BOWNE & CO INC
Form DEF 14A
April 10, 2002

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SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE SECURITIES EXCHANGE ACT OF 1934 (AMENDMENT NO.)

Filed by the Registrant [X]

Filed by a Party other than the Registrant [ ]

Check the appropriate box:

[ ]	Preliminary Proxy Statement	[ ]	Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

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Definitive Proxy Statement
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BOWNE & CO., INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than Registrant)

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Bowne & Co., Inc.
345 Hudson Street
New York, New York 10014

Robert M. Johnson
Chairman and
Chief Executive Officer
April 9, 2002

Dear Fellow Stockholder,

It is my pleasure to invite you to the Annual Meeting of Stockholders of Bowne & Co., Inc. on Thursday, May 30, 2002. Our meeting will begin at 10:00 A.M. (local time) in the ground floor exhibition hall of The Grolier Club, 47 East 60th Street in New York City. The Club s doorman will gladly arrange for handicapped access on request. Because space is very limited, an admission ticket will be required, and on page 3 of the attached booklet we have outlined the simple procedure for obtaining one.

Last year, we presented a realistic view of the evolving future for our core transaction business and how critical it was for us to further enhance the nontransactional side of our print, business-process outsourcing and information management businesses. We also outlined our efforts to reposition Bowne to address that strategic need. Then we proceeded to endure a tough year in a very difficult economic climate. However, rather than dwell upon past adversity, we are instead focused on growth and opportunity the theme of our Annual Meeting this year because we did not put our performance-driving efforts on hold while the economy struggled. The realignment of our business, the cost-management steps we implemented, and the market leadership we maintained in financial print and established in our business-process outsourcing segments, have served to place us in a very strong position to capitalize on significant growth opportunities well into the future. Other members of senior management and I will explain this in more detail at the meeting.

The attached booklet tells you how to be represented at the Annual Meeting, either by using the Internet, telephone or the enclosed voting card even if you do not attend. For those unable to join us in person, we will webcast the proceedings live on the Internet. To participate in the webcast, you must register on-line by following the easy instructions we will post on our website (www.bowne.com) beginning May 23. Stockholders can also access our proxy statement, our annual report to stockholders and our Form 10-K report through the Internet. You may sign up for future Internet distribution by so indicating when you return your voting instructions for the Annual Meeting or when you register your vote by telephone or on the Internet.

Even if you cannot join us on May 30, your vote is important to Bowne. Whether you plan to attend or not, please return your signed voting instructions, or give us your instructions on the Internet or by telephone, so that your Bowne shares will be represented.

Cordially,

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Bowne & Co., Inc.

345 Hudson Street
New York, New York 10014
(212) 924-5500

NOTICE OF ANNUAL MEETING

Stockholders of Bowne & Co., Inc. will hold their Annual Meeting on **Thursday, May 30, 2002**, beginning at 10:00 A.M. (local time), at The Grolier Club, 47 East 60th Street, New York, New York. A map of the area showing points of public transportation appears on page 29 of this booklet.

The purpose of the Annual Meeting is to elect three candidates to the Company s Board of Directors. Your Current Board has nominated Robert M. Johnson, H. Marshall Schwarz and Wendell M. Smith for three-year terms.

The Board of Directors recommends that you vote IN FAVOR OF these three candidates.

The Company s proxy statement for the Annual Meeting appears on the following pages. The proxy statement discusses the election of directors and contains other information about the Company. It also explains how you may vote at the meeting in person or by proxy, and how you may do so using the enclosed voting card, the telephone or the Internet. Stockholders may act on additional business if the action is proper under Delaware law.

Only stockholders listed on the Company s records at the close of business on April 1, 2002 may vote directly. Those who hold shares in street name may vote through their brokers, banks or other nominees. In order to attend in person, you must request a ticket of admission when you vote.

April 9, 2002

By order of the Board of Directors,

Vice President, Associate General Counsel
and Corporate Secretary

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Proposal to elect three directors

The Board of Directors proposes the following three nominees for election as directors of the Company, and recommends that you vote IN FAVOR OF all three:

Robert M. Johnson
H. Marshall Schwarz
Wendell M. Smith

The Board urges you to give instructions to the Company s representatives to vote on your behalf at the Annual Meeting. If you cannot attend, or you do not wish to vote by a written ballot at the meeting, these Company representatives will act in your place as your proxies, and they will cast your vote in the way you tell them to. The following pages explain how you can give your voting instructions to the Company representatives either using the Internet or over the telephone, or by mailing the printed voting instructions card you received with this booklet. If you choose the Company representatives to cast your vote, they will vote in favor of the three nominees listed above, unless you tell them to do otherwise.

The election of each director requires a plurality of the votes cast at the Annual Meeting. A plurality is any number of shares, which is larger than the numbers cast for competing candidates. You may vote for any or all of the three nominees, but you may not cast more than one vote for any one nominee. If a nominee becomes unable to serve before the meeting begins, the Company representatives may vote your shares in favor of a substitute nominee proposed by the Board of Directors.

The Company has three classes of directors with staggered terms of three years each. The Board has nominated Robert M. Johnson, H. Marshall Schwarz and Wendell M. Smith to Class III. If they are elected, their terms will expire at the Company s Annual Meeting in 2005. After the election of three directors at the meeting, there will be a total of nine members on the Board of Directors of the Company, evenly divided among the three classes.

The three nominees already serve as directors of the Company. They have consented to their nomination and agree to continue to serve if the stockholders reelect them at the meeting. On pages 6-7 of this booklet you will find biographies of all the current directors in alphabetical order. We have highlighted the three nominees in blue. For each director we have included his or her age on the date of the meeting and principal occupation during the last five years. Additional information about the Board of Directors itself and its standing committees begins on page 8 of this booklet.

Your vote at the Annual Meeting

Who may vote? The record date for the Annual Meeting was April 1, 2002. This means you are entitled to vote if our records show you held one or more shares of the Company s common stock when business closed on that day. A total of 33,421,825 shares of common stock were outstanding and entitled to vote on the record date, and each share is entitled to one vote. The Company has no other voting securities. The voting instructions card enclosed with this booklet shows the number of shares you held, and you may cast that same number of votes. A list of all stockholders on the record date will be available for inspection at the Company s executive offices ten days before the meeting.

We will not hold the meeting unless a quorum of the stockholders attend in person or appoint the Company representatives or other proxies to vote in their place. Stockholders entitled to vote just over half the number of shares outstanding on the record date (that is, at least 16,710,913 shares) will constitute the necessary quorum.

Tickets required. Because seating will be limited at the Annual Meeting, a stockholder who wishes to attend in person must have a ticket of admission. Each stockholder may request one ticket either by mail addressed to the Corporate Secretary in care of the Company at 345 Hudson Street, New York, New York 10014 or by e-mail to *scott.spitzer@bowne.com*. If you forget to bring your admission ticket, you can attend the Annual Meeting only if you are a stockholder on the Company s records and offer satisfactory identification. If you hold your shares through a broker, bank or nominee, you will need a voting instructions card from your broker as proof of ownership.

How to vote shares registered in your own name. If you owned common stock in your own name on the record date, then you are a holder of record and your shares are registered with the Company. This means you may use the voting instructions card enclosed with this booklet to tell the Company representatives how you want them to vote your shares. Be sure to sign, date and mail the card in the postage-paid envelope, which we sent with your card.

Or you may send your instructions by Internet or by telephone in the United States or by Internet if outside the United States. If you use the Internet or telephone, the Company will confirm that we have received your instructions. Whether you use the Internet or telephone, you will need the personalized control number we have printed on your voting card.

To vote by Internet, go to this special address on the Internet: https://www.proxyvotenow.com/bne After the prompt, enter the personalized control number from your voting card and then press Enter. Follow the on-screen instructions. When you finish, review your vote and print a copy if you wish. If it is correct, click on Submit to register your vote.

To vote by telephone, call this toll-free number from any touch-tone telephone in the United States: 1-866-874-4877. After the prompt, enter the personalized control number from your voting card and then press the # sign. Follow the recorded audio instructions. When you finish, the recording will replay your vote for your review. If it is correct, register your vote at the audio prompt.

Participants in Bowne s Direct Stock Purchase and Dividend Reinvestment Plan on the record date will have the same choice of ways to vote. The Company s annual report describes that plan.

Stockholders who attend the Annual Meeting in person may vote by written ballot at that time. But even if you plan to attend, the Board still urges you to give your voting instructions to the Company representatives before the meeting in

case your plans change. At the meeting you can change or revoke any instructions you gave previously.

