ARES CAPITAL CORP
Form 11-K
June 29, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 11-K

x ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2009

OR

o TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to .

Commission file number 000-50697

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

Allied Capital 401(k) Plan

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

Ares Capital Corporation

280 Park Avenue, 22nd Floor, Building East

New York, New York 10017

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ALLIED CAPITAL 401(k) PLAN

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The other schedules required by Department of Labor Form 5500, Annual Return/Report of Employee Benefit Plan, are not applicable and are therefore omitted.

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KPMG LLP
2001 M Street, NW
Washington, DC 20036

Report of Independent Registered Public Accounting Firm

The Plan Administrator

Allied Capital 401(k) Plan:

We have audited the accompanying statements of net assets available for benefits of the Allied Capital 401(k) Plan (the Plan) as of December 31, 2009 and 2008, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Plan s management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2009 and 2008 and the changes in net assets available for benefits for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets (held at end of year) as of December 31, 2009 (Schedule H, line 4i), is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedule is the responsibility of the Plan s management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ KPMG LLP

Washington, DC

June 29, 2010

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Statements of Net Assets Available for Benefits

December 31, 2009 and 2008

		2009		2008
Assets:				
Investments at fair value (note 4):				
Mutual funds	$	12,094,578	$	9,230,380
Common stock of Allied Capital Corporation		1,634,601		1,039,588
Common/collective trusts		833,147		833,207
Cash and cash equivalents		53,325		508,740
Total Investments		14,615,651		11,611,915
Participant loans		61,883		163,835
Receivables:				
Employer contributions		181,553		155,082
Total assets		14,859,087		11,930,832
Liabilities:				
Due to broker for securities purchased		23,678		8,840
Net assets available for benefits	$	14,835,409	$	11,921,992

See accompanying notes to financial statements.

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Statements of Changes in Net Assets Available for Benefits

Years ended December 31, 2009 and 2008

	2009	2008
Additions to (reductions of) net assets attributable to:		
Investment income:		
Dividends and interest	$ 169,965	$ 1,217,839
Net appreciation (depreciation) in fair value of investments	2,842,994	(11,311,153)
	3,012,959	(10,093,314)
Contributions:		
Participants	1,707,284	2,129,703
Employer	888,910	1,161,700
Rollover	124,560	249,705
	2,720,754	3,541,108
Total additions (reductions)	5,733,713	(6,552,206)
Deductions from net assets attributable to:		
Benefits paid to participants	2,812,565	2,130,373
Administrative expenses	7,731	26,137
Total deductions	2,820,296	2,156,510
Net increase (decrease)	2,913,417	(8,708,716)
Net assets available for plan benefits:		
Beginning of year	11,921,992	20,630,708
End of year	$ 14,835,409	$ 11,921,992

See accompanying notes to financial statements.

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Notes to Financial Statements

December 31, 2009 and 2008

(1) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements of the Allied Capital 401(k) Plan (the Plan) have been prepared on the accrual basis and present the net assets available for benefits and the changes in those net assets.

(b) Trust Fund Management and Investments

Allied Capital Corporation (the Company) is the sponsor of the Plan. Wachovia Bank, N.A., the Trustee of the Plan, has authority to execute investment transactions based upon the investment elections of Plan participants.

The investment options offered through the Plan are reviewed periodically by the Company s Retirement Committee. If necessary, changes are made as appropriate to continue to ensure a diversified mix of investment options.

In December 2008, changes were made to the investment options offered under the Plan. An investment fund was discontinued and liquidated on December 9, 2008 and the proceeds from the liquidation were reinvested in the Dreyfus Treasury Prime Cash Management Fund Investor Shares. Also, contributions to the Allied Capital Stock Fund were no longer permitted beginning December 9, 2008; however, participants may maintain any existing investment in the fund.

