolidated balance sheet.

#### 4. INVESTMENTS

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

	As of			
	March 31, 2014		December 31, 2013	
	Amortized Cost(1)	Fair Value	Amortized Cost(1)	Fair Value
First lien senior secured loans	\$ 3,548,296	\$ 3,521,722	\$ 3,405,597	\$ 3,377,608
Second lien senior secured loans	1,223,409	1,197,169	1,335,761	1,319,191
Subordinated certificates of the SSLP(2)	1,814,766	1,841,987	1,745,192	1,771,369
Senior subordinated debt	429,304	388,018	364,094	323,171
Preferred equity securities	231,413	236,765	226,044	229,006
Other equity securities	457,332	603,073	453,732	600,214
Commercial real estate	6,954	10,862	6,983	12,338
Total	\$ 7,711,474	\$ 7,799,596	\$ 7,537,403	\$ 7,632,897

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

(2) The proceeds from these certificates were applied to co-investments with GE Global Sponsor Finance LLC and General Electric Capital Corporation to fund first lien senior secured loans to 46 and 47 different borrowers as of March 31, 2014 and December 31, 2013, respectively.

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

Industry	As of	
	March 31, 2014	December 31, 2013
Investment Funds and Vehicles(1)	24.0%	23.7%
Healthcare Services	14.9	15.4
Business Services	8.8	9.2
Other Services	8.6	7.5
Education	6.6	6.7
Energy	5.4	5.4
Financial Services	4.8	5.1
Consumer Products	4.7	3.5
Restaurants and Food Services	4.0	5.2
Manufacturing	3.6	3.3
Containers and Packaging	3.3	3.3
Automotive Services	2.9	2.9
Retail	1.6	1.6
Chemicals	1.4	1.4
Aerospace and Defense	1.3	1.4
Other	4.1	4.4
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

- (1) Includes the Company's investment in the SSLP, which had made first lien senior secured loans to 46 and 47 different borrowers as of March 31, 2014 and December 31, 2013, respectively. The portfolio companies in the SSLP are in industries similar to the companies in the Company's portfolio.

Geographic Region	As of	
	March 31, 2014	December 31, 2013
West(1)	52.0%	50.0%
Midwest	16.5	15.8
Southeast	13.7	13.6
Mid Atlantic	13.6	15.9
International	2.0	3.7
Northeast	2.2	1.0
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

- (1) Includes the Company's investment in the SSLP, which represented 23.6% and 23.2% of the total investment portfolio at fair value as of March 31, 2014 and December 31, 2013, respectively.

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As of March 31, 2014, 3.2% of total investments at amortized cost (or 1.9% of total investments at fair value) were on non-accrual status. As of December 31, 2013, 3.1% of total investments at amortized cost (or 2.1% of total investments at fair value) were on non-accrual status.

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*Senior Secured Loan Program*

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

As of March 31, 2014 and December 31, 2013, GE and the Company had agreed to make \$11.0 billion of capital available to the SSLP, of which approximately \$8.8 billion and \$8.7 billion in aggregate principal amount, respectively, was funded. As of March 31, 2014 and December 31, 2013, the Company had agreed to make available to the SSLP approximately \$2.3 billion, of which approximately \$1.8 billion and \$1.7 billion in aggregate principal amount, respectively, was funded. Investment of any unfunded amount must be approved by the investment committee of the SSLP described above.

As of March 31, 2014 and December 31, 2013, the SSLP had total assets of \$8.9 billion and \$8.7 billion, respectively. As of March 31, 2014 and December 31, 2013, GE's investment in the SSLP consisted of senior notes of \$6.8 billion and \$6.7 billion, respectively, and SSLP Certificates of \$259.3 million and \$249.3 million, respectively. The SSLP Certificates are junior in right of payment to the senior notes held by GE. As of March 31, 2014 and December 31, 2013, the Company and GE owned 87.5% and 12.5%, respectively, of the outstanding SSLP Certificates.

The SSLP's portfolio consisted of first lien senior secured loans to 46 and 47 different borrowers as of March 31, 2014 and December 31, 2013, respectively. As of March 31, 2014 and December 31, 2013, the portfolio was comprised of all first lien senior secured loans to U.S. middle-market companies. As of March 31, 2014 and December 31, 2013, one loan was on non-accrual status, representing 1.0% and 1.0%, respectively, of the total loans at principal amount in the SSLP. As of March 31, 2014 and December 31, 2013, the largest loan to a single borrower in the SSLP's portfolio in aggregate principal amount was \$348.8 million and \$321.7 million, respectively, and the five largest loans to borrowers in the SSLP totaled \$1.5 billion as of the end of both such periods. The portfolio companies in the SSLP are in industries similar to the companies in the Company's portfolio. Additionally, as of March 31, 2014 and December 31, 2013, the SSLP had commitments to fund various delayed draw investments to certain of its portfolio companies of \$282.2 million and \$510.4 million, respectively, which had been approved by the SSLP investment committee. As of March 31, 2014 and December 31, 2013, the Company had commitments to co-invest in the SSLP for its portion of the SSLP's commitments to fund such delayed draw investments of up to \$49.2 million and \$85.1 million, respectively.

The amortized cost and fair value of the SSLP Certificates held by the Company were \$1.8 billion and \$1.8 billion, respectively, as of March 31, 2014 and \$1.7 billion and \$1.8 billion, respectively, as of December 31, 2013. The SSLP Certificates pay a weighted average coupon of approximately LIBOR plus 8.0% and also entitle the holders thereof to receive a portion of the excess cash flow from the loan portfolio, which may result in a return to the holders of the SSLP Certificates that is greater than the contractual coupon. The Company's yield on its investment in the SSLP at fair value was 14.3% and 14.8% as of March 31, 2014 and December 31, 2013, respectively. For the three months ended March 31, 2014 and 2013, the Company earned interest income of \$67.7 million and \$48.6 million, respectively, from its investment in the SSLP Certificates. The Company is also entitled to certain fees in connection with the SSLP. For the three months ended March 31, 2014 and 2013, in connection with

the SSLP, the Company earned capital structuring service, sourcing and other fees totaling \$12.5 million and \$7.9 million, respectively.

