PORTFOLIO RECOVERY ASSOCIATES INC
Form 10-Q
November 06, 2009

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

**FORM 10-Q**

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the quarterly period ended September 30, 2009**

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

**Commission File Number: 000-50058**
**Portfolio Recovery Associates, Inc.**
*(Exact name of registrant as specified in its charter)*

| | |
|---|---|
| Delaware | 75-3078675 |
| *(State or other jurisdiction of incorporation or organization)* | *(I.R.S. Employer Identification No.)* |
| 120 Corporate Boulevard, Norfolk, Virginia | 23502 |
| *(Address of principal executive offices)* | *(zip code)* |

(888) 772-7326
*(Registrant s telephone number, including area code)*

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such 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 þ NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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

| | | | |
|---|---|---|---|
| Large accelerated filer þ | Accelerated filer o | Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company o |

YES o NO o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES o NO þ

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

Class

| | Outstanding as of October 19, 2009 |
|---|---|
| Common Stock, $0.01 par value | 15,491,725 |

**PORTFOLIO RECOVERY ASSOCIATES, INC.**

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**PORTFOLIO RECOVERY ASSOCIATES, INC.**
**CONSOLIDATED BALANCE SHEETS**
**September 30, 2009 and December 31, 2008**
**(unaudited)**
**(Amounts in thousands, except per share amounts)**

| | September 30, 2009 | December 31, 2008 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 19,874 | $ 13,901 |
| Finance receivables, net | 660,879 | 563,830 |
| Accounts receivable, net | 6,909 | 8,278 |
| Income taxes receivable | 5,893 | 3,587 |
| Property and equipment, net | 22,093 | 23,884 |
| Goodwill | 29,299 | 27,546 |
| Intangible assets, net | 11,425 | 13,429 |
| Other assets | 3,310 | 3,385 |
| Total assets | $ 759,682 | $ 657,840 |
| **Liabilities and Stockholders Equity** | | |
| Liabilities: | | |
| Accounts payable | $ 3,957 | $ 3,438 |
| Accrued expenses | 3,463 | 4,314 |
| Accrued payroll and bonuses | 11,294 | 9,850 |
| Deferred tax liability | 110,333 | 88,070 |
| Line of credit | 306,300 | 268,300 |
| Long-term debt | 1,663 | |
| Obligations under capital lease | | 5 |
| Derivative instrument | 566 | |
| Total liabilities | 437,576 | 373,977 |
| Commitments and contingencies (Note 12) | | |
| Stockholders equity: | | |
| Preferred stock, par value $0.01, authorized shares, 2,000, issued and outstanding shares 0 | | |
| Common stock, par value $0.01, authorized shares, 30,000, 15,573 issued and 15,491 outstanding shares at September 30, 2009, and 15,398 issued and 15,286 outstanding shares at December 31, 2008 | 155 | 153 |
| Additional paid-in capital | 81,358 | 74,574 |
| Retained earnings | 240,939 | 209,047 |
| Accumulated other comprehensive (loss)/income, net of tax | (346) | 89 |

| | | | | |
|---|---|---|---|---|
| Total stockholders equity | | 322,106 | | 283,863 |
| Total liabilities and stockholders equity | $ | 759,682 | $ | 657,840 |

*The accompanying notes are an integral part of these consolidated financial statements.*

**PORTFOLIO RECOVERY ASSOCIATES, INC.**
**CONSOLIDATED INCOME STATEMENTS**
**For the three and nine months ended September 30, 2009 and 2008**
**(unaudited)**
**(Amounts in thousands, except per share amounts)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Revenues: | | | | |
| Income recognized on finance receivables, net | $ 54,336 | $ 52,738 | $ 159,650 | $ 158,412 |
| Commissions | 14,229 | 15,831 | 48,225 | 37,874 |
| Total revenues | 68,565 | 68,569 | 207,875 | 196,286 |
| Operating expenses: | | | | |
| Compensation and employee services | 26,844 | 22,983 | 79,940 | 64,983 |
| Legal and agency fees and costs | 11,296 | 14,386 | 34,460 | 39,530 |
| Outside fees and services | 2,284 | 2,323 | 6,854 | 6,870 |
| Communications | 3,472 | 2,263 | 11,157 | 7,535 |
| Rent and occupancy | 1,270 | 1,123 | 3,515 | 2,830 |
| Other operating expenses | 2,341 | 1,912 | 6,565 | 4,863 |
| Depreciation and amortization | 2,269 | 2,162 | 6,874 | 5,138 |
| Total operating expenses | 49,776 | 47,152 | 149,365 | 131,749 |
| Income from operations | 18,789 | 21,417 | 58,510 | 64,537 |
| Other income and (expense): | | | | |
| Interest income | | 34 | 3 | 67 |
| Interest expense | (1,964) | (3,066) | (5,891) | (8,215) |
| Income before income taxes | 16,825 | 18,385 | 52,622 | 56,389 |
| Provision for income taxes | 6,729 | 6,930 | 20,730 | 21,638 |
| Net income | $ 10,096 | $ 11,455 | $ 31,892 | $ 34,751 |
| Net income per common share: | | | | |
| Basic | $ 0.65 | $ 0.75 | $ 2.07 | $ 2.28 |
| Diluted | $ 0.65 | $ 0.75 | $ 2.07 | $ 2.27 |
| Weighted average number of shares outstanding: | | | | |
| Basic | 15,466 | 15,267 | 15,392 | 15,210 |

| | | | | |
|---|---|---|---|---|
| Diluted | 15,502 | 15,336 | 15,428 | 15,280 |

*The accompanying notes are an integral part of these consolidated financial statements.*

**PORTFOLIO RECOVERY ASSOCIATES, INC.**
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME**
**For the nine months ended September 30, 2009**
**(unaudited)**
**(Amounts in thousands)**

| | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive (Loss)/Income | Total Stockholders Equity |
|---|---|---|---|---|---|
| Balance at December 31, 2008 | $ 153 | $ 74,574 | $ 209,047 | $ 89 | $ 283,863 |
| Net income | | | 31,892 | | 31,892 |
| Net unrealized change in: | | | | | |
| Interest rate swap derivative, net of tax | | | | (435) | (435) |
| Comprehensive income | | | | | 31,457 |
| Exercise of stock options and vesting of nonvested shares | 2 | 1,628 | | | 1,630 |
| Issuance of common stock for acquisition | | 1,170 | | | 1,170 |
| Amortization of share-based compensation | | 3,240 | | | 3,240 |
| Income tax benefit from share-based compensation | | 746 | | | 746 |
| Balance at September 30, 2009 | $ 155 | $ 81,358 | $ 240,939 | $ (346) | $ 322,106 |

*The accompanying notes are an integral part of these consolidated financial statements.*

**PORTFOLIO RECOVERY ASSOCIATES, INC.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**For the nine months ended September 30, 2009 and 2008**
**(unaudited)**
**(Amounts in thousands)**

| | Nine Months Ended September 30, 2009 | Nine Months Ended September 30, 2008 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 31,892 | $ 34,751 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Amortization of share-based compensation | 3,240 | 442 |
| Depreciation and amortization | 6,874 | 5,138 |
| Deferred tax expense | 22,000 | 23,771 |
| Changes in operating assets and liabilities: | | |
| Other assets | (14) | 182 |
| Accounts receivable | 1,369 | (77) |
| Accounts payable | 520 | (77) |
| Income taxes | (2,306) | (513) |
| Accrued expenses | (851) | 567 |
| Accrued payroll and bonuses | 1,443 | 1,875 |
| Net cash provided by operating activities | 64,167 | 66,059 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (3,079) | (4,041) |
| Acquisition of finance receivables, net of buybacks | (210,116) | (214,172) |
| Collections applied to principal on finance receivables | 113,067 | 89,039 |
| Company acquisitions, including acquisition costs and net of cash acquired | (100) | (25,791) |
| Net cash used in investing activities | (100,228) | (154,965) |
| Cash flows from financing activities: | | |
| Proceeds from exercise of options | 1,630 | 594 |
| Income tax benefit from share-based compensation | 746 | 368 |
| Proceeds from line of credit | 84,500 | 146,300 |
| Principal payments on line of credit | (46,500) | (47,000) |
| Proceeds from long-term debt | 2,036 | |
| Principal payments on long-term debt | (373) | |
| Principal payments on capital lease obligations | (5) | (80) |
| Net cash provided by financing activities | 42,034 | 100,182 |
| Net increase in cash and cash equivalents | 5,973 | 11,276 |

| | | | | |
|---|---|---|---|---|
| Cash and cash equivalents, beginning of period | | 13,901 | | 16,730 |
| Cash and cash equivalents, end of period | $ | 19,874 | $ | 28,006 |
| Supplemental disclosure of cash flow information: | | | | |
| Cash paid for interest | $ | 6,028 | $ | 8,272 |
| Cash paid for income taxes | $ | 321 | $ | 3 |
| Noncash investing and financing activities: | | | | |
| Common stock issued for acquisition | $ | 1,170 | $ | 1,847 |
| Net unrealized change in fair value of derivative instrument | $ | (655) | $ | |

*The accompanying notes are an integral part of these consolidated financial statements.*

**PORTFOLIO RECOVERY ASSOCIATES, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**(unaudited)**

**1. Organization and Business:**

Portfolio Recovery Associates, LLC ( PRA ) was formed on March 20, 1996. Portfolio Recovery Associates, Inc. ( PRA Inc ) was formed in August 2002. On November 8, 2002, PRA Inc completed its initial public offering ( IPO ) of common stock. As a result, all of the membership units and warrants of PRA were exchanged on a one to one basis for warrants and shares of a single class of common stock of PRA Inc. PRA Inc owns all outstanding membership units of PRA, PRA Holding I, LLC ( PRA Holding I ), PRA Holding II, LLC ( PRA Holding II ), PRA Receivables Management, LLC (formerly d/b/a Anchor Receivables Management) ( Anchor ), PRA Location Services, LLC (d/b/a IGS Nevada) ( IGS ), PRA Government Services, LLC (d/b/a RDS) ( RDS ) and MuniServices, LLC ( MuniServices ). PRA Inc, a Delaware corporation, and its subsidiaries (collectively, the Company ) are full-service providers of outsourced receivables management and related services. The Company is engaged in the business of purchasing, managing and collecting portfolios of defaulted consumer receivables, as well as offering a broad range of accounts receivable management services. The majority of the Company s business activities involve the purchase, management and collection of defaulted consumer receivables. These are purchased from sellers of finance receivables and collected by a highly skilled staff whose purpose is to locate and contact customers and arrange payment or resolution of their debts. The Company, through its Litigation Department, collects accounts judicially, either by using its own attorneys, or by contracting with independent attorneys throughout the country through whom the Company takes legal action to satisfy consumer debts. The Company also services receivables on behalf of clients on either a commission or transaction-fee basis. Clients include entities in the financial services, auto, retail, utility, health care and government sectors. Services provided to these clients include standard collection services on delinquent accounts, obtaining location information for clients in support of their collection activities (known as skip tracing), and the management of both delinquent and non-delinquent receivables for government entities.

The consolidated financial statements of the Company include the accounts of PRA Inc, PRA, PRA Holding I, PRA Holding II, Anchor, IGS, RDS and MuniServices. Under the guidance of the Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) Topic 280 Segment Reporting ( ASC 280 ), the Company determined that it has several operating segments that meet the aggregation criteria of ASC 280, and therefore, it has one reportable segment, accounts receivable management, based on similarities among the operating units including homogeneity of services, service delivery methods and use of technology.

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission ( SEC ) and, therefore, do not include all information and disclosures required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of the Company, however, the accompanying unaudited consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the Company s consolidated balance sheet as of September 30, 2009, its consolidated income statements for the three and nine months ended September 30, 2009 and 2008, its consolidated statement of changes in stockholders equity and comprehensive income for the nine months ended September 30, 2009, and its consolidated statements of cash flows for the nine months ended September 30, 2009 and 2008. The consolidated income statements of the Company for the three and nine months ended September 30, 2009 may not be indicative of future results. Certain reclassifications have been made to prior year amounts to conform to the current year presentation. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K, as filed for the year ended December 31, 2008.

**2. Finance Receivables, net:**

The Company s principal business consists of the acquisition and collection of pools of accounts that have experienced deterioration of credit quality between origination and the Company s acquisition of the accounts. The amount paid for any pool reflects the Company s determination that it is probable the Company will be unable to collect all amounts due according to an account s contractual terms. At acquisition, the Company reviews the portfolio both by account and aggregate pool to determine whether there is evidence of deterioration of credit quality

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**PORTFOLIO RECOVERY ASSOCIATES, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**(unaudited)**

since origination and if it is probable that the Company will be unable to collect all amounts due according to the account s contractual terms. If both conditions exist, the Company determines whether each such account is to be accounted for individually or whether such accounts will be assembled into pools based on common risk characteristics. The Company considers expected prepayments and estimates the amount and timing of undiscounted expected principal, interest and other cash flows for each acquired portfolio and subsequently aggregates pools of accounts. The Company determines the excess of the pool s scheduled contractual principal and contractual interest payments over all cash flows expected at acquisition as an amount that should not be accreted (nonaccretable difference) based on the Company s proprietary acquisition models. The remaining amount, representing the excess of the pool s cash flows expected to be collected over the amount paid, is accreted into income recognized on finance receivables over the remaining life of the pool (accretable yield).

The Company accounts for its investment in finance receivables under the guidance of FASB ASC Topic 310-30 Loans and Debt Securities Acquired with Deteriorated Credit Quality ( ASC 310-30 ). Under ASC 310-30, static pools of accounts may be established. These pools are aggregated based on certain common risk criteria. Each static pool is recorded at cost, which includes certain direct costs of acquisition paid to third parties, and is accounted for as a single unit for the recognition of income, principal payments and loss provision. Once a static pool is established for a quarter, individual receivable accounts are not added to the pool (unless replaced by the seller) or removed from the pool (unless sold or returned to the seller). ASC 310-30 requires that the excess of the contractual cash flows over expected cash flows not be recognized as an adjustment of revenue or expense or on the balance sheet. ASC 310-30 initially freezes the internal rate of return, referred to as IRR, estimated when the accounts receivable are purchased as the basis for subsequent impairment testing. Significant increases in actual, or expected future cash flows may be recognized prospectively through an upward adjustment of the IRR over a portfolio s remaining life. Any increase to the IRR then becomes the new benchmark for impairment testing. Effective for fiscal years beginning after December 15, 2004 under ASC 310-30, rather than lowering the estimated IRR if the collection estimates are not received or projected to be received (as was permitted under the prior accounting guidance), the carrying value of a pool would be written down to maintain the then current IRR and is shown as a reduction in revenue in the consolidated income statements with a corresponding valuation allowance offsetting finance receivables, net, on the consolidated balance sheet. Income on finance receivables is accrued quarterly based on each static pool s effective IRR. Quarterly cash flows greater than the interest accrual will reduce the carrying value of the static pool. This reduction in carrying value is defined as payments applied to principal (also referred to as finance receivable amortization). Likewise, cash flows that are less than the interest accrual will accrete the carrying balance. The Company generally does not allow accretion in the first six to twelve months; accordingly, the Company utilizes either the cost recovery method or cash method when necessary to prevent accretion as permitted by ASC 310-30. The IRR is estimated and periodically recalculated based on the timing and amount of anticipated cash flows using the Company s proprietary collection models. A pool can become fully amortized (zero carrying balance on the balance sheet) while still generating cash collections. In this case, all cash collections are recognized as revenue when received. Under the cash method, revenue is recognized as it would be under the interest method up to the amount of cash collections. Additionally, the Company uses the cost recovery method when collections on a particular pool of accounts cannot be reasonably predicted. These pools are not aggregated with other portfolios. Under the cost recovery method, no revenue is recognized until the Company has fully collected the cost of the portfolio, or until such time that the Company considers the collections to be probable and estimable and begins to recognize income based on the interest method as described above. At September 30, 2009 and 2008, the Company had unamortized purchased principal (purchase price) in pools accounted for under the cost recovery method of $3,619,322 and $3,546,509, respectively.

The Company establishes valuation allowances for all acquired accounts subject to ASC 310-30 to reflect only those losses incurred after acquisition (that is, the present value of cash flows initially expected at acquisition that are no longer expected to be collected). Valuation allowances are established only subsequent to acquisition of the accounts. At September 30, 2009 and 2008, the Company had an allowance against its finance receivables of $41,770,000 and $14,755,000, respectively. Prior to January 1, 2005, in the event that a reduction of the yield to as low as zero in conjunction with estimated future cash collections that were inadequate to amortize the carrying balance, an allowance charge would be taken with a corresponding write-off of the receivable balance.

**PORTFOLIO RECOVERY ASSOCIATES, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**(unaudited)**

The Company implements the accounting for income recognized on finance receivables under ASC 310-30 as follows. The Company creates each accounting pool using its projections of estimated cash flows and expected economic life. The Company then computes the effective yield that fully amortizes the pool to the end of its expected economic life based on the current projections of estimated cash flows. As actual cash flow results are recorded, the Company balances those results to the data contained in its proprietary models to ensure accuracy, then reviews each accounting pool watching for trends, actual performance versus projections and curve shape, sometimes re-forecasting future cash flows utilizing the Company s statistical models. The review process is primarily performed by the Company s finance staff; however, the Company s operational and statistical staffs may also be involved depending upon actual cash flow results achieved. To the extent there is overperformance, the Company will either increase the yield or release the allowance, if persuasive evidence indicates that the overperformance is considered to be a significant betterment, or, if the overperformance is considered more of an acceleration of cash flows (a timing difference), adjust future cash flows downward which effectively extends the amortization period, or take no action at all if the amortization period is reasonable and falls within the pools expected economic life. To the extent there is underperformance, the Company will book an allowance if the underperformance is significant and will also consider revising future cash flows based on current period information, or take no action if the pool s amortization period is reasonable and falls within the currently projected economic life.

The Company capitalizes certain fees paid to third parties related to the direct acquisition of a portfolio of accounts. These fees are added to the acquisition cost of the portfolio and accordingly are amortized over the life of the portfolio using the interest method. The balance of the unamortized capitalized fees at September 30, 2009 and 2008 was $3,262,929 and $3,013,671, respectively. During the three and nine months ended September 30, 2009, the Company capitalized $156,248 and $805,962, respectively, of these direct acquisition fees. During the three and nine months ended September 30, 2008, the Company capitalized $198,257 and $1,065,786, respectively, of these direct acquisition fees. During the three and nine months ended September 30, 2009, the Company amortized $206,270 and $621,593, respectively, of these direct acquisition fees. During the three and nine months ended September 30, 2008, the Company amortized $153,391 and $487,031, respectively, of these direct acquisition fees.

The agreements to purchase the aforementioned receivables include general representations and warranties from the sellers covering account holder death or bankruptcy and accounts settled or disputed prior to sale. The representation and warranty period permitting the return of these accounts from the Company to the seller is typically 90 to 180 days. Any funds received from the seller of finance receivables as a return of purchase price are referred to as buybacks. Buyback funds are simply applied against the finance receivable balance received and are not included in the Company s cash collections from operations. In some cases, the seller will replace the returned accounts with new accounts in lieu of returning the purchase price. In that case, the old account is removed from the pool and the new account is added.

Changes in finance receivables, net for the three and nine months ended September 30, 2009 and 2008 are as follows (amounts in thousands):

| | Three Months Ended September 30, 2009 | Three Months Ended September 30, 2008 | Nine Months Ended September 30, 2009 | Nine Months Ended September 30, 2008 |
|---|---|---|---|---|
| Balance at beginning of period | $ 624,592 | $ 515,367 | $ 563,830 | $ 410,297 |
| Acquisitions of finance receivables, net of buybacks | 74,318 | 50,333 | 210,116 | 214,172 |
| Cash collections | (92,367) | (83,008) | (272,717) | (247,451) |
| | 54,336 | 52,738 | 159,650 | 158,412 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Income recognized on finance receivables, net | | | | | | | | |
| Cash collections applied to principal | | (38,031) | | (30,270) | | (113,067) | | (89,039) |
| Balance at end of period | $ | 660,879 | $ | 535,430 | $ | 660,879 | $ | 535,430 |

**PORTFOLIO RECOVERY ASSOCIATES, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**(unaudited)**

At the time of acquisition, the life of each pool is generally estimated to be between 84 to 96 months based on projected amounts and timing of future cash receipts using the proprietary models of the Company. As of September 30, 2009, the Company had $660,879,132 in net finance receivables. Based upon current projections, cash collections applied to principal are estimated to be as follows for the twelve months in the periods ending (amounts in thousands):

| | |
|---|---|
| September 30, 2010 | $ 136,625 |
| September 30, 2011 | 162,067 |
| September 30, 2012 | 161,128 |
| September 30, 2013 | 122,993 |
| September 30, 2014 | 51,970 |
| September 30, 2015 | 21,598 |
| September 30, 2016 | 4,028 |
| September 30, 2017 | 470 |
| | $ 660,879 |

During the three and nine months ended September 30, 2009, the Company purchased approximately $1.75 billion and $6.09 billion, respectively, in face value of charged-off consumer receivables. During the three and nine months ended September 30, 2008, the Company purchased approximately $857.2 million and $3.28 billion, respectively, in face value of charged-off consumer receivables. At September 30, 2009, the estimated remaining collections ( ERC ) on the receivables purchased in the three months ended September 30, 2009 and 2008 were $165.3 million and $82.6 million, respectively. At September 30, 2009, the estimated remaining collections ( ERC ) on the receivables purchased in the nine months ended September 30, 2009 and 2008 were $453.8 million and $294.4 million, respectively.

Accretable yield represents the amount of income recognized on finance receivables the Company can expect to generate over the remaining life of its existing portfolios based on estimated future cash flows as of September 30, 2009 and 2008. Reclassifications from nonaccretable difference to accretable yield primarily result from the Company s increase in its estimate of future cash flows. Reclassifications to nonaccretable difference from accretable yield results from the Company s decrease in its estimates of future cash flows and allowance charges that exceed the Company s increase in its estimate of future cash flows. Changes in accretable yield for the three and nine months ended September 30, 2009 and 2008 were as follows (amounts in thousands):

| | Three Months Ended September 30, 2009 | Three Months Ended September 30, 2008 | Nine Months Ended September 30, 2009 | Nine Months Ended September 30, 2008 |
|---|---|---|---|---|
| Balance at beginning of period | $ 613,392 | $ 549,716 | $ 551,735 | $ 492,269 |
| Income recognized on finance receivables, net | (54,336) | (52,738) | (159,650) | (158,412) |
| Additions | 106,359 | 57,184 | 303,195 | 220,573 |
| Reclassifications (to)/from nonaccretable difference | 5,618 | (4,592) | (24,247) | (4,860) |
| Balance at end of period | $ 671,033 | $ 549,570 | $ 671,033 | $ 549,570 |

The Company recorded allowance charges on pools that had underperformed the Company s most recent expectations during the three and nine months ended September 30, 2009 and 2008 as follows:

| | **Three Months Ended September 30, 2009** | **Three Months Ended September 30, 2008** | **Nine Months Ended September 30, 2009** | **Nine Months Ended September 30, 2008** |
|---|---|---|---|---|
| Balance at beginning of period | $ 33,760 | $ 10,975 | $ 23,620 | $ 4,230 |
| Allowance charges recorded | 8,395 | 3,985 | 19,305 | 10,870 |
| Reversal of previously recorded allowance charges | (385) | (205) | (1,155) | (345) |
| Change in allowance charge | 8,010 | 3,780 | 18,150 | 10,525 |
| Balance at end of period | $ 41,770 | $ 14,755 | $ 41,770 | $ 14,755 |

**PORTFOLIO RECOVERY ASSOCIATES, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**(unaudited)**

**3. Accounts Receivable, net:**

Accounts receivable are recorded at the invoiced amount and do not bear interest. Amounts collected on accounts receivable are included in net cash provided by operating activities in the consolidated statements of cash flows. The Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management considers historical losses adjusted to take into account current market conditions and its customers financial condition, the amount of receivables in dispute, and the current receivables aging and current payment patterns. The Company reviews its allowance for doubtful accounts monthly. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The balance of the allowance for doubtful accounts at September 30, 2009 and December 31, 2008 was $2.7 million and $2.0 million, respectively. The Company does not have any off balance sheet credit exposure related to its customers.

**4. Line of Credit:**

On November 29, 2005, the Company entered into a Loan and Security Agreement for a revolving line of credit. The agreement has been amended six times to add additional lenders and ultimately increase the total availability of credit under the line to $365 million. The agreement is a line of credit in an amount equal to the lesser of $365 million or 30% of the Company s ERC of all its eligible asset pools. Borrowings under the revolving credit facility bear interest at a floating rate equal to the one month LIBOR Market Index Rate plus 1.40%, which was 1.65% at September 30, 2009, and the facility expires on May 2, 2011. The Company also pays an unused line fee equal to three-tenths of one percent, or 30 basis points, on any unused portion of the line of credit. The loan is collateralized by substantially all the tangible and intangible assets of the Company. The agreement provides as follows:

- monthly borrowings may not exceed 30% of ERC;
- funded debt to EBITDA (defined as net income, less income or plus loss from discontinued operations and extraordinary items, plus income taxes, plus interest expense, plus depreciation, depletion, amortization (including finance receivable amortization) and other non-cash charges) ratio must be less than 2.0 to 1.0 calculated on a rolling twelve-month average;
- tangible net worth must be at least 100% of tangible net worth reported at September 30, 2005, plus 25% of cumulative positive net income since the end of such fiscal quarter, plus 100% of the net proceeds from any equity offering without giving effect to reductions in tangible net worth due to repurchases of up to $100,000,000 of the Company s common stock; and
- restrictions on change of control.