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How to vote shares held by a broker. If a broker, bank or other nominee holds common stock for your benefit, and the shares are not in your own name on the Company s records, then your shares are in street name. In that case, your broker, bank or other nominee will advise you how to vote. Bowne reimburses them for forwarding this booklet and other material to you. If you have not heard from the broker, bank or nominee who holds your stock in street name, please contact them as early as possible. If you attend the meeting in person and want to vote shares held for you in street name, you must bring a written form of proxy from your broker, bank or nominee. It must name you as the sole representative entitled to vote. Be sure to give the form to the Corporate Secretary of the Company before voting starts.

How will the representatives vote for you? Whether you mail your instructions or send them by Internet or telephone, the Company representatives will vote your shares exactly as you tell them to. If you do not indicate how you want your shares voted, the Company representative will vote in the way the Company s Board of Directors recommends. If there is an interruption or adjournment of the meeting before we complete the agenda, the Company representatives may still vote your shares when the meeting resumes. If a broker, bank or other nominee holds your common stock in street name, they will normally ask for your instructions and vote your shares accordingly. If you give instructions to a broker, bank or nominee, they will tell the Company representatives to vote in the way you instruct.

How to revoke voting instructions. You may change or revoke your voting instructions at any time before the stockholders vote at the Annual Meeting. To revoke or change voting instructions you have given, you must tell the Corporate Secretary of the Company in writing before the stockholders vote. Of course, you may come to the Annual Meeting in person and vote your shares by written ballot at that time. If you want to vote in person, be sure to revoke in writing any voting instructions you gave before the meeting begins.

How do we count votes? Voting at the Annual Meeting will be confidential. The Bank of New York, the Company s registrar and transfer agent, will count all the votes. Whether you choose the Company representatives to vote for you or you attend the meeting in person, your shares will count in determining whether we have the necessary quorum, even if you decide to abstain from voting or to vote against the proposal to elect directors. Likewise, shares represented at the meeting by a broker, bank or nominee will be counted in determining whether there is a quorum, regardless of whether you vote or abstain. But if a stockholder fails to vote or chooses to abstain from voting, his or her shares will not count as votes for or against the proposal. This means that the unvoted shares will not affect the outcome of the voting.

If you give no instructions. The New York Stock Exchange has determined that the proposal to elect directors is discretionary. This means that brokers, banks and other nominees will be able to vote stock they hold for you in street name even if you have not given instructions on the proposal. On the tenth day before the meeting, unless you have specified otherwise, your broker, bank or nominee will then direct the Company representatives to vote your shares in favor of electing the three nominees.

Who pays for this solicitation? Bowne will pay the cost of solicitating your voting instructions. Employees and agents of the Company may solicit by personal interview or by any other means of communication including mail, fax, e-mail and telephone. The Company reimburses brokers, banks and other nominees for expenses they incur in forwarding copies of this booklet and other Company material to stockholders and in gathering their voting instructions. The Company has retained the proxy-soliciting firm of D. F. King & Co., Inc. to assist in this solicitation

for a fee that will not exceed $10,000, plus out-of-pocket expenses.

Other business at the meeting. The Company does not know of any business to be presented at the Annual Meeting besides the proposal to elect three directors. However, if other business comes before

the meeting and is proper under Delaware law, the Company representatives will use their discretion in casting all the votes they are entitled to cast, except those votes for which they have contrary written instructions.

About this proxy statement. The Company s management prepared this booklet and began sending it to stockholders on or about April 12, 2002. Bowne is participating in the U.S. Securities and Exchange Commission s plain English initiative by offering Annual Meeting information to our stockholders in language that is easier to read and understand. In addition, we are making the proxy statement, annual report and Form 10-K available on-line at the Company s website (*www.bowne.com*).

When you give us your voting instructions, you may also indicate whether you want to receive Company materials by means of the Internet in the future. Until the Company notifies you otherwise, enrolling to receive your documents by means of the Internet will not remove your name from our regular mailing lists.

Some words have special meanings when we use them in this booklet. The terms Company and Bowne, as well as the words we, us and our, refer of course to Bowne & Co., Inc., a Delaware corporation. The Company representatives are the two people (Robert M. Johnson and Scott L. Spitzer) chosen to vote in your place as your proxies at the Annual Meeting, or anyone else they choose to be their substitutes. We refer to the New York Stock Exchange as the Exchange. Finally, the terms common stock, stock and shares all mean the Company s Common Stock, par value $ per share, which trades on the Exchange.

Webcast of the meeting. Stockholders who are unable to attend the meeting in person may follow it live on the Internet. Beginning on May 23, 2002, the Company intends to post information on our website (*www.bowne.com*), about how this webcast will work. To participate, stockholders must register electronically before the meeting begins by following the on-line instructions.

Results of the voting. After the Annual Meeting, the results of the voting will be available on our website (*www.bowne.com*), together with a transcript of the meeting and an archive copy of the webcast.

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Information about the nominees and other directors

Carl J. Crosetto (Age 53)
President of the Company since December 2000. Mr. Crosetto was Senior Vice President from May 1998, Executive Vice President from December 1998, and formerly President of a subsidiary, Bowne International L.L.C. He is also a director of Day International Inc. He was first elected to the Board in January 2000 as a Class II director and his term will expire in 2004.

Douglas B. Fox (Age 54)
Private investor. Previously he was Senior Vice President of Marketing and Strategy, Compaq Computer Corporation and Chief Marketing Officer and Senior Vice President of Marketing, International Paper Co. He was first elected as a Class II director in March 2001 and his term will expire in 2004.

Robert M. Johnson (Age 56)
Chairman of the Board and Chief Executive Officer of the Company since 1997. Previously he had been Chief Executive Officer of the Company from 1996. Mr. Johnson was first elected to the Board in 1996 as a Class III director. If reelected, his new term will expire in 2005.

H. Marshall Schwarz (Age 65)
Retired Chairman of the Board of U.S. Trust Corporation. Mr. Schwarz, who is Chairman of the Company s Executive Committee, also serves as a director of The Charles Schwab Corporation and the Atlantic Mutual Companies. He was first elected to the Company s Board in 1986 as a Class III director. If reelected, his new term will expire in 2005.

Wendell M. Smith (Age 67)
President of Polestar Ltd. Until 1997, Mr. Smith served as Chairman of the Board of Baldwin Technology Company, Inc. He was elected to the Company s Board of Directors for the first time in 1992 as a Class III director. If reelected, his term will expire in 2005.

Lisa A. Stanley (Age 46)
Financial planning consultant, affiliated with Tax & Financial Group of Newport Beach, California. Ms. Stanley was elected to the Company s Board of Directors in 1998 as a Class II director and her term will expire in 2004.

Vincent Tese (Age 59)
Cable television owner and operator. Also a director of Bear Stearns & Co., Inc., Allied Waste Industries, Inc., Custodial Trust Company, Cablevision, Inc., Lynch Interactive Corporation, Core/Xanboo, National Wireless Holdings, Inc., Orion Power Holdings, Inc., and Mack-Cali Realty Corp. Mr. Tese was first elected to the Company s Board in 1996 and is a Class I director with his term expiring in 2003.

Harry Wallaesa (Age 51)
Private Investor. Previously he was President, Chief Operating Officer and a director of Safeguard Scientifics, Inc., Chairman of CompuCom Systems, Inc. and Chief Information Officer of Campbell Soup Company. Mr. Wallaesa was first elected to the Company s Board in 1999, and his term as a Class I director will expire in 2003.

Richard M. West (Age 63)
Dean Emeritus, Stern School of Business, New York University. He is also a director of Vornado Realty Trust, Vornado Operating Co., Alexander s Inc., and several mutual funds advised by Merrill Lynch Investment Management or its affiliates. First elected to the Board in 1994, he is a Class I director whose term will expire in 2003.

The Board and its committees

The Board of Directors. Periodically throughout the year, the Board of Directors and its standing committees meet to direct and oversee management of the Company. The Board held six meetings during 2001. In addition, the committees of the board met a total of fourteen times and took action without formal meetings when appropriate. Board members also share information and exchange views with the Chairman and with each other informally on matters that concern the Company and its stockholders.

How directors are chosen. The Board of Directors accepts recommendations of candidates for Board membership from stockholders, Company management, other Board members or any interested person. A stockholder who wants to recommend a candidate should write to Scott L. Spitzer, Vice President, Associate General Counsel and Corporate Secretary, Bowne & Co., Inc., 345 Hudson Street, New York, New York 10014. Stockholders may also nominate Board candidates at the Annual Meeting, and we have described the procedure for this, with the advance notice required, under the heading Proposals and nominations by stockholders on page 28 of this booklet.