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

Ivy Hill Asset Management, L.P. ("IHAM") is an asset management services company and an SEC-registered investment adviser. The Company has made investments in IHAM, its wholly owned portfolio company and previously made investments in certain vehicles managed by IHAM. As of March 31, 2014, IHAM had assets under management ("IHAM AUM")<sup>(1)</sup> of approximately \$2.8 billion and managed 13 vehicles and served as the sub-manager/sub-servicer for three other vehicles (these vehicles managed or sub-managed/sub-serviced by IHAM are collectively referred to as the "IHAM Vehicles"). IHAM earns fee income from managing the IHAM Vehicles and has also invested in certain of these vehicles as part of its business strategy. As of March 31, 2014 and December 31, 2013, IHAM had total investments of \$205 million and \$170 million, respectively. For the three months ended March 31, 2014 and 2013, IHAM had management fee income of \$7 million and \$5 million, respectively, and other investment-related income of \$6 million and \$12 million, respectively.

The amortized cost and fair value of the Company's investment in IHAM was \$171.0 million and \$264.9 million, respectively, as of March 31, 2014, and \$171.0 million and \$280.4 million, respectively, as of December 31, 2013. For the three months ended March 31, 2014 and 2013, the Company received distributions consisting entirely of dividend income from IHAM of \$20.0 million and \$27.4 million, respectively. The dividend income for the three months ended March 31, 2014 and March 31, 2013 included additional dividends of \$10.0 million and \$17.4 million, respectively, in addition to the quarterly dividend generally paid by IHAM. IHAM paid the additional dividends out of accumulated earnings that had previously been retained by IHAM.

From time to time, IHAM or certain IHAM Vehicles may purchase investments from, or sell investments to, the Company. For any such sales or purchases by the IHAM Vehicles to or from the Company, the IHAM Vehicles must obtain approval from third parties unaffiliated with the Company or IHAM, as applicable. During the three months ended March 31, 2014 and 2013, neither IHAM nor any of the IHAM Vehicles purchased any investments from the Company. The Company purchased investments from certain of the IHAM Vehicles totaling \$10.4 million and \$91.5 million during the three months ended March 31, 2014 and 2013, respectively.

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

**5. DEBT**

In accordance with the Investment Company Act, with certain limited exceptions, the Company is only allowed to borrow amounts such that its asset coverage, calculated pursuant to the Investment

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(1) IHAM AUM refers to the assets of the vehicles managed, sub-managed and sub-serviced by IHAM. It includes drawn and undrawn amounts, including certain amounts that are subject to regulatory leverage restrictions and/or borrowing base restrictions. IHAM AUM amounts are as of March 31, 2014 and are unaudited. Certain amounts are preliminary and remain subject to change, and differences may arise due to rounding.

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Company Act, is at least 200% after such borrowing. As of March 31, 2014 the Company's asset coverage was 260%.

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

	As of			As of		
	March 31, 2014			December 31, 2013		
	Total Aggregate Principal Amount Committed/ Outstanding(1)	Principal Amount Outstanding	Carrying Value	Total Aggregate Principal Amount Committed/ Outstanding(1)	Principal Amount Outstanding	Carrying Value
Revolving Credit Facility	\$ 1,170,000(2)	\$	\$	\$ 1,060,000	\$	\$
Revolving Funding Facility	620,000(3)	100,000	100,000	620,000	185,000	185,000
SMBC Funding Facility	400,000			400,000		
February 2016 Convertible Notes	575,000	575,000	558,534(4)	575,000	575,000	556,456(4)
June 2016 Convertible Notes	230,000	230,000	222,577(4)	230,000	230,000	221,788(4)
2017 Convertible Notes	162,500	162,500	159,455(4)	162,500	162,500	159,220(4)
2018 Convertible Notes	270,000	270,000	264,424(4)	270,000	270,000	264,097(4)
2019 Convertible Notes	300,000	300,000	295,488(4)	300,000	300,000	295,279(4)
2018 Notes	750,000	750,000	750,825(5)	600,000	600,000	596,756(5)
February 2022 Notes	143,750	143,750	143,750	143,750	143,750	143,750
October 2022 Notes	182,500	182,500	182,500	182,500	182,500	182,500
2040 Notes	200,000	200,000	200,000	200,000	200,000	200,000
2047 Notes	229,557	229,557	181,140(6)	230,000	230,000	181,429(6)
<b>Total</b>	<b>\$ 5,233,307</b>	<b>\$ 3,143,307</b>	<b>\$ 3,058,693</b>	<b>\$ 4,973,750</b>	<b>\$ 3,078,750</b>	<b>\$ 2,986,275</b>

- (1) Subject to borrowing base and leverage restrictions. Represents the total aggregate amount committed or outstanding, as applicable, under such instrument.
- (2) Provides for a feature that allows the Company, under certain circumstances, to increase the size of the Revolving Credit Facility to a maximum of \$1,755,000.
- (3) Provides for a feature that allows the Company and Ares Capital CP, under certain circumstances, to increase the size of the Revolving Funding Facility to a maximum of \$865,000.
- (4) Represents the aggregate principal amount outstanding of the Convertible Unsecured Notes (as defined below) less the unaccreted discount initially recorded upon issuance of the Convertible Unsecured Notes. The total unaccreted discount for the February 2016 Convertible Notes, the June 2016 Convertible Notes, the 2017 Convertible Notes, the 2018 Convertible Notes and the 2019 Convertible Notes was \$16,466, \$7,423, \$3,045, \$5,576 and \$4,512, respectively, as of March 31, 2014. The total unaccreted discount for the February 2016 Convertible Notes, the June 2016 Convertible Notes, the 2017 Convertible Notes, the 2018 Convertible Notes



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and the 2019 Convertible Notes was \$18,544, \$8,212, \$3,280, \$5,903 and \$4,721 respectively, as of December 31, 2013.

(5)

As of March 31, 2014, represents the aggregate principal amount outstanding plus the net unamortized premium of \$825 that was initially recorded upon the issuances of the 2018 Notes. As of December 31, 2013, represents the aggregate principal amount less the unaccreted discount of \$3,244 initially recognized on the first issuance of the 2018 Notes.

(6)

Represents the aggregate principal amount outstanding less the unaccreted purchased discount discount initially recorded as a part of the Allied Acquisition (as defined below). The total unaccreted purchased discount for the 2047 Notes was \$48,417 and \$48,571 as of March 31, 2014 and December 31, 2013, respectively.

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The weighted average stated interest rate and weighted average maturity, both on aggregate principal amount, of all the Company's outstanding debt as of March 31, 2014 were 5.4% and 7.6 years, respectively, and as of December 31, 2013 were 5.3% and 7.9 years, respectively.