As of September 30, 2009 and 2008, outstanding borrowings under the facility totaled $306,300,000 and $267,300,000, respectively, of which $50,000,000 was part of the non-revolving fixed rate sub-limit which bears interest at 6.80% and expires on May 4, 2012. As of September 30, 2009, the Company is in compliance with all of the covenants of the agreement.

**5. Derivative Instruments**:

The Company may periodically enter into derivative financial instruments, typically interest rate swap agreements, to reduce its exposure to fluctuations in interest rates on variable-rate debt and their impact on earnings and cash flows. The Company does not utilize derivative financial instruments with a level of complexity or with a risk greater than the exposure to be managed nor does it enter into or hold derivatives for trading or speculative purposes. The Company periodically reviews the creditworthiness of the swap counterparty to assess the counterparty s ability to honor its obligation. Counterparty default would expose the Company to fluctuations in variable interest rates. Based on the guidance of FASB ASC Topic 815 Derivatives and Hedging ( ASC 815 ), the Company records derivative financial instruments at fair value.

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On December 16, 2008, the Company entered into an interest rate forward rate swap transaction (the Swap ) with J.P. Morgan Chase Bank, National Association pursuant to an ISDA Master Agreement which contains customary representations, warranties and covenants. The Swap has an effective date of January 1, 2010, with an initial notional amount of $50,000,000. Under the Swap, the Company will receive a floating interest rate based on 1-month LIBOR Market Index Rate and will pay a fixed interest rate of 1.89% through maturity of the Swap on May 1, 2011. Notwithstanding the terms of the Swap, the Company is ultimately obligated for all amounts due and payable under the credit facility.

The Company s financial derivative instrument is designated and qualifies as a cash flow hedge, and the effective portion of the gain or loss on such hedge is reported as a component of other comprehensive income in the consolidated financial statements. To the extent that the hedging relationship is not effective, the ineffective portion of the change in fair value of the derivative is recorded in other income (expense). The hedge was considered effective for the period from December 16, 2008 through December 31, 2008 and for the three and nine months ended September 30, 2009. Therefore, no amount has been recorded in the consolidated income statements related to the hedge s ineffectiveness during 2008 or the three and nine months ended September 30, 2009. Hedges that receive designated hedge accounting treatment are evaluated for effectiveness at the time that they are designated, as well as throughout the hedging period.

The following table sets forth the fair value amounts of derivative instruments held by the Company as of the dates indicated (amounts in thousands):

| | **September 30, 2009** | | **December 31, 2008** | |
|---|---|---|---|---|
| | Asset Derivatives | Liability Derivatives | Asset Derivatives | Liability Derivatives |
| Derivatives designated as hedging instruments under ASC 815: | | | | |
| Interest rate swap contracts | $ | $ 566 | $ 89 | $ |
| Total derivatives | $ | $ 566 | $ 89 | $ |

Liability and asset derivatives are recorded in the liability and other asset section of the accompanying consolidated balance sheets, respectively.

The following table sets forth the gain (loss) recorded in Accumulated Other Comprehensive Income ( AOCI ), net of tax, for the three and nine months ended September 30, 2009, for derivatives held by the Company as well as any gain (loss) reclassified from AOCI into income (amounts in thousands):

| | **For the three months ended September 30, 2009** | | |
|---|---|---|---|
| | Amount of Gain or (Loss) Recognized in Other Comprehensive Income on Derivatives | Location of Gain or (Loss) Reclassified from AOCI into Income | Amount of Gain or (Loss) Reclassified from AOCI into Income |

| | (Effective Portion) | | (Effective Portion) | (Effective Portion) |
|---|---|---|---|---|
| Derivatives designated as hedging instruments under ASC 815: | | | | |
| Interest rate swap contracts | $ | (214) | interest income/(expense) | $ |
| Total derivatives | $ | (214) | | $ |

| | For the nine months ended September 30, 2009 | | | |
|---|---|---|---|---|
| | Amount of Gain or (Loss) Recognized in Other Comprehensive Income on Derivatives (Effective Portion) | | Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion) | Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion) |
| Derivatives designated as hedging instruments under ASC 815: | | | | |
| Interest rate swap contracts | $ | (435) | interest income/(expense) | $ |
| Total derivatives | $ | (435) | | $ |

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Amounts in accumulated other comprehensive income (loss) will be reclassified into earnings under certain situations; for example, if the occurrence of the transaction is no longer probable or no longer qualifies for hedge accounting. The Company expects to reclassify approximately $467,000 currently included in other accumulated other comprehensive income (loss) into interest expense within the next 12 months.

**6. Long-Term Debt:**

On February 6, 2009, the Company entered into a commercial loan agreement to finance computer software and equipment purchases in the amount of $2,036,114. The loan is collateralized by the related computer software and equipment. The loan is a three year loan with a fixed rate of 4.78% with monthly installments, including interest, of $60,823 beginning on March 31, 2009, and it matures on February 28, 2012.

**7. Property and Equipment, net:**

Property and equipment, at cost, consist of the following as of the dates indicated (amounts in thousands):

| | September 30, 2009 | December 31, 2008 |
|---|---|---|
| Software | $ 15,648 | $ 14,380 |
| Computer equipment | 8,665 | 7,951 |
| Furniture and fixtures | 5,531 | 5,150 |
| Equipment | 5,928 | 5,370 |
| Leasehold improvements | 3,205 | 3,449 |
| Building and improvements | 5,979 | 5,948 |
| Land | 992 | 992 |
| Accumulated depreciation and amortization | (23,855) | (19,356) |
| Property and equipment, net | $ 22,093 | $ 23,884 |

Depreciation and amortization expense, relating to property and equipment, for the three and nine months ended September 30, 2009 was $1,600,764 and $4,869,540, respectively. Depreciation and amortization expense, relating to property and equipment, for the three and nine months ended September 30, 2008 was $1,462,637 and $3,715,492, respectively.

Beginning in July 2006 upon initiation of certain internally developed software projects, in accordance with the guidance of FASB ASC Topic 350-40 Internal-Use Software ( ASC 350-40 ), the Company began capitalizing qualifying computer software costs incurred during the application development stage and amortizing them over their estimated useful life of three to seven years on a straight-line basis beginning when the project is completed. Costs associated with preliminary project stage activities, training, maintenance and all other post implementation stage activities are expensed as incurred. The Company s policy provides for the capitalization of certain direct payroll costs for employees who are directly associated with internal use computer software projects, as well as external direct costs of services associated with developing or obtaining internal use software. Capitalizable personnel costs are limited to the time directly spent on such projects. As of September 30, 2009, the Company has incurred and capitalized $2,273,069 of these direct payroll costs and external direct costs related to software developed for internal use. Of these costs, $1,570,493 is for projects that are in the development stage and, therefore are a component of Other Assets. Once the projects are completed, the costs will be transferred to Software and amortized over their estimated useful life of three to seven years. Amortization expense for the three and nine months ended September 30, 2009 was $25,229 and $69,501, respectively. Amortization expense for the three and nine months ended September 30, 2008 was $22,136 and $66,408, respectively. The remaining unamortized costs relating to internally developed software at September 30, 2009 and 2008 were $523,079 and $410,995, respectively.

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**8. Goodwill and Intangible Assets, net:**

With the acquisition of IGS on October 1, 2004, RDS on July 29, 2005, The Palmer Group on July 25, 2007, MuniServices on July 1, 2008, and Broussard Partners and Associates, Inc. ( BPA ) on August 1, 2008, the Company purchased certain tangible and intangible assets. Intangible assets purchased included client and customer relationships, non-compete agreements, trademarks and goodwill. In accordance FASB ASC Topic 350 Intangibles-Goodwill and Other ( ASC 350 ), the Company is amortizing the following intangible assets over the estimated useful lives as indicated:

| | Customer Relationships | Non-Compete Agreements | Trademarks |
|---|---|---|---|
| IGS | 7 years | 3 years | |
| RDS | 10 years | 3 years | |
| The Palmer Group | 2.4 years | | |
| MuniServices | 11 years | 3 years | 14 years |
| BPA | 10 years | 2.4 years | |

The combined original weighted average amortization period is 9.14 years. The Company reviews these relationships at least annually for impairment. Total amortization expense was $668,277 and $2,004,831 for the three and nine months ended September 30, 2009, respectively. Total amortization expense was $699,598 and $1,422,938 for the three and nine months ended September 30, 2008, respectively. In addition, goodwill, pursuant to ASC 350, is not amortized but rather is reviewed at least annually for impairment. During the fourth quarter of 2008, the Company underwent its annual review of goodwill. Based upon the results of this review, which was conducted as of October 1, 2008, no impairment charges to goodwill or the other intangible assets were necessary as of the date of this review. The Company believes that nothing has occurred since the review was performed through September 30, 2009 that would indicate a triggering event and thereby necessitate an impairment charge to goodwill or the other intangible assets. The Company will undergo its annual goodwill review during the fourth quarter of 2009. At September 30, 2009 and December 31, 2008, the carrying value of goodwill was $29,298,717 and $27,545,582, respectively. The $1,753,135 increase in the carrying value of goodwill during the nine months ended September 30, 2009 relates to additional purchase price relating to the acquisition of BPA on August 1, 2008 and MuniServices on July 1, 2008.

**9. Share-Based Compensation:**

The Company has a stock option and nonvested share plan. The Company created the 2002 Stock Option Plan (the Plan ) on November 7, 2002. The Plan was amended in 2004 (the Amended Plan ) to enable the Company to issue nonvested shares of stock to its employees and directors. The Amended Plan was approved by the Company s shareholders at its Annual Meeting on May 12, 2004. Up to 2,000,000 shares of common stock may be issued under the Amended Plan. The Amended Plan expires November 7, 2012.

Effective January 1, 2006, the Company adopted the provisions of FASB ASC Topic 718 Compensation-Stock Compensation ( ASC 718 ), using the modified prospective approach. The adoption had no material impact on the Company s Consolidated Income Statement or on previously reported interim periods. As of September 30, 2009, total future compensation costs related to nonvested awards of nonvested shares (not including nonvested shares granted under the Long-Term Incentive Program) is estimated to be $2.8 million with a weighted average remaining life of 2.5 years (not including nonvested shares granted under the Long-Term Incentive Programs). As of September 30, 2009, there is no future compensation costs related to stock options and the remaining vested stock options have a weighted average remaining life of 0.9 years. Based upon historical data, the Company used an annual forfeiture rate of 14% for stock options and 15-40% for nonvested shares for most of the employee grants. Grants made to key employee hires and directors of the Company were assumed to have no forfeiture rates associated with them due to the historically low turnover among this group. In addition, commensurate with the adoption of the guidance, all previous references to restricted stock are now referred to as nonvested shares.

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Total share-based compensation expense was $588,595 and $3,240,301 for the three and nine months ended September 30, 2009, respectively. Total share-based compensation expense (benefit) was ($720,587) and $442,014 for the three and nine months ended September 30, 2008, respectively. The Company, in conjunction with the renewal of employment agreements with its Named Executive Officers and other senior executives, awarded nonvested shares which vested on January 1, 2009. As a result of the vesting of these shares, the Company recorded stock-based compensation expense in connection with these shares, in the amount of approximately $1.4 million during the first quarter of 2009. Tax benefits resulting from tax deductions in excess of share-based compensation expense recognized under the fair value recognition provisions of ASC 718 (windfall tax benefits) are credited to additional paid-in capital in the Company s Consolidated Balance Sheets. Realized tax shortfalls are first offset against the cumulative balance of windfall tax benefits, if any, and then charged directly to income tax expense. The total tax benefit realized from share-based compensation was $731,867 and $1,923,946 for the three and nine months ended September 30, 2009, respectively. The total tax benefit realized from share-based compensation was $404,965 and $857,782 for the three and nine months ended September 30, 2008, respectively.

***Stock Options***

All options issued under the Amended Plan vest ratably over five years. Granted options expire seven years from grant date. Expiration dates range between November 7, 2009 and January 16, 2011. Options granted to a single person cannot exceed 200,000 in a single year. At September 30, 2009, 895,000 options have been granted under the Amended Plan, of which 118,955 have been cancelled. There were 0 and 33,000 antidilutive options outstanding for the three and nine months ended September 30, 2009, respectively. There were no antidilutive options outstanding for the three and nine months ended September 30, 2008.

The Company granted no options during the three and nine months ended September 30, 2009 and 2008. All of the stock options which have been granted under the Amended Plan were granted to employees of the Company except for 40,000 which were granted to non-employee directors. The total intrinsic value of options exercised during the three and nine months ended September 30, 2009 was approximately $1,199,000 and $2,306,000, respectively. The total intrinsic value of options exercised during the three and nine months ended September 30, 2008 was approximately $345,000 and $895,000, respectively.

The following summarizes all option related transactions from December 31, 2007 through September 30, 2009 (amounts in thousands, except per share amounts):

| | Options Outstanding | Weighted-Average Exercise Price | Weighted-Average Fair Value |
|---|---|---|---|
| December 31, 2007 | 163 | $ 16.97 | $ 3.25 |
| Exercised | (38) | 15.87 | 3.31 |
| Cancelled | (2) | 21.50 | 4.60 |
| December 31, 2008 | 123 | 17.24 | 3.21 |
| Exercised | (102) | 15.92 | 3.29 |
| September 30, 2009 | 21 | $ 23.79 | $ 2.78 |

The following information is as of September 30, 2009 (amounts in thousands, except per share amounts):

| | Options Outstanding | | | | Options Exercisable | | |
|---|---|---|---|---|---|---|---|
| Exercise | Number | Average Remaining | Weighted-Average Exercise Price Per | Aggregate | Number | Weighted-Average Exercise | Aggregate |

| Prices | Outstanding | Contractual Life | Share | Intrinsic Value | Exercisable | Price Per Share | Intrinsic Value |
|---|---|---|---|---|---|---|---|
| $13.00 | 7 | 0.1 | $ 13.00 | $ 216 | 7 | $ 13.00 | $ 216 |
| $28.45 - $29.79 | 14 | 1.3 | 28.93 | 229 | 14 | 28.93 | 229 |
| Total as of September 30, 2009 | 21 | 0.9 | $ 23.79 | $ 445 | 21 | $ 23.79 | $ 445 |

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The Company utilizes the Black-Scholes option pricing model to calculate the value of the stock options when granted. This model was developed to estimate the fair value of traded options, which have different characteristics than employee stock options. In addition, changes to the subjective input assumptions can result in materially different fair market value estimates. Therefore, the Black-Scholes model may not necessarily provide a reliable single measure of the fair value of employee stock options.

***Nonvested Shares***

With the exception of the awards made pursuant to the Long-Term Incentive Program and a few employee and director grants, the terms of the nonvested share awards are similar to those of the stock option awards, wherein the nonvested shares vest ratably over five years and are expensed over their vesting period. In addition, in conjunction with the renewal of their employment agreements, the Company s Named Executive Officers and other senior executives were awarded nonvested shares which vested on January 1, 2009. As a result of the vesting of these shares, the Company recorded stock-based compensation expense in connection with these shares, in the amount of approximately $1.4 million during the first quarter of 2009.

The following summarizes all nonvested share transactions from December 31, 2007 through September 30, 2009 (amounts in thousands, except per share amounts):

| | Nonvested Shares Outstanding | Weighted-Average Price at Grant Date |
|---|---|---|
| December 31, 2007 | 123 | $ 41.72 |
| Granted | 27 | 37.47 |
| Vested | (37) | 39.55 |
| Cancelled | (15) | 40.05 |
| December 31, 2008 | 98 | 41.60 |
| Granted | 69 | 33.93 |
| Vested | (73) | 36.85 |
| Cancelled | (5) | 41.91 |
| September 30, 2009 | 89 | $ 39.57 |

The total grant date fair value of shares vested during the three and nine months ended September 30, 2009 was $593,806 and $2,687,986, respectively. The total grant date fair value of shares vested during the three and nine months ended September 30, 2008 was $598,382 and $1,278,168, respectively.

***Long-Term Incentive Programs***

Pursuant to the Amended Plan, on March 30, 2007, January 4, 2008 and January 20, 2009, the Compensation Committee approved the grant of 96,550, 80,000 and 108,720 performance-based nonvested shares, respectively. The shares were granted to key employees of the Company. For both the 2007 and 2008 grants, no estimated compensation costs have been accrued because the achievements of the performance targets of the programs were deemed unlikely to be achieved. In the future, if the Company believes that the performance targets of the programs will be achieved, an adjustment to the expense will be made at that time based on the probable outcome. The 2009 grant is performance based and cliff vests after the requisite service period of two to three years if certain financial goals are met. The goals are based upon diluted earnings per share ( EPS ) totals for 2009, the return on owners equity for the three year period beginning on January 1, 2009 and ending December 31, 2011, and the relative total shareholder return as compared to a peer group, for the same three year period. The number of shares vested can double if the financial goals are exceeded or no shares can vest if the financial goals are not met. The Company is expensing the nonvested share grant over the requisite service period of two to three years beginning on January 1, 2009. If the Company believes that the number of shares granted will be more or less than originally projected, an adjustment to the expense will be made at that time based on the probable outcome. At September 30, 2009, no

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compensation expense relating to the EPS goal has been accrued as the achievement of the EPS goal is not likely to be achieved. At September 30, 2009, total future compensation costs related to nonvested share awards granted under the 2009 Long-Term Incentive Program are estimated to be approximately $1.4 million. The Company assumed a 7.5% forfeiture rate for this grant and the remaining shares have a weighted average life of 2.25 years at September 30, 2009.

**10. Income Taxes:**

On July 13, 2006, the FASB issued accounting guidance on accounting for uncertainty in income taxes. This guidance clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB ASC Topic 740 Income Taxes ( ASC 740 ). The guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The evaluation of a tax position in accordance with the guidance is a two-step process. The first step is recognition: the enterprise determines whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, the enterprise should presume that the position will be examined by the appropriate taxing authority that would have full knowledge of all relevant information. The second step is measurement: a tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met.

The Company adopted the guidance with respect to all of its tax positions as of January 1, 2007. Total unrecognized tax benefits at September 30, 2009 and 2008 were $0 and $180,000, respectively. On September 15, 2008, the 2004 tax year closed and is no longer subject to examination by major taxing jurisdictions, including the Internal Revenue Service. As a result, the remaining unrecognized tax benefits balance of $180,000 was reversed. The reversal was an adjustment to additional paid-in-capital and did not affect the annual effective tax rate.

The Company was notified on June 21, 2007 that it was being examined by the Internal Revenue Service for the 2005 calendar year. The IRS has concluded its audit and on March 19, 2009 issued Form 4549-A, Income Tax Examination Changes for tax years ending December 31, 2007, 2006 and 2005. The IRS has proposed that cost recovery for tax revenue recognition does not clearly reflect income and that unused line fees paid on credit facilities should be capitalized and amortized rather than taken as a current deduction. On April 22, 2009, the Company filed a formal protest of the findings contained in the examination report prepared by the IRS. The Company believes it has sufficient support for the technical merits of its positions and that it is more-likely-than-not these positions will ultimately be sustained; therefore, a reserve for uncertain tax positions is not necessary. If the Company is unsuccessful in its appeal, it might be required to pay the related deferred taxes and any potential interest in the near-term, possibly requiring additional financing from other sources.

At September 30, 2009, the tax years that remain subject to examination by the major taxing jurisdictions, including the Internal Revenue Service, are 2003 and 2005 and subsequent years. The 2003 tax year is still open to examination because of the net operating loss that originated in that year but was not fully utilized until the 2005 tax year.

ASC 740 requires the recognition of interest, if the tax law would require interest to be paid on the underpayment of taxes, and recognition of penalties, if a tax position does not meet the minimum statutory threshold to avoid payment of penalties. Penalties and interest may be classified as either penalties and interest expense or

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income tax expense. Management has elected to classify accrued penalties and interest as income tax expense. Accrued penalties and interest as of January 1, 2007, in the amount of $77,000, were recorded to beginning of year retained earnings at the date of adoption. Since January 1, 2007, the Company has accrued additional interest of approximately $34,000. Due to the approved application for change in accounting method, the balance of accrued penalties and interest was reduced by $67,000 during 2007. As a result of the lapse in the statute of limitations, the 2004 tax year closed as of September 15, 2008 resulting in the reversal of the remaining $44,000 of accrued interest. No interest or penalties were accrued or reversed in 2009.

**11. Earnings per Share:**

Basic EPS are computed by dividing income available to common shareholders by weighted average common shares outstanding. Diluted EPS are computed using the same components as basic EPS with the denominator adjusted for the dilutive effect of stock options and nonvested share awards. Share-based awards that are contingent upon the attainment of performance goals are not included in the computation of diluted EPS until the performance goals have been attained. The following tables provide a reconciliation between the computation of basic EPS and diluted EPS for the three and nine months ended September 30, 2009 and 2008 (amounts in thousands, except per share amounts):

| | For the three months ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | | 2008 | | |
| | Net Income | Weighted Average Common Shares | EPS | Net Income | Weighted Average Common Shares | EPS |
| Basic EPS | $10,096 | 15,466 | $0.65 | $11,455 | 15,267 | $0.75 |
| Dilutive effect of stock options and nonvested share awards | | 36 | | | 69 | |
| Diluted EPS | $10,096 | 15,502 | $0.65 | $11,455 | 15,336 | $0.75 |

| | For the nine months ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | | 2008 | | |
| | Net Income | Weighted Average Common Shares | EPS | Net Income | Weighted Average Common Shares | EPS |
| Basic EPS | $31,892 | 15,392 | $2.07 | $34,751 | 15,210 | $2.28 |
| Dilutive effect of stock options and nonvested share awards | | 36 | | | 70 | |
| Diluted EPS | $31,892 | 15,428 | $2.07 | $34,751 | 15,280 | $2.27 |

There were 0 and 33,000 antidilutive options outstanding for the three and nine months ended September 30, 2009. There were no antidilutive options outstanding for the three and nine months ended September 30, 2008.

**12. Commitments and Contingencies:**

*Employment Agreements:*

The Company has employment agreements with all of its executive officers and with several members of its senior management group, most of which expire on December 31, 2011. Such agreements provide for base salary payments as well as bonuses which are based on the attainment of specific management goals. Future compensation under these agreements is approximately $8.5 million. The agreements also contain confidentiality and non-compete provisions.

*Leases:*

The Company is party to various operating and capital leases with respect to its facilities and equipment. For further discussion of these leases please refer to the Company s audited consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K, as filed for the year ended December 31, 2008.

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*Forward Flow Agreements:*

The Company is party to several forward flow agreements that allow for the purchase of defaulted consumer receivables at pre-established prices. The maximum remaining amount to be purchased under forward flow agreements at September 30, 2009 is approximately $73.9 million.

*Litigation:*

The Company is from time to time subject to routine legal claims and proceedings, most of which are incidental to the ordinary course of its business. The Company initiates lawsuits against consumers and is occasionally countersued by them in such actions. Also, consumers, either individually, as a member of a class action, or through a governmental entity on behalf of consumers, may initiate litigation against the Company, in which they allege that the Company has violated a state or federal law in the process of collecting on an account. From time to time, other types of lawsuits are brought against the Company. While it is not expected that these or any other legal proceedings or claims in which the Company is involved will, either individually or in the aggregate, have a material adverse impact on the Company s results of operations, liquidity or its financial condition, the matter described below falls outside of the normal parameters of the Company s routine legal proceedings.

PRA is currently a defendant in a purported class action counterclaim entitled PRA v. Barkwell, 4:09-cv-00113-CDL, which was originally filed in the Superior Court of Muscogee County, Georgia. The counterclaim, which was filed against PRA, the National Arbitration Forum ( NAF ) and MBNA American Bank, N.A., on July 29, 2009, has since been removed to the United States District Court for the Middle District of Georgia, where it is currently pending. The counterclaim alleges that in pursuing arbitration claims against Barkwell and other consumer debtors, pursuant to the terms and conditions of their respective cardholder agreements, PRA breached a duty of good faith and fair dealing and made negligent misrepresentations concerning its arbitration practices. The plaintiffs are seeking, among other things, to vacate the arbitration awards that PRA has obtained before NAF and have PRA disgorge the amounts collected with respect to such awards. It is not possible at this time to accurately estimate the possible loss, if any. PRA believes it has meritorious defenses to the allegations made in this counterclaim and intends to defend itself vigorously against them.

**13. Estimated Fair Value of Financial Instruments:**

The accompanying consolidated financial statements include various estimated fair value information as of September 30, 2009, as required by FASB ASC Topic 825 Financial Instruments ( ASC 825 ). ASC 825 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 825 also requires the consideration of differing levels of inputs in the determination of fair values. Based upon the fact there are no quoted prices in active markets or other observable market data, the Company used unobservable inputs for computation of the fair value of finance receivables, net. Disclosure of the estimated fair values of financial instruments often requires the use of estimates. The Company uses the following methods and assumptions to estimate the fair value of financial instruments.