Committees of the Board. The Board has four standing committees. Membership on these committees rotates periodically. The principal functions and current membership of each committee is as follows:

Executive Committee. The Executive Committee has many of the powers of the full Board in directing management of the Company and may exercise those powers between regular Board meetings. However, this committee may not amend the Company s by-laws, fill vacancies on the Board, make other fundamental corporate changes or take actions which require a vote of the full Board under Delaware law. The Executive committee also oversees matters of corporate responsibility, which may involve interests other than those directly benefiting stockholders, such as the concerns of employees, customers and the public at large. From time to time the committee considers candidates for the Board of Directors including those recommended by stockholders. The current members of the Executive Committee are Mr. Schwarz (chairman), Mr. Johnson, Mr. Tese and Mr. West. In 2001, this committee met three times and took action four times by written consents in lieu of meetings.

Audit Committee. In addition to other functions described in a report by its current members on page 11 of this booklet, the Audit committee recommends independent public accountants to serve as the Company s auditors and review the Company s report on Form 10-K with the auditors. Together with the Company s Chief Financial Officer, the committee reviews the scope and the results of the annual audit, as well as the auditors fees and other activities they perform for the Company. The Audit Committee also oversees internal financial controls and looks into other accounting matters if the need arises. The current members of the Audit Committee are Ms. Stanley (chairman), Mr. Fox, Mr. Schwarz and Mr. Wallaesa. The Audit Committee s Charter was attached as an exhibit to the Company s proxy statement for the 2001 Annual Meeting filed with the Securities and Exchange Commission. The committee met five times in 2001.

Finance Committee. The Finance Committee periodically reviews the financial reports and projections of the Company. In addition, this committee oversees investment policies and the performance of the various funds held in trust for the Company s employee benefits plans. The current members of the Finance Committee are Mr. West (chairman), Mr. Fox, Mr. Smith and Ms. Stanley. The committee met three times in 2001.

Compensation Committee. The Compensation Committee reviews base salaries, bonuses and incentive compensation for officers of the Company and other members of senior management. This

committee administers compensation programs, which involve present or deferred awards of the common stock, as well as those calling for cash payments. The Compensation Committee reviews any newly proposed compensation plans, while overseeing the administration of existing retirement, profit-sharing and other employee benefits plans for the Company s employees. Before significant changes affecting employees go into effect, the committee normally asks the full Board of Directors to approve those changes. The current members of the Compensation Committee are Mr. Tese (chairman), Mr. Smith and Mr. Wallaesa. The committee met three times in 2001.

Compensation Committee interlocks and insider participation. No member of the Compensation Committee was an officer or employee of the Company or any of its subsidiaries during 2001.

Participation at meetings. During 2001, with one exception, each member of the Board of Directors participated in at least 75% of the Board and committee meetings which he or she was entitled to attend. Mr. Wallaesa participated in 71% of his meetings due to other commitments.

Compensation of directors. Directors who are employees of the Company (currently Mr. Johnson and Mr. Crosetto) receive no fees for Board and committee service. On the other hand, each non-employee director receives a $25,000 annual retainer payable in quarterly installments following each fiscal quarter. Non-employee members of the Executive Committee receive an additional retainer of $5,000 per year, or $6,000 in the case of the chairman of that committee. Members of the other committees do not receive an additional retainer. Directors who are not employees also receive a fee of $1,000 for each Board meeting attended. Members of the standing committees, including the Executive Committee, receive $750 for each committee meeting they attend, while the chairmen of those committees receive $1,250 for meetings at which they preside. When directors take action by written consent without a formal meeting, they receive no compensation for that service.

The Company encourages its Board members to hold substantial equity interests by requiring each director to defer at least one half of his or her annual Board retainer and by permitting each director, on an annual basis, to elect voluntary deferral of some or all of the remaining fees and retainers. Directors may choose either non-qualified stock options or deferred stock units in place of cash, as long as they notify the Company of their choice before the year begins. All but two directors currently make voluntary deferrals of some or all of their compensation. The Stock Plan for Directors, first adopted in 1997, governs these tax-free deferrals of compensation.

Deferred stock units represent the right to receive a like number of shares of common stock at a future date, subject to distribution rules. They earn the equivalent of the Company s cash dividends, which we invest in more deferred stock units, but they do not confer voting rights. The Company further encourages deferral by adding a 20% match to any Board and committee compensation that a director voluntarily defers, other than the half of the annual Board retainer which he or she must defer. The market value of the Company s stock on the date when a particular retainer payment or attendance fee accrues is the rate the Company uses in converting Board compensation into deferred stock units. When a non-employee director retires from the Board, the Company will issue him or her shares from the corporate treasury equal in number to the deferred stock units accrued through the retirement date. The Company normally distributes these shares in two installments within fifteen months following the director s retirement.

A director may choose to convert Board compensation into stock options, rather than receiving it as cash or deferred stock units. In that case, the fair market value of the Company s common stock on the first trading day of the year will determine the rate for the conversion, and the dollar figure to which the Company applies this conversion rate will be

three times the amount of compensation the director wants to defer, after adding the Company s 20% match mentioned earlier, to the

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extent that a particular deferral is voluntary. The Company believes that multiplication by three adjusts appropriately for variability in the market value of the stock and the fact that a payment is required to exercise the option. The Company will then formally grant the resulting number of options to the director as of the last trading day of the year. These options become exercisable on the first anniversary of the formal grant, subject to customary vesting rules, and expire on the tenth anniversary. If the director later exercises his or her options by paying the fixed exercise price, the Company will issue the resulting common stock from the corporate treasury.

As a further measure to increase equity participation by the Board and better align the directors interests with those of other stockholders, a new non-employee director who joins the Board receives an award of deferred stock units equivalent in market value to the annual retainer for Board membership. This one-time award will vest over the director s first four years of Board service, and the Company will then issue the corresponding common stock when the director retires.

Each non-employee director may also receive an annual award of non-qualified stock options allowing him or her to buy shares from the corporate treasury at the market value on the date of the award. If a director terminates service due to death, disability or retirement, these options will be exercisable for three months after termination, and then only to the extent they could be exercised at the time of termination. These post-termination exercise periods never extend the expiration date past the tenth anniversary of the grant date. The Board intends to base any option awards in 2002 and future years on periodic reviews of overall Board compensation in consultation with professional compensation advisors.

Finally, the Company has a Matching Gifts Program for non-employee directors. Under this program, the Company matches a director s qualified charitable contributions up to $5,000 each year. The Company also reimburses reasonable travel expenses, which its directors incur in attending Board and committee meetings.

Appointment of auditors. On March 27, 2002, the Board of Directors ratified the Audit Committee s selection of the independent accounting firm of KPMG LLP to be auditors of the Company for the current fiscal year, ending December 31, 2002. KPMG has served as the Company s auditors since 1998 and is independent with respect to the Company and its subsidiaries. They audit the Company s financial statements and provide other professional services requested by the Company from time to time. During the past year, KPMG s services included:

Examining the consolidated financial statements which appear in the Company s annual report on Form 10-K for the year ending December 31, 2001

Reviewing federal and state tax returns prepared by the Company for itself and its subsidiaries

Reviewing the financial statements of the Company s employee benefits plans and providing tax services relating to those plans

Providing internal audit consulting service on special projects

Meeting periodically with the Audit Committee of the Board of Directors

Consulting on miscellaneous accounting, tax and other professional matters when requested.

Fees paid to KPMG for the year ending December 31, 2001 are set forth below:

Audit Fees. KPMG s fees for our 2001 annual audit and review of interim financial statements were $1,030,000.

Financial Information Systems Design and Implementation Fees. KPMG did not render any professional services to us in 2001 with respect to financial information systems design and implementation.

All Other Fees. KPMG s fees for all other professional services rendered to us during 2001 were $695,923.

Representatives of KPMG will attend the Annual Meeting on May 30, 2002. They will have an opportunity to make a statement if they choose to do so, and to respond to appropriate questions from stockholders.

Report of the Audit Committee

The Audit Committee of the Board of Directors (the Committee) assists the Board in fulfilling its responsibility to relevant constituencies, including stockholders and potential stockholders of the Company, regarding internal controls, corporate accounting, reporting practices, and the quality and integrity of the financial reports of the Company. The Committee also maintains free and open communication among the Board, the Company s financial management, including its Chief Financial Officer, and its independent public accountants, KPMG LLP. Company management has primary responsibility for the financial statements and for the reporting process. The Company s auditors, on the other hand, are responsible for expressing an opinion on conformity of the audited financial statements to generally accepted accounting principles. It is the Committee s responsibility to monitor and oversee these processes.

We have determined that each member of the Committee is an independent director as defined in the Listing Standards of the New York Stock Exchange and that the Committee is a qualified audit committee as defined in the Exchange s Corporate Governance Standards. In May 2000, the Board of Directors adopted a formal charter for the Committee.

Pursuant to its formal charter, the Committee has carried out its responsibilities by reviewing and discussing the audited financial statements for fiscal 2001 both with the Company s auditors and with management, and has also examined with the auditors the matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committee, as amended). In addition, the Committee has received from the auditors the letter and written disclosures respecting fiscal 2001, which are required by independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and has discussed with them their independence from the Company and its management. Furthermore, the Committee has considered whether the auditors non-audit services to the Company are compatible with auditor independence.