### *Revolving Credit Facility*

The Company is party to a senior secured revolving credit facility (as amended and restated, the "Revolving Credit Facility"), which allows the Company to borrow up to \$1,170,000 at any one time outstanding. The end of the revolving period and the stated maturity date for the Revolving Credit Facility are May 4, 2018 and May 4, 2019, respectively. The Revolving Credit Facility also includes a feature that allows, under certain circumstances, for an increase in the size of the facility to a maximum of \$1,755,000. The Revolving Credit Facility generally requires payments of interest at the end of each LIBOR interest period, but no less frequently than quarterly, on LIBOR based loans, and monthly payments of interest on other loans. From the end of the revolving period to the stated maturity date, the Company is required to repay outstanding principal amounts under the Revolving Credit Facility on a monthly basis in an amount equal to 1/12<sup>th</sup> of the outstanding principal amount at the end of the revolving period.

Under the Revolving Credit Facility, the Company is required to comply with various covenants, reporting requirements and other customary requirements for similar revolving credit facilities, including, without limitation, covenants related to: (a) limitations on the incurrence of additional indebtedness and liens, (b) limitations on certain investments, (c) limitations on certain restricted payments, (d) maintaining a certain minimum stockholders' equity, (e) maintaining a ratio of total assets (less total liabilities other than indebtedness) to total indebtedness of the Company and its consolidated subsidiaries of not less than 2.0:1.0, (f) limitations on pledging certain unencumbered assets, and (g) limitations on the creation or existence of agreements that prohibit liens on certain properties of the Company and certain of its subsidiaries. These covenants are subject to important limitations and exceptions that are described in the documents governing the Revolving Credit Facility. Borrowings under the Revolving Credit Facility (and the incurrence of certain other permitted debt) are also subject to compliance with a borrowing base that applies different advance rates to different types of assets in the Company's portfolio that are pledged as collateral. As of March 31, 2014, the Company was in compliance in all material respects with the terms of the Revolving Credit Facility.

As of March 31, 2014 and December 31, 2013, there were no amounts outstanding under the Revolving Credit Facility. The Revolving Credit Facility also provides for a sub-limit for the issuance of letters of credit for up to an aggregate amount of \$200,000. As of March 31, 2014 and December 31, 2013, the Company had \$26,801 and \$47,898, respectively, in letters of credit issued through the Revolving Credit Facility. The amount available for borrowing under the Revolving Credit Facility is reduced by any letters of credit issued. As of March 31, 2014, there was \$1,143,199 available for borrowing (net of letters of credit issued) under the Revolving Credit Facility.

Since May 2, 2013, subject to certain exceptions, the interest rate charged on the Revolving Credit Facility is based on LIBOR plus an applicable spread of 2.00% or a "base rate" (as defined in the agreements governing the Revolving Credit Facility) plus an applicable spread of 1.00%. From May 5, 2012 through May 1, 2013, the interest rate charged on the Revolving Credit Facility was based on LIBOR plus an applicable spread of 2.25% or a "base rate" plus an applicable spread of 1.25%. As of March 31, 2014, the one, two, three and six month LIBOR was 0.15%, 0.19%, 0.23% and 0.33%, respectively. As of December 31, 2013, the one, two, three and six month LIBOR was 0.17%, 0.21%, 0.25% and 0.35%, respectively. In addition to the stated interest expense on the Revolving Credit Facility, the Company is required to pay a commitment fee of 0.375% per annum on any unused portion of the Revolving Credit Facility. Since May 2, 2013, the Company is also required to pay a letter of credit fee of 2.25% per annum on letters of credit issued. From May 5, 2012 through May 1, 2013, the letter of credit fee was 2.50%.

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

For the three months ended March 31, 2014 and 2013, the components of interest and credit facility fees expense for the Revolving Credit Facility were as follows:

	For the three months ended March 31,	
	2014	2013
Facility fees	\$ 1,184	\$ 1,090
Amortization of debt issuance costs	672	805
Total interest and credit facility fees expense	\$ 1,856	\$ 1,895

### *Revolving Funding Facility*

The Company's consolidated subsidiary, Ares Capital CP Funding LLC ("Ares Capital CP"), is party to a revolving funding facility (as amended, the "Revolving Funding Facility"), which allows Ares Capital CP to borrow up to \$620,000 at any one time outstanding. The Revolving Funding Facility is secured by all of the assets held by, and the membership interest in, Ares Capital CP. The end of the reinvestment period and the stated maturity date for the Revolving Funding Facility are April 18, 2015 and April 18, 2017, respectively. The Revolving Funding Facility also includes a feature that allows, under certain circumstances, for an increase in the Revolving Funding Facility to a maximum of \$865,000.

Amounts available to borrow under the Revolving Funding Facility are subject to a borrowing base that applies different advance rates to different types of assets held by Ares Capital CP. Ares Capital CP is also subject to limitations with respect to the loans securing the Revolving Funding Facility, including restrictions on sector concentrations, loan size, payment frequency and status, collateral interests, loans with fixed rates and loans with certain investment ratings, as well as restrictions on portfolio company leverage, which may also affect the borrowing base and therefore amounts available to borrow. The Company and Ares Capital CP are also required to comply with various covenants, reporting requirements and other customary requirements for similar facilities. These covenants are subject to important limitations and exceptions that are described in the agreements governing the Revolving Funding Facility. As of March 31, 2014, the Company and Ares Capital CP were in compliance in all material respects with the terms of the Revolving Funding Facility.

As of March 31, 2014 and December 31, 2013, there was \$100,000 and \$185,000 outstanding, respectively, under the Revolving Funding Facility. Since January 25, 2013, the interest charged on the Revolving Funding Facility is based on applicable spreads ranging from 2.25% to 2.50% over LIBOR and ranging from 1.25% to 1.50% over "base rate" (as defined in the agreements governing the Revolving Funding Facility) in each case, determined monthly based on the composition of the borrowing base relative to outstanding borrowings under the Revolving Funding Facility. From January 18, 2012 through January 24, 2013, the interest rate charged on the Revolving Funding Facility was based on LIBOR plus an applicable spread of 2.50% or on a "base rate" plus an applicable spread of 1.50%. As of March 31, 2014 and December 31, 2013, the interest rate in effect was based on one month LIBOR, which was 0.15% and 0.17%, respectively. Ares Capital CP is also required to pay a commitment fee of between 0.50% and 1.75% per annum depending on the size of the unused portion of the Revolving Funding Facility.