**Cash and cash equivalents:** The carrying amount approximates fair value.

**Finance receivables, net:** The Company records purchased receivables at cost, which represents a significant discount from the contractual receivable balances due. The cost of the receivables is reduced as cash is received based upon the guidance of ASC 310-30. The carrying amount of finance receivables, net, as of September 30, 2009 was approximately $661 million. The Company computed the fair value of these receivables using proprietary pricing models that the Company utilizes to make portfolio purchase decisions. As of September 30, 2009, using the aforementioned methodology, the Company computed the approximate fair value to be $767 million.

**Long-term debt:** The carrying amount approximates fair value, as the interest rates approximate the rate currently offered to the Company for similar debt instruments of comparable maturities by the Company s bankers.

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**Line of credit:** The carrying amount approximates fair value, as the interest rates approximate the rate currently offered to the Company for similar debt instruments of comparable maturities by the Company s bankers.

**Derivative instrument**: The interest rate swap is recorded at fair value, which is determined using pricing models developed based on the LIBOR swap rate and other observable market data, adjusted for nonperformance risk of both the counterparty and the Company.

**14. Recent Accounting Pronouncements:**

In December 2007, the FASB issued guidance which clarifies the accounting for business combinations in accordance with FASB ASC Topic 805 Business Combinations ( ASC 805 ). The guidance establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. It also provides guidance for recognizing and measuring the goodwill acquired in the business combination, recognizing assets acquired and liabilities assumed arising from contingencies, and determining what information to disclose to enable users of the financial statement to evaluate the nature and financial effects of the business combination. The guidance is effective for acquisitions consummated in fiscal years beginning after December 15, 2008. The Company adopted the guidance on January 1, 2009, which had no material impact on its consolidated financial statements.

In December 2007, the FASB issued guidance on noncontrolling interests in consolidated financial statements. This guidance requires that the noncontrolling interest in the equity of a subsidiary be accounted for and reported as equity, provides revised guidance on the treatment of net income and losses attributable to the noncontrolling interest and changes in ownership interests in a subsidiary and requires additional disclosures that identify and distinguish between the interests of the controlling and noncontrolling owners. The guidance is effective for fiscal years beginning after December 15, 2008 with early application prohibited. The Company adopted the guidance on January 1, 2009, which had no material impact on its consolidated financial statements.

In March 2008, the FASB issued disclosure requirements regarding derivative instruments and hedging activities. Entities must now provide enhanced disclosures on an interim and annual basis regarding how and why the entity uses derivatives; how derivatives and related hedged items are accounted for, and how derivatives and related hedged items affect the entity s financial position, financial results and cash flow. The guidance is effective for periods beginning on or after November 15, 2008. The Company adopted the guidance effective January 1, 2009 and has added the required narrative and tabular disclosure in Note 5 of its consolidated financial statements.

In April 2008, the FASB issued guidance regarding the determination of the useful life of intangible assets. In developing assumptions about renewal or extension options used to determine the useful life of an intangible asset, an entity needs to consider its own historical experience adjusted for entity-specific factors. In the absence of that experience, an entity shall consider the assumptions that market participants would use about renewal or extension options. The guidance is effective for fiscal years beginning after December 15, 2008. The Company adopted the guidance on January 1, 2009, which had no material impact on its consolidated financial statements.

In April 2009, the FASB issued guidance on determining fair value when the volume and level of activity for an asset or liability has significantly decreased, and in identifying transactions that are not orderly. Based on the guidance, if an entity determines that the level of activity for an asset or liability has significantly decreased and that a transaction is not orderly, further analysis of transactions or quoted prices is needed, and a significant adjustment to the transaction or quoted prices may be necessary to estimate fair value. The guidance was effective on a prospective basis for interim and annual periods ending after June 15, 2009. The Company adopted the guidance during the second quarter of 2009, which had no material impact on its consolidated financial statements.

In April 2009, the FASB issued additional requirements regarding interim disclosures about the fair value of financial instruments which were previously only disclosed on an annual basis. Entities are now required to disclose the fair value of financial instruments which are not recorded at fair value in the financial statements in both their

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
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interim and annual financial statements. The standard is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company adopted these requirements during the second quarter of 2009, and has added the required disclosure in Note 13 of its consolidated financial statements.

In April 2009, the FASB issued guidance on the recognition and presentation of other-than-temporary impairments on investments in debt securities. If an entity s management asserts that it does not have the intent to sell a debt security and it is more likely than not that it will not have to sell the security before recovery of its cost basis, then an entity may separate other-than-temporary impairments into two components: 1) the amount related to credit losses (recorded in earnings), and 2) all other amounts (recorded in other comprehensive income). The guidance is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009, and will be applied to all existing and new investments in debt securities. The Company adopted the guidance during the second quarter of 2009, which had no material impact on its consolidated financial statements.

In May 2009, the FASB issued guidance on subsequent events which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. This guidance, which falls under ASC Topic 855 Subsequent Events , provides guidance on the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The Company adopted the guidance during the second quarter of 2009, and its application had no impact on the Company s consolidated financial statements. The Company evaluated subsequent events through the date the accompanying financial statements were issued, which was November 6, 2009.

In June 2009, the FASB issued guidance on accounting for transfers of financial to improve the reporting for the transfer of financial assets. The guidance must be applied as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. The Company believes the guidance will have no material impact on its consolidated financial statements.

In June 2009, the FASB issued guidance on consolidation of variable interest entities to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. The guidance is effective as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. The Company believes the guidance will have no material impact on its consolidated financial statements.

In June 2009, the FASB issued The FASB Accounting Standards Codification ( Codification ). The Codification became the single source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification supersedes all existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification is non-authoritative. The Codification was effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company adopted the Codification for the quarter ending September 30, 2009. There was no impact to its consolidated financial statements as this change is disclosure-only in nature.

**Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations**
**Cautionary Statements Pursuant to Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995:**

This report contains forward-looking statements within the meaning of the federal securities laws. These forward-looking statements involve risks, uncertainties and assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. All statements, other than statements of historical fact, are forward-looking statements, including statements regarding overall trends, gross margin trends, operating cost trends, liquidity and capital needs and other statements of expectations, beliefs, future plans and strategies, anticipated events or trends, and similar expressions concerning matters that are not historical facts. The risks, uncertainties and assumptions referred to above may include the following:

continued deterioration of the economic environment including the stability of the financial system;

our ability to purchase defaulted consumer receivables at appropriate prices;

changes in the business practices of credit originators in terms of selling defaulted consumer receivables or outsourcing defaulted consumer receivables to third-party contingent fee collection agencies;

changes in government regulations that affect our ability to collect sufficient amounts on our acquired or serviced receivables;

changes in income tax laws or challenges by taxing authorities could have an adverse effect on our financial condition and results of operations;

deterioration in economic conditions in the United States that may have an adverse effect on our collections, results of operations, revenue and stock price;

changes in bankruptcy or collection agency laws that could negatively affect our business;

our ability to employ and retain qualified employees, especially collection and information technology personnel;

our work force could become unionized in the future, which could adversely affect the stability of our production and increase our costs;

changes in the credit or capital markets, which affect our ability to borrow money or raise capital to purchase or service defaulted consumer receivables;

the degree and nature of our competition;

our ability to comply with the provisions of the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated thereunder;

our ability to retain existing clients and obtain new clients for our fee-for-service businesses;

the sufficiency of our funds generated from operations, existing cash and available borrowings to finance our current operations; and the risk factors listed from time to time in our filings with the Securities and Exchange Commission (the SEC ).

You should assume that the information appearing in this quarterly report is accurate only as of the date it was issued. Our business, financial condition, results of operations and prospects may have changed since that date.

For a discussion of the risks, uncertainties and assumptions that could affect our future events, developments or results, you should carefully review the following Management s Discussion and Analysis of Financial Condition and Results of Operations , as well as the discussion of Business and Risk Factors described in our 2008 Annual Report on Form 10-K, filed on February 27, 2009.

Our forward-looking statements could be wrong in light of these and other risks, uncertainties and assumptions. The future events, developments or results described in this report could turn out to be materially different. We have no obligation to publicly update or revise our forward-looking statements after the date of this report and you should not expect us to do so.

Investors should also be aware that while we do, from time to time, communicate with securities analysts and others, we do not, by policy, selectively disclose to them any material nonpublic information or other confidential commercial information. Accordingly, stockholders should not assume that we agree with any statement or report issued by any analyst regardless of the content of the statement or report. We do not, by policy, confirm forecasts or projections issued by others. Thus, to the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not our responsibility.

**Results of Operations**

We are a full service provider of outsourced receivables management and related services. The results of operations include the financial results of Portfolio Recovery Associates, Inc. and all of our subsidiaries who are all in the accounts receivable management business. Under the guidance of the Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) Topic 280 Segment Reporting ( ASC 280 ), we have determined that we have several operating segments that meet the aggregation criteria of ASC 280, and therefore, we have one reportable segment, accounts receivable management, based on similarities among the operating units including homogeneity of services, service delivery methods and use of technology.

The following table sets forth certain operating data as a percentage of total revenues for the periods indicated:

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Revenues: | | | | |
| Income recognized on finance receivables, net | 79.2% | 76.9% | 76.8% | 80.7% |
| Commissions | 20.8% | 23.1% | 23.2% | 19.3% |
| Total revenues | 100.0% | 100.0% | 100.0% | 100.0% |
| Operating expenses: | | | | |
| Compensation and employee services | 39.2% | 33.5% | 38.5% | 33.1% |
| Legal and agency fees and costs | 16.5% | 21.0% | 16.6% | 20.2% |
| Outside fees and services | 3.3% | 3.4% | 3.3% | 3.5% |
| Communications | 5.1% | 3.3% | 5.4% | 3.8% |
| Rent and occupancy | 1.9% | 1.6% | 1.7% | 1.4% |
| Other operating expenses | 3.4% | 2.8% | 3.1% | 2.5% |
| Depreciation and amortization | 3.3% | 3.2% | 3.3% | 2.6% |
| Total operating expenses | 72.7% | 68.8% | 71.9% | 67.1% |
| Income from operations | 27.3% | 31.2% | 28.1% | 32.9% |
| Other income and (expense): | | | | |
| Interest income | 0.0% | 0.1% | 0.1% | 0.0% |
| Interest expense | (2.9%) | (4.5%) | (2.8%) | (4.2%) |
| Income before income taxes | 24.4% | 26.8% | 25.4% | 28.7% |
| Provision for income taxes | 9.8% | 10.1% | 10.0% | 11.0% |
| Net income | 14.6% | 16.7% | 15.4% | 17.7% |

We use the following terminology throughout our reports: Cash Receipts refers to all collections of cash, regardless of the source. Cash Collections refers to collections on our owned portfolios only, exclusive of commission income and sales of finance receivables. Cash Sales of Finance Receivables refers to the sales of our owned portfolios. Commissions refers to fee income generated from our wholly-owned contingent fee and fee-for-service subsidiaries.

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***Three Months Ended September 30, 2009 Compared To Three Months Ended September 30, 2008***

**Revenues**

Total revenues were $68.6 million for the three months ended September 30, 2009 and 2008.

*Income Recognized on Finance Receivables, net*

Income recognized on finance receivables, net was $54.3 million for the three months ended September 30, 2009, an increase of $1.6 million or 3.0% compared to income recognized on finance receivables, net of $52.7 million for the three months ended September 30, 2008. The increase was due to an increase in our cash collections on our owned defaulted consumer receivables to $92.4 million for the three months ended September 30, 2009 compared to $83.0 million for the three months September 30, 2008. This was offset by an increase in our finance receivables amortization rate, including the allowance charge, to 41.2% for the three months ended September 30, 2009, compared to 36.5% for the three months ended September 30, 2008. During the three months ended September 30, 2009, we acquired defaulted consumer receivables portfolios with an aggregate face value amount of $1.75 billion at a cost of $76.7 million. During the three months ended September 30, 2008, we acquired defaulted consumer receivable portfolios with an aggregate face value of $857.2 million at a cost of $52.3 million. In any period, we acquire defaulted consumer receivables that can vary dramatically in their age, type and ultimate collectibility. We may pay significantly different purchase rates for purchased receivables within any period as a result of this quality fluctuation. In addition, market forces can drive pricing rates up or down in any period, irrespective of other quality fluctuations. As a result, the average purchase rate paid for any given period can fluctuate dramatically based on our particular buying activity in that period. However, regardless of the average purchase price and for similar time frames, we intend to target a similar internal rate of return, after direct expenses, in pricing our portfolio acquisitions; therefore, the absolute rate paid is not necessarily relevant to estimated profitability of a period s buying.

Income recognized on finance receivables, net is shown net of changes in valuation allowances recognized under FASB ASC Topic 310-30 Loans and Debt Securities Acquired with Deteriorated Credit Quality ( ASC 310-30 ), which requires that a valuation allowance be recorded for significant decreases in expected cash flows or change in timing of cash flows which would otherwise require a reduction in the stated yield on a pool of accounts. For the three months ended September 30, 2009, we recorded net allowance charges of $8,010,000. For the three months ended September 30, 2008, we recorded net allowance charges of $3,780,000. In any given period, we may be required to record valuation allowances due to pools of receivables underperforming our expectations. Factors that may contribute to the recording of valuation allowances may include both internal as well as external factors. External factors which may have an impact on the collectability, and subsequently to the overall profitability of purchased pools of defaulted consumer receivables would include: overall market pricing for pools of consumer receivables (which is driven by both supply and demand), new laws or regulations relating to collections, new interpretations of existing laws or regulations, and the overall condition of the economy. Internal factors which may have an impact on the collectability, and subsequently the overall profitability of purchased pools of defaulted consumer receivables would include: necessary revisions to initial and post-acquisition scoring and modeling estimates, non-optimal operational activities (which relates to the collection and movement of accounts on both our collection floor and external channels), as well as decreases in productivity related to turnover and tenure of our collection staff. Due to the extraordinary deterioration of the U.S. economy beginning in the fourth quarter of 2008, our collection efforts have become more challenging, which has exacerbated the typical effects of these external and internal factors. These combined factors have contributed to the valuation allowances that we have recorded during the three months ended September 30, 2009.

*Commissions*

Commissions were $14.2 million for the three months ended September 30, 2009, a decrease of $1.6 million or 10.1% compared to commissions of $15.8 million for the three months ended September 30, 2008. Commissions decreased as a result of a decrease in revenue generated by our IGS fee-for-service business and MuniServices government revenue enhancement and services business, partially offset by an increase in revenue generated by our RDS government processing and collection business as compared to the prior year period.

**Operating Expenses**

Total operating expenses were $49.8 million for the three months ended September 30, 2009, an increase of $2.6 million or 5.5% compared to total operating expenses of $47.2 million for the three months ended September 30, 2008. Total operating expenses, including compensation and employee services expenses, were 46.7% of cash receipts for the three months ended September 30, 2009 compared to 47.7% for the same period in 2008.

*Compensation and Employee Services*

Compensation and employee services expenses were $26.8 million for the three months ended September 30, 2009, an increase of $3.8 million or 16.5% compared to compensation and employee services expenses of $23.0 million for the three months ended September 30, 2008. This increase is mainly due to an overall increase in our owned portfolio collection staff. Compensation and employee services expenses increased as total employees grew 10.8% to 2,146 as of September 30, 2009 from 1,937 as of September 30, 2008. In addition, during the third quarter of 2008, we reversed $1.4 million of estimated share-based compensation costs that had been accrued in 2007 and 2008 relating to the 2007 Long Term Incentive Program. Compensation and employee services expenses as a percentage of cash receipts increased to 25.2% for the three months ended September 30, 2009 from 23.3% of cash receipts for the same period in 2008.

*Legal and Agency Fees and Costs*

Legal and agency fees and costs expenses were $11.3 million for the three months ended September 30, 2009, a decrease of $3.1 million or 21.5% compared to legal and agency fees and costs of $14.4 million for the three months ended September 30, 2008. Of the $3.1 million decrease, $2.5 million was attributable to a decrease in legal fees and costs incurred resulting from accounts referred to both our in house attorneys and outside independent contingent fee attorneys. The remaining $0.6 million decrease was attributable to a decrease in agency fees mainly incurred by our IGS subsidiary. Total outside legal expenses paid to independent contingent fee attorneys for the three months ended September 30, 2009 were 47.7% of legal cash collections generated by independent contingent fee attorneys compared to 43.0% for the three months ended September 30, 2008. Outside legal fees and costs paid to independent contingent fee attorneys decreased from $9.3 million for the three months ended September 30, 2008 to $7.3 million, a decrease of $2.0 million or 21.5%, for the three months ended September 30, 2009. Additionally, as disclosed previously, we also effectuate legal collections using our own in-house attorneys. Total legal expenses incurred by our in-house attorneys for the three months ended September 30, 2009 were 6.9% of legal cash collections generated by our in-house attorneys compared to 45.8% for the three months ended September 30, 2008. Legal fees and costs incurred by our in-house attorneys decreased from $1.0 million for the three months ended September 30, 2008 to $0.4 million, a decrease of $0.6 million or 60.0%, for the three months ended September 30, 2009.

*Outside Fees and Services*

Outside fees and services expenses were $2.3 million for the three months ended September 30, 2009 and 2008.

*Communications*

Communications expenses were $3.5 million for the three months ended September 30, 2009, an increase of $1.2 million or 52.2% compared to communications expenses of $2.3 million for the three months ended September 30, 2008. The increase was mainly due to a growth in mailings due to an increase in special letter campaigns which increased by $1.2 million for the three months ended September 30, 2009 when compared to the year ago period.

*Rent and Occupancy*

Rent and occupancy expenses were $1,270,000 for the three months ended September 30, 2009, an increase of $147,000 or 13.1% compared to rent and occupancy expenses of $1,123,000 for the three months ended September 30, 2008. The increase was primarily due to relocation of our IGS business to another location, as well as increased utility charges.

*Other Operating Expenses*

Other operating expenses were $2.3 million for the three months ended September 30, 2009, an increase of $0.4 million or 21.1% compared to other operating expenses of $1.9 million for the three months ended September 30, 2008. The increase was mainly due to increases in various expenses when compared to the prior year period. No individual item represents a significant portion of the overall increase.

*Depreciation and Amortization*

Depreciation and amortization expenses were $2.3 million for the three months ended September 30, 2009, an increase of $0.1 million or 4.5% compared to depreciation and amortization expenses of $2.2 million for the three months ended September 30, 2008. The increase is mainly the result of continued capital expenditures on equipment, software, and computers related to our growth and systems upgrades.

**Interest Income**

Interest income was $0 for the three months ended September 30, 2009, a decrease of $34,000 compared to interest income of $34,000 for the three months ended September 30, 2008. This decrease is the result of lower average invested cash and cash equivalents balances during the three months ended September 30, 2009 compared to the same period in 2008.

**Interest Expense**

Interest expense was $2.0 million for the three months ended September 30, 2009, a decrease of $1.1 million compared to interest expense of $3.1 million for the three months ended September 30, 2008. The decrease was mainly due to a decrease in our weighted average variable interest rate which decreased to 2.56% for the three months ended September 30, 2009 as compared to 4.57% for the three months ended September 30, 2008, partially offset by an increase in our average borrowings for the three months ended September 30, 2009 compared to the same period in 2008.

**Provision for Income Taxes**

Income tax expense was $6.7 million for the three months ended September 30, 2009, a decrease of $0.2 million or 2.9% compared to income tax expense of $6.9 million for the three months ended September 30, 2008. The decrease is mainly due to a decrease of 8.5% in income before taxes for the three months ended September 30, 2009 when compared to the same period in 2008 which was offset by an increase in the effective tax rate for the three months ended September 30, 2009, which was 40.0% compared to 37.7% for the same period in 2008.

***Nine Months Ended September 30, 2009 Compared To Nine Months Ended September 30, 2008***

**Revenues**

Total revenues were $207.9 million for the nine months ended September 30, 2009, an increase of $11.6 million or 5.9% compared to total revenues of $196.3 million for the nine months ended September 30, 2008.

*Income Recognized on Finance Receivables, net*

Income recognized on finance receivables, net was $159.7 million for the nine months ended September 30, 2009, an increase of $1.3 million compared to income recognized on finance receivables, net of $158.4 million for the nine months ended September 30, 2008. The increase was due to an increase in our cash collections on our owned defaulted consumer receivables to $272.7 million for the nine months ended September 30, 2009 compared to $247.5 million for the nine months ended September 30, 2008. This was offset by an increase in our finance receivables amortization rate, including the allowance charge, to 41.5% for the nine months ended September 30, 2009, compared to 36.0% for the nine months ended September 30, 2008. During the nine months ended September 30, 2009, we acquired defaulted consumer receivables portfolios with an aggregate face value amount of $6.09 billion at a cost of $213.8 million. During the nine months ended September 30, 2008, we acquired defaulted consumer receivable portfolios with an aggregate face value of $3.28 billion at a cost of $218.8 million. In any period, we acquire defaulted consumer receivables that can vary dramatically in their age, type and ultimate collectibility. We may pay significantly different purchase rates for purchased receivables within any period as a result of this quality fluctuation. In addition, market forces can drive pricing rates up or down in any period, irrespective of other quality fluctuations. As a result, the average purchase rate paid for any given period can fluctuate dramatically based on our particular buying activity in that period. However, regardless of the average purchase price and for similar time frames, we intend to target a similar internal rate of return, after direct expenses, in pricing our portfolio acquisitions; therefore, the absolute rate paid is not necessarily relevant to estimated profitability of a period s buying.

Income recognized on finance receivables, net is shown net of changes in valuation allowances recognized under ASC 310-30, which requires that a valuation allowance be recorded for significant decreases in expected cash flows or change in timing of cash flows which would otherwise require a reduction in the stated yield on a pool of accounts. For the nine months ended September 30, 2009, we recorded net allowance charges of $18,150,000. For the nine months ended September 30, 2008, we recorded net allowance charges of $10,525,000. In any given period, we may be required to record valuation allowances due to pools of receivables underperforming our expectations. Factors that may contribute to the recording of valuation allowances may include both internal as well as external factors. External factors which may have an impact on the collectability, and subsequently to the overall profitability of purchased pools of defaulted consumer receivables would include: overall market pricing for pools of consumer receivables (which is driven by both supply and demand), new laws or regulations relating to collections, new interpretations of existing laws or regulations, and the overall condition of the economy. Internal factors which may have an impact on the collectability, and subsequently the overall profitability of purchased pools of defaulted consumer receivables would include: necessary revisions to initial and post-acquisition scoring and modeling estimates, non-optimal operational activities (which relates to the collection and movement of accounts on both our collection floor and external channels), as well as decreases in productivity related to turnover and tenure of our collection staff. Due to the extraordinary deterioration of the U.S. economy beginning in the fourth quarter of 2008, our collection efforts have become more challenging, which has exacerbated the typical effects of these external and internal factors. These combined factors have contributed to the $7,625,000 increase in valuation allowances for the nine months ended September 30, 2009 as compared to the prior year period.

*Commissions*

Commissions were $48.2 million for the nine months ended September 30, 2009, an increase of $10.3 million or 27.2% compared to commissions of $37.9 million for the nine months ended September 30, 2008. Commissions grew as a result of the acquisitions of MuniServices on July 1, 2008 and BPA on August 1, 2008, as well as an increase in revenue generated by our RDS government processing and collection business, partially offset by a decrease in revenue generated by our IGS fee-for-service business and our Anchor contingent fee business, which ceased operations in the second quarter of 2008, as compared to the prior year period.

**Operating Expenses**

Total operating expenses were $149.4 million for the nine months ended September 30, 2009, an increase of $17.7 million or 13.4% compared to total operating expenses of $131.7 million for the nine months ended September 30, 2008. Total operating expenses, including compensation and employee services expenses, were 46.5% of cash receipts for the nine months ended September 30, 2009 compared to 46.2% for the same period in 2008.

*Compensation and Employee Services*

Compensation and employee services expenses were $79.9 million for the nine months ended September 30, 2009, an increase of $14.9 million or 22.9% compared to compensation and employee services expenses of $65.0 million for the nine months ended September 30, 2008. This increase is mainly due to the acquisition of MuniServices as well as an overall increase in our owned portfolio collection staff. In addition, in conjunction with the renewal of their employment agreements, our Named Executive Officers and other senior executives were awarded nonvested shares which vested on January 1, 2009. As a result of the vesting of these shares, we recorded stock-based compensation expense in connection with these shares, in the amount of approximately $1.4 million during the first quarter of 2009. This was offset by a reversal $1.4 million of estimated share-based compensation

costs in the third quarter of 2008, that had been accrued in 2007 and 2008 relating to the 2007 Long Term Incentive Program. Compensation and employee services expenses increased as total employees grew 10.8% to 2,146 as of September 30, 2009 from 1,937 as of September 30, 2008. Compensation and employee services expenses as a percentage of cash receipts increased to 24.9% for the nine months ended September 30, 2009 from 22.8% of cash receipts for the same period in 2008.

