

ARES CAPITAL CORP
Form 10-Q
May 10, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2007
- OR**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period to

Commission File No. **000-50697**

ARES CAPITAL CORPORATION

(Exact name of Registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

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

280 Park Avenue, 22nd Floor, Building East, New York, NY 10017
(Address of principal executive office) (Zip Code)

(212) 750-7300
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

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

Class	Outstanding at May 9, 2007
Common stock, \$0.001 par value	69,486,220

ARES CAPITAL CORPORATION

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PART I FINANCIAL INFORMATION**Item 1. Financial Statements.****ARES CAPITAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

	As of March 31, 2007 (unaudited)	December 31, 2006
ASSETS		
Investments at fair value (amortized cost of \$1,439,399,109 and \$1,245,758,040, respectively)		
Non-control/non-affiliate investments	\$ 1,186,483,547	\$ 991,529,464
Non-control affiliated company investments	247,264,574	244,292,372
Total investments at fair value	1,433,748,121	1,235,821,836
Cash and cash equivalents	54,333,411	91,538,878
Receivable for open trades	1,222,285	1,026,053
Interest receivable	14,105,571	10,121,104
Other assets	8,870,325	9,483,083
Total assets	\$ 1,512,279,713	\$ 1,347,990,954
LIABILITIES		
Debt	\$ 670,000,000	\$ 482,000,000
Payable for open trades		60,000,000
Accounts payable and accrued expenses	1,863,910	2,027,948
Management and incentive fees payable	9,844,161	12,485,016
Interest and facility fees payable	2,809,253	2,044,586
Total liabilities	684,517,324	558,557,550
Commitments and contingencies (Note 6)		
STOCKHOLDERS EQUITY		
Common stock, par value \$.001 per share, 100,000,000 common shares authorized, 53,961,220 and 52,036,527 common shares issued and outstanding, respectively	53,961	52,037
Capital in excess of par value	822,000,330	785,192,573
Accumulated undistributed net investment income	3,913,272	7,038,469
Accumulated net realized gains on sale of investments	7,445,814	7,086,529
Net unrealized depreciation on investments	(5,650,988)	(9,936,204)
Total stockholders equity	827,762,389	789,433,404
Total liabilities and stockholders equity	\$ 1,512,279,713	\$ 1,347,990,954
NET ASSETS PER SHARE	\$ 15.34	\$ 15.17

See accompanying notes to consolidated financial statements.

ARES CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS

	For the Three Months Ended March 31, 2007 (unaudited)	For the Three Months Ended March 31, 2006 (unaudited)
INVESTMENT INCOME:		
From non-control/non-affiliate investments:		
Interest from investments	\$ 29,976,327	\$ 15,051,133
Capital structuring service fees	4,284,547	1,746,205
Interest from cash & cash equivalents	820,833	231,229
Dividend income	375,000	
Other income	152,152	42,543
Total investment income from non-control/non-affiliate investments	35,608,859	17,071,110
From non-control affiliated company investments:		
Interest from investments	3,840,254	2,476,932
Capital structuring service fees	37,500	583,810
Other income	228,410	59,453
Total investment income from non-control affiliated company investments	4,106,164	3,120,195
Total investment income	39,715,023	20,191,305
EXPENSES:		
Interest and credit facility fees	8,549,315	1,729,620
Base management fees	5,089,497	2,543,659
Incentive management fees	4,754,664	2,922,884
Professional fees	965,813	471,451
Insurance	264,818	188,101
Administrative	210,357	177,537
Depreciation	101,177	
Directors fees	64,750	63,250
Interest to the Investment Adviser		25,879
Other	760,140	168,509
Total expenses	20,760,531	8,290,890
NET INVESTMENT INCOME BEFORE INCOME TAXES	18,954,492	11,900,415
Income tax expense, including excise tax	10,166	208,880
NET INVESTMENT INCOME	18,944,326	11,691,535
REALIZED AND UNREALIZED NET GAINS ON INVESTMENTS:		
Net realized gains (losses):		
Net realized gains (losses) from non-control/non-affiliate investment transactions	269,285	563,603
Net realized gains (losses) from non-control affiliated company investment transactions	90,000	47,283
Net realized gains (losses) from investment transactions	359,285	610,886
Net unrealized gains (losses):		
Net unrealized gains (losses) from non-control/non-affiliate investment transactions	(2,092,412) 3,985,530
Net unrealized gains (losses) from non-control affiliated company investment transactions	6,377,628	(2,444,918
Net unrealized gains (losses) from investment transactions	4,285,216	1,540,612
Net realized and unrealized gains (losses) from investment transactions	4,644,501	2,151,498
NET INCREASE IN STOCKHOLDERS EQUITY RESULTING FROM OPERATIONS	\$ 23,588,827	\$ 13,843,033

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BASIC AND DILUTED EARNINGS PER COMMON SHARE (see Note 4)	\$ 0.44	\$ 0.36
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING (see Note 4)	53,178,927	37,988,700

See accompanying notes to consolidated financial statements.