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For the three months ended March 31, 2014 and 2013, the components of interest and credit facility fees expense, cash paid for interest expense, average stated interest rates (i.e., rate in effect plus the spread) and average outstanding balances for the Revolving Funding Facility were as follows:

	For the three months ended March 31,	
	2014	2013
Stated interest expense	\$ 173	\$ 474
Facility fees	1,812	1,607
Amortization of debt issuance costs	507	503
Total interest and credit facility fees expense	\$ 2,492	\$ 2,584
Cash paid for interest expense	\$ 1,523	\$ 2,146
Average stated interest rate	2.41%	2.51%
Average outstanding balance	\$ 28,667	\$ 75,467

### ***SMBC Funding Facility***

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

Amounts available to borrow under the SMBC Funding Facility are subject to a borrowing base that applies an advance rate to assets held by ACJB. The Company and ACJB are also required to comply with various covenants, reporting requirements and other customary requirements for similar facilities. These covenants are subject to important limitations and exceptions that are described in the documents governing the SMBC Funding Facility. As of March 31, 2014, the Company and ACJB were in compliance in all material respects with the terms of the SMBC Funding Facility.

As of March 31, 2014 and December 31, 2013, there were no amounts outstanding under the SMBC Funding Facility. Since December 19, 2013, subject to certain exceptions, the interest rate charged on the SMBC Funding Facility is based on one month LIBOR plus an applicable spread of 2.00% or a "base rate" (as defined in the agreements governing the SMBC Funding Facility) plus an applicable spread of 1.00%. Prior to and including December 19, 2013, subject to certain exceptions, the interest rate charged on the SMBC Funding Facility was based on one month LIBOR plus an applicable spread of 2.125% or a "base rate" (as defined in the agreements governing the SMBC Funding Facility) plus an applicable spread of 1.125%. As of March 31, 2014 and December 31, 2013, one-month LIBOR was 0.15% and 0.17%, respectively. ACJB was not required to pay a commitment fee until September 15, 2013 and through December 19, 2013, at which time ACJB was required to pay a commitment fee of up to 0.50% per annum depending on the size of the unused portion of the SMBC Funding Facility. From December 20, 2013 through March 14, 2014, ACJB was required to pay a commitment fee of up to 0.75% per annum depending on the size of the unused portion of the SMBC Funding Facility. After March 14, 2014, ACJB is required to pay a commitment fee of between 0.35% and 0.875% per annum depending on the size of the unused portion of the SMBC Funding Facility.

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For the three months ended March 31, 2014 and 2013, the components of interest and credit facility fees expense for the SMBC Funding Facility were as follows:

	<b>For the three months ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Facility fees	\$ 368	\$
Amortization of debt issuance costs	280	235
<b>Total interest and credit facility fees expense</b>	<b>\$ 648</b>	<b>\$ 235</b>
Cash paid for interest expense	\$	\$ 15

### *Convertible Unsecured Notes*

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

In certain circumstances, the Convertible Unsecured Notes will be convertible into cash, shares of the Company's common stock or a combination of cash and shares of its common stock, at the Company's election, at their respective conversion rates (listed below as of March 31, 2014) subject to customary anti-dilution adjustments and the requirements of their respective indenture (the "Convertible Unsecured Notes Indentures"). Prior to the close of business on the business day immediately preceding their respective conversion date (listed below), holders may convert their Convertible Unsecured Notes only under certain circumstances set forth in the Convertible Unsecured Notes Indentures. On or after their respective conversion dates until the close of business on the scheduled trading day immediately preceding their respective maturity date, holders may convert their Convertible Unsecured Notes at any time. In addition, if the Company engages in certain corporate events as described in their respective Convertible Unsecured Notes Indenture, holders of the Convertible Unsecured Notes may require the Company to repurchase for cash all or part of the Convertible Unsecured Notes at a repurchase price equal to 100% of the principal amount of the Convertible Unsecured Notes to be repurchased, plus accrued and unpaid interest through, but excluding, the required repurchase date.

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Certain key terms related to the convertible features for each of the Convertible Unsecured Notes as of March 31, 2014 are listed below.

	February 2016 Convertible Notes	June 2016 Convertible Notes	2017 Convertible Notes	2018 Convertible Notes	2019 Convertible Notes
Conversion premium	17.5%	17.5%	17.5%	17.5%	15.0%
Closing stock price at issuance	\$16.28	\$16.20	\$16.46	\$16.91	\$17.53
Closing stock price date	January 19, 2011	March 22, 2011	March 8, 2012	October 3, 2012	July 15, 2013
Conversion price(1)	\$18.62	\$18.53	\$19.05	\$19.70	\$20.05
Conversion rate (shares per one thousand dollar principal amount)(1)	53.6914	53.9565	52.5068	50.7591	49.8854
Conversion dates	August 15, 2015	December 15, 2015	September 15, 2016	July 15, 2017	July 15, 2018

- (1) Represents conversion price and conversion rate, as applicable, as of March 31, 2014, taking into account certain de minimis adjustments that will be made on the conversion date.

As of March 31, 2014, the principal amounts of each series of the Convertible Unsecured Notes exceeded the value of the underlying shares multiplied by the per share closing price of the Company's common stock.

The Convertible Unsecured Notes Indentures contain certain covenants, including covenants requiring the Company to comply with Section 18(a)(1)(A) as modified by Section 61(a)(1) of the Investment Company Act and to provide financial information to the holders of the Convertible Unsecured Notes under certain circumstances. These covenants are subject to important limitations and exceptions that are described in the Convertible Unsecured Notes Indentures. As of March 31, 2014, the Company was in compliance in all material respects with the terms of the Convertible Unsecured Notes Indentures.

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

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

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

(1) At time of issuance.

(2) At time of issuance and as of March 31, 2014.

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

As of March 31, 2014, the components of the carrying value of the Convertible Unsecured Notes, the stated interest rate and the effective interest rate were as follows:

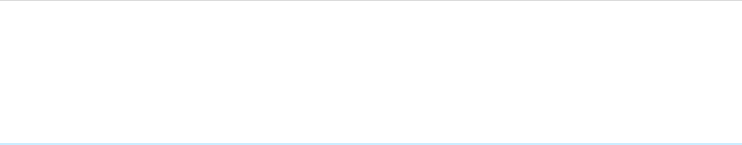
	February 2016 Convertible Notes	June 2016 Convertible Notes	2017 Convertible Notes	2018 Convertible Notes	2019 Convertible Notes
Principal amount of debt	\$ 575,000	\$ 230,000	\$ 162,500	\$ 270,000	\$ 300,000
Original issue discount, net of accretion	(16,466)	(7,423)	(3,045)	(5,576)	(4,512)
Carrying value of debt	\$ 558,534	\$ 222,577	\$ 159,455	\$ 264,424	\$ 295,488
Stated interest rate	5.750%	5.125%	4.875%	4.750%	4.375%
Effective interest rate(1)	7.2%	6.5%	5.5%	5.2%	4.7%