*Legal and Agency Fees and Costs*

Legal and agency fees and costs expenses were $34.5 million for the nine months ended September 30, 2009, a decrease of $5.0 million or 12.7% compared to legal and agency fees and costs of $39.5 million for the nine months ended September 30, 2008. Of the $5.0 million decrease, $4.9 million was attributable to a decrease in legal fees and costs incurred resulting from accounts referred to both our in house attorneys and outside independent contingent fee attorneys. The remaining $0.1 million decrease was attributable to a decrease in agency fees mainly incurred by our IGS subsidiary. Total outside legal expenses paid to independent contingent fee attorneys for the nine months ended September 30, 2009 were 41.0% of legal cash collections generated by independent contingent fee attorneys compared to 38.5% for the nine months ended September 30, 2008. Outside legal fees and costs paid to independent contingent fee attorneys decreased from $25.4 million for the nine months ended September 30, 2008 to $20.3 million, a decrease of $5.1 million or 20.1%, for the nine months ended September 30, 2009. Additionally, as disclosed previously, we also effectuate legal collections using our own in-house attorneys. Total legal expenses incurred by our in-house attorneys for the nine months ended September 30, 2009 were 18.4% of legal cash collections generated by our in-house attorneys compared to 40.6% for the nine months ended September 30, 2008. Legal fees and costs incurred by our in-house attorneys increased from $2.4 million for the nine months ended September 30, 2008 to $2.6 million, an increase of $0.2 million or 8.3%, for the nine months ended September 30, 2009.

*Outside Fees and Services*

Outside fees and services expenses were $6.9 million for the nine months ended September 30, 2009 and 2008.

*Communications*

Communications expenses were $11.2 million for the nine months ended September 30, 2009, an increase of $3.7 million or 49.3% compared to communications expenses of $7.5 million for the nine months ended September 30, 2008. The increase was mainly due to a growth in mailings due to an increase in special letter campaigns which increased by $3.3 million for the nine months ended September 30, 2009 when compared to the year ago period. The remaining increase was attributable to higher telephone expenses driven by a greater number of defaulted consumer receivables to work, as well as a significant expansion of our automated dialer seats and related calls that are generated by the dialer.

*Rent and Occupancy*

Rent and occupancy expenses were $3.5 million for the nine months ended September 30, 2009, an increase of $0.7 million or 25.0% compared to rent and occupancy expenses of $2.8 million for the nine months ended September 30, 2008. The increase was primarily due to the acquisition of MuniServices and the relocation of our IGS business to another location, as well as increased utility charges.

*Other Operating Expenses*

Other operating expenses were $6.6 million for the nine months ended September 30, 2009, an increase of $1.7 million or 34.7% compared to other operating expenses of $4.9 million for the nine months ended September 30, 2008. The increase was due to increases in various expenses mainly as a result of the addition of MuniServices and BPA when compared to the prior year period. No individual item represents a significant portion of the overall increase.

*Depreciation and Amortization*

Depreciation and amortization expenses were $6.9 million for the nine months ended September 30, 2009, an increase of $1.8 million or 35.3% compared to depreciation and amortization expenses of $5.1 million for the nine months ended September 30, 2008. The increase is mainly due to additional expenses incurred related to the depreciation and amortization of the tangible and intangible assets acquired in the acquisition of MuniServices and the acquisition of the assets of BPA.

**Interest Income**

Interest income was $3,000 for the nine months ended September 30, 2009, a decrease of $64,000 compared to interest income of $67,000 for the nine months ended September 30, 2008. This decrease is the result of lower average invested cash and cash equivalents balances during the nine months ended September 30, 2009 compared to the same period in 2008.

**Interest Expense**

Interest expense was $5.9 million for the nine months ended September 30, 2009, a decrease of $2.3 million compared to interest expense of $8.2 million for the nine months ended September 30, 2008. The decrease was mainly due to a decrease in our weighted average variable interest rate which decreased to 2.67% for the nine months ended September 30, 2009 as compared to 4.77% for the nine months ended September 30, 2008 partially offset by an increase in our average borrowings for the nine months ended September 30, 2009 compared to the same period in 2008.

**Provision for Income Taxes**

Income tax expense was $20.7 million for the nine months ended September 30, 2009, a decrease of $0.9 million or 4.2% compared to income tax expense of $21.6 million for the nine months ended September 30, 2008. The decrease is mainly due to a decrease of 6.7% in income before taxes for the nine months ended September 30, 2009 when compared to the same period in 2008. The effective tax rate for the nine months ended September 30, 2009 was 39.4% compared to 38.4% for the same period in 2008.

**Supplemental Performance Data**

*Owned Portfolio Performance:*

The following tables show certain data related to our owned portfolio. These tables describe the purchase price, cash collections and related multiples. Further, these tables disclose our entire portfolio, the portfolio of purchased bankrupt accounts and our entire portfolio less the impact of our purchased bankrupt accounts. The accounts represented in the purchased bankruptcy tables are those portfolios of accounts that were bankrupt at the time of purchase. This contrasts with accounts that file bankruptcy after we purchase them.

The purchase price multiples for 2005 through 2008 described in the table below are lower than historical multiples in previous years. This trend is primarily, but not entirely related to pricing competition. When competition increases, and or supply decreases so that pricing becomes negatively impacted on a relative basis (total lifetime collections in relation to purchase price), internal rates of return ( IRRs ) tend to trend lower. This was the situation during 2005-2007 and this situation also extended into 2008 to the extent that deals purchased in 2008 were part of forward flow agreements priced in earlier periods.

Additionally however, the way we initially book newly acquired pools of accounts and how we forecast future estimated collections for any given portfolio of accounts has evolved over the years due to a number of factors including the current economic situation. Since our revenue recognition under ASC 310-30 is driven by both the ultimate magnitude of estimated lifetime collections, as well as the timing of those collections, we have progressed towards booking new portfolio purchases using a higher confidence level for both collection amount and pace. Subsequent to the initial booking, as we gain collection experience and comfort with a pool of accounts, we continuously update estimated remaining collections ( ERC ) as time goes on. Since our inception, these processes have tended to cause the ratio of collections to purchase price multiple for any given year of buying to gradually increase over time. As a result, our estimate of lifetime collections to purchase price has shown relatively steady increases as pools have aged. Thus, all factors being equal in terms of pricing, one would naturally tend to see a higher collection to purchase price ratio from a pool of accounts that were six years from purchase than say a pool that was just two years from purchase.

To the extent that lower purchase price multiples are the ultimate result of more competitive pricing and lower IRRs, this will generally lead to higher amortization rates (payments applied to principal as a percentage of cash collections), lower operating margins and ultimately lower profitability. As portfolio pricing becomes more favorable on a relative basis, our profitability will tend to expand. It is important to consider, however, that to the extent we can improve our collection operations by extracting additional cash from a discreet quantity and quality of accounts, and/or by extracting cash at a lower cost structure, we can put upward pressure on the collection to purchase price ratio and also on our operating margins. During 2008 and continuing through the first three quarters of 2009, we made significant enhancements in our analytical abilities, management personnel and automated dialing capabilities, all with the intent to collect more cash at lower cost.

**Entire Portfolio *($ in thousands)***

| Purchase Period | Purchase Price(1) | Life to Date Reserve Allowance (2) | Percentage of Reserve Allowance to Purchase Price (3) | Unamortized Purchase Price Balance at September 30, 2009 (4) | Percentage of Reserve Allowance to Unamortized Purchase Price and Reserve Allowance (5) | Actual Cash Collections Including Cash Sales | Estimated Remaining Collections (6) | Total Estimated Collections (7) | Total Estimated Collections to Purchase Price (8) |
|---|---|---|---|---|---|---|---|---|---|
| 1996 | $ 3,080 | $ 0 | 0% | $ 0 | 0% | $ 9,961 | $ 36 | $ 9,997 | 325% |
| 1997 | $ 7,685 | $ 0 | 0% | $ 0 | 0% | $ 24,872 | $ 102 | $ 24,974 | 325% |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 1998 | $ 11,089 | $ 0 | 0% | $ 0 | 0% | $ 36,139 | $ 174 | $ 36,313 | 327% |
| 1999 | $ 18,898 | $ 0 | 0% | $ 0 | 0% | $ 65,741 | $ 615 | $ 66,356 | 351% |
| 2000 | $ 25,020 | $ 0 | 0% | $ 0 | 0% | $ 107,353 | $ 1,735 | $ 109,088 | 436% |
| 2001 | $ 33,481 | $ 0 | 0% | $ 0 | 0% | $ 161,155 | $ 2,973 | $ 164,128 | 490% |
| 2002 | $ 42,325 | $ 0 | 0% | $ 4 | 0% | $ 176,479 | $ 4,116 | $ 180,595 | 427% |
| 2003 | $ 61,449 | $ 120 | 0% | $ 338 | 26% | $ 230,266 | $ 9,239 | $ 239,505 | 390% |
| 2004 | $ 59,179 | $ 1,385 | 2% | $ 2,400 | 37% | $ 165,896 | $ 15,279 | $ 181,175 | 306% |
| 2005 | $ 143,174 | $ 8,565 | 6% | $ 39,325 | 18% | $ 240,054 | $ 79,080 | $ 319,134 | 223% |
| 2006 | $ 107,762 | $ 11,150 | 10% | $ 43,432 | 20% | $ 140,377 | $ 83,637 | $ 224,014 | 208% |
| 2007 | $ 258,384 | $ 10,705 | 4% | $ 157,986 | 6% | $ 231,094 | $ 282,762 | $ 513,856 | 199% |
| 2008 | $ 275,302 | $ 9,845 | 4% | $ 213,338 | 4% | $ 145,476 | $ 398,339 | $ 543,815 | 198% |
| YTD 2009 | $ 213,791 | $ 0 | 0% | $ 204,056 | 0% | $ 29,123 | $ 453,825 | $ 482,948 | 226% |

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**Purchased Bankruptcy Portfolio** ***($ in thousands)***

| Purchase Period | Purchase Price(1) | Life to Date Reserve Allowance (2) | Reserve Allowance to Purchase Price (3) | Unamortized Purchase Price Balance at September 30, 2009 (4) | Percentage of Reserve Allowance to Unamortized Purchase Price and Reserve Allowance (5) | Actual Cash Collections Including Cash Sales | Estimated Remaining Collections (6) | Total Estimated Collections (7) | Total Estimated Collections to Purchase Price (8) |
|---|---|---|---|---|---|---|---|---|---|
| 1996 | $ 0 | $ 0 | 0% | $ 0 | 0% | $ 0 | $ 0 | $ 0 | 0% |
| 1997 | $ 0 | $ 0 | 0% | $ 0 | 0% | $ 0 | $ 0 | $ 0 | 0% |
| 1998 | $ 0 | $ 0 | 0% | $ 0 | 0% | $ 0 | $ 0 | $ 0 | 0% |
| 1999 | $ 0 | $ 0 | 0% | $ 0 | 0% | $ 0 | $ 0 | $ 0 | 0% |
| 2000 | $ 0 | $ 0 | 0% | $ 0 | 0% | $ 0 | $ 0 | $ 0 | 0% |
| 2001 | $ 0 | $ 0 | 0% | $ 0 | 0% | $ 0 | $ 0 | $ 0 | 0% |
| 2002 | $ 0 | $ 0 | 0% | $ 0 | 0% | $ 0 | $ 0 | $ 0 | 0% |
| 2003 | $ 0 | $ 0 | 0% | $ 0 | 0% | $ 0 | $ 0 | $ 0 | 0% |
| 2004 | $ 7,469 | $ 1,285 | 17% | $ 73 | 95% | $ 13,906 | $ 160 | $ 14,066 | 188% |
| 2005 | $ 29,302 | $ 700 | 2% | $ 1,819 | 28% | $ 40,752 | $ 2,538 | $ 43,290 | 148% |
| 2006 | $ 17,643 | $ 1,410 | 8% | $ 1,265 | 53% | $ 25,104 | $ 4,193 | $ 29,297 | 166% |
| 2007 | $ 78,933 | $ 0 | 0% | $ 49,589 | 0% | $ 50,461 | $ 66,803 | $ 117,264 | 149% |
| 2008 | $ 108,648 | $ 0 | 0% | $ 89,819 | 0% | $ 41,061 | $ 142,297 | $ 183,358 | 169% |
| YTD 2009 | $ 117,349 | $ 0 | 0% | $ 116,731 | 0% | $ 6,206 | $ 243,169 | $ 249,375 | 213% |

**Entire Portfolio Less Purchased Bankruptcy Portfolio** ***($ in thousands)***

| Purchase Period | Purchase Price(1) | Life to Date Reserve Allowance (2) | Reserve Allowance to Purchase Price (3) | Unamortized Purchase Price Balance at September 30, 2009 (4) | Percentage of Reserve Allowance to Unamortized Purchase Price and Reserve Allowance (5) | Actual Cash Collections Including Cash Sales | Estimated Remaining Collections (6) | Total Estimated Collections (7) | Total Estimated Collections to Purchase Price (8) |
|---|---|---|---|---|---|---|---|---|---|
| 1996 | $ 3,080 | $ 0 | 0% | $ 0 | 0% | $ 9,961 | $ 36 | $ 9,997 | 325% |
| 1997 | $ 7,685 | $ 0 | 0% | $ 0 | 0% | $ 24,872 | $ 102 | $ 24,974 | 325% |
| 1998 | $ 11,089 | $ 0 | 0% | $ 0 | 0% | $ 36,139 | $ 174 | $ 36,313 | 327% |
| 1999 | $ 18,898 | $ 0 | 0% | $ 0 | 0% | $ 65,741 | $ 615 | $ 66,356 | 351% |
| 2000 | $ 25,020 | $ 0 | 0% | $ 0 | 0% | $ 107,353 | $ 1,735 | $ 109,088 | 436% |
| 2001 | $ 33,481 | $ 0 | 0% | $ 0 | 0% | $ 161,155 | $ 2,973 | $ 164,128 | 490% |
| 2002 | $ 42,325 | $ 0 | 0% | $ 4 | 0% | $ 176,479 | $ 4,116 | $ 180,595 | 427% |
| 2003 | $ 61,449 | $ 120 | 0% | $ 338 | 26% | $ 230,266 | $ 9,239 | $ 239,505 | 390% |
| 2004 | $ 51,710 | $ 100 | 0% | $ 2,327 | 4% | $ 151,990 | $ 15,119 | $ 167,109 | 323% |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 2005 | $113,872 | $ 7,865 | 7% | $ 37,506 | 17% | $199,302 | $ 76,542 | $275,844 | 242% |
| 2006 | $ 90,119 | $ 9,740 | 11% | $ 42,167 | 19% | $115,273 | $ 79,444 | $194,717 | 216% |
| 2007 | $179,451 | $10,705 | 6% | $ 108,397 | 9% | $180,633 | $215,959 | $396,592 | 221% |
| 2008 | $166,654 | $ 9,845 | 6% | $ 123,519 | 7% | $104,415 | $256,042 | $360,457 | 216% |
| YTD 2009 | $ 96,442 | $ 0 | 0% | $ 87,325 | 0% | $ 22,917 | $210,656 | $233,573 | 242% |

(1) Purchase price refers to the cash paid to a seller to acquire defaulted consumer receivables, plus certain capitalized costs, less the purchase price refunded by the seller due to the return of non-compliant accounts (also defined as buybacks). Non-compliant refers to the contractual representations and warranties provided for in the purchase and sale contract between the seller and us. These representations and warranties from the sellers generally cover account holders death or bankruptcy and accounts settled or disputed prior to sale. The seller can replace or repurchase these accounts.

(2) Life to date reserve allowance refers to the total amount of allowance charges incurred on our owned portfolios net of any reversals.

(3) Percentage of reserve allowance to purchase price refers to the total amount of allowance charges incurred on our owned portfolios net of any reversals, divided by the purchase price.

(4) Unamortized purchase price balance refers to the purchase price less finance receivable amortization over the life of the portfolio.

(5) Percentage of reserve allowance to unamortized purchase price and reserve allowance refers to the total amount of allowance charges incurred on our owned portfolios net of any reversals, divided by the

sum of the unamortized purchase price and the life to date reserve allowance.

(6) Estimated remaining collections refers to the sum of all future projected cash collections on our owned portfolios.

(7) Total estimated collections refers to the actual cash collections, including cash sales, plus estimated remaining collections.

(8) Total estimated collections to purchase price refers to the total estimated collections divided by the purchase price.

The following table shows our net valuation allowances booked since we began accounting for our investment in finance receivables under the guidance of ASC 310-30.

($ in thousands)

| **Allowance** | | | | | | **Purchase Period** | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Period (1)** | **1996-2000** | **2001** | **2002** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **YTD 2009** | **Total** |
| Q1 05 | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| Q2 05 | | | | | | | | | | | $ |
| Q3 05 | | | | | | | | | | | $ |
| Q4 05 | | 200 | | | | | | | | | $ 200 |
| Q1 06 | | | | | | 175 | | | | | $ 175 |
| Q2 06 | | 75 | | | | 125 | | | | | $ 200 |
| Q3 06 | | 200 | | | | 75 | | | | | $ 275 |
| Q4 06 | | | | | | 450 | | | | | $ 450 |
| Q1 07 | | (245) | | | | 610 | | | | | $ 365 |
| Q2 07 | | 70 | | 20 | | | | | | | $ 90 |
| Q3 07 | | 50 | | 150 | 320 | 660 | | | | | $ 1,180 |
| Q4 07 | | | | 190 | 150 | 615 | 340 | | | | $ 1,295 |
| Q1 08 | | | | 120 | 650 | 910 | 1,105 | | | | $ 2,785 |
| Q2 08 | | (140) | | 400 | 720 | | 2,330 | 650 | | | $ 3,960 |
| Q3 08 | | (30) | | (60) | 60 | 325 | 1,135 | 2,350 | | | $ 3,780 |
| Q4 08 | | (75) | | (325) | (140) | 1,805 | 2,600 | 4,380 | 620 | | $ 8,865 |
| Q1 09 | | (105) | | (120) | 35 | 1,150 | 910 | 2,300 | 2,050 | | $ 6,220 |
| Q2 09 | | | | (230) | (220) | 495 | 765 | 685 | 2,425 | | $ 3,920 |
| Q3 09 | | | | (25) | (190) | 1,170 | 1,965 | 340 | 4,750 | | $ 8,010 |
| Total | $ | $ | $ | $ 120 | $1,385 | $8,565 | $11,150 | $10,705 | $9,845 | $ | $41,770 |

(1) Allowance period represents the quarter in which we recorded valuation allowances, net of any (reversals).

The following graph shows the purchase price of our owned portfolios by year beginning in 1996 and includes the year to date acquisition amount for the nine months ended September 30, 2009. The purchase price number represents the cash paid to the seller to acquire defaulted consumer receivables, plus certain capitalized costs, less the purchase price refunded by the seller due to the return of non-compliant accounts.

**Portfolio Purchases by Year**

We utilize a long-term approach to collecting our owned pools of receivables. This approach has historically caused us to realize significant cash collections and revenues from purchased pools of finance receivables years after they are originally acquired. As a result, we have in the past been able to reduce our level of current period acquisitions without a corresponding negative current period impact on cash collections and revenue.

The following table, which excludes any proceeds from cash sales of finance receivables, demonstrates our ability to realize significant multi-year cash collection streams on our owned pools:

**Cash Collections By Year, By Year of Purchase    Entire Portfolio**

| Cash Collection Period | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **1996** | **1997** | **1998** | **1999** | **2000** | **2001** | **2002** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** |
| $548 | $2,484 | $ 1,890 | $ 1,348 | $ 1,025 | $ 730 | $ 496 | $ 398 | $ 285 | $ 210 | $ 237 | $ 102 | $ 83 |
| | 2,507 | 5,215 | 4,069 | 3,347 | 2,630 | 1,829 | 1,324 | 1,022 | 860 | 597 | 437 | 346 |
| | | 3,776 | 6,807 | 6,398 | 5,152 | 3,948 | 2,797 | 2,200 | 1,811 | 1,415 | 882 | 616 |
| | | | 5,138 | 13,069 | 12,090 | 9,598 | 7,336 | 5,615 | 4,352 | 3,032 | 2,243 | 1,533 |
| | | | | 6,894 | 19,498 | 19,478 | 16,628 | 14,098 | 10,924 | 8,067 | 5,202 | 3,604 |
| | | | | | 13,048 | 28,831 | 28,003 | 26,717 | 22,639 | 16,048 | 10,011 | 6,164 |
| | | | | | | 15,073 | 36,258 | 35,742 | 32,497 | 24,729 | 16,527 | 9,772 |
| | | | | | | | 24,308 | 49,706 | 52,640 | 43,728 | 30,695 | 18,818 |
| | | | | | | | | 18,019 | 46,475 | 40,424 | 30,750 | 19,339 |
| | | | | | | | | | 18,968 | 75,145 | 69,862 | 49,576 |
| | | | | | | | | | | 22,971 | 53,192 | 40,560 |
| | | | | | | | | | | | 42,263 | 115,011 |
| | | | | | | | | | | | | 61,277 |
| $548 | $4,991 | $10,881 | $17,362 | $30,733 | $53,148 | $79,253 | $117,052 | $153,404 | $191,376 | $236,393 | $262,166 | $326,699 |

**Cash Collections By Year, By Year of Purchase    Purchased Bankruptcy only Portfolio**

| Cash Collection Period | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **1996** | **1997** | **1998** | **1999** | **2000** | **2001** | **2002** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** |
| $ | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| | | | | | | | | | | | | |
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| | | | | | | | | | | | | |
| | | | | | | | | 743 | 4,554 | 3,956 | 2,777 | 1,455 |
| | | | | | | | | | 3,777 | 15,500 | 11,934 | 6,845 |
| | | | | | | | | | | 5,608 | 9,455 | 6,522 |
| | | | | | | | | | | | 2,850 | 27,972 |
| | | | | | | | | | | | | 14,024 |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| $ | $ | $ | $ | $ | $ | $ | $ | $ 743 | $ 8,331 | $ 25,064 | $ 27,016 | $ 56,818 |

**Cash Collections By Year, By Year of Purchase   Entire Portfolio less Purchased Bankruptcy Portfolio**

| Cash Collection Period | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **1996** | **1997** | **1998** | **1999** | **2000** | **2001** | **2002** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** |
| $548 | $2,484 | $ 1,890 | $ 1,348 | $ 1,025 | $ 730 | $ 496 | $ 398 | $ 285 | $ 210 | $ 237 | $ 102 | $ 83 |
| | 2,507 | 5,215 | 4,069 | 3,347 | 2,630 | 1,829 | 1,324 | 1,022 | 860 | 597 | 437 | 346 |
| | | 3,776 | 6,807 | 6,398 | 5,152 | 3,948 | 2,797 | 2,200 | 1,811 | 1,415 | 882 | 616 |
| | | | 5,138 | 13,069 | 12,090 | 9,598 | 7,336 | 5,615 | 4,352 | 3,032 | 2,243 | 1,533 |
| | | | | 6,894 | 19,498 | 19,478 | 16,628 | 14,098 | 10,924 | 8,067 | 5,202 | 3,604 |
| | | | | | 13,048 | 28,831 | 28,003 | 26,717 | 22,639 | 16,048 | 10,011 | 6,164 |
| | | | | | | 15,073 | 36,258 | 35,742 | 32,497 | 24,729 | 16,527 | 9,772 |
| | | | | | | | 24,308 | 49,706 | 52,640 | 43,728 | 30,695 | 18,818 |
| | | | | | | | | 17,276 | 41,921 | 36,468 | 27,973 | 17,884 |
| | | | | | | | | | 15,191 | 59,645 | 57,928 | 42,731 |
| | | | | | | | | | | 17,363 | 43,737 | 34,038 |
| | | | | | | | | | | | 39,413 | 87,039 |
| | | | | | | | | | | | | 47,253 |
| $548 | $4,991 | $10,881 | $17,362 | $30,733 | $53,148 | $79,253 | $117,052 | $152,661 | $183,045 | $211,329 | $235,150 | $269,881 |

When we acquire a new pool of finance receivables, our estimates typically result in an 84 - 96 month projection of cash collections. The following chart shows our historical cash collections (including cash sales of finance receivables) in relation to the aggregate of the total estimated collection projections made at the time of each respective pool purchase, adjusted for buybacks.

*Owned Portfolio Personnel Performance:*

We measure the productivity of each collector each month, breaking results into groups of similarly tenured collectors. The following two tables display various productivity measures that we track.

**Collector by Tenure**

| Collector FTE at: | **12/31/05** | **12/31/06** | **12/31/07** | **12/31/08** | **09/30/08** | **09/30/09** |
|---|---|---|---|---|---|---|
| One year + [1] | 327 | 340 | 327 | 452 | 410 | 604 |
| Less than one year [2] | 364 | 375 | 553 | 739 | 631 | 585 |
| Total [2] | 691 | 715 | 880 | 1,191 | 1,041 | 1,189 |

1 Calculated based on actual employees (collectors) with one year of service or more.

2 Calculated using total hours worked by all collectors, including those in training to produce a full time equivalent FTE .