(c) Valuation of Investments

The Plan s investments are stated at fair value. Investments in mutual funds are based on quoted market information. Investments in common/collective trust funds are valued at the net asset value based on amounts reported by the fund manager. Shares of common stock of the Company held in the Allied Capital Stock Fund are valued at the last sale price on the principal exchange on which they are traded. Purchases and sales of investments are recorded on a trade-date basis. Appreciation and depreciation in the fair values of investments are recognized in the financial statements in the periods in which such changes occur. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statements of net assets available for Plan benefits.

In September 2006, the FASB issued Statement ASC Topic 820, *Fair Value Measurements and Disclosures* (ASC 820). ASC 820, and its related interpretations, defines fair value

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under U.S. generally accepted accounting principles, establishes a framework for measuring fair value, and enhances disclosures about fair value measurements. Effective January 1, 2008, the Plan adopted ASC 820, which defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction. Adoption of ASC 820 did not have a material impact on the Plan s financial statements.

ASC 820 establishes a fair value hierarchy that encourages the use of observable inputs when measuring fair value, but allows for unobservable inputs when observable inputs do not exist. The following provides a description of the three levels of inputs that may be used to measure fair value under ASC 820, the types of Plan investments.

- Level 1 Quoted prices (unadjusted) in active markets for identical investments

Mutual Funds and Common Stock of Allied Capital Corporation held in the Allied Capital Stock Fund:

These investments are public investment securities valued using the Net Asset Value (NAV) provided by the Trustee. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, divided by the number of shares outstanding. The NAV is a quoted price in an active market.

Common/Collective Investment Trusts:

These investments are private investment securities valued using the NAV provided by the Trustee. Although the NAV is not quoted on a market that is active, participants in the plan can trade daily at NAV; furthermore, the unit price or NAV is based on underlying investments which are traded on an active market.

- Level 2 Inputs other than quoted prices that are observable to the market participant for the asset or quoted prices in a market that is not active

At December 31, 2009, the Plan had no investments classified as Level 2.

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- Level 3 Unobservable inputs

At December 31, 2009, the Plan had no investments classified as Level 3.

(d) Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with maturities of three months or less from the date of purchase.

(e) Administrative Expenses

Trustee fees and loan administration expenses are deducted directly from the participants accounts. Other administrative expenses of the Plan are paid by the Company.

(f) Payment of Benefits

Benefits are recorded when paid.

(g) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the Plan s management to make estimates and assumptions that affect the reported amounts of net assets and changes therein and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

(2) Description of the Plan

The following brief description of the Plan provides only general information. Participants should refer to the Plan document for a more complete description of the Plan s provisions.

(a) General

The Plan was established effective September 1, 1999, and is a defined contribution plan covering substantially all employees who are age 21 or older. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

(b) Contributions

Participants may contribute up to 100% of their eligible annual compensation subject to the limits established by the Internal Revenue Code.

Pre-tax Contributions Participants may elect to make contributions to the Plan on a pre-tax basis through payroll deductions. Additionally participants who have attained age 50 before the end of the plan year are also eligible to make catch-up contributions on a pre-tax basis through payroll deductions. Participants are able to defer payment of taxes on their contributions to the Plan,

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contributions made by the Company, and on income realized on these accounts maintained under the Plan.

Roth 401(k) Contributions Effective January 1, 2008, participants may elect to make some or all of their contributions as Roth 401(k) contributions through payroll deduction. Roth 401(k) contributions are made after tax and are included in current taxable income. Participants who have attained age 50 before the end of the year are also eligible to make Roth catch-up contributions through payroll deductions. Provided requirements are met, distributions of participant Roth 401(k) contributions and related earnings are tax free.

Participants combined pre-tax contributions and Roth 401(k) contributions cannot exceed the maximum annual amount allowed by law.

Rollover Contributions Participants may also contribute amounts representing distributions from other qualified defined benefit or defined contribution plans.

Company Contributions For the 2009 and 2008 plan years, the Company made safe harbor matching contributions on a biweekly basis for an amount equal to 100% of each participant s deferral contributions not to exceed 4% of the participant s eligible compensation as defined by the Plan.

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