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

For the three months ended March 31, 2014 and 2013, the components of interest expense and cash paid for interest expense for the Convertible Unsecured Notes were as follows:

	For the three months ended March 31,	
	2014	2013
Stated interest expense	\$ 19,680	\$ 16,399
Accretion of original issue discount	3,638	3,200
Amortization of debt issuance costs	1,761	1,605
Total interest expense	\$ 25,079	\$ 21,204

Explanation of Responses:



Cash paid for interest expense	\$ 33,357	\$ 20,492
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***Unsecured Notes***

*2018 Notes*

In November 2013, the Company issued \$600,000 aggregate principal amount of senior unsecured notes that mature on November 30, 2018 (the "2018 Notes"). The 2018 Notes bear interest at a rate of 4.875% per year, payable semi-annually and all principal is due upon maturity. The 2018 Notes may be

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redeemed in whole or in part at any time at the Company's option at a redemption price equal to par plus a "make whole" premium, as determined in the indenture governing the 2018 Notes, and any accrued and unpaid interest. The 2018 Notes were issued at a discount at the time of issuance totaling \$3,312. The Company records interest expense comprised of both stated interest expense as well as any accretion of any original issue discount. Total proceeds from the issuance of the 2018 Notes, net of the original issue discount, underwriting discounts and offering costs, were \$586,014.

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

### *February 2022 Notes*

In February 2012, the Company issued \$143,750 aggregate principal amount of senior unsecured notes that mature on February 15, 2022 (the "February 2022 Notes"). The February 2022 Notes bear interest at a rate of 7.00% per year, payable quarterly and all principal is due upon maturity. The February 2022 Notes may be redeemed in whole or in part at any time or from time to time at the Company's option on or after February 15, 2015, at a par redemption price of \$25.00 per security plus accrued and unpaid interest. Total proceeds from the issuance of the February 2022 Notes, net of underwriting discounts and offering costs, were \$138,338.

### *October 2022 Notes*

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

### *2040 Notes*

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

### *2047 Notes*

As part of the acquisition of Allied Capital Corporation ("Allied Capital") in April 2010 (the "Allied Acquisition"), the Company assumed \$230,000 aggregate principal amount of senior unsecured notes due on April 15, 2047 (the "2047 Notes" and together with the 2018 Notes, the February 2022 Notes, the October 2022 Notes and the 2040 Notes, the "Unsecured Notes"). The 2047 Notes bear interest at a rate of 6.875%, payable quarterly and all principal is due upon maturity. The 2047 Notes may be redeemed in whole or in part at any time or from time to time at the Company's option, at a par redemption price of \$25.00 per security plus accrued and unpaid interest. During the three months ended March 31, 2014, the Company purchased \$443 aggregate principal amount of the 2047 Notes and

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as a result of these transactions, the Company recognized a realized loss of \$72. As of March 31, 2014 and December 31, 2013, the outstanding principal was \$229,557 and \$230,000, respectively, and the carrying value was \$181,140 and \$181,429, respectively. The carrying value represents the principal amount of the 2047 Notes less the unaccreted purchased discount initially recorded as a part of the Allied Acquisition.

For the three months ended March 31, 2014 and 2013, the components of interest expense and cash paid for interest expense for the Unsecured Notes were as follows:

	For the three months ended March 31,	
	2014	2013
Stated interest expense	\$ 21,610	\$ 13,024
Net accretion of original issue discount/premium	80	56
Amortization of debt issuance costs	728	349
<b>Total interest expense</b>	<b>\$ 22,418</b>	<b>\$ 13,429</b>
<b>Cash paid for interest expense</b>	<b>\$ 10,344</b>	<b>\$ 10,344</b>

The Unsecured Notes contain certain covenants, including covenants requiring the Company to comply with Section 18(a)(1)(A) as modified by Section 61(a)(1) of the Investment Company Act and to provide financial information to the holders of such notes under certain circumstances. These covenants are subject to important limitations and exceptions set forth in the indentures governing such notes. As of March 31, 2014, the Company was in compliance in all material respects with the terms of the respective indentures governing each of the Unsecured Notes.

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

### 6. DERIVATIVE INSTRUMENTS

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

Certain information related to the Company's derivative financial instruments is presented below as of March 31, 2014:

Description	Notional Amount	As of March 31, 2014		Balance Sheet Location
		Maturity Date	Fair Value	
Foreign currency forward contract	CAD45,000	6/30/2014	\$ 19	Accounts payable and other liabilities
Foreign currency forward contract	€ 15,000	6/30/2014	19	Accounts payable and other liabilities
<b>Total</b>			<b>\$ 38</b>	



**7. COMMITMENTS AND CONTINGENCIES**

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

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

	As of	
	March 31, 2014	December 31, 2013
Total revolving and delayed draw commitments	\$ 762,444	\$ 834,444
Less: funded commitments	(82,765)	(87,073)
<b>Total unfunded commitments</b>	<b>679,679</b>	<b>747,371</b>
Less: commitments substantially at discretion of the Company	(6,000)	(16,000)
Less: unavailable commitments due to borrowing base or other covenant restrictions	(1,660)	(1,660)
<b>Total net adjusted unfunded revolving and delayed draw commitments</b>	<b>\$ 672,019</b>	<b>\$ 729,711</b>

Included within the total revolving and delayed draw commitments as of March 31, 2014 were commitments to issue up to \$41,875 in letters of credit through a financial intermediary on behalf of certain portfolio companies. As of March 31, 2014, the Company had \$16,952 in letters of credit issued and outstanding under these commitments on behalf of portfolio companies. In addition to these letters of credit included as a part of the total revolving and delayed draw commitments to portfolio companies, as of March 31, 2014 the Company also had \$5,284 of letters of credit issued and outstanding on behalf of other portfolio companies. For all these letters of credit issued and outstanding, the Company would be required to make payments to third parties if the portfolio companies were to default on their related payment obligations. None of these letters of credit issued and outstanding are recorded as a liability on the Company's balance sheet as such letters of credit are considered in the valuation of the investments in the portfolio company. Of these letters of credit \$16,003 expire in 2014 and \$6,233 expire in 2015.