**YTD Cash Collections per Hour Paid** [1]

| Average performance YTD | **12/31/05** | **12/31/06** | **12/31/07** | **12/31/08** | **09/30/08** | **09/30/09** |
|---|---|---|---|---|---|---|
| Total cash collections | $133.39 | $146.03 | $135.77 | $131.29 | $134.23 | $144.69 |
| Non-legal cash collections [2] | $ 89.25 | $ 99.06 | $ 91.93 | $ 96.95 | $ 98.10 | $117.75 |
| Non-bk cash collections [3] | $128.02 | $132.15 | $123.10 | $109.82 | $113.89 | $115.02 |

1 Cash collections (assigned and unassigned) divided by total hours paid (including holiday, vacation and sick time) to all collectors (including those in training).

2 Represents total cash collections less legal cash collections.

3 Represents total cash collections less bankruptcy cash collections. 2008 statistics are slightly different than those reported previously as a result of a change in the computation methodology.

Cash collections have substantially exceeded revenue in each quarter since our formation. The following chart illustrates the consistent excess of our cash collections on our owned portfolios over the income recognized on finance receivables, net on a quarterly basis. The difference between cash collections and income recognized is referred to as payments applied to principal. It is also referred to as finance receivable amortization. This finance receivable amortization is the portion of cash collections that is used to recover the cost of the portfolio investment represented on the balance sheet.

(1) Includes cash collections on finance receivables only. Excludes commission fees and cash proceeds from sales of defaulted consumer receivables.

**Seasonality**

We depend on the ability to collect on our owned and serviced defaulted consumer receivables. Cash collections tend to be higher in the first and second quarters of the year and lower in the third and fourth quarters of the year, due to consumer payment patterns in connection with seasonal employment trends, income tax refunds and holiday spending habits. Historically, our growth has partially masked the impact of this cash collections seasonality.

(1) Includes cash collections on finance receivables only. Excludes commission fees and cash proceeds from sales of defaulted consumer receivables.

The following table displays our quarterly cash collections by source, for the periods indicated.

| Cash Collection Source ($ in thousands) | Q32009 | Q22009 | Q12009 | Q42008 | Q32008 | Q22008 | Q12008 | Q42007 | Q32007 |
|---|---|---|---|---|---|---|---|---|---|
| Call Center & Other Collections | $48,590 | $50,052 | $50,914 | $41,268 | $43,949 | $46,892 | $44,883 | $35,551 | $36,001 |
| External Legal Collections | 15,330 | 16,527 | 17,790 | 18,424 | 21,590 | 22,471 | 21,880 | 20,861 | 21,384 |
| Internal Legal Collections | 6,196 | 4,263 | 3,539 | 2,652 | 2,106 | 1,947 | 1,819 | 1,443 | 1,449 |
| Purchased Bankruptcy Collections | 22,251 | 19,637 | 17,628 | 16,904 | 15,362 | 13,732 | 10,820 | 7,245 | 6,317 |

The following table shows the changes in finance receivables, including the amounts paid to acquire new portfolios (amounts in thousands).

| | Three Months Ended September 30, 2009 | Three Months Ended September 30, 2008 | Nine Months Ended September 30, 2009 | Nine Months Ended September 30, 2008 |
|---|---|---|---|---|
| Balance at beginning of period | $ 624,592 | $ 515,367 | $ 563,830 | $ 410,297 |
| Acquisitions of finance receivables, net of buybacks (1) | 74,318 | 50,333 | 210,116 | 214,172 |
| Cash collections applied to principal on finance receivables (2) | (38,031) | (30,270) | (113,067) | (89,039) |
| Balance at end of period | $ 660,879 | $ 535,430 | $ 660,879 | $ 535,430 |
| Estimated Remaining Collections ( ERC(3)) | $ 1,331,912 | $ 1,085,000 | $ 1,331,912 | $ 1,085,000 |

(1) Agreements to purchase receivables typically include general representations and warranties from the sellers covering account holders death or bankruptcy and accounts settled or disputed prior to sale. The seller can replace or

repurchase these accounts. We refer to repurchased accounts as buybacks. We also capitalize certain acquisition related costs.

(2) Cash collections applied to principal (also referred to as finance receivable amortization) on finance receivables consists of cash collections less income recognized on finance receivables, net.

(3) Estimated Remaining Collections refers to the sum of all future projected cash collections on our owned portfolios. ERC is not a balance sheet item; however, it is provided here for informational purposes.

The following table categorizes our life to date owned portfolios at September 30, 2009 into the major asset types represented (amounts in thousands):

| | **Life to Date Purchased Face Value of Defaulted Consumer** |
|---|---|

| **Asset Type** | **No. of Accounts** | **%** | **Receivables[1]** | **%** |
|---|---|---|---|---|
| Major Credit Cards | 12,979 | 60.5% | $ 34,140,315 | 74.2% |
| Consumer Finance | 5,101 | 23.8% | 5,002,391 | 10.9% |
| Private Label Credit Cards | 2,901 | 13.5% | 3,784,354 | 8.2% |
| Auto Deficiency | 487 | 2.2% | | |

| | | | | | |
|---|---|---|---|---|---|
| Debt | $ 3,785 | $ | $ 1,301 | (D) | $ 5,086 |
| Other liabilities | 205 | 124 | 71 | (B) | 394 |
| | | | (6) | (D) | |
| Total liabilities | 3,990 | 124 | 1,366 | | 5,480 |
| Stockholders' equity | 5,218 | 4,408 | (1,221) | (B) | 6,904 |
| | | | (1,474) | (C) | |
| | | | (27) | (D) | |
| Total liabilities and stockholders' equity | $ 9,208 | $ 4,532 | $ (1,356) | | $ 12,384 |
| Total shares outstanding | 313,954,008 | 216,066,309 | 111,053,353 | | 425,007,361 |
| Net assets per share | $ 16.62 | $ 20.40 | | | $ 16.24 |

See accompanying notes to the unaudited pro forma condensed consolidated financial statements.

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**Ares Capital Corporation and Subsidiaries**
**Pro Forma Condensed Consolidated Statement of Operations**
**For the Six Months Ended June 30, 2016**
**Unaudited**
**(in millions, except share and per share data)**

| | Actual Ares Capital | Actual American Capital | Pro Forma Adjustments | | Pro Forma Ares Capital Combined |
|---|---|---|---|---|---|
| **Performance Data:** | | | | | |
| Interest and dividend income | $ 448 | $ 270 | $ (57) | (E) | $ 661 |
| Fees and other income | 45 | 34 | (6) | (E) | 73 |
| Total investment income | 493 | 304 | (63) | | 734 |
| Interest and credit facility fees | 96 | 30 | (21) | (F) | 122 |
| | | | 17 | (F) | |
| Base management fees | 69 | 4 | 24 | (G) | 97 |
| Income based fees | 58 | | (4) | (H) | 54 |
| Capital gains incentive fees | 14 | | | (H) | 14 |
| Other expenses | 29 | 105 | (61) | (I) | 73(L) |
| Total expenses | 266 | 139 | (45) | | 360 |
| Net investment income before taxes | 227 | 165 | (18) | | 374 |
| Income taxes | 9 | 45 | (45) | (J) | 9 |
| Net investment income | 218 | 120 | 27 | | 365 |
| Net realized gains | 58 | 103 | (16) | (J) | 145 |
| Net unrealized gains (losses) | 13 | (197) | 139 | (E) | (97) |
| | | | (52) | (J) | |
| Net realized and unrealized gains (losses) | 71 | (94) | 71 | | 48 |
| Net increase in stockholders' equity | $ 289 | $ 26 | $ 98 | | $ 413 |
| Weighted average shares outstanding | 314,123,517 | 225,817,418 | 111,053,353 | (K) | 425,176,870 |
| Earnings per share | $ 0.92 | $ 0.12 | | | $ 0.97 |

See accompanying notes to the unaudited pro forma condensed consolidated financial statements.

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**Ares Capital Corporation and Subsidiaries**
**Pro Forma Condensed Consolidated Statement of Operations**
**For the Year Ended December 31, 2015**
**Unaudited**
**(in millions, except share and per share data)**

| | Actual Ares Capital | Actual American Capital | Pro Forma Adjustments | | Pro Forma Ares Capital Combined |
|---|---|---|---|---|---|
| **Performance Data:** | | | | | |
| Interest and dividend income | $ 891 | $ 607 | $ (108) | (E) | $ 1,390 |
| Fees and other income | 134 | 64 | (8) | (E) | 190 |
| Total investment income | 1,025 | 671 | (116) | | 1,580 |
| Interest and credit facility fees | 227 | 79 | (43) | (F) | 297 |
| | | | 34 | (F) | |
| Base management fees | 134 | 13 | 76 | (G) | 223 |
| Income based fees | 121 | | (15) | (H) | 106 |
| Capital gains incentive fees | (27) | | | (H) | (27) |
| Other expenses | 44 | 201 | (89) | (I) | 156(L) |
| Total expenses | 499 | 293 | (37) | | 755 |
| Net investment income before taxes | 526 | 378 | (79) | | 825 |
| Income taxes | 18 | 125 | (125) | (J) | 18 |
| Net investment income | 508 | 253 | 46 | | 807 |
| Net realized gains (losses) | 128 | (627) | (64) | (J) | (563) |
| Net unrealized gains (losses) | (246) | 187 | 162 | (E) | 221 |
| | | | 118 | (J) | |
| Net realized and unrealized losses | (118) | (440) | 216 | | (342) |
| Loss on extinguishment of debt | (10) | | | | (10) |
| Net increase (decrease) in stockholders' equity | $ 380 | $ (187) | $ 262 | | $ 455 |
| Weighted average shares outstanding | 314,375,099 | 267,192,057 | 111,053,353 | (K) | 425,428,452 |
| Earnings (loss) per share | $ 1.20 | $ (0.70) | | | $ 1.07 |

See accompanying notes to the unaudited pro forma condensed consolidated financial statements.

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**Ares Capital Corporation and Subsidiaries**

**Pro Forma Schedule of Investments**
**Unaudited**
**As of June 30, 2016**
**(Dollar Amounts in Millions)**

| | | | Ares Capital | | American Capital | | Pro Forma Ares Capital | |
|---|---|---|---|---|---|---|---|---|
| **Company** | **Business Description** | **Investment** | **Cost** | **Fair Value** | **Cost** | **Fair Value** | **Cost** | **Fair Value** |
| **Investment Funds and Vehicles** | | | | | | | | |
| ACAS CLO 2007-1, Ltd. | Investment company | Secured notes (due 4/21) | | | $ 8.4 | $ 8.3 | $ 8.4 | $ 8.3 |
| | Investment company | Subordinated notes (due 4/21) | | | 12.7 | 11.3 | 12.7 | 11.3 |
| ACAS Wachovia Investments, L.P.(4) | Investment partnership | Partnership interest | | | 1.8 | 0.4 | 1.8 | 0.4 |
| Apidos CLO XVIII, Ltd. | Investment company | Subordinated notes (due 7/26) | | | 31.7 | 20.4 | 31.7 | 20.4 |
| Apidos CLO XXI | Investment company | Subordinated notes (due 6/27) | | | 10.7 | 9.5 | 10.7 | 9.5 |
| Ares IIIR/IVR CLO Ltd. | Investment company | Subordinated notes (due 4/21) | | | 11.1 | 3.4 | 11.1 | 3.4 |
| Babson CLO Ltd. 2006-II | Investment company | Income notes (due 10/20) | | | 2.7 | | 2.7 | |
| Babson CLO Ltd. 2013-II | Investment company | Income notes (due 1/25) | | | 3.6 | 2.9 | 3.6 | 2.9 |
| Babson CLO Ltd. 2014-I | Investment company | Subordinated notes (due 7/25) | | | 6.0 | 4.0 | 6.0 | 4.0 |
| Babson CLO Ltd. 2014-II | Investment company | Subordinated notes (due 9/26) | | | 19.2 | 8.9 | 19.2 | 8.9 |
| Blue Hill CLO, Ltd. | Investment company | Subordinated notes (due 1/26) | | | 17.1 | 7.8 | 17.1 | 7.8 |
| Blue Wolf Capital Fund II, L.P. | Investment partnership | Limited partnership interest | | | 9.0 | 8.6 | 9.0 | 8.6 |
| Carlyle Global Market Strategies CLO 2013-3, Ltd. | Investment company | Subordinated notes (due 7/25) | | | 3.3 | 2.9 | 3.3 | 2.9 |
| Carlyle Global Market Strategies CLO 2015-3, Ltd. | Investment company | Subordinated notes (due 7/28) | | | 23.8 | 21.3 | 23.8 | 21.3 |
| Cent CDO 12 Limited | Investment company | Income notes (due 11/20) | | | 14.2 | 26.8 | 14.2 | 26.8 |
| Cent CLO 22 Limited | Investment company | Subordinated notes (due 11/26) | | | 35.5 | 16.8 | 35.5 | 16.8 |
| Cent CLO 24 Limited | Investment company | Subordinated notes (due 10/26) | | | 23.9 | 18.3 | 23.9 | 18.3 |
| Centurion CDO 8 Limited | Investment company | Subordinated notes (due 3/17) | | | 0.2 | | 0.2 | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| CoLTs 2005-1 Ltd. | Investment company | Preference shares (360 shares, due 12/16) | | | 1.7 | 0.1 | 1.7 | 0.1 |
| CoLTs 2005-2 Ltd. | Investment company | Preference shares (34,170,000 shares, due 12/18) | | | 11.0 | 0.6 | 11.0 | 0.6 |
| Covestia Capital Partners, LP | Investment partnership | Limited partnership interest | $ 0.5 | $ 1.9 | | | 0.5 | 1.9 |
| CREST Exeter Street Solar 2004-1 | Investment company | Preferred securities (3,500,000 shares, due 6/39) | | | 3.2 | | 3.2 | |
| Dryden 40 Senior Loan Fund | Investment company | Subordinated notes (due 8/28) | | | 8.1 | 7.1 | 8.1 | 7.1 |
| Eaton Vance CDO X plc | Investment company | Secured subordinated notes (due 2/27) | | | 11.1 | 5.0 | 11.1 | 5.0 |
| European Capital Private Debt LP(4) | Investment partnership | Partnership interest | | | 97.7 | 102.2 | 97.7 | 102.2 |
| European Capital UK SME Debt LP(4) | Investment partnership | Partnership interest | | | 11.5 | 11.4 | 11.5 | 11.4 |
| Flagship CLO V | Investment company | Deferrable notes (due 9/19) | | | 1.5 | 1.7 | 1.5 | 1.7 |
| | | Subordinated securities (15,000 shares, due 9/19) | | | 7.0 | 0.6 | 7.0 | 0.6 |
| GoldenTree Loan Opportunities VII, Limited | Investment company | Subordinated notes (due 4/25) | | | 29.6 | 21.4 | 29.6 | 21.4 |

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| | | | Ares Capital | | American Capital | | Pro Forma Ares Capital | |
|---|---|---|---|---|---|---|---|---|
| Company | Business Description | Investment | Cost | Fair Value | Cost | Fair Value | Cost | Fair Value |
| Halcyon Loan Advisors Funding 2014-1 Ltd. | Investment company | Subordinated notes (due 2/26) | | | 0.9 | 0.4 | 0.9 | 0.4 |
| Halcyon Loan Advisors Funding 2015-2, Ltd. | Investment company | Subordinated notes (due 7/27) | | | 18.5 | 15.2 | 18.5 | 15.2 |
| HCI Equity, LLC(4) | Investment company | Member interest | | 0.1 | | | | 0.1 |
| Herbert Park B.V. | Investment company | Subordinated notes (due 10/26) | | | 25.4 | 18.7 | 25.4 | 18.7 |
| Imperial Capital Private Opportunities, LP | Investment partnership | Limited partnership interest | 4.1 | 15.4 | | | 4.1 | 15.4 |
| LightPoint CLO IV, LTD | Investment company | Income notes (due 4/18) | | | 3.6 | | 3.6 | |
| LightPoint CLO VII, Ltd. | Investment company | Subordinated notes (due 5/21) | | | 2.5 | 1.4 | 2.5 | 1.4 |
| Madison Park Funding XII, Ltd. | Investment company | Subordinated notes (due 7/26) | | | 8.1 | 6.7 | 8.1 | 6.7 |
| Madison Park Funding XIII, Ltd. | Investment company | Subordinated notes (due 1/25) | | | 24.2 | 19.2 | 24.2 | 19.2 |
| Montgomery Lane, LLC(4) | Holding company for RMBS securities | Common membership units (100 units) | | | | 3.8 | | 3.8 |
| NYLIM Flatiron CLO 2006-1 LTD. | Investment company | Subordinated securities (10,000 shares, due 8/20) | | | 4.4 | 2.7 | 4.4 | 2.7 |
| Och Ziff Loan Management XIII, Ltd. | Investment company | Subordinated notes (due 7/27) | | | 13.1 | 12.0 | 13.1 | 12.0 |
| Octagon Investment Partners XIX, Ltd. | Investment company | Subordinated notes (due 4/26) | | | 17.7 | 13.2 | 17.7 | 13.2 |
| Octagon Investment Partners XVIII, Ltd. | Investment company | Subordinated notes (due 12/24) | | | 12.0 | 8.3 | 12.0 | 8.3 |
| OHA Credit Partners XI, Ltd. | Investment company | Subordinated notes (due 10/28) | | | 30.4 | 27.3 | 30.4 | 27.3 |
| Partnership Capital Growth Fund I, L.P. | Investment partnership | Limited partnership interest | | 0.4 | | | | 0.4 |
| Partnership Capital Growth Investors III, L.P. | Investment partnership | Limited partnership interest | 2.5 | 2.7 | | | 2.5 | 2.7 |
| PCG-Ares Sidecar Investment II, L.P. | Investment partnership | Limited partnership interest | 6.6 | 10.3 | | | 6.6 | 10.3 |
| PCG-Ares Sidecar Investment, L.P. | Investment partnership | Limited partnership interest | 2.2 | 1.6 | | | 2.2 | 1.6 |
| Piper Jaffray Merchant Banking Fund I, L.P. | Investment partnership | Limited partnership interest | 1.6 | 1.8 | | | 1.6 | 1.8 |
| Qualium I | Investment company/parternship | Common stock (249,414 shares) | | | 5.3 | 5.0 | 5.3 | 5.0 |
| Sapphire Valley CDO I, Ltd. | Investment company | Subordinated notes (due 12/22) | | | 18.7 | 10.0 | 18.7 | 10.0 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Senior Secured Loan Fund LLC(4) | Co-investment vehicle | Subordinated certificates (due 12/24) | 1,938.4 | 1,899.8 | | | 1,938.4 | 1,899.8 |
| | | Member interest (87.5% interest) | | | | | | |
| THL Credit Wind River 2014-2 CLO Ltd. | Investment company | Income notes (due 7/26) | | | 9.6 | 8.2 | 9.6 | 8.2 |
| Vitesse CLO, Ltd. | Investment company | Preferred securities (20,000,000 shares, due 8/20) | | | 11.9 | | 11.9 | |
| Voya CLO 2014-4, Ltd. | Investment company | Subordinated notes (due 10/26) | | | 22.3 | 16.5 | 22.3 | 16.5 |
| VSC Investors LLC | Investment company | Membership interest | 0.3 | 1.1 | | | 0.3 | 1.1 |
| **Total** | | | **1,956.2** | **1,935.1** | **645.9** | **490.3** | **2,602.1** | **2,425.4** |
| **Business Services** | | | | | | | | |
| 2329497 Ontario Inc. | Outsourced data center infrastructure and related services provider | Junior secured loan (10.5%, due 6/19) | 43.0 | 29.5 | | | 43.0 | 29.5 |

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| | | | Ares Capital | | American Capital | | Pro Forma Ares Capital | |
|---|---|---|---|---|---|---|---|---|
| **Company** | **Business Description** | **Investment** | **Cost** | **Fair Value** | **Cost** | **Fair Value** | **Cost** | **Fair Value** |
| Accruent, LLC and Athena Parent, Inc. | Real estate and facilities management software provider | Junior secured loan (10.8%, due 11/22) | 42.5 | 42.5 | | | 42.5 | 42.5 |
| | | Common stock (3,000 shares) | 3.0 | 3.0 | | | 3.0 | 3.0 |
| BeyondTrust Software, Inc. | Provider of privileged account management and vulnerability management software solutions | Senior secured loan (8.0%, due 9/19) | | | 29.6 | 28.7 | 29.6 | 28.7 |
| Blue Topco GmbH(4) | Web sheet and sheet fed printing facilities | Senior secured loan (5.0%, due 6/19)(2) | | | 2.4 | 2.3 | 2.4 | 2.3 |
| | | Senior subordinated loan (due 6/19)(3) | | | 7.1 | 8.2 | 7.1 | 8.2 |
| BluePay Processing, LLC | Technology-enabled payment processing solutions provider | Junior secured loan (9.5%, due 8/22) | | | 32.8 | 32.8 | 32.8 | 32.8 |
| Brandtone Holdings Limited | Mobile communications and marketing services provider | Senior secured loan (9.5%, due 11/18) | 4.7 | 4.6 | | | 4.7 | 4.6 |
| | | Senior secured loan (9.5%, due 1/19) | 3.1 | 3.0 | | | 3.1 | 3.0 |
| | | Warrant to purchase up to 184,003 units of Series Three participating convertible preferred shares | | | | | | |
| CallMiner, Inc. | Provider of cloud-based conversational analytics solutions | Junior secured loan (10.5%, due 5/18) | 2.8 | 2.8 | | | 2.8 | 2.8 |
| | | Junior secured loan (10.5%, due 9/18) | 1.6 | 1.6 | | | 1.6 | 1.6 |
| | | Warrant to purchase up to 2,350,636 shares of Series 1 preferred stock | | | | | | |
| Cast & Crew Payroll, LLC | Payroll and accounting services provider to the entertainment industry | Junior secured loan (8.8%, due 8/23) | | | 35.7 | 33.8 | 35.7 | 33.8 |
| CIBT Holdings, Inc. and CIBT Investment Holdings, LLC | Expedited travel document processing services | Class A shares (2,500 shares) | 2.5 | 5.5 | | | 2.5 | 5.5 |
| CMW Parent LLC (fka Black Arrow, Inc.) | Multiplatform media firm | Series A units (32 units) | | | | | | |
| Columbo TopCo Limited(4) | Outsourced compliance consulting and software provider | Common stock (745,352 shares) | | | 1.0 | | 1.0 | |
| | | Redeemable preferred stock (34,028,135 shares) | | | 71.9 | 43.0 | 71.9 | 43.0 |
| Command Alkon, Incorporated and CA Note Issuer, LLC | Software solutions provider to the ready-mix concrete industry | Junior secured loan (9.3%, due 8/20) | 10.0 | 10.0 | | | 10.0 | 10.0 |
| | | Junior secured loan (9.3%, due 8/20) | 11.5 | 11.5 | | | 11.5 | 11.5 |
| | | Junior secured loan (9.3%, due 8/20) | 26.5 | 26.5 | | | 26.5 | 26.5 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Senior subordinated loan (14.0%, due 8/21)(2) | 21.8 | 21.8 | | | 21.8 | 21.8 |
| Compusearch Software Systems, Inc. | E-procurement and contract management solutions for the Federal marketplace | Junior secured loan (9.8%, due 11/21) | | | 51.0 | 51.0 | 51.0 | 51.0 |

| Company | Business Description | Investment | Ares Capital Cost | Ares Capital Fair Value | American Capital Cost | American Capital Fair Value | Pro Forma Ares Capital Cost | Pro Forma Ares Capital Fair Value |
|---|---|---|---|---|---|---|---|---|
| Compuware Parent, LLC | Web and mobile cloud performance testing and monitoring services provider | Class A-1 common stock (4,132 units) | 2.3 | 2.1 | | | 2.3 | 2.1 |
| | | Class B-1 common stock (4,132 units) | 0.5 | 0.4 | | | 0.5 | 0.4 |
| | | Class C-1 common stock (4,132 units) | 0.3 | 0.3 | | | 0.3 | 0.3 |
| | | Class A-2 common stock (4,132 units) | | | | | | |
| | | Class B-2 common stock (4,132 units) | | | | | | |
| | | Class C-2 common stock (4,132 units) | | | | | | |
| Convergint Technologies, LLC | Service-based integrator of Electronic Security, Fire Alarm & Life Safety, Healthcare Technologies, Communications and Building Automation | Junior secured loan (9.0%, due 12/17-12/20) | | | 94.0 | 94.0 | 94.0 | 94.0 |
| Datapipe, Inc. | Provider of outsourced IT solutions | Junior secured loan (8.5%, due 9/19) | | | 29.2 | 29.0 | 29.2 | 29.0 |
| Directworks, Inc. and Co-Exprise Holdings, Inc. | Provider of cloud-based software solutions for direct materials sourcing and supplier management for manufacturers | Senior secured loan (10.3%, due 4/18) | 1.9 | 2.0 | | | 1.9 | 2.0 |
| | | Warrant to purchase up to 1,875,000 shares of Series 1 preferred stock | | | | | | |
| DTI Holdco, Inc. and OPE DTI Holdings, Inc. | Provider of legal process outsourcing and managed services | Senior secured loan (5.8%, due 8/20) | 1.0 | 1.0 | | | 1.0 | 1.0 |
| | | Class A common stock (7,500 shares) | 7.5 | 3.6 | | | 7.5 | 3.6 |
| | | Class B common stock (7,500 shares) | | 3.6 | | | | 3.6 |
| Electronic Warfare Associates, Inc. | Provider of electronic warfare, cyber security and advanced commercial test tools systems | Warrant to purchase 863,887 shares of common stock | | | 0.8 | 0.9 | 0.8 | 0.9 |
| | | Senior secured loan (12.0%, due 2/19) | | | 15.0 | 15.3 | 15.0 | 15.3 |
| EN Engineering, L.L.C. | National utility services firm providing engineering and consulting services to natural gas, electric power and other energy and industrial end markets | Senior secured loan (7.0%, due 6/21) | | | | | | |
| | | Senior secured loan (8.5%, due 6/21) | 4.6 | 4.6 | | | 4.6 | 4.6 |
| | | Senior secured loan (7.0%, due 6/21) | 22.1 | 22.3 | | | 22.1 | 22.3 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Faction Holdings, Inc. and The Faction Group LLC (fka PeakColo Holdings, Inc.) | Wholesaler of cloud-based software applications and services | Senior secured loan (9.8%, due 12/19) | 3.0 | 3.0 | 3.0 | 3.0 |
| | | Senior secured loan (9.8%, due 5/19) | 3.8 | 3.9 | 3.8 | 3.9 |
| | | Warrant to purchase up to 1,481 shares of Series A preferred stock | | 0.1 | | 0.1 |
| | | Warrant to purchase up to 2,037 shares of Series A preferred stock | 0.1 | 0.1 | 0.1 | 0.1 |