Based upon our reviews and discussions referred to above, the Committee recommended today to the Board of Directors, and the Board agreed, that the audited financial statements for fiscal 2001 be included in the Company s annual report on Form 10-K for the year ended December 31, 2001, for filing with the Securities and Exchange Commission.

This report by the Committee is not to be deemed filed under the Securities Act of 1933 or the Securities Exchange Act of 1934, both as amended, and is not to be incorporated by reference into any other filing of the Company under those statutes except to the extent that the Company may expressly refer to this report for incorporation by reference in a particular instance.

The undersigned, being all the members of the Audit Committee, submit this report to the Company s stockholders as of March 20, 2002.

Lisa A. Stanley, Chairman
Douglas B. Fox
H. Marshall Schwarz
Harry Wallaesa

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Comparison of five-year cumulative return

The graph on the facing page shows yearly changes in the total return on investment in Bowne common stock on a cumulative basis for the Company s last five fiscal years. The graph also compares two other measures of performance: total return on the Standard & Poor s 500 Index, and total return on the Standard & Poor s Services (Commercial & Consumer) Index. For convenience, we refer to these two comparison measures as S&P 500 and S&P Services Index , respectively.

The Company chose the S&P 500 because it is a broad index of the equity markets. We chose the S&P Services Index as our own peer group because it represents the capital-weighted performance results of companies in specialized commercial consumer services. The S&P 500 includes the companies represented in the S&P Services Index.

We calculated yearly change in Bowne s return in the same way that both the S&P 500 and the S&P Services Index calculate change. In each case, we assumed an initial investment of $100 on December 31, 1996. In order to measure the cumulative yearly change in that investment over the next five years, we first calculated the difference between, on one hand, the price per share of the respective securities on December 31, 1996 and, on the other hand, the price per share at the end of each succeeding fiscal year. Throughout the five years we assumed that all dividends paid were reinvested into the same securities. Finally, we turned the result into a percentage of change by dividing that result by the difference between the price per share on December 31, 1996 and the price per share at the end of each later fiscal year.

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Comparison of five-year cumulative return

	12/31/96	12/31/97	12/31/98	12/31/99	12/31/00	12/31/01
Bowne & Co., Inc.	100.00	174.14	156.51	120.09	96.06	118.63
S&P 500	100.00	144.48	185.77	224.86	204.39	180.10
S&P (Commercial & Consumer) Services Index 500	100.00	127.67	104.72	99.79	64.27	87.87

Ownership of the common stock

Principal stockholders. The Company does not know of any individual who is the beneficial owner of more than 5% of the common stock that was outstanding on the record date for the Annual Meeting. The only institutional investors known to have held more than 5% on that date are set forth in the following table which shows each firm s percentage of shares actually outstanding on the record date. We took this information from the most recent reports on Schedule 13G, as filed with the Securities and Exchange Commission as of March 25, 2002.

Stockholder	Address	Number of shares	Percent of outstanding	Voting authority
Dimensional Fund Advisors Inc.(1)	1299 Ocean Avenue Santa Monica, CA 90401	2,496,932	7.5%	sole voting and dispositive power
Sterling Capital Management LLC(2)	301 S. College Street Charlotte, NC 28202	2,199,025	6.6%	shared voting and dispositive power
Bowne Employees Stock Purchase Plan and Global Employee Stock Purchase Plan(3)	345 Hudson Street New York, NY 10014	1,964,541	5.9%	sole voting and dispositive power
Royce & Associates, Inc.(4)	1414 Avenue of the Americas New York, NY 10019	1,781,000	5.3%	sole voting and dispositive power
Barclay Global Investors, N.A.(5)	45 Freemont Street San Francisco, CA 94015	1,698,073	5.1%	sole voting and dispositive power

Notes:

(1) Dimensional Fund Advisors Inc. (Dimensional) is an investment advisor and serves as an investment manager to certain funds. The number shown in the Number of shares column represents the total number of shares of the Company s common stock owned by the funds, which are advisory clients of Dimensional. Dimensional possesses voting and/or investment power for the shares of common stock of the Company owned by the funds.

(2) Sterling Capital Management LLC (Sterling) is an investment advisor. The clients of Sterling have the right to receive the power to direct the receipt of dividends, or the proceeds from the sale of the Company s common stock. The number shown in the Number of shares column represents the total

number of shares of common stock of the Company held by clients of Sterling and its affiliates.

(3) The number shown in the Number of shares column reflect 1,906,541 shares of the Company s common stock, or 5.7% held by the Bowne Employees Stock Purchase Plan (Bowne Plan) and 58,000 shares of the Company s common stock, or 0.2% held by the Global Employee Stock Purchase Plan (Global Plan). The Bowne Employees Stock Purchase Plan is a plan sponsored by the Company in which eligible employees make contributions through payroll deductions. The contributions are placed in an account held in trust by the plan trustees and invested in shares of the Company s common stock. The Company makes contributions based on the amount the employee contributes with vesting of the Company contribution generally based on the employee s years of credited service. The plan administrator for the Bowne Plan is a committee appointed by the Board of Directors of the Company. The Global Plan is a stock purchase plan generally similar to the Bowne Plan for employees of certain subsidiaries and affiliates of the Company outside of the United States. The plan administrator for the Global Plan is a committee appointed by the Board of Directors of the Company. Each plan participant has the right to direct how the shares of the Company s common stock allocated to his or her account are voted by the plan trustee.

(4) Royce & Associates, Inc. is an investment advisor.

(5) Barclays Global Investors, N.A. is a bank. The number shown in the Number of shares column represents the total number of shares of common stock of the Company held by it and its affiliates.

Stock ownership of management. The table shows the number of shares of common stock which each member of the Board of Directors owned beneficially on the record date for the Annual Meeting, including the three current nominees for election to the Board. The table also shows how many shares the Company s five most highly compensated senior executives owned beneficially on the record date, as well as the aggregate number of shares owned beneficially by 18 directors and corporate officers as a group including the five highest. The following table assumes that an individual beneficially owns any shares which he or she may acquire by exercising options which are exercisable within sixty days after the record date, by converting stock equivalents or by withdrawing from an employee benefits plan, even if that individual has not yet made the exercise, conversion or withdrawal of the stock.

No individual listed in the following table other than Robert M. Johnson beneficially owned more than 1% of the common stock outstanding on the record date. The number of shares shown for all directors and officers as a group would represent 5.2% of the Company s outstanding shares if all exercisable stock options and all deferred stock units held by such directors and officers were already exercised or converted as described in notes (1) and (14) in the following table.

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Stock ownership of management Name or group	Number of shares and nature of beneficial ownership(1)
C. Cody Colquitt	36,177(2)
Carl J. Crosetto	269,165(3)
Douglas B. Fox	19,965(4)
Robert M. Johnson	627,616(5)
Philip E. Kucera	77,456(6)
H. Marshall Schwarz	33,351(7)
Wendell M. Smith	15,446(8)
Lisa A. Stanley	201,226(9)
Vincent Tese	28,005(10)
Duncan P. Varty	98,386(11)
Harry Wallaesa	23,399(12)
Richard R. West	53,097(13)
All directors and corporate officers as a group	1,749,100(14)

Notes:

(1) The beneficial ownership reported in the table is direct unless otherwise noted. The Company understands that each individual named has sole power to vote or to dispose of the shares. The shares reported in the table include these forms of beneficial ownership:

Shares of common stock beneficially owned out-right on the record date, either on the records of the Company or in street name,

Shares subject to stock options exercisable on the record date, or which will become exercisable within 60 days after the record date,

Shares owned indirectly through the Employees Stock Purchase Plan, determined from the latest quarterly calculation of account balances under that plan,

Deferred stock units awarded to individual executives under the Long-Term Performance Plan or the Deferred Award Plan, and

Deferred stock units credited to individual non-employee directors under the Stock Plan for Directors, including units resulting from the conversion of cash retirement benefits that accrued to individual directors prior to the effective date of that plan, as well as units resulting from the one-time award made to each director elected after that plan went

into effect in 1997.

The table assumes that all deferred stock units are fully distributed and may be converted into common stock within 60 days after the record date, and that cash dividends payable on deferred stock units through the record date have been reinvested in additional shares.

(2) Includes 2,200 shares owned, options to purchase 23,000 shares, 9,581 deferred stock units, and 1,396 shares held in the Employees Stock Purchase Plan.

(3) Includes options to purchase 207,750 shares, 59,692 deferred stock units, and 1,723 shares in the Employees Stock Purchase Plan.

(4) Includes options to purchase 17,494 shares, and 2,471 deferred stock units under the Stock Plan for Directors.