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

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

	As of	
	March 31, 2014	December 31, 2013
Total private equity commitments	\$ 59,500	\$ 59,500
Less: funded private equity commitments	(12,096)	(11,891)
<b>Total unfunded private equity commitments</b>	<b>47,404</b>	<b>47,609</b>
Less: private equity commitments substantially at discretion of the Company	(43,206)	(43,206)
<b>Total net adjusted unfunded private equity commitments</b>	<b>\$ 4,198</b>	<b>\$ 4,403</b>

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

As of March 31, 2014, one of the Company's portfolio companies, Ciena Capital LLC ("Ciena"), had one non-recourse securitization Small Business Administration ("SBA") loan warehouse facility, which has reached its maturity date but remains outstanding. Ciena is working with the providers of the SBA loan warehouse facility with regard to the repayment of that facility. Allied Capital had previously issued a performance guaranty (which the Company succeeded to as a result of the Allied Acquisition) whereby the Company must indemnify the warehouse providers for any damages, losses, liabilities and related costs and expenses that they may incur as a result of Ciena's failure to perform any of its obligations as loan originator, loan seller or loan servicer under the warehouse facility. As of March 31, 2014, there are no known issues or claims with respect to this performance guaranty.

## 8. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

The Company's portfolio investments (other than as discussed below in the following paragraph) are typically valued using two different valuation techniques. The first valuation technique is an analysis of the enterprise value ("EV") of the portfolio company. Enterprise value means the entire value of the portfolio company to a market participant, including the sum of the values of debt and equity securities used to capitalize the enterprise at a point in time. The primary method for determining EV uses a multiple analysis whereby appropriate multiples are applied to the portfolio company's EBITDA (net income before net interest expense, income tax expense, depreciation and amortization). EBITDA multiples are typically determined based upon review of market comparable transactions and publicly traded comparable companies, if any. The Company may also employ other valuation multiples to determine EV, such as revenues or, in the case of certain portfolio companies in the energy industry, kilowatt capacity. The second method for determining EV uses a discounted cash flow analysis whereby future expected cash flows of the portfolio company are discounted to determine a present value using estimated discount rates (typically a weighted average cost of capital based on costs of debt and equity consistent with current market conditions). The EV analysis is performed to determine the value of equity investments, the value of debt investments in portfolio companies where the Company has control or could gain control through an option or warrant security, and to determine if there is credit impairment for debt investments. If debt investments are credit impaired, an EV analysis may be used to value such debt investments; however, in addition to the methods outlined above, other methods such as a liquidation or wind-down analysis may be utilized to estimate enterprise value. The second valuation technique is a yield analysis, which is typically performed for non-credit impaired debt investments in portfolio companies where the Company does not own a controlling equity position. To determine fair value using a yield analysis, a current price is imputed for the investment based upon an assessment of the expected market yield for a similarly structured investment with a similar level of risk. In the yield analysis, the Company considers the current contractual interest rate, the maturity and other terms of the investment relative to risk of the company and the specific investment. A key determinant of risk, among other things, is the leverage through the investment relative to the enterprise value of the portfolio company. As debt investments held by the Company are substantially illiquid with no active transaction market, the Company depends on primary market data, including newly funded transactions, as well as secondary market data with respect to high yield debt instruments and syndicated loans, as inputs in determining the appropriate market yield, as applicable.

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

The following tables summarize the significant unobservable inputs the Company used to value the majority of its investments categorized within Level 3 as of March 31, 2014 and December 31, 2013.

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The tables are not intended to be all-inclusive, but instead capture the significant unobservable inputs relevant to the Company's determination of fair values.

As of March 31, 2014

Asset Category	Fair Value	Valuation Techniques	Unobservable Input		Weighted Average
			Input	Estimated Range	
First lien senior secured loans	\$ 3,521,722	Yield analysis	Market yield	4.0% - 19.0%	8.4%
Second lien senior secured loans	1,197,169	Yield analysis	Market yield	6.1% - 17.5%	9.6%
Subordinated Certificates of the SSLP	1,841,987	Discounted cash flow	Discount rate	10.0% - 13.0%	11.5%
Senior subordinated debt	388,018	Yield analysis	Market yield	8.3% - 17.5%	10.8%
Preferred equity securities	236,765	EV market multiple analysis	EBITDA multiple	4.5x - 16.8x	8.6x
Other equity securities and other	613,935	EV market multiple analysis	EBITDA multiple	4.5x - 14.5x	8.8x
<b>Total</b>	<b>\$ 7,799,596</b>				

As of December 31, 2013

Asset Category	Fair Value	Primary Valuation Technique	Unobservable Input		Weighted Average
			Input	Range	
First lien senior secured loans	\$ 3,377,608	Yield analysis	Market yield	4.0% - 19.0%	8.4%
Second lien senior secured loans	1,319,191	Yield analysis	Market yield	6.1% - 25.3%	10.3%
Subordinated certificates of the SSLP	1,771,369	Discounted cash flow	Discount rate	10.5% - 13.5%	12.3%
Senior subordinated debt	323,171	Yield analysis	Market yield	9.0% - 17.5%	11.4%
Preferred equity securities	229,006	EV market multiple analysis	EBITDA multiple	4.5x - 11.6x	8.3x
Other equity securities and other	612,552	EV market multiple analysis	EBITDA multiple	4.5x - 14.8x	8.6x
<b>Total</b>	<b>\$ 7,632,897</b>				

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

Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of the Company's investments may fluctuate from period to period. Additionally, the fair value of the Company's investments may differ significantly from the values that would have been used had a ready market existed for such investments and may differ materially from the

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values that the Company may ultimately realize. Further, such investments are generally subject to legal and other restrictions on resale or otherwise are less liquid than publicly traded securities. If the Company was required to liquidate a portfolio investment in a forced or liquidation sale, it could realize significantly less than the value at which the Company has recorded it.

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

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The following table presents fair value measurements of cash and cash equivalents, investments and derivatives as of March 31, 2014:

<b>Fair Value Measurements Using</b>				
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Cash and cash equivalents	\$ 146,639	\$ 146,639	\$	\$
Investments	\$ 7,799,596	\$ 654	\$	\$ 7,798,942
Derivatives	\$ (38)	\$	\$ (38)	\$

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

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

The following table presents changes in investments that use Level 3 inputs as of and for the three months ended March 31, 2014:

	<b>As of and for the three months ended March 31, 2014</b>	
Balance as of December 31, 2013	\$	7,632,897
Net realized gains		11,954
Net unrealized losses		(8,028)
Purchases		828,761
Sales		(182,737)
Redemptions		(487,144)
Payment-in-kind interest and dividends		2,900
Net accretion of discount on securities		339
Net transfers in and/or out of Level 3		
Balance as of March 31, 2014	\$	7,798,942

As of March 31, 2014, the net unrealized appreciation on the investments that use Level 3 inputs was \$87,468.