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| Company | Business Description | Investment | Ares Capital Cost | Ares Capital Fair Value | American Capital Cost | American Capital Fair Value | Pro Forma Ares Capital Cost | Pro Forma Ares Capital Fair Value |
|---|---|---|---|---|---|---|---|---|
| Financière Tarmac S.A.S.(4) | Provider of health & safety services for multi-unit residential buildings | Common stock (4,987,267 shares) | | | 23.2 | 6.8 | 23.2 | 6.8 |
| | | Redeemable preferred stock (31,303,601 shares) | | | 32.3 | 34.7 | 32.3 | 34.7 |
| First Insight, Inc. | Software company providing merchandising and pricing solutions to companies worldwide | Warrant to purchase up to 122,827 units of Series C preferred stock | | | | | | |
| Flexera Software LLC | Provider of software used to deploy and tack the usage of software applications | Junior secured loan (8.0%, due 4/21) | | | 5.0 | 4.8 | 5.0 | 4.8 |
| GTCR Valor Companies, Inc. | Provider of public relations software | Junior secured loan (10.5%, due 6/24) | | | 97.3 | 97.3 | 97.3 | 97.3 |
| Holding Saint Augustine S.A.S.(4) | Provider of outsourced services to industrial customers | Senior secured loan (due 9/19) | | | 4.4 | | 4.4 | |
| Hyland Software, Inc. | Provider of ECM software, serving small and medium size organizations | Junior secured loan (8.3%, due 7/23) | | | 10.0 | 9.7 | 10.0 | 9.7 |
| iControl Networks, Inc. and uControl Acquisition, LLC | Software and services company for the connected home market | Junior secured loan (9.5%, due 3/19) | 19.7 | 20.1 | | | 19.7 | 20.1 |
| | | Warrant to purchase up to 385,616 shares of Series D preferred stock | | | | | | |
| IfByPhone Inc. | Voice-based marketing automation software provider | Warrant to purchase up to 124,300 shares of Series C preferred stock | 0.1 | 0.1 | | | 0.1 | 0.1 |
| Infogix Parent Corporation | Provides data integrity, analytics, and visibility solutions | Senior secured loan (7.8%, due 12/21) | | | 88.4 | 88.2 | 88.4 | 88.2 |
| | | Redeemable preferred stock (2,475 shares) | | | 2.6 | 2.6 | 2.6 | 2.6 |
| Inmar, Inc. | Provides technology-driven logistics management solutions in the consumer goods and healthcare markets | Junior secured loan (8.0%, due 1/22) | | | 19.8 | 18.5 | 19.8 | 18.5 |
| Interactions Corporation | Developer of a speech recognition software based customer interaction system | Junior secured loan (9.9%, due 7/19) | 2.2 | 2.5 | | | 2.2 | 2.5 |
| | | Junior secured loan (9.9%, due 7/19) | 22.2 | 22.5 | | | 22.2 | 22.5 |
| | | Warrant to purchase up to 68,187 shares of Series G-3 convertible preferred stock | 0.3 | 0.3 | | | 0.3 | 0.3 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| iParadigms, LLC | Provider of anti-plagiarism software to the education industry | Junior secured loan (8.3%, due 7/22) | | | 39.3 | 35.7 | 39.3 | 35.7 |
| | | | | | | | | |
| iPipeline, Inc., Internet Pipeline, Inc. and iPipeline Holdings, Inc. | Provider of SaaS-based software solutions to the insurance and financial services industry | Senior secured loan (8.3%, due 8/22) | 11.9 | 11.9 | | | 11.9 | 11.9 |
| | | Senior secured loan (8.3%, due 8/22) | 44.7 | 44.7 | | | 44.7 | 44.7 |
| | | Senior secured loan (8.3%, due 8/22) | 14.9 | 14.9 | | | 14.9 | 14.9 |
| | | Preferred stock (1,485 shares) | 1.5 | 2.5 | | | 1.5 | 2.5 |
| | | Common stock (647,542 shares) | | | | | | |
| | | | | | | | | |

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| Company | Business Description | Investment | Ares Capital Cost | Ares Capital Fair Value | American Capital Cost | American Capital Fair Value | Pro Forma Ares Capital Cost | Pro Forma Ares Capital Fair Value |
|---|---|---|---|---|---|---|---|---|
| Iron Bow Technologies, LLC | Provider of information technology solutions | Junior secured loan (13.2%, due 2/21)(2) | | | 15.2 | 15.2 | 15.2 | 15.2 |
| IronPlanet, Inc. | Online auction platform provider for used heavy equipment | Warrant to purchase to up to 133,333 shares of Series C preferred stock | 0.2 | 0.2 | | | 0.2 | 0.2 |
| ISS Compressors Industries, Inc., ISS Valves Industries, Inc., ISS Motors Industries, Inc., ISS Machining Industries, Inc., and ISS Specialty Services Industries, Inc. | Provider of repairs, refurbishments and services to the broader industrial end user markets | Senior secured loan (7.0%, due 6/18) | 32.6 | 32.6 | | | 32.6 | 32.6 |
| | | Senior secured loan (7.0%, due 6/18) | 6.2 | 6.2 | | | 6.2 | 6.2 |
| Itel Laboratories, Inc. | Data services provider for building materials to property insurance industry | Preferred units (1,798,391 units) | 1.0 | 1.1 | | | 1.0 | 1.1 |
| Landslide Holdings, Inc. | Software for IT departments and systems management | Junior secured loan (8.3%, due 2/21) | | | 9.0 | 8.8 | 9.0 | 8.8 |
| LLSC Holdings Corporation(4) | Provider of in-store marketing services to retailers and marketers of consumer products | Convertible preferred stock (9,000 shares) | | | 10.8 | 17.7 | 10.8 | 17.7 |
| Market Track Holdings, LLC | Business media consulting services company | Preferred stock (1,685 shares) | 2.2 | 2.5 | | | 2.2 | 2.5 |
| | | Common stock (16,251 shares) | 2.2 | 2.7 | | | 2.2 | 2.7 |
| Maximus Holdings, LLC | Provider of software simulation tools and related services | Warrant to purchase up to 1,050,013 shares of common stock | | | | | | |
| Miles 33 Limited(4) | Supplier of computer software to the publishing sector | Senior secured loan (5.3%, due 12/17-9/18)(2) | | | 6.8 | 6.8 | 6.8 | 6.8 |
| | | Senior subordinated loan (due 9/21)(3) | | | 13.0 | 13.0 | 13.0 | 13.0 |
| | | Redeemable preferred stock | | | 1.2 | | 1.2 | |
| Ministry Brands, LLC and MB Parent Holdings, LLC | Software and payment services provider to faith-based institutions | Senior secured loan (10.8%, due 11/21) | 48.6 | 48.9 | | | 48.6 | 48.9 |
| | | Senior secured loan (10.8%, due 11/21) | 25.0 | 25.0 | | | 25.0 | 25.0 |
| | | Class A common units (2,130,772 units) | 2.1 | 2.4 | | | 2.1 | 2.4 |
| Mitchell International, Inc. | Provider of information services and technology solutions for the automobile insurance claims industry | Junior secured loan (8.5%, due 10/21) | | | 16.9 | 15.8 | 16.9 | 15.8 |
| MVL Group, Inc.(4) | | | 0.2 | 0.2 | | | 0.2 | 0.2 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Marketing research provider | Senior subordinated loan (due 7/12)(3) | | | | | | |
| | | Common stock (560,716 shares) | | | | | | |
| NAS, LLC, Nationwide Marketing Group, LLC and Nationwide Administrative Services, Inc. | Buying and marketing services organization for appliance, furniture and consumer electronics dealers | Junior secured loan (9.8%, due 12/21) | 24.1 | 22.7 | | | 24.1 | 22.7 |
| Novetta Solutions, LLC | A provider of threat and fraud analytics software and solutions | Senior secured loan (6.0%, due 10/22) | | | 12.8 | 12.5 | 12.8 | 12.5 |
| | | Junior secured loan (9.5%, due 10/23) | | | 30.7 | 29.1 | 30.7 | 29.1 |
| Park Place Technologies, LLC | Provider of third party maintenance services to the server and storage markets. | Junior secured loan (10.0%, due 12/22) | | | 41.5 | 41.5 | 41.5 | 41.5 |

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| | | | Ares Capital | | American Capital | | Pro Forma Ares Capital | |
|---|---|---|---|---|---|---|---|---|
| **Company** | **Business Description** | **Investment** | **Cost** | **Fair Value** | **Cost** | **Fair Value** | **Cost** | **Fair Value** |
| PayNearMe, Inc. | Electronic cash payment system provider | Senior secured loan (9.5%, due 9/19) | 9.6 | 9.9 | | | 9.6 | 9.9 |
| | | Common stock (100 shares) | | | | | | |
| | | Warrant to purchase up to 195,726 shares of Series E preferred stock | 0.2 | 0.2 | | | 0.2 | 0.2 |
| PHL Investors, Inc., and PHL Holding Co.(4) | Mortgage services | Class A common stock (576 shares) | 3.8 | | | | 3.8 | |
| Poplicus Incorporated | Business intelligence and market analytics platform for companies that sell to the public sector | Senior secured loan (due 7/19)(3) | 4.7 | 2.5 | | | 4.7 | 2.5 |
| | | Warrant to purchase up to 2,402,991 shares of Series C preferred stock | 0.1 | | | | 0.1 | |
| PowerPlan, Inc. and Project Torque Ultimate Parent Corporation | Fixed asset financial management software provider | Junior secured loan (10.8%, due 2/23) | 29.8 | 30.0 | | | 29.8 | 30.0 |
| | | Junior secured loan (10.8%, due 2/23) | 49.6 | 50.0 | | | 49.6 | 50.0 |
| | | Class A common stock (1,980 shares) | 2.0 | | | | 2.0 | |
| | | Class B common stock (989,011 shares) | | 3.0 | | | | 3.0 |
| Powersport Auctioneer Holdings, LLC | Powersport vehicle auction operator | Common units (1,972 units) | 1.0 | 1.4 | | | 1.0 | 1.4 |
| Project Silverback Holdings Corp. | Management software solution offering | Common stock (308,224 shares) | | | | 0.4 | | 0.4 |
| | | Convertible preferred stock (743 shares) | | | 0.9 | 0.9 | 0.9 | 0.9 |
| | | Senior secured loan (6.5%, due 7/20) | | | 23.7 | 23.9 | 23.7 | 23.9 |
| R2 Acquisition Corp. | Marketing services | Common stock (250,000 shares) | 0.3 | 0.3 | | | 0.3 | 0.3 |
| Rocket Fuel Inc. | Provider of open and integrated software for digital marketing optimization | Common stock (11,405 units) | | | | | | |
| Sonian Inc. | Cloud-based email archiving platform | Senior secured loan (9.0%, due 9/19) | 7.3 | 7.5 | | | 7.3 | 7.5 |
| | | Warrant to purchase up to 169,045 shares of Series C preferred stock | 0.1 | 0.1 | | | 0.1 | 0.1 |
| Systems Maintenance Services Holding, Inc. | Provides multi-vendor maintenance solutions for IT original equipment manufacturers | Junior secured loan (9.3%, due 10/20) | | | 34.8 | 34.8 | 34.8 | 34.8 |
| Talari Networks, Inc. | Networking equipment provider | Senior secured loan (9.8%, due 12/18) | 5.9 | 6.0 | | | 5.9 | 6.0 |
| | | Warrant to purchase up to 421,052 shares of Series D-1 preferred stock | 0.1 | 0.1 | | | 0.1 | 0.1 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| TestAmerica Environmental Services, LLC(4) | Operator of environmental testing laboratories | Senior subordinated loan (12.5%, due 6/18)(2) | | | 16.9 | 43.3 | 16.9 | 43.3 |
| The Greeley Company, Inc. and HCP Acquisition Holdings, LLC(4) | Healthcare compliance advisory services | Senior subordinated loan (due 3/17)(3) | 2.7 | 1.4 | | | 2.7 | 1.4 |
| | | Class A units (14,293,110 units) | 12.8 | | | | 12.8 | |

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| Company | Business Description | Investment | Ares Capital Cost | Ares Capital Fair Value | American Capital Cost | American Capital Fair Value | Pro Forma Ares Capital Cost | Pro Forma Ares Capital Fair Value |
|---|---|---|---|---|---|---|---|---|
| TraceLink, Inc. | Supply chain management software provider for the pharmaceutical industry | Senior secured revolving loan (7.5%, due 12/16) | 4.4 | 4.4 | | | 4.4 | 4.4 |
| | | Senior secured loan (8.5%, due 1/19) | 4.4 | 4.5 | | | 4.4 | 4.5 |
| | | Warrant to purchase up to 283,353 shares of Series A-2 preferred stock | 0.1 | 1.0 | | | 0.1 | 1.0 |
| Tyden Cayman Holdings Corp. | Manufacturer and provider of cargo security and product identification and traceability solutions | Common stock (5,521,203 shares) | | | 5.5 | 4.3 | 5.5 | 4.3 |
| | | Convertible preferred stock (46,276 shares) | | | 0.1 | 0.1 | 0.1 | 0.1 |
| Velocity Holdings Corp. | Hosted enterprise resource planning application management services provider | Common units (1,713,546 units) | 4.5 | 3.2 | | | 4.5 | 3.2 |
| W3 Co. | Provider of integrated safety and compliance solutions to companies operating in hazardous environments | Junior secured loan (due 9/20)(3) | | | 8.8 | 3.9 | 8.8 | 3.9 |
| WorldPay Group PLC | Payment processing company | C2 shares (73,974 shares) | | | | | | |
| **Total** | | | **625.4** | **598.8** | **941.4** | **909.3** | **1,566.8** | **1,508.1** |
| **Financial Services** | | | | | | | | |
| AllBridge Financial, LLC(4) | Asset management services | Equity interests | | 0.5 | | | | 0.5 |
| American Capital Asset Management, LLC(4) | Asset management services | Senior subordinated loan (5.0%, due 9/16) | | | 35.0 | 35.0 | 35.0 | 35.0(8) |
| | | Common membership interest (100% interest) | | | 586.6 | 955.2 | 586.6 | 955.2(8) |
| AmWINS Group, LLC | Wholesale insurance broker | Junior secured loan (9.5%, due 9/20) | | | 45.1 | 46.1 | 45.1 | 46.1 |
| Callidus Capital Corporation(4) | Asset management services | Common stock (100 shares) | 3.0 | 1.7 | | | 3.0 | 1.7 |
| Ciena Capital LLC(4) | Real estate and small business loan servicer | Senior secured revolving loan (6.0%, due 12/16) | 14.0 | 14.0 | | | 14.0 | 14.0 |
| | | Senior secured loan (12.0%, due 12/16) | 0.3 | 0.3 | | | 0.3 | 0.3 |
| | | Senior secured loan (12.0%, due 12/16) | 0.5 | 0.5 | | | 0.5 | 0.5 |
| | | Senior secured loan (12.0%, due 12/16) | 1.3 | 1.3 | | | 1.3 | 1.3 |
| | | Equity interests | 35.0 | 14.9 | | | 35.0 | 14.9 |
| Commercial Credit Group, Inc. | Commercial equipment finance and leasing company | Senior subordinated loan (12.8%, due 5/18) | 28.0 | 28.0 | | | 28.0 | 28.0 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| FAMS Acquisition, Inc.(4) | Provider of outsourced receivables management services | Senior subordinated loan (14.0%, due 1/16)(2) | | | 12.9 | 11.9 | 12.9 | 11.9 |
| | | Senior subordinated loan (due 1/16)(3) | | | 14.4 | 12.8 | 14.4 | 12.8 |
| | | | | | | | | |
| Gordian Acquisition Corp. | Financial services firm | Common stock (526 shares) | | | | | | |
| | | | | | | | | |
| Imperial Capital Group LLC | Investment services | Class A common units (32,369 units) | 7.9 | 11.7 | | | 7.9 | 11.7 |
| | | 2006 Class B common units (10,605 units) | | | | | | |
| | | 2007 Class B common units (1,323 units) | | | | | | |
| | | | | | | | | |
| Ivy Hill Asset Management, L.P.(4) | Asset management services | Member interest (100.00% interest) | 171.0 | 231.2 | | | 171.0 | 231.2(8) |
| | | | | | | | | |

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| | | | Ares Capital | | American Capital | | Pro Forma Ares Capital | |
|---|---|---|---|---|---|---|---|---|
| **Company** | **Business Description** | **Investment** | **Cost** | **Fair Value** | **Cost** | **Fair Value** | **Cost** | **Fair Value** |
| Javlin Three LLC, Javlin Four LLC, and Javlin Five LLC | Asset-backed financial services company | Senior secured revolving loan (10.5%, due 6/17) | 38.8 | 38.8 | | | 38.8 | 38.8 |
| LSQ Funding Group, L.C. and LM LSQ Investors LLC | Asset based lender | Senior subordinated loan (10.5%, due 6/21) | 30.0 | 30.0 | | | 30.0 | 30.0 |
| | | Membership units (3,275,000 units) | 3.3 | 3.3 | | | 3.3 | 3.3 |
| The Gordian Group, Inc. | Financial services firm | Senior secured loan (5.7%, due 7/19) | | | 41.1 | 40.3 | 41.1 | 40.3 |
| **Total** | | | **333.1** | **376.2** | **735.1** | **1,101.3** | **1,068.2** | **1,477.5** |
| **Healthcare Services** | | | | | | | | |
| Absolute Dental Management LLC and ADM Equity, LLC | Dental services provider | Senior secured loan (9.3%, due 1/22) | 18.8 | 18.8 | | | 18.8 | 18.8 |
| | | Senior secured loan (9.3%, due 1/22) | 5.0 | 5.0 | | | 5.0 | 5.0 |
| | | Class A preferred units (4,000,000 units) | 4.0 | 3.3 | | | 4.0 | 3.3 |
| | | Class A common units (4,000,000 units) | | | | | | |
| ADCS Billings Intermediate Holdings, LLC | Dermatology practice | Senior secured loan (6.8%, due 5/22) | 8.6 | 8.6 | | | 8.6 | 8.6 |
| | | Senior secured loan (6.8%, due 5/22) | 22.5 | 22.5 | | | 22.5 | 22.5 |
| Alcami Holdings LLC(4) | Chemistry outsourcing partner to the pharmaceutical and biotechnology industries | Senior secured loan (6.5%, due 3/17-10/20) | | | 109.3 | 110.1 | 109.3 | 110.1 |
| | | Senior subordinated loan (13.2%, due 10/20)(2) | | | 144.3 | 147.6 | 144.3 | 147.6 |
| | | Redeemable preferred stock (84,936 shares) | | | 61.1 | | 61.1 | |
| Alegeus Technologies Holdings Corp. | Benefits administration and transaction processing provider | Preferred stock (2,997 shares) | 3.1 | 1.9 | | | 3.1 | 1.9 |
| | | Common stock (3 shares) | | | | | | |
| Argon Medical Devices, Inc. | Manufacturer and marketer of single-use specialty medical devices | Junior secured loan (10.5%, due 6/22) | 8.8 | 9.0 | | | 8.8 | 9.0 |
| AwarePoint Corporation | Healthcare technology platform developer | Senior secured loan (10.5%, due 6/18) | 8.5 | 8.8 | | | 8.5 | 8.8 |
| | | Warrant to purchase up to 3,213,367 shares of Series 1 preferred stock | | 0.6 | | | | 0.6 |
| CCS Intermediate Holdings, LLC and CCS Group Holdings, LLC | Correctional facility healthcare operator | Senior secured revolving loan (5.0%, due 7/19) | 3.8 | 3.2 | | | 3.8 | 3.2 |
| | | Senior secured revolving loan (6.5%, due 7/19) | 1.7 | 1.4 | | | 1.7 | 1.4 |
| | | Senior secured loan (5.0%, due 7/21) | 6.6 | 5.6 | | | 6.6 | 5.6 |
| | | | 134.0 | 108.0 | | | 134.0 | 108.0 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | Junior secured loan (9.4%, due 7/22) | | | | |
| | | Class A units (601,937 units) | | 0.4 | | 0.4 |
| | | | | | | |
| Correctional Medical Group Companies, Inc. | Correctional facility healthcare operator | Senior secured loan (9.6%, due 9/21) | 3.1 | 3.1 | 3.1 | 3.1 |
| | | Senior secured loan (9.6%, due 9/21) | 4.1 | 4.1 | 4.1 | 4.1 |
| | | Senior secured loan (9.6%, due 9/21) | 44.7 | 44.7 | 44.7 | 44.7 |
| | | | | | | |
| DCA Investment Holding, LLC | Multi-branded dental practice management | Senior secured revolving loan (7.8%, due 7/21) | 3.4 | 3.4 | 3.4 | 3.4 |
| | | Senior secured loan (6.3%, due 7/21) | 18.9 | 18.6 | 18.9 | 18.6 |

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| | | | Ares Capital | | American Capital | | Pro Forma Ares Capital | |
|---|---|---|---|---|---|---|---|---|
| Company | Business Description | Investment | Cost | Fair Value | Cost | Fair Value | Cost | Fair Value |
| DNAnexus, Inc. | Bioinformatics company | Senior secured loan (9.3%, due 10/18) | 10.1 | 10.3 | | | 10.1 | 10.3 |
| | | Warrant to purchase up to 909,092 units of Series C preferred stock | | 0.3 | | | | 0.3 |
| Gentle Communications, LLC | Dental services provider | Senior secured loan (7.5%, due 5/22) | 43.5 | 43.5 | | | 43.5 | 43.5 |
| Global Healthcare Exchange, LLC and GHX Ultimate Parent Corp. | On-demand supply chain automation solutions provider | Class A common stock (2,991 shares) | 3.0 | 3.0 | | | 3.0 | 3.0 |
| | | Class B common stock (980 shares) | | 5.4 | | | | 5.4 |
| Greenphire, Inc. and RMCF III CIV XXIX, L.P | Software provider for clinical trial management | Senior secured loan (9.0%, due 12/18) | 4.0 | 4.0 | | | 4.0 | 4.0 |
| | | Limited partnership interest | 1.0 | 1.0 | | | 1.0 | 1.0 |
| HALT Medical, Inc.(4) | Patented disposable needle used to remove uterine fibroids | Senior secured loan (due 6/16)(3) | | | 74.0 | 36.1 | 74.0 | 36.1 |
| INC Research Mezzanine Co-Invest, LLC | Pharmaceutical and biotechnology consulting services | Common units (1,410,000 units) | | 1.6 | | | | 1.6 |
| Intermedix Corporation | Revenue cycle management provider to the emergency healthcare industry | Junior secured loan (9.3%, due 6/20) | 112.0 | 107.5 | | | 112.0 | 107.5 |
| LM Acquisition Holdings, LLC | Developer and manufacturer of medical equipment | Class A units (426 units) | 0.7 | 1.8 | | | 0.7 | 1.8 |
| MC Acquisition Holdings I, LLC | Healthcare professional provider | Class A units (1,338,314 shares) | 1.3 | 1.3 | | | 1.3 | 1.3 |
| MW Dental Holding Corp. | Dental services provider | Senior secured revolving loan (8.5%, due 4/18) | 2.0 | 2.0 | | | 2.0 | 2.0 |
| | | Senior secured loan (8.5%, due 4/18) | 50.1 | 50.1 | | | 50.1 | 50.1 |
| | | Senior secured loan (8.5%, due 4/18) | 47.5 | 47.5 | | | 47.5 | 47.5 |
| | | Senior secured loan (8.5%, due 4/18) | 19.6 | 19.6 | | | 19.6 | 19.6 |
| My Health Direct, Inc. | Healthcare scheduling exchange software solution provider | Senior secured loan (10.8%, due 1/18) | 1.9 | 1.9 | | | 1.9 | 1.9 |
| | | Warrant to purchase up to 4,548 shares of Series D preferred stock | | | | | | |
| New Trident Holdcorp, Inc. | Outsourced mobile diagnostic healthcare service provider | Junior secured loan (10.3%, due 7/20) | 79.0 | 76.8 | | | 79.0 | 76.8 |
| NMSC Holdings, Inc. and ASP NAPA Holdings, LLC | Anesthesia management services provider | Junior secured loan (11.0%, due 10/23) | 74.3 | 74.3 | | | 74.3 | 74.3 |
| | | Class A units (25,277 units) | 2.5 | 2.5 | | | 2.5 | 2.5 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Nodality, Inc. | Biotechnology company | Senior secured loan (due 7/16)(3) | 2.4 | 2.6 | 2.4 | 2.6 |
| | | Senior secured loan (due 7/16)(3) | 9.7 | 0.7 | 9.7 | 0.7 |
| | | Common stock (3,736,255 shares) | | | | |