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ARES CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

As of March 31, 2007

Company {1}	Industry	Investment	Interest {17}	Initial Acquisition Date	Amortized Cost	Fair Value	Fair Value Per Unit	Percentage of Net Assets
Healthcare - Services								
American Renal Associates, Inc.	Dialysis provider	Senior secured loan (\$2,688,524 par due 12/2010)	9.12% (Libor+ 3.75%/Q)	12/14/05	\$ 2,688,524	\$ 2,688,524	\$ 1.00	{3}
		Senior secured loan (\$196,721 par due 12/2010)	10.50% (Base Rate + 2.25%/D)	12/14/05	196,721	196,721	\$ 1.00	{3}
		Senior secured loan (\$5,788,525 par due 12/2011)	9.62% (Libor + 4.25%/Q)	12/14/05	5,788,525	5,788,525	\$ 1.00	{3}
		Senior secured loan (\$54,098 par due 12/2011)	11.00% (Base Rate + 2.75%/D)	12/14/05	54,098	54,098	\$ 1.00	{3}
		Senior secured loan (\$393,741 par due 12/2011)	12.37% (Libor + 7.00%/S)	12/14/05	393,741	393,741	\$ 1.00	
		Senior secured loan (\$261,997 par due 12/2011)	12.37 (Libor + 7.00%/S)	12/14/05	261,997	261,997	\$ 1.00	{3}
		Senior secured loan (\$3,937,406 par due 12/2011)	12.36% (Libor + 7.00% /Q)	12/14/05	3,937,406	3,937,406	\$ 1.00	
		Senior secured loan (\$2,619,971 par due 12/2011)	12.36% (Libor + 7.00% /Q)	12/14/05	2,619,971	2,619,971	\$ 1.00	{3}
Capella Healthcare, Inc.	Acute care hospital operator	Junior secured loan (\$1,000,000 par due 11/2013)	13.25% (Base Rate + 5.00%/D)	12/1/05	1,000,000	1,000,000	\$ 1.00	
		Junior secured loan (\$30,000,000 par due 11/2013)	13.25% (Base Rate + 5.00%/D)	12/1/05	30,000,000	30,000,000	\$ 1.00	{2}
DSI Renal, Inc.	Dialysis provider	Senior subordinated note (\$55,215,573 par due 4/2014)	12.00% Cash, 2.00% PIK	4/4/06	55,215,573	55,215,573	\$ 1.00	{4}
		Senior subordinated note (\$11,105,376 par due 4/2014)	12.00% Cash, 2.00% PIK	4/4/06	11,105,376	11,105,376	\$ 1.00	{3}{4}
		Senior secured revolving loan (\$4,000,000 par due 3/2013)	8.38% (Libor + 3.00%/Q)	4/4/06	4,000,000	4,000,000	\$ 1.00	
		Senior secured revolving loan (\$960,000 par due 3/2013)	8.38% (Libor + 3.00%/Q)	4/4/06	960,000	960,000	\$ 1.00	
		Senior secured revolving loan (\$1,600,000 par due 3/2013)	8.38% (Libor + 3.00%/Q)	4/4/06	1,600,000	1,600,000	\$ 1.00	
				4/4/06	2,096,000	2,096,000	\$ 1.00	