(5) Includes 53,334 shares owned, options to purchase 414,400 shares, 157,282 deferred stock

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units, and 2,600 shares held in the Employees Stock Purchase Plan.

(6) Includes options to purchase 56,900 shares, and 20,556 deferred stock units.

(7) Includes 2,000 shares owned, options to purchase 20,953 shares, and 10,398 deferred stock units under the Stock Plan for Directors.

(8) Includes 200 shares owned indirectly, options to purchase 10,040 shares, and 5,206 deferred stock units under the Stock Plan for Directors.

(9) Includes 190,022 shares owned, options to purchase 6,500 shares, and 4,704 deferred stock units under the Stock Plan for Directors.

(10) Includes options to purchase 19,388 shares, and 8,617 deferred stock units under the Stock Plan for Directors.

(11) Includes 72,450 options to purchase shares, and 25,936 deferred stock units.

(12) Includes options to purchase 16,877 shares, and 6,522 deferred stock units under the Stock Plan for Directors.

(13) Includes 22,000 shares owned, options to purchase 20,170 shares, and 10,927 deferred stock units under the Stock Plan for Directors.

(14) This group consists of 18 individuals. The shares reported in the table for the group include 3,238 shares owned by four corporate officers not named in the table, together with options to purchase 203,300 shares, 55,651 deferred stock units, and 3,622 shares held in the Employees Stock Purchase Plan for the benefit of six corporate officers not named in the table.

Report on executive compensation by the Compensation Committee

General evaluation of compensation. Each year, the Compensation Committee of the Board of Directors reviews all material components of compensation paid to the Company s senior executives and major business unit managers. The Committee ensures that a substantial portion of the compensation potential of each individual under our review is based on the Company s financial performance, because we firmly believe that aligning each executive s interest with those of our shareholders best serves both the immediate and the long-range benefits of the stockholders and the Company.

In addition, the Committee periodically reviews the Company s compensation programs in general, especially with regard to their effectiveness in promoting corporate performance and in realizing business strategies. Whenever called for, the Compensation Committee also proposes modifications to the formal plans which determine the various components of compensation. Our decisions are subject to approval of the full Board of Directors, and this year the Board ratified all our actions including our determination of the specific amounts and forms of compensation reported in the Company s proxy statement.

We met in December of 2000, twice during 2001 and again in March 2002 to determine the incentive awards and to fix the appropriate levels for other forms of compensation. This year we took 17 key employees under our direct review, including the Chief Executive Officer (CEO) and the other individuals named in the summary compensation table in the proxy statement.

The compensation received by each executive we reviewed for fiscal 2001 was an aggregate of: annual base salary fixed before the year began; an annual bonus and a long-term incentive award both of which are payable in the form of cash or deferred stock equivalents, or both; and stock options. With the exception of the CEO, all determinations of individual compensation began with proposals made by the CEO before the year began, which he based on advice from the executive compensation consultants retained by the Company and from the Company s own human resource professionals.

Compensation Benchmark study. As in prior years, the Company engaged the services of a leading consulting firm that specializes in executive compensation to provide the Committee with comparable market data for total compensation and each significant component of compensation. This study drew on confidential, non-public information which they had gathered as well as on published data of corresponding salaries, incentive awards and stock options at peer companies. The peer companies the consultants used were not identical to the peer group represented by the index referred to in the proxy statement under the heading Comparison of five-year cumulative return, although certain companies are found in both groups.

Although we did review peer companies generally viewed as comparable in size and industry, we also believe that the retention of well-qualified executives, especially those in positions with functional areas of responsibility, often require that the Company s compensation must be competitive with employers across a wide spectrum of industries which may not be necessarily peers of the Company. Therefore in evaluating all components of total compensation, the Committee also considered factors other than peer studies by our consultants. We took the Company s overall financial performance into account as well as the performance of its individual business units. We consulted published data on professional compensation generally and we factored in our own subjective perception of the contributions

each individual under review made to the Company during the year and, in the case of managers of specific business units, the individual s contributions to those respective units.

Finally, the Committee applied long-standing Company policies which are designed to attract and retain superior executive talent; to provide incentives and rewards for executives who contribute to the Company s success; and to link executive compensation with both corporate performance and the creation of long-term shareholder

value. The Committee s objective for 2001 and prior years was to maintain base salary and total compensation levels consistent with the Company s leadership position in several highly specialized business areas. Generally, the total compensation for each executive we reviewed was targeted at the 50th to 75th percentiles of the comparable market. Because total compensation includes base salary, annual bonus, long-term incentive, and stock options, we assess the combined value of these components, and determine the respective amounts of the components, with the aim that the sum of the components (at target levels) will place total targeted compensation in the desired range.

Base salaries. Due to the softening financial outlook and the planned cost reduction initiative for fiscal 2001 and based on recommendations from the CEO, the base salaries of the majority of the executives reviewed by the Committee were not increased and remained at the fiscal 2000 level. Of the six executives receiving increases in their base salary in recognition of a promotion or a significant increase in responsibilities, three were named as proxy officers. In addition, for 2002, the Committee decided not to increase the base salaries of the executives for a second consecutive year. Only one of the executives received an increase related to an increase in his responsibilities.

Annual Bonuses. In March 2002, the Committee reviewed bonuses with respect to 2001 in accordance with the terms of the Company s annual bonus program and the attainment of financial and individual goals established at the Committee s meeting in 2001.

2001 was a unique year in both the financial markets performance and the economic environment. Despite the achievement of the majority of the Company s strategic objectives such as: cost reductions and operating efficiencies; successful application of new technologies; further integration of new businesses and new client services offerings; and better internal coordination among business units, the Company s overall corporate financial threshold performance level specified under the annual bonus program was not attained. As a result, no annual bonuses were awarded to the executives, with the exception of three individuals none of whom are named executives listed in the Summary Compensation Table.

All three of these individuals received all or a portion of their annual bonus based on attainment of all or a portion of their business unit s financial objectives. In one case, the business unit attained the maximum of the range of financial performance and this individual received an annual bonus award over the target annual bonus.

Long-Term Incentive Plan. Another component of total compensation is the long-term incentive plan. This plan encourages and rewards improvements in targeted measures of long-term performance. Specifically, the measurements the Committee focused on in 2001 were the reduction of sales collection periods and the increase of free cash flow return on average invested capital, measured on a three-year rolling average basis. Certain of the business units attained or exceeded their targets while other business units did not reach the minimum performance threshold. Therefore the actual awards earned by the individual executives vary from 26.9% to 140% of the targets we established at the beginning of the year. The Corporate executives reported in the summary compensation table attained 86% of the target award. Because of the Company s overall financial results for 2001, the Committee required that all of the long-term incentive awards for 2001 be paid in deferred stock units, which will be eligible for distribution in 2003.

Under the terms of the long-term incentive plan, all awards converted into deferred stock units are matched by the Company with an additional 20% in the form of additional deferred stock units. These deferred stock units are held until the executive terminates employment, or for shares that the executive voluntarily elects to defer, he or she may

elect a deferral period equal to a set number of years, not less than 2 years. All deferred stock units are issued as common stock at the rate of one share for each unit.

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Stock Options. The Committee recommended that the Board award options to purchase the Company s common stock to executives under its review, including the CEO and the other executives named in the summary compensation table. A significant equity position in the Company, we believe, not only rewards sustained efforts by an executive but also focuses those efforts upon enhancing shareholder value. Initially, the CEO suggested specific numbers of options for the executives under review other than himself, based in each case on the individual s personal achievements, as well as the CEO s subjective view of that individual s opportunity for contribution to the overall performance of the Company.

The options granted in 2001 to individuals named in the table will become exercisable in installments over a two-year period following the grant, thus helping to secure continued service from the grantees. The options are exercisable within seven years. Options which are not exercised within the seven-year period are forfeited. We granted options to the named executives at the maximum level permitted by previously established guidelines for each employment position, because most of the options granted to the same individuals in previous years were under water and therefore no longer provided the level of incentive we had intended when we granted them originally. Options to the executives named in the Summary Compensation Table, including the CEO, represented 26% of all the options granted in 2001. In determining the amount of options granted as a component of total compensation, we consider the cash value of options under accepted valuation methodologies.

In addition, in accordance with past compensation practices, the Company grants stock options to a larger group of key employees every other year. 2001 being such a year, the Committee awarded grants to 344 of the Company s key employees. The same vesting period, expiration terms and grant price apply to the grants to key employees as the grants made to the executives under review by the Committee. The Committee believes that such grants are a valuable tool to attract and retain key employees.

The Committee changed its practice under the 1999 Incentive Compensation Plan and the 2000 Stock Incentive Plan for the 2001 options and all future grants under those plans. The changed practice provides that an employee who terminates employment due to death or permanent and total disability will immediately be 100% vested in the options. The changed practice also provides that the options awarded to employees who subsequently retire from the Company will continue to vest on the same schedule as set forth in the option grant until all of the outstanding options are vested. The exercise period will be extended from 90 days to one year from the date of termination due to retirement, death, disability or date the options vest after retirement.