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| Company | Business Description | Investment | Ares Capital Cost | Ares Capital Fair Value | American Capital Cost | American Capital Fair Value | Pro Forma Ares Capital Cost | Pro Forma Ares Capital Fair Value |
|---|---|---|---|---|---|---|---|---|
| OmniSYS Acquisition Corporation, OmniSYS, LLC, and OSYS Holdings, LLC | Provider of technology-enabled solutions to pharmacies | Senior secured loan (8.5%, due 11/18) | 10.5 | 10.5 | | | 10.5 | 10.5 |
| | | Senior secured loan (8.5%, due 11/18) | 5.9 | 5.9 | | | 5.9 | 5.9 |
| | | Limited liability company membership interest (1.57%) | 1.0 | 0.7 | | | 1.0 | 0.7 |
| Patterson Medical Supply, Inc. | Distributor of rehabilitation supplies and equipment | Junior secured loan (8.8%, due 8/23) | 18.8 | 19.0 | | | 18.8 | 19.0 |
| PerfectServe, Inc. | Communications software platform provider for hospitals and physician practices | Senior secured loan (9.0%, due 3/20) | 8.7 | 9.0 | | | 8.7 | 9.0 |
| | | Senior secured loan (9.0%, due 6/20) | 2.0 | 2.0 | | | 2.0 | 2.0 |
| | | Senior secured loan (9.0%, due 6/21) | 2.0 | 2.0 | | | 2.0 | 2.0 |
| | | Warrant to purchase up to 28,428 shares of Series C preferred stock | 0.2 | 0.2 | | | 0.2 | 0.2 |
| | | Warrant to purchase up to 34,113 shares of Series C preferred stock | | 0.3 | | | | 0.3 |
| PhyMED Management LLC | Provider of anesthesia services | Junior secured loan (9.8%, due 5/21) | 46.6 | 44.9 | | | 46.6 | 44.9 |
| Precyse Acquisition Corp. | Provider of healthcare information management technology and services | Junior secured loan (10.8%, due 4/23) | 9.6 | 10.0 | | | 9.6 | 10.0 |
| Respicardia, Inc. | Developer of implantable therapies to improve cardiovascular health | Warrant to purchase up to 99,094 shares of Series C preferred stock | | | | | | |
| Sarnova HC, LLC, Tri-Anim Health Services, Inc., and BEMS Holdings, LLC | Distributor of emergency medical service and respiratory products | Junior secured loan (10.5%, due 7/22) | 54.0 | 54.0 | | | 54.0 | 54.0 |
| Transaction Data Systems, Inc. | Pharmacy management software provider | Junior secured loan (10.0%, due 6/22) | 27.5 | 27.5 | | | 27.5 | 27.5 |
| U.S. Anesthesia Partners, Inc. | Anesthesiology service provider | Junior secured loan (10.3%, due 9/20) | 23.5 | 23.5 | | | 23.5 | 23.5 |
| | | Junior secured loan (10.3%, due 9/20) | 50.0 | 50.0 | | | 50.0 | 50.0 |
| Urgent Cares of America Holdings I, LLC and FastMed Holdings I, LLC | Operator of urgent care clinics | Senior secured loan (7.0%, due 12/22) | 13.9 | 13.1 | | | 13.9 | 13.1 |
| | | Senior secured loan (7.0%, due 12/22) | 54.5 | 51.2 | | | 54.5 | 51.2 |
| | | Preferred units (7,696,613 units) | 7.7 | 8.3 | | | 7.7 | 8.3 |
| | | Series A common units (2,000,000 units) | 2.0 | 0.9 | | | 2.0 | 0.9 |
| | | Series C common units (1,026,866 units) | | 0.4 | | | | 0.4 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| VistaPharm, Inc. and Vertice Pharma UK Parent Limited | Manufacturer and distributor of generic pharmaceutical products | Senior secured loan (6.7%, due 12/21) | 5.1 | 5.1 | | | 5.1 | 5.1 |
| | | Preferred shares (40,662 shares) | 0.4 | 0.4 | | | 0.4 | 0.4 |
| Young Innovations, Inc. | Dental supplies and equipment manufacturer | Junior secured loan (9.0%, due 7/19) | 45.0 | 45.0 | | | 45.0 | 45.0 |
| **Total** | | | **1,153.1** | **1,112.6** | **388.7** | **293.8** | **1,541.8** | **1,406.4** |
| **Other Services** | | | | | | | | |
| American Residential Services L.L.C. | Heating, ventilation and air conditioning services provider | Junior secured loan (8.5%, due 12/21) | 49.6 | 50.0 | | | 49.6 | 50.0 |

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| Company | Business Description | Investment | Ares Capital Cost | Ares Capital Fair Value | American Capital Cost | American Capital Fair Value | Pro Forma Ares Capital Cost | Pro Forma Ares Capital Fair Value |
|---|---|---|---|---|---|---|---|---|
| Community Education Centers, Inc. and CEC Parent Holdings LLC(4) | Offender re-entry and in-prison treatment services provider | Senior secured loan (6.3%, due 12/17) | 13.6 | 13.6 | | | 13.6 | 13.6 |
| | | Senior secured loan (7.8%, due 12/17) | 0.7 | 0.7 | | | 0.7 | 0.7 |
| | | Junior secured loan (15.6%, due 6/18) | 21.9 | 21.9 | | | 21.9 | 21.9 |
| | | Class A senior preferred units (7,846 units) | 9.4 | 10.5 | | | 9.4 | 10.5 |
| | | Class A junior preferred units (26,154 units) | 20.2 | 21.8 | | | 20.2 | 21.8 |
| | | Class A common units (134 units) | | | | | | |
| Competitor Group, Inc., Calera XVI, LLC and Champion Parent Corporation(4) | Endurance sports media and event operator | Senior secured revolving loan (5.0%, due 11/18) | 4.5 | 4.2 | | | 4.5 | 4.2 |
| | | Senior secured loan (5.0%, due 11/18) | 38.0 | 35.8 | | | 38.0 | 35.8 |
| | | Preferred shares (18,875 shares) | 16.0 | | | | 16.0 | |
| | | Membership units (2,522,512 units) | 2.5 | | | | 2.5 | |
| | | Common shares (114,000 shares) | | | | | | |
| Crown Health Care Laundry Services, Inc. and Crown Laundry Holdings, LLC(5) | Provider of outsourced healthcare linen management solutions | Senior secured revolving loan (7.3%, due 3/19) | 2.0 | 2.0 | | | 2.0 | 2.0 |
| | | Senior secured loan (7.3%, due 3/19) | 18.3 | 18.3 | | | 18.3 | 18.3 |
| | | Class A preferred units (2,475,000 units) | 2.5 | 3.2 | | | 2.5 | 3.2 |
| | | Class B common units (275,000 units) | 0.3 | 0.4 | | | 0.3 | 0.4 |
| Dwyer Acquisition Parent, Inc. and TDG Group Holding Company | Operator of multiple franchise concepts primarily related to home maintenance or repairs | Senior subordinated loan (11.0%, due 2/20) | 31.5 | 31.5 | | | 31.5 | 31.5 |
| | | Senior subordinated loan (11.0%, due 2/20) | 52.7 | 52.7 | | | 52.7 | 52.7 |
| | | Common stock (32,843 shares) | 3.4 | 4.8 | | | 3.4 | 4.8 |
| Hard 8 Games, LLC(4) | Develops disruptive gaming technology for casino applications | Senior secured loan (7.2%, due 12/16)(2) | | | 63.3 | 63.3 | 63.3 | 63.3 |
| | | Membership units (2 units) | | | 24.0 | 23.1 | 24.0 | 23.1 |
| Massage Envy, LLC | Franchisor in the massage industry | Senior secured loan (8.5%, due 9/18) | 7.8 | 7.8 | | | 7.8 | 7.8 |
| | | Senior secured loan (8.5%, due 9/18) | 45.2 | 45.2 | | | 45.2 | 45.2 |
| | | Senior secured loan (8.5%, due 9/18) | 18.9 | 18.9 | | | 18.9 | 18.9 |
| | | Common stock (3,000,000 shares) | 3.0 | 5.6 | | | 3.0 | 5.6 |
| McKenzie Sports Products, LLC | Designer, manufacturer and distributor of hunting-related supplies | Senior secured loan (4.8%, due 9/20) | 2.0 | 1.9 | | | 2.0 | 1.9 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | Senior secured loan (6.8%, due 9/20) | 5.5 | 5.4 | 5.5 | 5.4 |
| | | Senior secured loan (6.8%, due 9/20) | 39.5 | 38.7 | 39.5 | 38.7 |
| | | Senior secured loan (6.8%, due 9/20) | 45.0 | 44.1 | 45.0 | 44.1 |
| | | | | | | |
| OpenSky Project, Inc. and OSP Holdings, Inc. | Social commerce platform operator | Senior secured loan (10.0%, due 9/17) | 1.5 | 1.5 | 1.5 | 1.5 |
| | | Warrant to purchase up to 159,496 shares of Series D preferred stock | | | | |

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| | | | Ares Capital | | American Capital | | Pro Forma Ares Capital | |
|---|---|---|---|---|---|---|---|---|
| **Company** | **Business Description** | **Investment** | **Cost** | **Fair Value** | **Cost** | **Fair Value** | **Cost** | **Fair Value** |
| Osmose Utility Services, Inc. and Osmose Holdings, Inc. | Provider of structural integrity management services to transmission and distribution infrastructure | Junior secured loan (8.8%, due 8/23) | 24.6 | 24.3 | 33.7 | 33.6 | 58.3 | 57.9 |
| SocialFlow, Inc. | Social media optimization platform provider | Senior secured loan (9.5%, due 8/19) | 3.9 | 4.0 | | | 3.9 | 4.0 |
| | | Warrant to purchase up to 215,331 shares of Series C preferred stock | | | | | | |
| Spin HoldCo Inc. | Laundry service and equipment provider | Junior secured loan (8.0%, due 5/20) | 140.0 | 135.8 | | | 140.0 | 135.8 |
| Surface Dive, Inc. | SCUBA diver training and certification provider | Junior secured loan (9.0%, due 1/22) | 37.4 | 37.4 | | | 37.4 | 37.4 |
| | | Junior secured loan (10.3%, due 1/22) | 87.9 | 88.2 | | | 87.9 | 88.2 |
| Towne Holdings, Inc. | Provider of contracted hospitality services and parking systems | Senior secured loan (6.8%, due 5/22) | 56.3 | 56.3 | | | 56.3 | 56.3 |
| | | Senior secured loan (6.8%, due 5/22) | 9.0 | 9.0 | | | 9.0 | 9.0 |
| TWH Water Treatment Industries, Inc., TWH Filtration Industries, Inc. and TWH Infrastructure Industries, Inc. | Wastewater infrastructure repair, treatment and filtration holding company | Senior secured loan (10.3%, due 10/19) | 5.4 | 5.4 | | | 5.4 | 5.4 |
| | | Senior secured loan (10.3%, due 10/19) | 36.4 | 36.4 | | | 36.4 | 36.4 |
| U.S. Security Associates Holdings, Inc | Security guard service provider | Junior secured loan (11.0%, due 7/18) | 25.0 | 25.0 | | | 25.0 | 25.0 |
| WASH Multifamily Acquisition Inc. and Coinamatic Canada Inc. | Laundry service and equipment provider | Junior secured loan (8.0%, due 5/23) | 3.7 | 3.6 | | | 3.7 | 3.6 |
| | | Junior secured loan (8.0%, due 5/23) | 20.9 | 20.6 | | | 20.9 | 20.6 |
| **Total** | | | **906.0** | **886.5** | **121.0** | **120.0** | **1,027.0** | **1,006.5** |
| **Consumer Products** | | | | | | | | |
| Bellotto Holdings Limited(4) | Provider of made-to-measure blinds | Common stock (2,697,010 shares) | | | 86.0 | 115.2 | 86.0 | 115.2 |
| | | Redeemable preferred stock (7,300,610 shares) | | | 39.5 | 41.2 | 39.5 | 41.2 |
| BRG Sports, Inc. | Designer, manufacturer and licensor of branded sporting goods, reconditioning services and collectibles | Common units (6,566,655 units) | | | 0.7 | | 0.7 | |
| | | Redeemable preferred stock (2,009 shares) | | | 2.5 | 3.0 | 2.5 | 3.0 |
| Delsey Holding S.A.S. | Designs, markets and distributes high-quality innovative travel luggage | Senior subordinated loan (13.5%, due 7/21)(2) | | | 1.5 | 1.1 | 1.5 | 1.1 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Senior subordinated loan (13.5%, due 7/21)(2) | | | 8.0 | 6.6 | 8.0 | 6.6 |
| Feradyne Outdoors, LLC and Bowhunter Holdings, LLC | Provider of branded archery and bowhunting accessories | Senior secured loan (4.0%, due 3/19) | 4.5 | 4.2 | | | 4.5 | 4.2 |
| | | Senior secured loan (4.0%, due 3/19) | 6.7 | 6.3 | | | 6.7 | 6.3 |
| | | Senior secured loan (6.6%, due 3/19) | 9.5 | 8.7 | | | 9.5 | 8.7 |
| | | Senior secured loan (6.6%, due 3/19) | 50.1 | 46.1 | | | 50.1 | 46.1 |
| | | Common units (300 units) | 3.7 | 1.8 | | | 3.7 | 1.8 |
| FXI Holdings, Inc. | Producer of flexible polyurethane foam | Common stock (3,163 shares) | | | | 0.6 | | 0.6 |

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| | | | Ares Capital | | American Capital | | Pro Forma Ares Capital | |
|---|---|---|---|---|---|---|---|---|
| **Company** | **Business Description** | **Investment** | **Cost** | **Fair Value** | **Cost** | **Fair Value** | **Cost** | **Fair Value** |
| Group Montana, Inc.(4) | Leading designer, manufacturer and distributor of western-style accessories | Common stock (100% interest) | | | 12.6 | 1.6 | 12.6 | 1.6 |
| | | Convertible preferred stock (4,000 shares) | | | 6.8 | 7.1 | 6.8 | 7.1 |
| | | Senior secured loan (6.3%, due 1/17) | | | 5.0 | 5.0 | 5.0 | 5.0 |
| Implus Footcare, LLC | Provider of footwear and other accessories | Senior secured loan (8.8%, due 4/21) | 17.2 | 17.2 | | | 17.2 | 17.2 |
| Indra Holdings Corp. | Designer, marketer, and distributor of rain and cold weather products | Junior secured loan (8.5%, due 11/21) | 79.1 | 64.0 | | | 79.1 | 64.0 |
| Matrixx Initiatives, Inc. and Wonder Holdings Acquisition Corp. | Developer and marketer of OTC healthcare products | Warrant to purchase up to 1,120 shares of preferred stock | | 1.4 | | | | 1.4 |
| | | Warrant to purchase up to 1,654,678 shares of common stock | | 0.8 | | | | 0.8 |
| Oak Parent, Inc. | Manufacturer of athletic apparel | Senior secured loan (7.6%, due 4/18) | 2.4 | 2.4 | | | 2.4 | 2.4 |
| | | Senior secured loan (7.6%, due 4/18) | 7.7 | 7.7 | | | 7.7 | 7.7 |
| | | Senior secured loan (9.5%, due 4/18) | | | | | | |
| | | Senior secured loan (9.5%, due 4/18) | | | | | | |
| Plantation Products, LLC, Seed Holdings, Inc. and Flora Parent, Inc. | Provider of branded lawn and garden products | Junior secured loan (9.5%, due 6/21) | 2.0 | 2.0 | | | 2.0 | 2.0 |
| | | Junior secured loan (9.5%, due 6/21) | 53.8 | 54.0 | | | 53.8 | 54.0 |
| | | Junior secured loan (9.5%, due 6/21) | 10.0 | 10.0 | | | 10.0 | 10.0 |
| | | Common stock (30,000 shares) | 3.0 | 4.6 | | | 3.0 | 4.6 |
| RD Holdco Inc.(4) | Manufacturer of steam cleaning carpet care machines rented to consumers | Common stock (458,596 shares) | | | 23.6 | 26.3 | 23.6 | 26.3 |
| | | Warrant to purchase 56,372 shares of common stock | | | 2.9 | | 2.9 | |
| | | Junior secured loan (11.3%, due 12/18) | | | 15.6 | 16.7 | 15.6 | 16.7 |
| SHO Holding I Corporation | Manufacturer and distributor of slip resistant footwear | Junior secured loan (9.5%, due 4/23) | 97.7 | 99.0 | | | 97.7 | 99.0 |
| Shock Doctor, Inc. and Shock Doctor Holdings, LLC(5) | Developer, marketer and distributor of sports protection equipment and accessories | Junior secured loan (11.5%, due 10/21) | 35.4 | 35.4 | | | 35.4 | 35.4 |
| | | Junior secured loan (11.5%, due 10/21) | 54.0 | 54.0 | | | 54.0 | 54.0 |
| | | Class A preferred units (50,000 units) | 5.0 | 4.8 | | | 5.0 | 4.8 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Class C preferred units (50,000 units) | 5.0 | 4.8 | | | 5.0 | 4.8 |
| The Hygenic Corporation | Designer, manufacturer and marketer of branded wellness products | Junior secured loan (9.8%, due 4/21) | 70.0 | 71.4 | | | 70.0 | 71.4 |

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| Company | Business Description | Investment | Ares Capital Cost | Ares Capital Fair Value | American Capital Cost | American Capital Fair Value | Pro Forma Ares Capital Cost | Pro Forma Ares Capital Fair Value |
|---|---|---|---|---|---|---|---|---|
| The Step2 Company, LLC(4) | Toy manufacturer | Junior secured loan (10.0%, due 9/19) | 27.5 | 27.6 | | | 27.5 | 27.6 |
| | | Junior secured loan (due 9/19)(3) | 30.3 | 28.1 | | | 30.3 | 28.1 |
| | | Common units (1,116,879 units) | | | | | | |
| | | Class B common units (126,278,000 units) | | | | | | |
| | | Warrant to purchase up to 3,157,895 units | | | | | | |
| Varsity Brands Holding Co., Inc., Hercules Achievement, Inc., Hercules Achievement Holdings, Inc. and Hercules VB Holdings, Inc. | Leading manufacturer and distributor of textiles, apparel & luxury goods | Junior secured loan (9.8%, due 12/22) | 55.1 | 55.6 | | | 55.1 | 55.6 |
| | | Junior secured loan (9.8%, due 12/22) | 91.0 | 91.7 | | | 91.0 | 91.7 |
| | | Common stock (3,353,370 shares) | 3.4 | 4.6 | | | 3.4 | 4.6 |
| | | Common stock (3,353,371 shares) | 4.1 | 5.7 | | | 4.1 | 5.7 |
| **Total** | | | **728.2** | **713.9** | **204.7** | **224.4** | **932.9** | **938.3** |
| **Power Generation** | | | | | | | | |
| Alphabet Energy, Inc. | Technology developer to convert waste-heat into electricity | Senior secured loan (14.5%, due 8/17)(2) | 3.7 | 4.0 | | | 3.7 | 4.0 |
| | | Series 1B preferred stock (12,976 shares) | 0.3 | | | | 0.3 | |
| | | Warrant to purchase up to 125,000 shares of Series 2 preferred stock | 0.1 | | | | 0.1 | |
| Bicent (California) Holdings LLC | Gas turbine power generation facilities operator | Senior subordinated loan (8.3%, due 2/21) | 49.5 | 49.5 | | | 49.5 | 49.5 |
| Brush Power, LLC | Gas turbine power generation facilities operator | Senior secured loan (6.3%, due 8/20) | 44.6 | 44.6 | | | 44.6 | 44.6 |
| | | Senior secured loan (7.8%, due 8/20) | 0.1 | 0.1 | | | 0.1 | 0.1 |
| | | Senior secured loan (6.3%, due 8/20) | 2.3 | 2.3 | | | 2.3 | 2.3 |
| | | Senior secured loan (7.8%, due 8/20) | | | | | | |
| | | Senior secured loan (6.3%, due 8/20) | 9.7 | 9.7 | | | 9.7 | 9.7 |
| | | Senior secured loan (7.8%, due 8/20) | | | | | | |
| CEI Kings Mountain Investor, LP | Gas turbine power generation facilities operator | Senior subordinated loan (11.0%, due 3/17)(2) | 30.8 | 30.9 | | | 30.8 | 30.9 |
| CPV Maryland Holding Company II, LLC | Gas turbine power generation facilities operator | Senior subordinated loan (10.0%, due 12/20) | 44.5 | 42.7 | | | 44.5 | 42.7 |
| | | Warrant to purchase up to 4 units of common stock | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| DESRI VI Management Holdings, LLC | Wind power generation facility operator | Senior subordinated loan (9.8%, due 12/21) | 25.0 | 25.0 | 25.0 | 25.0 |
| | | Non Controlling Units (10 units) | 1.5 | 2.2 | 1.5 | 2.2 |
| Green Energy Partners, Stonewall LLC and Panda Stonewall Intermediate Holdings II LLC | Gas turbine power generation facilities operator | Senior secured loan (6.5%, due 11/21) | 24.8 | 24.0 | 24.8 | 24.0 |
| | | Senior subordinated loan (13.3%, due 12/21)(2) | 19.0 | 18.4 | 19.0 | 18.4 |
| | | Senior subordinated loan (13.3%, due 12/21)(2) | 88.8 | 86.2 | 88.8 | 86.2 |

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| Company | Business Description | Investment | Ares Capital Cost | Ares Capital Fair Value | American Capital Cost | American Capital Fair Value | Pro Forma Ares Capital Cost | Pro Forma Ares Capital Fair Value |
|---|---|---|---|---|---|---|---|---|
| Joule Unlimited Technologies, Inc. and Stichting Joule Global Foundation | Renewable fuel and chemical production developer | Senior secured loan (13.0%, due 10/18)(2) | 9.0 | 7.9 | | | 9.0 | 7.9 |
| | | Common stock (11,195,168 shares) | | | | | | |
| | | Warrant to purchase up to 32,051 shares of Series C-2 preferred stock | | | | | | |
| La Paloma Generating Company, LLC | Natural gas fired, combined cycle plant operator | Junior secured loan (due 2/20)(3) | 9.0 | 1.9 | | | 9.0 | 1.9 |
| Moxie Liberty LLC | Gas turbine power generation facilities operator | Senior secured loan (7.5%, due 8/20) | 34.7 | 34.5 | | | 34.7 | 34.5 |
| Moxie Patriot LLC | Gas turbine power generation facilities operator | Senior secured loan (6.8%, due 12/20) | 34.7 | 34.0 | | | 34.7 | 34.0 |
| Panda Power Annex Fund Hummel Holdings II LLC | Gas turbine power generation facilities operator | Senior subordinated loan (13.0%, due 10/16)(2) | 113.5 | 114.1 | | | 113.5 | 114.1 |
| Panda Temple Power II, LLC | Gas turbine power generation facilities operator | Senior secured loan (7.3%, due 4/19) | 19.8 | 18.1 | | | 19.8 | 18.1 |
| Panda Temple Power, LLC | Gas turbine power generation facilities operator | Senior secured loan (7.3%, due 3/22) | 23.6 | 22.0 | | | 23.6 | 22.0 |
| PERC Holdings 1 LLC | Operator of recycled energy, combined heat and power, and energy efficiency facilities | Class B common units (21,653,543 units) | 21.7 | 24.6 | | | 21.7 | 24.6 |
| **Total** | | | **610.7** | **596.7** | | | **610.7** | **596.7** |
| **Manufacturing** | | | | | | | | |
| Chariot Acquisition, LLC | Distributor and designer of aftermarket golf cart parts and accessories | Senior secured loan (7.3%, due 9/21) | 55.6 | 55.6 | 29.5 | 29.5 | 85.1 | 85.1 |
| Component Hardware Group, Inc. | Commercial equipment | Senior secured revolving loan (5.5%, due 7/19) | 2.2 | 2.2 | | | 2.2 | 2.2 |
| | | Senior secured loan (5.5%, due 7/19) | 8.0 | 8.0 | | | 8.0 | 8.0 |
| Harvey Tool Company, LLC and Harvey Tool Holding, LLC | Cutting tool provider to the metalworking industry | Senior subordinated loan (11.0%, due 9/20)(2) | 28.0 | 28.0 | | | 28.0 | 28.0 |
| | | Class A membership units (750 units) | 0.9 | 1.5 | | | 0.9 | 1.5 |
| HCV1 S.A.S(4) | R&D designer of in-line inspection devices for product quality control | Common stock (14,569,412 shares) | | | 25.6 | | 25.6 | |
| | | Senior secured loan (13.8%, due 2/20)(2) | | | 3.6 | 3.4 | 3.6 | 3.4 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Ioxus, Inc | Energy storage devices | Senior secured loan (12.0%, due 6/18)(2) | 10.1 | 9.8 | | 10.1 | 9.8 |
| | | Warrant to purchase up to 1,210,235 shares of Series BB preferred stock | | 0.2 | | | 0.2 |
| | | Warrant to purchase up to 3,038,730 shares of common stock | | | | | |
| | | | | | | | |
| KPS Global LLC | Walk-in cooler and freezer systems | Senior secured loan (9.7%, due 12/20) | 36.5 | 36.5 | | 36.5 | 36.5 |
| | | | | | | | |
| MacLean-Fogg Company and MacLean-Fogg Holdings, L.L.C. | Manufacturer and supplier for the power utility and automotive markets worldwide | Senior subordinated loan (13.5%, due 10/25)(2) | 98.4 | 98.4 | | 98.4 | 98.4 |
| | | Preferred units (70,183 units)(2) | 72.1 | 72.1 | | 72.1 | 72.1 |