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Senior secured revolving loan (\$2,096,000 par due 3/2013)	10.75% (Base Rate + 2.50%/D)
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MPBP Holdings, Inc., Cohr Holdings, Inc. and MPBP Acquisition Co., Inc.	Healthcare equipment services	Junior secured loan (\$20,000,000 par due 1/2014)	11.61% (Libor + 6.25%/Q)	1/31/07	20,000,000	20,000,000	\$	1.00	
		Junior secured loan (\$12,000,000 par due 1/2014)	11.61% (Libor + 6.25%/Q)	1/31/07	12,000,000	12,000,000	\$	1.00	{3}
		Common stock (50,000 shares)		1/31/07	5,000,000	5,000,000	\$	100.00	{5}
OnCURE Medical Corp.	Radiation oncology care provider	Senior subordinated note (\$25,758,837 par due 8/2013)	11.00% cash, 1.50% PIK	8/18/06	25,758,837	25,758,837	\$	1.00	{4}
		Senior secured loan (\$3,259,375 par due 8/2011)	8.82% (Libor + 3.50%/S)	8/23/06	3,259,375	3,259,375	\$	1.00	
		Senior secured loan (\$696,690 par due 8/2008)	8.82% (Libor + 3.50%/S)	8/23/06	696,690	696,690	\$	1.00	
		Common stock (857,143 shares)		8/18/06	3,000,000	3,000,000	\$	3.50	{5}
The Parker Group, Inc. {19}	Diversified healthcare services	Senior secured loan (\$27,750,000 par due 3/2012)	13.75% (Base Rate + 5.50%/D)	3/1/07	27,750,000	27,750,000	\$	1.00	
Triad Laboratory Alliance, LLC	Laboratory services	Senior subordinated note (\$14,894,195 par due 12/2012)	12.00% cash, 1.75% PIK	12/21/05	14,894,195	14,894,195	\$	1.00	{4}
		Senior secured loan (\$6,912,500 par due 12/2011)	8.60% (Libor + 3.25%/Q)	12/21/05	6,912,500	6,912,500	\$	1.00	
		Senior secured loan (\$2,962,500 par due 12/2011)	8.60% (Libor + 3.25%/Q)	12/21/05	2,962,500	2,962,500	\$	1.00	{3}
					244,152,029	244,152,029		29.50	%
Retail									
Apogee Retail, LLC	For-profit thrift retailer	Senior secured loan (\$65,835,000 par due 3/2012)	10.58% (Libor + 5.25%/S)	3/27/07	65,835,000	65,835,000	\$	1.00	
		Senior secured loan (\$165,000 par due 3/2012)	10.60% (Libor + 5.25%/Q)	3/27/07	165,000	165,000	\$	1.00	
Savers, Inc and SAI Acquisition Corporation	For-profit thrift retailer	Senior subordinated note (\$28,411,563 par due 8/2014)	10.00% cash, 2.00% PIK	8/8/06	28,411,563	28,411,563	\$	1.00	{2}{4}
		Common stock (1,170,182 shares)		8/8/06	4,500,000	4,500,000	\$	3.85	{5}
Things Remembered, Inc. and TRM Holdings Corporation	Personalized gifts retailer	Senior secured loan (\$4,776,000 par due 9/2012)	10.07% (Libor + 4.75%/M)	9/28/06	4,776,000	4,776,000	\$	1.00	{3}

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Senior secured loan (\$14,000,000 par due 9/2012)	11.32% (Libor + 6.00%/M)	9/28/06	14,000,000	14,000,000	\$	1.00	
Senior secured loan (\$14,000,000 par due 9/2012)	11.32% (Libor + 6.00%/M)	9/28/06	14,000,000	14,000,000	\$	1.00	{2}
Senior secured loan (\$7,200,000 par due 9/2012)	11.32% (Libor + 6.00%/M)	9/28/06	7,200,000	7,200,000	\$	1.00	{3}
Preferred stock (80 shares)		9/28/06	1,800,000	1,800,000	\$	22,500.00	{5}
Common stock (800 shares)		9/28/06	200,000	200,000	\$	250.00	{5}
			140,887,563	140,887,563			17.03 %