Other Benefits. We provide a variety of employment benefits in order to be competitive in attracting and retaining talented executives. Among the more important are retirement benefits provided under our pension plan and supplemental retirement plan and severance benefits provided under the Termination Protection Agreements entered into with executives, as described at page 28 in this Proxy Statement. We have also implemented a Deferred Award Plan permitting deferrals of components of executive compensation in the form of deferred stock units, as described at page 26 in this Proxy Statement.

The Chief Executive Officer. The Committee followed the same criteria that were used in determining the compensation for the Company s senior executives in determining the base salary, annual bonus, long-term incentive award and stock option grant to the CEO for 2001. The CEO s base salary for 2001 was not increased over the corresponding figure for the preceding fiscal year. He did not receive an annual bonus for 2001. In addition, for 2002,

the Committee decided not to increase the CEO s base salary for a second consecutive year. We determined the CEO s target annual bonus and target long-term incentive award opportunity established for fiscal 2001, and the level of his stock option grant, with a view to achieving a targeted total compensation in the 50th percentile of compensation of peer companies chief executive officers.

Deductibility of executive compensation. Section 162(m) of the Internal Revenue Code does not allow the Company to deduct certain forms of annual compensation in excess of $1 million to the most highly compensated executives unless the relevant compensation program is performance-based and certain material terms have been approved by the shareholders. In implementing all compensation policies of the Company, the Committee strives to preserve the tax deductibility of compensation paid, to the extent that this objective does not impair the operation or effectiveness of the Company s compensation programs. However, the Committee and the Board of Director s have maintained flexibility to enter into arrangements which may result in non-deductible compensation to the senior executives of the Company.

The undersigned, being all the members of the Compensation Committee, submit this report to the Company s stockholders as of March 7, 2002.

Vincent Tese, Chairman
Wendell M. Smith
Harry Wallaesa

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Executive compensation

Summary compensation table		Annual compensation	
Name and principal position	Year	Salary(1)	Bonus(1)
Robert M. Johnson Chairman of the Board and Chief Executive Officer	2001 2000 1999	$550,000 $550,000 $500,000	$ 0 $361,500 $178,338
Carl J. Crosetto President	2001 2000 1999	$424,038 $375,000 $325,000	$ 0 $206,400 $195,006
Philip E. Kucera(6) Senior Vice President and General Counsel	2001 2000 1999	$265,000 $265,000 $250,000	$ 0 $129,033 $102,021
Duncan P. Varty(7) Senior Vice President and President, Bowne Financial Print	2001 2000 1999	$265,000 $255,962 $202,308	$ 0 $ 92,175 $ 85,074
C. Cody Colquitt(8) Senior Vice President and Chief Financial Officer	2001 2000 1999	$223,300 $156,539 $134,135	$ 0 $ 41,265 $ 64,300

[Additional columns below]

[Continued from above table, first column(s) repeated]

Summary compensation table	Long-term compensation			
Name and principal position	No. of shares underlying options(2)	Deferred stock awards(3)	Long-term incentive payouts(4)	All other compensation(5)
Robert M. Johnson Chairman of the Board and Chief Executive Officer	167,000 208,800 120,000	$235,533 $ 76,996 $383,691	$ 0 $114,000 $100,000	$ 5,059 $58,010 $51,875
Carl J. Crosetto President	106,500 140,000 60,000	$114,458 $ 26,374 $229,652	$ 0 $ 39,900 $ 52,500	$16,896 $32,146 $36,428

Philip E. Kucera(6) Senior Vice President and General Counsel	35,000 43,800 25,000	$ 53,520 $ 47,873 $120,048	$ 0 $ 0 $ 0	$12,096 $19,213 $18,911
Duncan P. Varty(7) Senior Vice President and President, Bowne Financial Print	35,000 43,800 25,000	$ 18,075 $ 38,893 $ 98,276	$ 0 $ 0 $ 0	$20,096 $22,713 $18,371
C. Cody Colquitt(8) Senior Vice President and Chief Financial Officer	50,000 19,400 10,000	$ 42,638 $ 18,882 $ 48,000	$ 0 $ 0 $ 0	$33,296 $44,689 $21,425

Notes:

(1) *Salary and bonus.* The individuals named in the table were the five most highly compensated executives of the Company in 2001. The column headed Salary shows annual base salaries, and the one headed Bonus shows cash payments under the Company s annual bonus program related to performance in 2001. The Compensation Committee of the Board of Directors fixed the base salaries before the year began and awarded the bonuses after the year ended within ranges of bonus potential previously established. The Committee linked a substantial part of each bonus award to the Company s financial performance for 2001 and the balance to the achievement of specific strategic objectives negotiated with each individual at the beginning of the year. For more information, see Report on executive compensation by the Compensation Committee at pages 18-21 in this booklet.

(2) *Stock options.* The Compensation Committee granted these options under qualified stock option plans approved by the Company s stockholders which meet regulatory requirements.

(3) *Deferred stock awards.* The table shows the cash value of deferred stock units awarded to the named individuals during 2001 under the Company s Long-Term Performance Plan and its Deferred Award Plan, described on pages 25-26. We calculated the cash value using either the average fair market value of the common stock for the last five days of 2001 or, in the case of imputed dividends payable on the stock, the market value on the relevant dividend payment date.

(4) *Long-term incentive payouts.* For details, see the table called Long-term incentive plans Awards in

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last fiscal year and the note to that table on pages .

(5) *All other compensation.* This column includes payments under the following compensation plans:

Profit-Sharing Plan. This is a defined contribution plan for eligible employees which meets regulatory requirements. The Company makes a contribution to the account of an employee based on his or her annual compensation as defined in the plan. For the five executives named in the table, the Compensation Committee measures the profitability of all participating business units against a previously set target in order to determine the contribution to be made to each individual s account. The contribution may not be greater than 10% of pre-tax income, before deducting the aggregate of all contributions under the plan, nor can it be greater than 15% of the individual s overall compensation. Account balances under this plan are not taxable until the Company distributes benefits at retirement or when employment terminates.

Excess ERISA Plan. This is a supplemental arrangement which allows certain highly compensated executives to reduce the negative effect of limits imposed by the Employee Retirement Income Security Act of 1974 on the contributions under the Profit-Sharing Plan.

Employees Stock Purchase Plan. This defined contribution plan also meets regulatory requirements. Eligible employees who elect to participate may contribute up to $200 per month from their after-tax compensation. Subject to customary vesting rules, the Company then makes a matching contribution equal to one half of the employee s contributions. The trustee of the plan uses the aggregate of all contributions to buy shares of the Company s common stock on the open market, and reinvests cash dividends paid on those shares to buy additional shares. The Company s matching contribution are not taxable until the employee withdraws his or her stock or terminates employment. None of the individuals named in the table are eligible to participate in the Company s Global Employee Stock Purchase Plan.

(6) Mr. Kucera joined the Company in November 1998. His bonuses for 2000 and 1999 include installments of a signing bonus.

(7) Mr. Varty received a housing allowance stipend which is included in the All other compensation column.

(8) Mr. Colquitt received a loan upon relocation. The loan is forgiven over a five year period. The amount of the loan forgiven is shown in the All other compensation column.

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Option grants in last fiscal year Name	Number of shares underlying options granted(1)	Percentage of total options granted in the year	Exercise price per share	Expiration date	Grant date present value(2)
Mr. Johnson	167,000	9.3%	$12.91	December 10, 2008	$596,190
Mr. Crosetto	106,500	5.9%	$12.91	December 10, 2008	$380,205
Mr. Kucera	35,000	1.9%	$12.91	December 10, 2008	$124,950
Mr. Varty	35,000	1.9%	$12.91	December 10, 2008	$124,950
Mr. Colquitt	50,000	2.8%	$12.91	December 10, 2008	$178,500

Notes:

(1) The Compensation Committee issued these incentive stock options under the Company s 1999 Incentive Compensation Plan, a qualified plan approved by the stockholders, which meets regulatory requirements. The Committee normally makes option grants at the end of the fiscal year, when it evaluates the accomplishments of eligible employees. Each option permits the grantee to purchase shares of common stock at their fair market value on the date of the grant. The fair market value used is the mean of the highest and the lowest trading prices reported on the Exchange on that date.

The Committee determined the number of shares each grantee may buy by applying guidelines established in earlier years. For 2001, certain key employees of the Company, including the five executives named in the table, received options to buy the maximum number of shares permissible within those guidelines. The Committee considered this appropriate because many options granted in prior years were only exercisable at prices higher than the market value of the stock during most of 2001 and therefore may not provide the intended incentive.