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| Company | Business Description | Investment | Ares Capital Cost | Ares Capital Fair Value | American Capital Cost | American Capital Fair Value | Pro Forma Ares Capital Cost | Pro Forma Ares Capital Fair Value |
|---|---|---|---|---|---|---|---|---|
| Niagara Fiber Intermediate Corp. | Insoluble fiber filler products | Senior secured revolving loan (due 5/18)(3) | 1.8 | 1.4 | | | 1.8 | 1.4 |
| | | Senior secured loan (due 5/18)(3) | 1.4 | 1.1 | | | 1.4 | 1.1 |
| | | Senior secured loan (due 5/18)(3) | 13.4 | 10.5 | | | 13.4 | 10.5 |
| Nordco Inc. | Railroad maintenance-of-way machinery | Senior secured revolving loan (8.8%, due 8/20) | 3.8 | 3.5 | | | 3.8 | 3.5 |
| | | Senior secured loan (7.3%, due 8/20) | 70.1 | 65.2 | | | 70.1 | 65.2 |
| Pelican Products, Inc. | Flashlights | Junior secured loan (9.3%, due 4/21) | 40.0 | 37.2 | | | 40.0 | 37.2 |
| Saw Mill PCG Partners LLC | Metal precision engineered components | Common units (1,000 units) | 1.0 | | | | 1.0 | |
| SI Holdings, Inc. | Elastomeric parts, mid-sized composite structures, and composite tooling | Common stock (1,500 shares) | 1.5 | 2.0 | | | 1.5 | 2.0 |
| TPTM Merger Corp. | Time temperature indicator products | Senior secured revolving loan (7.5%, due 9/18) | 1.3 | 1.3 | | | 1.3 | 1.3 |
| | | Senior secured loan (9.7%, due 9/18) | 22.0 | 22.0 | | | 22.0 | 22.0 |
| | | Senior secured loan (9.7%, due 9/18) | 10.0 | 10.0 | | | 10.0 | 10.0 |
| | | Senior secured loan (9.7%, due 9/18) | 2.0 | 2.0 | | | 2.0 | 2.0 |
| WP CPP Holdings, LLC | Precision engineered castings | Junior secured loan (8.8%, due 4/21) | | | 19.6 | 17.8 | 19.6 | 17.8 |
| Zodiac Marine and Pool S.A. | Boat equipment and marine products manufacturer | Senior subordinated loan (due 9/17)(3) | | | 38.8 | 3.1 | 38.8 | 3.1 |
| | | Junior secured loan (due 3/17)(3) | | | 25.2 | 7.9 | 25.2 | 7.9 |
| **Total** | | | **480.1** | **468.5** | **142.3** | **61.7** | **622.4** | **530.2** |
| **Restaurants and Food Services** | | | | | | | | |
| ADF Capital, Inc., ADF Restaurant Group, LLC, and ARG Restaurant Holdings, Inc. | Restaurant owner and operator | Senior secured loan (9.3%, due 12/18) | 28.6 | 26.6 | | | 28.6 | 26.6 |
| | | Senior secured loan (9.3%, due 12/18) | 10.9 | 10.2 | | | 10.9 | 10.2 |
| | | Promissory note ($23,652 par due 12/2023) | 13.8 | 11.4 | | | 13.8 | 11.4 |
| | | Warrant to purchase up to 23,750 units of Series D common stock | | | | | | |
| Benihana, Inc. | Restaurant owner and operator | Senior secured revolving loan (7.8%, due 7/18) | 1.1 | 1.1 | | | 1.1 | 1.1 |
| | | Senior secured loan (6.8%, due 1/19) | 4.8 | 4.6 | | | 4.8 | 4.6 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| DineInFresh, Inc. | Meal-delivery provider | Senior secured loan (9.8%, due 7/18) | 6.2 | 6.3 | | | 6.2 | 6.3 |
| | | Warrant to purchase up to 143,079 shares of Series A preferred stock | | | | | | |
| Garden Fresh Restaurant Corp. | Restaurant owner and operator | Senior secured loan (10.5%, due 7/18) | 40.1 | 40.1 | | | 40.1 | 40.1 |
| Global Franchise Group, LLC and GFG Intermediate Holding, Inc. | Worldwide franchisor of quick service restaurants | Senior secured loan (10.5%, due 12/19) | 60.8 | 60.8 | | | 60.8 | 60.8 |

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| | | | Ares Capital | | American Capital | | Pro Forma Ares Capital | |
|---|---|---|---|---|---|---|---|---|
| **Company** | **Business Description** | **Investment** | **Cost** | **Fair Value** | **Cost** | **Fair Value** | **Cost** | **Fair Value** |
| Heritage Food Service Group, Inc. and WCI-HFG Holdings, LLC | Distributor of repair and replacement parts for commercial kitchen equipment | Junior secured loan (9.5%, due 10/22) | 31.6 | 31.3 | | | 31.6 | 31.3 |
| | | Preferred units (3,000,000 units) | 3.0 | 2.9 | | | 3.0 | 2.9 |
| Orion Foods, LLC(4) | Convenience food service retailer | Senior secured loan (due 9/15)(3) | 1.4 | 0.8 | | | 1.4 | 0.8 |
| | | Junior secured loan (due 9/15)(3) | | | | | | |
| | | Preferred units (10,000 units) | | | | | | |
| | | Class A common units (25,001 units) | | | | | | |
| | | Class B common units (1,122,452 units) | | | | | | |
| OTG Management, LLC | Airport restaurant operator | Senior secured revolving loan (8.8%, due 12/17) | 8.0 | 8.0 | | | 8.0 | 8.0 |
| | | Senior secured loan (8.8%, due 12/17) | 60.1 | 60.1 | | | 60.1 | 60.1 |
| | | Senior secured loan (8.8%, due 12/17) | 14.3 | 14.3 | | | 14.3 | 14.3 |
| | | Senior secured loan (8.8%, due 12/17) | 24.7 | 24.7 | | | 24.7 | 24.7 |
| | | Common units (3,000,000 units) | 3.0 | 11.9 | | | 3.0 | 11.9 |
| | | Warrant to purchase up to 7.73% of common units | 0.1 | 23.8 | | | 0.1 | 23.8 |
| Restaurant Holding Company, LLC | Fast food restaurant operator | Senior secured loan (8.8%, due 2/19) | 35.4 | 35.2 | | | 35.4 | 35.2 |
| **Total** | | | **347.9** | **374.1** | | | **347.9** | **374.1** |
| **Education** | | | | | | | | |
| Campus Management Corp. and Campus Management Acquisition Corp.(5) | Education software developer | Preferred stock (485,159 shares) | 10.5 | 11.2 | | | 10.5 | 11.2 |
| Infilaw Holding, LLC | Operator of for-profit law schools | Senior secured loan (11.5%, due 1/17)(2) | 2.5 | 2.5 | | | 2.5 | 2.5 |
| | | Series A preferred units (124,890 units)(2) | 125.5 | 111.7 | | | 125.5 | 111.7 |
| | | Series B preferred units (1.96 units) | 9.2 | 2.2 | | | 9.2 | 2.2 |
| Instituto de Banca y Comercio, Inc. & Leeds IV Advisors, Inc. | Private school operator | Senior secured loan (10.5%, due 12/18)(2) | 1.8 | 1.8 | | | 1.8 | 1.8 |
| | | Senior preferred series A-1 shares (163,902 shares) | 119.4 | 75.5 | | | 119.4 | 75.5 |
| | | Series B preferred stock (1,750,000 shares) | 5.0 | | | | 5.0 | |
| | | Series C preferred stock (2,512,586 shares) | 0.7 | | | | 0.7 | |
| | | Common stock (20 shares) | | | | | | |
| Lakeland Tours, LLC | Educational travel provider | Senior secured revolving loan (5.8%, due 2/22) | 7.6 | 7.6 | | | 7.6 | 7.6 |
| | | Senior secured loan (5.8%, due 2/22) | 5.0 | 5.1 | | | 5.0 | 5.1 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Senior secured loan (10.5%, due 2/22) | 31.3 | 31.7 | | | 31.3 | 31.7 |
| OnCourse Learning Corporation | Provider of state and federally mandated education and training solutions | Senior secured loan (8.5%, due 2/19) | | | 19.3 | 19.3 | 19.3 | 19.3 |
| PIH Corporation | Franchisor of education-based early childhood centers | Senior secured revolving loan (7.0%, due 12/18) | 0.6 | 0.6 | | | 0.6 | 0.6 |

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| Company | Business Description | Investment | Ares Capital Cost | Ares Capital Fair Value | American Capital Cost | American Capital Fair Value | Pro Forma Ares Capital Cost | Pro Forma Ares Capital Fair Value |
|---|---|---|---|---|---|---|---|---|
| Primrose Holding Corporation(5) | Franchisor of education-based early childhood centers | Common stock (7,227 shares) | | | | 10.5 | | 10.5 |
| R3 Education, Inc. and EIC Acquisitions Corp. | Medical school operator | Preferred stock (1,977 shares) | 0.5 | 0.5 | | | 0.5 | 0.5 |
| | | Common membership interest (15.76% interest) | 15.8 | 31.0 | | | 15.8 | 31.0 |
| | | Warrant to purchase up to 27,890 shares | | | | | | |
| Regent Education, Inc. | Provider of software solutions designed to optimize the financial aid and enrollment processes | Senior secured loan (12.0%, due 1/18)(2) | 3.8 | 3.9 | | | 3.8 | 3.9 |
| | | Warrant to purchase up to 987,771 shares of Series CC preferred stock | | 0.1 | | | | 0.1 |
| Severin Acquisition, LLC | Provider of student information system software solutions to the K-12 education market | Senior secured revolving loan (5.5%, due 7/21) | 1.4 | 1.3 | | | 1.4 | 1.3 |
| | | Junior secured loan (9.8%, due 7/22) | 4.1 | 4.0 | 29.4 | 30.2 | 33.5 | 34.2 |
| | | Junior secured loan (10.3%, due 7/22) | 3.2 | 3.2 | | | 3.2 | 3.2 |
| | | Junior secured loan (9.8%, due 7/22) | 14.7 | 14.6 | | | 14.7 | 14.6 |
| WCI-Quantum Holdings, Inc. | Distributor of instructional products, services and resources | Series A preferred stock (1,272 shares) | 1.0 | 1.1 | | | 1.0 | 1.1 |
| **Total** | | | **363.6** | **309.6** | **48.7** | **60.0** | **412.3** | **369.6** |
| **Containers and Packaging** | | | | | | | | |
| Charter NEX US Holdings, Inc. | Producer of high-performance specialty films used in flexible packaging | Junior secured loan (9.3%, due 2/23) | 11.7 | 11.7 | | | 11.7 | 11.7 |
| GS Pretium Holdings, Inc. | Manufacturer and supplier of high performance plastic containers | Common stock (500,000 shares) | 0.5 | 0.4 | | | 0.5 | 0.4 |
| ICSH, Inc. | Industrial container manufacturer, reconditioner and servicer | Senior secured revolving loan (6.8%, due 12/18) | 1.0 | 1.0 | | | 1.0 | 1.0 |
| | | Junior secured loan (10.2%, due 12/19) | 66.0 | 66.0 | | | 66.0 | 66.0 |
| Industrial Container Services, LLC | Industrial container manufacturer, reconditioner and servicer | Senior secured loan (6.8%, due 12/18) | | | 49.6 | 49.6 | 49.6 | 49.6 |
| | | Junior secured loan (10.2%, due 12/19) | | | 9.9 | 9.9 | 9.9 | 9.9 |
| LBP Intermediate Holdings LLC | Manufacturer of paper and corrugated | Senior secured loan (6.5%, due 7/20) | 24.2 | 24.5 | | | 24.2 | 24.5 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | foodservice packaging | | | | | |
| Microstar Logistics LLC, Microstar Global Asset Management LLC, and MStar Holding Corporation | Keg management solutions provider | Junior secured loan (8.5%, due 12/18) | 78.5 | 78.5 | 78.5 | 78.5 |
| | | Junior secured loan (8.5%, due 12/18) | 54.0 | 54.0 | 54.0 | 54.0 |
| | | Junior secured loan (8.5%, due 12/18) | 10.0 | 10.0 | 10.0 | 10.0 |
| | | Common stock (50,000 shares) | 4.0 | 7.4 | 4.0 | 7.4 |

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| Company | Business Description | Investment | Ares Capital Cost | Ares Capital Fair Value | American Capital Cost | American Capital Fair Value | Pro Forma Ares Capital Cost | Pro Forma Ares Capital Fair Value |
|---|---|---|---|---|---|---|---|---|
| Ranpak Corp. | Manufacturer of paper-based protective packaging systems and materials | Junior secured loan (8.3%, due 10/22) | | | 25.0 | 22.4 | 25.0 | 22.4 |
| **Total** | | | **249.9** | **253.5** | **84.5** | **81.9** | **334.4** | **335.4** |
| **Oil and Gas** | | | | | | | | |
| EXPL Pipeline Holdings LLC(4) | Common-carrier pipeline system that transports petroleum products | Common membership units (100,000 units) | | | 60.6 | 25.2 | 60.6 | 25.2 |
| | | Senior secured loan (8.1%, due 1/17) | | | 39.7 | 39.7 | 39.7 | 39.7 |
| Lonestar Prospects, Ltd. | Sand proppant producer and distributor to the oil and natural gas industry | Senior secured loan (8.5%, due 9/18)(2) | 24.5 | 24.0 | | | 24.5 | 24.0 |
| | | Senior secured loan (8.5%, due 9/18)(2) | 47.9 | 46.9 | | | 47.9 | 46.9 |
| Petroflow Energy Corporation(5) | Oil and gas exploration and production company | Senior secured loan (3.0%, due 6/19) | 16.2 | 14.7 | | | 16.2 | 14.7 |
| | | Junior secured loan (due 12/19)(3) | 21.9 | 3.3 | | | 21.9 | 3.3 |
| | | Common units (202,000 units) | 11.1 | | | | 11.1 | |
| Primexx Energy Corporation | Privately-held oil and gas exploration and production company | Junior secured loan (10.0%, due 1/20) | 124.6 | 128.8 | | | 124.6 | 128.8 |
| UL Holding Co., LLC and Universal Lubricants, LLC(5) | Manufacturer and distributor of re-refined oil products | Junior secured loan (10.0%, due 5/20)(2) | 1.9 | 7.1 | | | 1.9 | 7.1 |
| | | Junior secured loan (10.0%, due 5/20)(2) | 8.3 | 30.0 | | | 8.3 | 30.0 |
| | | Junior secured loan (10.0%, due 5/20)(2) | 0.9 | 3.5 | | | 0.9 | 3.5 |
| | | Class A common units (533,351 units) | 5.0 | | | | 5.0 | |
| | | Class B-5 common units (272,834 units) | 2.5 | | | | 2.5 | |
| | | Class C common units (758,546 units) | | | | | | |
| | | Warrant to purchase up to 719,044 shares of Class A units | | | | | | |
| | | Warrant to purchase up to 28,663 shares of Class B-1 units | | | | | | |
| | | Warrant to purchase up to 57,325 shares of Class B-2 units | | | | | | |
| | | Warrant to purchase up to 29,645 shares of Class B-3 units | | | | | | |
| | | Warrant to purchase up to 80,371 shares of Class B-5 units | | | | | | |
| | | Warrant to purchase up to 59,655 shares of Class B-6 units | | | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Warrant to purchase up to 1,046,713 shares of Class C units | | | | | | |
| **Total** | | | **264.8** | **258.3** | **100.3** | **64.9** | **365.1** | **323.2** |
| | | | | | | | | |
| **Automotive Services** | | | | | | | | |
| AEP Holdings, Inc. and Arrowhead Holdco Company | Distributor of non-discretionary, mission-critical aftermarket replacement parts | Senior secured loan (7.3%, due 8/21) | 45.3 | 45.3 | | | 45.3 | 45.3 |
| | | Senior secured loan (8.8%, due 8/21) | 0.7 | 0.7 | | | 0.7 | 0.7 |
| | | Senior secured loan (8.3%, due 8/21) | 10.0 | 10.0 | | | 10.0 | 10.0 |
| | | Senior secured loan (9.8%, due 8/21) | | | | | | |
| | | Common stock (2,832 shares) | 2.8 | 2.8 | | | 2.8 | 2.8 |

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|---|---|---|---|---|---|---|---|---|
| American Driveline Systems, Inc.(4) | Franchisor of automotive transmission repair centers | Common stock (289,215 shares) | | | 18.2 | | 18.2 | |
| | | Senior subordinated loan (11.0%, due 3/21)(2) | | | 45.0 | 40.7 | 45.0 | 40.7 |
| | | Redeemable preferred stock (7,121 shares) | | | 83.5 | | 83.5 | |
| CH Hold Corp. | Collision repair company | Senior secured revolving loan (6.3%, due 11/19) | 0.8 | 0.8 | | | 0.8 | 0.8 |
| | | Senior secured revolving loan (7.8%, due 11/19) | 0.7 | 0.7 | | | 0.7 | 0.7 |
| ChargePoint, Inc. | Developer and operator of electric vehicle charging stations | Senior secured loan (9.8%, due 7/19) | 9.8 | 10.0 | | | 9.8 | 10.0 |
| | | Senior secured loan (9.8%, due 1/19) | 9.6 | 10.0 | | | 9.6 | 10.0 |
| | | Warrant to purchase up to 404,563 shares of Series E preferred stock | 0.3 | 1.4 | | | 0.3 | 1.4 |
| Dent Wizard International Corporation and DWH Equity Investors, L.P. | Automotive reconditioning services | Junior secured loan (10.3%, due 10/20) | 50.0 | 50.0 | | | 50.0 | 50.0 |
| | | Class A Common Stock (10,000 shares) | 0.3 | 0.5 | | | 0.3 | 0.5 |
| | | Class B Common Stock (20,000 shares) | 0.7 | 1.0 | | | 0.7 | 1.0 |
| Eckler Industries, Inc. | Restoration parts and accessories provider for classic automobiles | Senior secured revolving loan (8.5%, due 7/17) | 2.0 | 1.9 | | | 2.0 | 1.9 |
| | | Senior secured loan (7.3%, due 7/17) | 7.0 | 6.5 | | | 7.0 | 6.5 |
| | | Senior secured loan (7.3%, due 7/17) | 26.3 | 24.7 | | | 26.3 | 24.7 |
| | | Series A preferred stock (1,800 shares) | 1.8 | | | | 1.8 | |
| | | Common stock (20,000 shares) | 0.2 | | | | 0.2 | |
| EcoMotors, Inc. | Engine developer | Senior secured loan (11.0%, due 3/18) | 11.0 | 11.5 | | | 11.0 | 11.5 |
| | | Warrant to purchase up to 321,888 shares of Series C preferred stock | | 0.3 | | | | 0.3 |
| | | Warrant to purchase up to 70,000 shares of Series C preferred stock | | 0.1 | | | | 0.1 |
| Simpson Performance Products, Inc. | Provider of motorsports safety equipment | Senior secured loan (9.8%, due 2/20) | 24.5 | 24.5 | | | 24.5 | 24.5 |
| SK SPV IV, LLC | Collision repair site operators | Series A common stock (12,500 units) | 0.6 | 3.1 | | | 0.6 | 3.1 |
| | | Series B common stock (12,500 units) | 0.6 | 3.1 | | | 0.6 | 3.1 |
| TA THI Buyer, Inc. and TA THI Parent, Inc. | Collision repair company | Series A Preferred stock (50,000 shares) | 5.0 | 13.4 | | | 5.0 | 13.4 |
| | | | | | 2.5 | 4.9 | 2.5 | 4.9 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | Convertible preferred stock (25,000 shares) | | | | | | |
| | Junior secured loan (9.8%, due 1/21) | | | 41.0 | 42.2 | 41.0 | 42.2 |
| **Total** | | **210.0** | **222.3** | **190.2** | **87.8** | **400.2** | **310.1** |

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| Company | Business Description | Investment | Ares Capital Cost | Ares Capital Fair Value | American Capital Cost | American Capital Fair Value | Pro Forma Ares Capital Cost | Pro Forma Ares Capital Fair Value |
|---|---|---|---|---|---|---|---|---|
| **Food and Beverage** | | | | | | | | |
| American Seafoods Group LLC and American Seafoods Partners LLC | Harvester and processor of seafood | Senior secured revolving loan (7.5%, due 8/21) | 3.3 | 3.3 | | | 3.3 | 3.3 |
| | | Senior secured loan (6.0%, due 8/21) | 19.2 | 19.5 | | | 19.2 | 19.5 |
| | | Junior secured loan (10.0%, due 2/22) | 55.0 | 55.0 | | | 55.0 | 55.0 |
| | | Class A units (77,922 units) | 0.1 | 0.1 | | | 0.1 | 0.1 |
| | | Warrant to purchase up to 7,422,078 Class A units | 7.4 | 7.9 | | | 7.4 | 7.9 |
| Eagle Family Foods Group LLC | Manufacturer and producer of milk products | Senior secured loan (10.1%, due 12/21) | 4.8 | 4.8 | | | 4.8 | 4.8 |
| | | Senior secured loan (10.1%, due 12/21) | 49.6 | 50.0 | | | 49.6 | 50.0 |
| FPI Holding Corporation(4) | Distributor of stone fruits, grapes, persimmons, pomegranates and Asian pears | Senior secured loan (due 7/16)(3) | | | 0.4 | | 0.4 | |
| GF Parent LLC | Producer of low-acid, aseptic food and beverage products | Class A Preferred Units (2,940 units) | 2.9 | 1.4 | | | 2.9 | 1.4 |
| | | Class A Common Units (60,000 units) | 0.1 | | | | 0.1 | |
| Kettle Cuisine, LLC | Manufacturer of fresh refrigerated and frozen food products | Junior secured loan (10.8%, due 2/22) | 28.5 | 28.5 | | | 28.5 | 28.5 |
| KeyImpact Holdings, Inc. and JWC/KI Holdings, LLC | Foodservice sales and marketing agency | Senior secured loan (7.1%, due 11/21) | 46.0 | 46.0 | | | 46.0 | 46.0 |
| | | Membership units (5,000 units) | 5.0 | 6.0 | | | 5.0 | 6.0 |
| NECCO Holdings, Inc.(4) | Confectioner | Common stock (860,189 shares) | | | 0.1 | | 0.1 | |
| | | Senior secured loan (due 11/17)(3) | | | 11.7 | 8.4 | 11.7 | 8.4 |
| | | Junior secured loan (due 11/17)(3) | | | 2.7 | | 2.7 | |
| Teasdale Foods, Inc. | Provider of store brand and branded bean and hominy products | Junior secured loan (10.8%, due 10/21) | | | 52.8 | 51.7 | 52.8 | 51.7 |
| **Total** | | | **221.9** | **222.5** | **67.7** | **60.1** | **289.6** | **282.6** |
| **Environmental Services** | | | | | | | | |
| MPH Energy Holdings, LP | Operator of municipal recycling facilities | Limited partnership interest | | | | | | |
| RE Community Holdings, LP and Pegasus Community Energy, LLC | Operator of municipal recycling facilities | Preferred stock (1,000 shares) | 8.8 | | | | 8.8 | |
| Soil Safe Acquisition Corp.(4) | Provider of environmental services for lightly contaminated | Common stock (810 shares) | | | 9.0 | 11.6 | 9.0 | 11.6 |

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|---|---|---|---|---|---|---|---|---|
| | soil | | | | | | | |
| | | Senior secured loan (8.0%, due 1/18-12/18) | | | 19.5 | 19.6 | 19.5 | 19.6 |
| | | Senior subordinated loan (16.1%, due 12/19)(2) | | | 78.3 | 78.4 | 78.3 | 78.4 |
| | | Junior secured loan (10.8%, due 7/19) | | | 12.7 | 12.7 | 12.7 | 12.7 |
| | | | | | | | | |
| Waste Pro USA, Inc | Waste management services | Junior secured loan (8.5%, due 10/20) | 16.5 | 16.5 | | | 16.5 | 16.5 |
| | | Junior secured loan (8.5%, due 10/20) | 59.8 | 59.8 | | | 59.8 | 59.8 |