For the three months ended March 31, 2014, the total amount of gains (losses) for the period included in earnings attributable to the change in unrealized gains (losses) relating to the Company's Level 3 assets still held as of March 31, 2014, and reported within the net unrealized gains (losses) from investments in the Company's consolidated statement of operations was \$(3,718).

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The following table presents changes in investments that use Level 3 inputs as of and for the three months ended March 31, 2013:

	<b>As of and for the three months ended March 31, 2013</b>	
Balance as of December 31, 2012	\$	5,914,657
Net realized gains		3,116
Net unrealized losses		(21,967)
Purchases		355,135
Sales		(45,600)
Redemptions		(182,558)
Payment-in-kind interest and dividends		6,110
Net accretion of discount on securities		1,566
Net transfers in and/or out of Level 3		
Balance as of March 31, 2013	\$	6,030,459

As of March 31, 2013, the net unrealized appreciation on the investments that use Level 3 inputs was \$70,671.

For the three months ended March 31, 2013, the total amount of gains (losses) for the period included in earnings attributable to the change in unrealized gains (losses) relating to the Company's Level 3 assets still held as of March 31, 2013, and reported within the net unrealized gains (losses) from investments in the Company's consolidated statement of operations was \$(21,886).

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

Following are the carrying and fair values of the Company's debt obligations as of March 31, 2014 and December 31, 2013. Fair value is estimated by discounting remaining payments using applicable

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current market rates, which take into account changes in the Company's marketplace credit ratings, or market quotes, if available.

	As of			
	March 31, 2014		December 31, 2013	
	Carrying value(1)	Fair value	Carrying value(1)	Fair value
Revolving Credit Facility	\$		\$	
Revolving Funding Facility		100,000		185,000
SMBC Funding Facility		100,000		185,000
February 2016 Convertible Notes (principal amount outstanding of \$575,000)		558,534(2)	627,595	556,456(2)
June 2016 Convertible Notes (principal amount outstanding of \$230,000)		222,577(2)	248,618	221,788(2)
2017 Convertible Notes (principal amount outstanding of \$162,500)		159,455(2)	175,074	159,220(2)
2018 Convertible Notes (principal amount outstanding of \$270,000)		264,424(2)	291,811	264,096(2)
2019 Convertible Notes (principal amount outstanding of \$300,000)		295,488(2)	319,434	295,279(2)
2018 Notes (principal amount outstanding of \$750,000 and \$600,000, respectively)		750,825(3)	777,300	596,757(3)
February 2022 Notes (principal amount outstanding of \$143,750)		143,750	150,917	143,750
October 2022 Notes (principal amount outstanding of \$182,500)		182,500	182,375	182,500
2040 Notes (principal amount outstanding of \$200,000)		200,000	204,808	200,000
2047 Notes (principal amount outstanding of \$229,557 and \$230,000, respectively)		181,140(4)	224,755	181,429(4)
	\$	3,058,693(5)	\$ 3,302,687	\$ 2,986,275(5)
				\$ 3,177,660

- (1) Except for the Convertible Unsecured Notes, the 2018 Notes and the 2047 Notes, all carrying values are the same as the principal amounts outstanding.
- (2) Represents the aggregate principal amount outstanding of the Convertible Unsecured Notes less the unaccreted discount initially recorded upon issuance of each respective series of the Convertible Unsecured Notes.
- (3) As of March 31, 2014, represents the aggregate principal amount outstanding plus the net unamortized premium that was initially recorded upon the issuances of the 2018 Notes. As of December 31, 2013, represents the aggregate principal amount outstanding of the 2018 Notes less the unaccreted discount initially recognized on the first issuance of the 2018 Notes.
- (4) Represents the aggregate principal amount outstanding of the 2047 Notes less the unaccreted purchased discount.
- (5) Total principal amount of debt outstanding totaled \$3,143,307 and \$3,078,750 as of March 31, 2014 and December 31, 2013, respectively.

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

Fair Value Measurements Using	As of	
	March 31, 2014	December 31, 2013
Level 1	\$ 762,855	\$ 736,948
Level 2	2,539,832	2,440,712
<b>Total</b>	<b>\$ 3,302,687</b>	<b>\$ 3,177,660</b>

### 9. STOCKHOLDERS' EQUITY

There were no sales of the Company's equity securities for the three months ended March 31, 2014 and 2013.

### 10. EARNINGS PER SHARE

The following information sets forth the computations of basic and diluted net increase in stockholders' equity resulting from operations per share for the three months ended March 31, 2014 and 2013:

	For the three months ended March 31,	
	2014	2013
Net increase in stockholders' equity resulting from operations available to common stockholders:	\$ 116,992	\$ 80,342
Weighted average shares of common stock outstanding basic and diluted	297,972	248,658
Basic and diluted net increase in stockholders' equity resulting from operations per share:	\$ 0.39	\$ 0.32

For the purpose of calculating diluted net increase in stockholders' equity resulting from operations per share, the average closing price of the Company's common stock for the three months ended March 31, 2014 and 2013 was each less than the conversion price for each of the Convertible Unsecured Notes outstanding as of March 31, 2014 and 2013, respectively. Therefore, for all periods presented in the financial statements, the underlying shares for the intrinsic value of the embedded options in the Convertible Unsecured Notes have no impact on the computation of diluted net increase in stockholders' equity resulting from operations per share.

**11. DIVIDENDS AND DISTRIBUTIONS**

The following table summarizes the Company's dividends declared and payable for the three months ended March 31, 2014 and 2013:

<b>Date Declared</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Per Share</b>	
			<b>Amount</b>	<b>Total Amount</b>
November 5, 2013	March 14, 2014	March 28, 2014	\$ 0.05(1)	\$ 14,899
February 26, 2014	March 14, 2014	March 31, 2014	0.38	113,228
Total declared and payable for the three months ended March 31, 2014			\$ 0.43	\$ 128,127
February 27, 2013	March 15, 2013	March 29, 2013	\$ 0.38	\$ 94,488
Total declared and payable for the three months ended March 31, 2013			\$ 0.38	\$ 94,488

(1) Represents an additional dividend.