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Education							
Instituto de Banca y Comercio, Inc. and National College of Business and Technology Company, Inc.	Private school operator	Senior secured revolving loan (\$1,500,000 par due 3/2014)	8.32% (Libor + 3.00%/M)	3/15/07	1,500,000	1,500,000	1.00
		Senior secured loan (\$64,000,000 par due 3/2014)	10.35% (Libor + 5.00%/Q)	3/15/07	64,000,000	64,000,000	1.00
Equinox SMU Partners LLC and SMU Acquisition Corp. {9} {15} {20}	Medical school operator	Senior secured revolving loan (\$6,550,000 par due 12/2010)	13.25% (Base Rate + 5.00%/D)	1/26/06	6,550,000	6,550,000	\$ 1.00
		Senior secured revolving loan (\$1,032,342 par due 12/2010)	11.36% (Libor + 6.00%/Q)	1/26/06	1,032,342	1,032,342	\$ 1.00
		Senior secured loan (\$4,524,354 par due 12/2010)	11.35% (Libor + 6.00%/Q)	1/26/06	4,524,354	4,524,354	\$ 1.00
		Senior secured loan (\$4,625,646 par due 12/2010)	11.35% (Libor + 6.00%/Q)	1/26/06	4,625,646	4,625,646	\$ 1.00 {3}
		Senior secured loan (\$250,000 par due 12/2010)	11.35% (Libor + 6.00%/Q)	1/26/06	250,000	250,000	\$ 1.00
		Senior secured loan (\$250,000 par due 12/2010)	11.35% (Libor + 6.00%/Q)	1/26/06	250,000	250,000	\$ 1.00 {3}
		Limited liability company membership interest (17.39% interest)		1/25/06	4,000,000	4,000,000	{5}
ELC Acquisition Corporation	Developer, manufacturer and retailer of educational products	Senior secured loan (\$3,085,714 par due 11/2012)	9.13% (Libor + 3.75%/S)	11/30/06	3,085,714	3,085,714	\$ 1.00
		Junior secured loan (\$8,333,333 par due 11/2013)	12.35% (Libor + 7.00%/Q)	11/30/06	8,333,333	8,333,333	\$ 1.00 {3}
Lakeland Finance, LLC	Private school operator	Senior secured note (\$18,000,000 par due 12/2012)	11.50%	12/13/05	18,000,000	18,000,000	\$ 1.00
		Senior secured note (\$15,000,000 par due 12/2012)	11.50%	12/13/05	15,000,000	15,000,000	\$ 1.00 {2}
					131,151,389	131,151,389	15.85 %

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Printing, Publishing and Media								
Canon Communications LLC	Print publications services	Junior secured loan (\$7,525,000 par due 11/2011)	12.07% (Libor + 6.75%/M)	5/25/05	7,525,000	7,525,000	\$ 1.00	
		Junior secured loan (\$4,250,000 par due 11/2011)	12.07% (Libor + 6.75%/M)	5/25/05	4,250,000	4,250,000	\$ 1.00	{2}
		Junior secured loan (\$12,000,000 par due 11/2011)	12.07% (Libor + 6.75%/M)	5/25/05	12,000,000	12,000,000	\$ 1.00	{3}
Daily Candy, Inc. {11}{20}	Internet publication provider	Senior secured loan (\$12,422,111 par due 5/2009)	10.36% (Libor + 5.00%/S)	5/25/06	12,889,397	12,422,111	\$ 1.00	
		Senior secured loan (\$11,577,889 par due 5/2009)	10.36% (Libor + 5.00%/S)	5/25/06	12,013,418	11,577,889	\$ 1.00	{3}
		Senior secured loan (\$258,794 par due 5/2009)	10.35% (Libor + 5.00%/Q)	5/25/06	268,529	258,794	\$ 1.00	
		Senior secured loan (\$241,206 par due 5/2009)	10.35% (Libor + 5.00%/Q)	5/25/06	250,280	241,206	\$ 1.00	{3}
		Senior secured loan (\$64,698 par due 5/2009)	12.25% (Base Rate + 4.00%/D)	5/25/06	67,132	64,698	\$ 1.00	
		Senior secured loan (\$60,302 par due 5/2009)	12.25% (Base Rate + 4.00%/D)	5/25/06	62,570	60,302	\$ 1.00	{3}
		Common stock (1,250,000 shares)		5/25/06	2,375,000	4,085,000	\$ 3.27	{5}
		Warrants to purchase 1,381,578 shares		5/25/06	2,624,998	4,514,997	\$ 3.27	{5}
National Print Group, Inc.	Printing management services	Senior secured revolving loan (\$531,499 par due 3/2012)	10.75% (Base Rate + 2.50%/D)	3/2/06	531,499	531,499	\$ 1.00	
		Senior secured revolving loan (\$798,913 par due 3/2012)	8.82% (Libor + 3.50%/M)	3/2/06	798,913	798,913	\$ 1.00	
		Senior secured loan (\$5,295,652 par due 3/2012)	8.85% (Libor + 3.50%/Q)	3/2/06	5,295,652	5,295,652	\$ 1.00	{3}
		Senior secured loan (\$273,913 par due 3/2012)	10.75% (Base Rate + 2.50%/D)	3/2/06	273,913	273,913	\$ 1.00	{3}
		Senior secured loan (\$5,295,652 par due 3/2012)	8.86% (Libor + 3.50%/Q)	3/2/06	5,295,652	5,295,652	\$ 1.00	{3}
		Senior secured loan (\$2,319,368 par due 8/2012)	12.35% (Libor + 7.00%/B)	3/2/06	2,319,368	2,319,368	\$ 1.00	
		Senior secured loan (\$419,763 par due 8/2012)	12.35% (Libor + 7.00%/B)	3/2/06	419,763	419,763	\$ 1.00	{3}