The Committee set the vesting schedule and the other terms of the 2001 options on the grant date. A corporate officer may exercise 50% of the grant on the first anniversary of the grant and the balance on the second anniversary. Each option will expire on the seventh anniversary or earlier under certain circumstances. Options are not transferable, and the grantee may forfeit them by competing against the Company and in some other cases.

The Committee changed its practice under the 1999 Incentive Compensation Plan as well as the 2000 Stock Incentive Plan to provide that an employee who terminates employment due to death or permanent and total disability will immediately be 100% vested in the options. The changed practice also provides that the options awarded to employees who subsequently retire from the Company will continue to vest on the same schedule as contained in the option grant until all of the outstanding options are vested. The exercise period will be extended from 90 days to one year from the date of termination due to retirement, death, disability or date the options vest after retirement. The changed practice applies to the grants made in December 2001 and all future grants.

The Board or the Committee has discretion to accelerate the exercisability of any options. Exercisability accelerates automatically if there is a change of control of the Company. Examples of change of control include an acquisition of at least 15% of the outstanding stock, a successful tender offer by a party other than the Company itself, the election of at least a third of the Board whom the current Board did not nominate, and a merger, consolidation or liquidation of the Company or sale of all or substantially all its assets.

(2) We calculated present values using a discounted Black-Scholes option-pricing model. In addition to information presented in the table, the method we used relied on these assumptions:

The common stock has a volatility rate of approximately 44% based on a weighted average of

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monthly closing prices over the three-year period preceding the grant date.

The current risk-free rate of return on U.S. Treasury bills is approximately 3.4%

The annual dividend yield of the stock is 1.7%

We did not adjust the present values to reflect the non-transferability of options or the risk of forfeiture. The values which an optionee may actually realize from the exercise of these options may be substantially different from the values shown in the table. Future events and factors currently unknown will continue to influence the Company s performance. Furthermore, stockholders and other investors should not view the values shown here as a forecast of the performance of the common stock or of future growth in its market price.

Aggregated option exercises in last fiscal year and year-end option values	Shares acquired on	Value	Securities underlying unexercised options at year-end		Value of unexercised in-the-money options at year-end(3)	
Name	exercise(1)	realized	Exercisable	Unexercisable	Exercisable(2)	Unexercisable
Mr. Johnson	0	$ 0	414,400	361,400	$622,178	$487,533
Mr. Crosetto	3,000	$21,931	207,750	216,500	$457,095	$318,798
Mr. Kucera	0	$ 0	56,900	76,900	$ 99,928	$102,203
Mr. Varty	0	$ 0	72,450	73,150	$121,389	$102,203
Mr. Colquitt	2,200	$ 8,440	23,000	67,200	$ 34,766	$ 47,104

Notes:

(1) Two of the executives named in this table exercised options during 2001.

(2) The table shows no value for options that were under water on the last trading day of 2001, which means that they were only exercisable on that date at prices higher than the market value of the common stock.

(3) The market value of the common stock was determined using the average of the high and low price per share on December 31, 2001, which was $12.98 per share.

Long term incentive plans Awards in the last fiscal year Name	Deferred stock units awarded

Mr. Johnson	18,564
Mr. Crosetto	8,928
Mr. Kucera	4,268
Mr. Varty	1,442
Mr. Colquitt	3,297

Note:

Deferred stock units in this table represent the right to receive the same number of shares of common stock when the executive retires or terminates employment. A holder of these units may not vote them, but the Company credits him or her with the equivalent of any cash dividends paid on the common stock and converts that amount into additional units. These deferred stock units are comparable with those awarded under certain circumstances to the Company s non-employee directors, as described on pages 9-10 of this booklet under the heading Compensation of Directors. The Compensation Committee awarded the deferred stock units shown in this table under two plans described below. The cash values of deferred stock units awarded to the five most highly compensated executives under these two plans also appear in the summary compensation table on page 22 as Deferred stock awards, and any amounts paid in cash under the same plans appear here as Long-term incentive payouts.

Long-Term Performance Plan. At the beginning of each year, the Committee sets aggressive goals under this plan to reward improvements in targeted measures of long-term performance. To the extent that the Company achieves these goals, each participating executive may elect to receive his or her individual award under the plan either in cash or in deferred stock units, but he or she must take deferred stock units for any additional award reflecting achievement in excess of the goals. The number of units in each award is 120% of the amount of the cash benefit subject to the deferral.

For 2001, the Committee based 60% of each award under this plan on efforts to reduce sales collection periods, and the balance on continuing to improve a three-year rolling average of free cash flow return on average invested capital. Because each of the Company s business units met different levels for the goal for each of these two measures, the resulting long-term awards ranged from 26.9% to 140% of a previously set target.

Deferred Award Plan. This plan governs the deferral of other components of executive compensation, again in the form of deferred stock units. First, under the Company s annual bonus plan, any amount earned in excess of the target bonus must be paid in the form of deferred stock units. Second, if the Internal Revenue Code forbids the Company to take a tax deduction for a particular cash bonus payment, deferral of that payment is mandatory. In both cases, the plan provides that the executive will receive deferred stock units equivalent in value to 120% of the portion of his or her bonus which is subject to deferral. Third, if a contribution the Company makes under the Profit-Sharing Plan for the benefit of a particular executive would exceed the limit imposed by the Employee Retirement Income Security Act, then the Company makes only the allowable contribution to the executive s account and converts the balance into deferred stock units. In the latter case the Company s Excess ERISA Plan described on page 23 provides for income taxes on the disallowed portion by awarding deferred stock units equivalent to 140% of the amount by which the contribution would have exceeded the allowable limit.

In a case of financial hardship, the Compensation Committee has discretion to make an early distribution from an executive s account. The distribution in an appropriate case will be the minimum number of shares of the common stock sufficient to cover the hardship. The Committee also has discretion to revoke any award made under these incentive plans if an executive competes against the Company or discloses confidential information.

Pension plans Name	Annual benefit at age 62 if average compensation is: $300,000	$500,000	$700,000	$900,000	$1,000,000
Mr. Johnson	$150,000	$250,000	$350,000	$450,000	$500,000
Mr. Crosetto	$150,000	$250,000	$350,000	$450,000	$500,000
Mr. Kucera	$150,000	$250,000	$350,000	$450,000	$500,000
Mr. Varty	$150,000	$250,000	$350,000	$450,000	$500,000
Mr. Colquitt	$150,000	$250,000	$350,000	$450,000	$500,000

Note:

Each individual named in the table participates in the Company s Pension Plan along with many other employees of the Company. They also participate in a Supplemental Retirement Plan for certain key employees designated by the Board. Retirement benefits under the combination of these two plans, described below, do not appear in the summary compensation table on page 22.

Pension Plan. This is a defined benefit plan which meets regulatory requirements. A participant s age, length of service and the average of his or her five highest years of cash compensation determine benefits under the plan. Cash compensation for this purpose is the sum of the salary and bonus shown in the summary compensation table. These benefits are payable as a life annuity upon normal retirement at age 65, or the actuarial equivalent of that annuity. A participant may elect a discounted benefit on early retirement after age 55, subject to customary vesting rules.

Supplemental Retirement Plan. This unfunded plan supplements the Company s Pension Plan by providing an additional life annuity for each key employee chosen to participate. The annual benefit under this plan, when combined with the benefit under the Pension Plan, generally equals one-half of a participant s average cash compensation for his or her 60 highest consecutive months during the final ten years of service.

Combined benefit. A participant will normally receive the full benefit under the combined plans if he or she retires at age 62 after at least five years of service, or at any age after 30 years of service. A participant who retires after age 55 with fewer than 30 years of service will receive a partial benefit representing a 5% reduction for each year between the early retirement date and age 62, prorated on a monthly basis. Mr. Crosetto will have had 30 years of service in January 2003 and will therefore be entitled to receive the maximum benefit under the combined plans at that time. Based on their anniversaries of hiring, the other individuals named in the table would receive approximately the following percentages of their full benefits if they retired after reaching age 55 and after completing at least five years of service: Mr. Johnson 70% today, Mr. Kucera 95% in 2003, and Mr. Varty 75% today, Mr. Colquitt 65% in 2016. Certain events producing a change of control of the Company may also make benefits available to the named executives prior to age 62.

Contractual arrangements with executives

The senior executives named in the summary compensation table on page 22 of this booklet and some other key employees of the Company have signed identical Termination Protection Agreements with the Company. These agreements will provide a benefit to the employee if the Company terminates his or her employment without cause and within 30 months after a change in control of the Company, as the agreements define those terms. The executive will receive the same benefit when a change of control is imminent if he or she chooses to resign due to a reduction in responsibilities or compensation, or if an outside party acquiring control asks the Company to terminate the employee. The benefit in those cases will normally be twice the sum of the employee s base salary and latest target bonus under the annual bonus program.