The Company has a dividend reinvestment plan, whereby the Company may buy shares of its common stock in the open market or issue new shares in order to satisfy dividend reinvestment requests. Prior to the amendment, if the Company issued new shares to implement the dividend reinvestment plan, the issue price was equal to the closing price of its common stock on the dividend record date. As a result of the amendment, when the Company issues new shares in connection with the dividend reinvestment plan, the issue price is equal to the closing price of its common stock on the dividend payment date. Dividend reinvestment plan activity for the three months ended March 31, 2014 and 2013, was as follows:

	<b>For the three months ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Shares issued	299	243
Average price per share	\$ 17.61	\$ 18.10

**12. RELATED PARTY TRANSACTIONS**

In accordance with the investment advisory and management agreement, the Company bears all costs and expenses of the operation of the Company and reimburses its investment adviser or its affiliates for certain of such costs and expenses incurred in the operation of the Company. For the three months ended March 31, 2014 and 2013, the Company's investment adviser or its affiliates incurred such expenses totaling \$1,449 and \$1,215, respectively. As of March 31, 2014, \$3,021 was unpaid and such payable is included in "accounts payable and other liabilities" in the accompanying consolidated balance sheet.

The Company is party to office leases pursuant to which it is leasing office facilities from third parties. For certain of these office leases, the Company has also entered into separate subleases with Ares Management and IHAM, pursuant to which Ares Management and IHAM sublease a portion of these leases. For the three months ended March 31, 2014 and 2013, amounts payable to the Company under these subleases totaled \$698 and \$418, respectively.

Ares Management has also entered into separate subleases with the Company, pursuant to which the Company subleases certain office leases from Ares Management. For the three months ended March 31, 2014 and 2013, amounts payable to Ares Management under these

subleases totaled \$92 and \$13, respectively.

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See Note 3 and 15 for descriptions of other related party transactions.

### 13. FINANCIAL HIGHLIGHTS

The following is a schedule of financial highlights as of and for the three months ended March 31, 2014 and 2013:

Per Share Data:	For the Three Months Ended	
	March 31, 2014	March 31, 2013
Net asset value, beginning of period(1)	\$ 16.46	\$ 16.04
Net investment income for period(2)	0.38	0.40
Net realized and unrealized gains (losses) for period(2)	0.01	(0.08)
Net increase in stockholders' equity	0.39	0.32
Total distributions to stockholders	(0.43)	(0.38)
Net asset value at end of period(1)	\$ 16.42	\$ 15.98
Per share market value at end of period	\$ 17.62	\$ 18.10
Total return based on market value(3)	1.58%	5.60%
Total return based on net asset value(4)	2.37%	2.00%
Shares outstanding at end of period	298,270	248,896
Ratio/Supplemental Data:		
Net assets at end of period	\$ 4,898,566	\$ 3,978,597
Ratio of operating expenses to average net assets(5)(6)	10.09%	9.33%
Ratio of net investment income to average net assets(5)(7)	9.29%	10.03%
Portfolio turnover rate(5)	35%	15%

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

(2) Weighted average basic per share data.

(3) For the three months ended March 31, 2014, the total return based on market value equaled the decrease of the ending market value at March 31, 2014 of \$17.62 per share from the ending market value at December 31, 2013 of \$17.77 per share plus the declared and payable dividends of \$0.43 per share for the three months ended March 31, 2014, divided by the market value at December 31, 2013. For the three months ended March 31, 2013, the total return based on market value equaled the increase of the ending market value at March 31, 2013 of \$18.10 per share from the ending market value at December 31, 2012 of \$17.50 per share plus the declared and payable dividends of \$0.38 per share for the three months ended March 31, 2013, divided by the market value at December 31, 2012. Total return based on market value is not annualized. The Company's shares fluctuate in value. The Company's performance changes over time and currently may be different than that shown. Past performance is no guarantee of future results.

(4) For the three months ended March 31, 2014, the total return based on net asset value equaled the change in net asset value during the period plus the declared and payable dividends of \$0.43 per share for the three months ended March 31, 2014, divided by the beginning net asset value at January 1, 2014. For the three months ended March 31, 2013, the total return based on net asset value equaled the change in net asset value during the period plus the declared and payable dividends of \$0.38 per share for the three months ended March 31, 2013, divided by the beginning net asset value at January 1, 2013. These calculations are adjusted for shares issued in connection with the dividend reinvestment plan, the issuance of common stock in connection with any equity offerings and the equity components of any convertible notes issued during the period. Total return based on net asset value is not annualized. The Company's performance changes over time and currently may be different than that shown. Past performance is no guarantee of future results.

- (5) The ratios reflect an annualized amount.
- (6) For the three months ended March 31, 2014, the ratio of operating expenses to average net assets consisted of 2.49% of base management fees, 2.42% of incentive fees, 4.34% of the cost of borrowing and 0.84% of other operating expenses. For the three months ended March 31, 2013, the ratio of operating expenses to average net assets consisted of 2.35% of base management fees, 2.03% of incentive fees, 3.99% of the cost of borrowing and 0.96% of other operating expenses. These ratios reflect annualized amounts.
- (7) The ratio of net investment income to average net assets excludes income taxes related to realized gains.

#### 14. LITIGATION

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

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

#### 15. SUBSEQUENT EVENTS

The Company's management has evaluated subsequent events through the date of issuance of the consolidated financial statements included herein. There have been no subsequent events that occurred during such period that would require disclosure in this Form 10-Q or would be required to be recognized in the Consolidated Financial Statements as of and for the three months ended March 31, 2014, except as disclosed below.

In May 2014, the Company entered into an office sublease with Ares Management pursuant to which the Company subleases approximately 74% of certain office space in Dallas, Texas for a rent equal to 74% of the base annual rent payable by Ares Management under the office lease, plus certain additional costs and expenses.

In May 2014, the Company and Ares Capital CP entered into an amendment to the Revolving Funding Facility. The amendment, among other things, (1) extended the reinvestment period from April 18, 2015 to May 14, 2017, (2) extended the stated maturity date from April 18, 2017 to May 14, 2019 and (3) reduced the range of commitment fees paid depending on the size of the unused portion of the Revolving Funding Facility from between 0.50% and 1.75% per annum to 0.50% and 1.50% per annum. Commitments under the amended Revolving Funding Facility were reduced from the pre-amendment commitments of \$620 million to \$540 million.

In May 2014, the Company increased total commitments under the Revolving Credit Facility by \$80 million from \$1,170 million to \$1,250 million.



**11,850,000 Shares**

**Common Stock**

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**PROSPECTUS SUPPLEMENT**

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**Morgan Stanley**  
**Wells Fargo Securities**  
**UBS Investment Bank**  
**J.P. Morgan**  
**RBC Capital Markets**  
**Barclays**  
**Keefe, Bruyette & Woods**  
*A Stifel Company*

July , 2014

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