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		Senior secured loan (\$1,932,806 par due 8/2012)	12.36% (Libor + 7.00%/Q)	3/2/06	1,932,806	1,932,806	\$ 1.00	
		Senior secured loan (\$349,802 par due 8/2012)	12.36% (Libor + 7.00%/Q)	3/2/06	349,802	349,802	\$ 1.00	{3}
		Preferred stock (9,344 shares)		3/2/06	2,000,000	2,000,000	\$ 214.04	{5}
The Teaching Company, LLC and The Teaching Company Holdings, Inc. {18}	Education publications provider	Senior secured loan (\$28,000,000 par due 9/2012)	10.50%	9/29/06	28,000,000	28,000,000	\$ 1.00	
		Senior secured loan (\$12,000,000 par due 9/2012)	10.50%	9/29/06	12,000,000	12,000,000	\$ 1.00	{3}
		Preferred stock (29,969 shares)		9/29/06	2,996,921	2,996,921	\$ 100.00	{5}
		Common stock (15,393 shares)		9/29/06	3,079	3,079	\$ 0.20	{5}
					116,543,692	119,217,365		14.41 %

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Services - Other							
American Residential Services, LLC	Plumbing, heating and air-conditioning services	Senior subordinated note (\$8,833,181 par due 9/2013)	12.00% Cash, 3.00% PIK	11/9/06	8,833,181	8,833,181	\$ 1.00{2}
Diversified Collection Services, Inc.	Collections services	Senior secured loan (\$5,242,025 par due 2/2011)	9.57% (Libor + 4.25%/M)	2/2/05	5,242,025	4,560,561	\$ 0.87{3}
		Senior secured loan (\$1,742,026 par due 8/2011)	11.32% (Libor + 6.00%/M)	2/2/05	1,742,026	1,358,781	\$ 0.78{2}
		Senior secured loan (\$6,757,974 par due 8/2011)	11.32% (Libor + 6.00%/M)	2/2/05	6,757,974	5,271,219	\$ 0.78{3}
		Preferred stock (14,927 shares)		5/18/06	169,123		\$ {5}
		Common stock (114,004 shares)		2/2/05	295,270		\$ {5}
GCA Services Group, Inc.	Custodial services	Senior secured loan (\$8,000,000 par due 12/2011)	12.00%	12/15/06	8,000,000	8,000,000	\$ 1.00
		Senior secured loan (\$30,000,000 par due 12/2011)	12.00%	12/15/06	30,000,000	30,000,000	\$ 1.00{2}
		Senior secured loan (\$12,000,000 par due 12/2011)	12.00%	12/15/06	12,000,000	12,000,000	\$ 1.00{3}
Growing Family, Inc. and GFH Holdings, LLC	Photography services	Senior secured loan (\$11,937,500 par due 8/2011)	8.36% (Libor + 3.00%/Q)	3/16/07	11,937,500	11,937,500	\$ 1.00
		Senior secured loan (\$3,591,000 par due 8/2011)	12.36% (Libor + 7.00%/Q)	3/16/07	3,591,000	3,591,000	\$ 1.00
		Common stock (552,430 shares)		3/15/07	872,286	872,286	\$ 1.58{5}
NPA Acquisition, LLC	Powersport vehicle auction operator	Senior secured loan (\$4,533,333 par due 8/2012)	8.56% (Libor + 3.25%/S)	8/28/06	4,533,333	4,533,333	\$ 1.00
		Senior secured loan (\$333,333 par due 8/2012)	8.57% (Libor + 3.25%/M)	8/28/06	333,333	333,333	\$ 1.00
		Senior secured loan (\$91,667 par due 8/2012)	10.25% (Base Rate + 2.00%/D)	8/28/06	91,667	91,667	\$ 1.00
		Junior secured loan (\$2,000,000 par due 2/2013)	12.08% (Libor + 6.75%/Q)	8/23/06	2,000,000	2,000,000	\$ 1.00
		Junior secured loan (\$12,000,000 par due 2/2013)	12.08% (Libor + 6.75%/Q)	8/23/06	12,000,000	12,000,000	\$ 1.00{3}
		Common units (1,709 shares)		8/23/06	1,000,000	1,000,000	\$ 585.14{5}
					109,398,718	106,382,861	12.86 %

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Manufacturing

Arrow Group Industries, Inc.	Residential and outdoor shed manufacturer	Senior secured loan (\$6,000,000 par due 4/2010)	10.35% (Libor + 5.00%/Q)	3/28/05	6,037,770	6,000,000	\$	1.00{3}
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