In January 1996, the Company signed a separate agreement with Mr. Johnson and amended it by mutual agreement in September 1998. The agreement would apply if the Company terminates him without cause or if he resigns with good cause. In addition to retirement benefits available to other senior executives of the Company, Mr. Johnson would receive a lump sum payment equal to the bonus he received for his last fiscal year before the termination. For 18 months after the termination, he would also continue to receive payments equal to his base salary in effect at the time of termination.

Other Information

Proposals and nominations by stockholders. Any stockholder may ask the Company to consider including a proposal in our proxy statement for the Annual Meeting in the year 2003. The proposal may be the nomination of a candidate for the Board of Directors, a by-law amendment or any other matter that is proper, under Delaware law. The Company will consider these proposals for inclusion in the Company s proxy materials for the Annual Meeting in the year 2003 only if they reach our executive offices by December 10, 2002.

A stockholder s proposal must be in writing and must identify the proposer. In accordance with the Company s By-laws, a stockholder proposal must be received by the Company not earlier than 90 days nor later than sixty 60 days in advance of the anniversary of the Company s previous annual meeting. If the date of the annual meeting occurs more than 30 days before or 60 days after the anniversary of the Company s previous annual meeting, stockholder proposals must be received no later than the close of business on the later of (i) the sixtieth day prior to such annual meeting and (ii) the tenth day following the date on which public announcement of the date of such meeting is first made. The nomination of a director candidate must also include written consent by the nominee that he or she will serve, if elected, as well as the information about both the candidate and the proposer which the rules and regulations of the Securities and Exchange Commission or the Exchange would require in a proxy statement relating to the election of that candidate.

All proposals and nominations should be addressed to our executive offices at 345 Hudson Street, marked to the attention of Scott L. Spitzer, Vice President, Associate General Counsel and Corporate Secretary.

The Company has no notice that any stockholder will offer a nomination, by-law amendment or other proposal at the 2002 Annual Meeting.

About Form 10-K. The Company files an annual report on Form 10-K every year with the Securities and Exchange Commission. By regular mail we have sent each stockholder a copy of that report for the fiscal year ended December 31, 2001. Others may request a copy of the latest Form 10-K by writing to Scott L. Spitzer, Vice President, Associate General Counsel and Corporate Secretary, Bowne & Co., Inc., 345 Hudson Street, New York, NY 10014; or by e-mail to scott.spitzer@bowne.com.

Directions to The Grolier Club

By subway, take the 4, 5, 6, N or R Train to Lexington Avenue & 59th Street. This station is both a local and an express stop. There is also a subway station at Fifth Avenue and 59th Street on the N and R lines.

By bus, take the M1, M2, M3 or M4 uptown on Madison Avenue or one of the same buses downtown on Fifth Avenue.

For cars, there are many parking facilities throughout the neighborhood, including Stoppers Parking Corp. at 136 East 60th Street near Lexington Avenue, between Park and Lexington Avenues.

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To Vote by TELEPHONE 1-866-874-4877		To Vote by INTERNET https://www.proxyvotenow.com/bne		To Vote by MAIL
Use any touch tone telephone in the United States. Have your Proxy Form in hand. Enter the Control Number located in the box below. Follow the simple recorded instructions	*OR*	Go to the website address listed above. Have your Proxy Form in hand. Enter the Control Number located in the box below. Follow the simple instructions.	*OR*	Mark, sign and date your Proxy Card. Detach card from Proxy Form. Return the card in the postage-paid envelope provided.

Your telephone or internet vote authorizes the named proxies to vote your shares in the same manner as if you marked, signed and returned the proxy card. **If you have submitted your proxy by telephone or the internet there is no need for you to mail back your proxy.** If you are outside of the United States, please vote by the Internet or mail back your Proxy Card promptly.

CONTROL NUMBER FOR TELEPHONE OR INTERNET VOTING

Bowne s Proxy Statement and Annual Report are available on Bowne s website at: **www.bowne.com**

1-866-874-4877

CALL TOLL-FREE TO VOTE

DETACH PROXY CARD HERE IF YOU ARE NOT VOTING BY TELEPHONE OR INTERNET

Votes must be indicated (x) in Black or Blue ink.

1. **Election of Class III Director**
   Nominees: 01-R.M. Johnson; 02-H.M. Schwarz; 03-W.M. Smith

FOR ALL	WITHHOLD FOR ALL	*EXCEPTIONS

The Company representatives are also authorized to vote in accordance with their discretion on any other business that may properly come before the meeting.

(INSTRUCTIONS: To withhold authority to vote for any individual nominee, mark the Exceptions box and write that nominee s name in the space provided below.)

*Exceptions ______________________

If you consent to receiving Annual Reports and Proxy Statements by Internet in the future, please mark here:

If you have noted an address change or comments on either side of this card, please mark here:

Please sign exactly as the name appears hereon. If stock is held in names of joint owners, both should sign.

Date	Share Owner sign here	Co-Owner sign here
________	____________________	____________________

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BOWNE & CO., INC.

Annual Meeting of Stockholders
Thursday, May 30, 2002

YOUR VOTING INSTRUCTIONS CARD IS ATTACHED BELOW.

You may vote by Internet, by telephone (United States only) or by conventional mail.

Please read the other side of this card carefully for instructions.

However you decide to vote, your representation

at the Annual Meeting of Stockholders is important to Bowne.

VOTING INSTRUCTIONS (Proxy)

Your vote is solicited on behalf of the Board of Directors.

Revoking any prior appointment, the person signing this card appoints Robert M. Johnson and Scott L. Spitzer, and each of them, attorneys-in-fact and agents with power of substitution, to vote as proxies for the undersigned at the Annual Meeting of Stockholders of Bowne & Co., Inc. to be held at The Grolier Club, 47 East 60th Street, New York, New York, on Thursday, May 30, 2002, beginning at 10:00 A.M. (local time), and at any adjournment thereof, with respect to the number of shares the undersigned would be entitled to vote if personally present. In the case of shares owned beneficially through the Bowne Employees Stock Purchase Plan or Global Employee Stock Purchase Plan, the participant signing this card instructs the plan trustees and their proxies to vote with respect to the number of shares held for his or her account.

The shares covered by these instructions, when properly executed, will be voted in accordance with recommendations by the Board of Directors and with the discretion of the named proxies on any other business that may properly come before the meeting, unless instructions to the contrary are indicated on the reverse side.

The person signing acknowledges receipt of a copy of the proxy statement which was mailed to all stockholders of record beginning on or about April 12, 2002, relating to the Annual Meeting.

(Continued, and to be dated and signed, on the other side)

BOWNE & CO., INC.
P.O.Box 11191
New York, N.Y. 10203-0191

pt;font-family:times;"> 31.5 26.3 0.51% **Telecommunications** Adaptive Mobile Security Limited(9) Developer of security software for mobile communications networks First lien senior secured loan ($3.0 par due 7/2018) 10.00% (Libor + 9.00%/M) 1/16/2015 3.2 3.2(2)(19)(21) First lien senior secured loan ($0.8 par due 10/2018) 10.00% (Libor + 9.00%/M) 1/16/2015 0.8 0.8(2)(19)(21) 4.0 4.0 American Broadband Communications, LLC, American Broadband Holding Company, and Cameron Holdings of NC, Inc. Broadband communication services Warrant to purchase up to 208 shares (expires 11/2017) 11/7/2007 7.2 Warrant to purchase up to 200 shares (expires 9/2020) 9/1/2010 7.0 14.2 Startec Equity, LLC(8)

Communication services

Member interest

4/1/2010

Company(1)	Business Description	Investment	Interest(6)(12)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Wilcon Holdings LLC	Communications infrastructure provider	Class A common stock (2,000,000 shares)		12/13/2013	1.8	2.6	
					5.8	20.8	0.40%
Printing, Publishing and Media							
Batanga, Inc.(25)	Independent digital media company	First lien senior secured revolving loan ($3.0 par due 6/2016)	10.00%	10/31/2012	3.0	3.0(2)	
		First lien senior secured loan ($6.6 par due 6/2017)	10.60%	10/31/2012	6.6	6.6(2)(19)	
					9.6	9.6	
Earthcolor Group, LLC	Printing management services	Limited liability company interests (9.30%)		5/18/2012			
The Teaching Company, LLC and The Teaching Company Holdings, Inc.	Education publications provider	Preferred stock (10,663 shares)		9/29/2006	1.1	3.9(2)	
		Common stock (15,393 shares)		9/29/2006		(2)	
					1.1	3.9	
					10.7	13.5	0.26%
Computers and Electronics							
Everspin Technologies, Inc.(25)	Designer and manufacturer of computer memory solutions	First lien senior secured loan ($8.0 par due 6/2019)	8.75% (Libor + 7.75%/M)	6/5/2015	7.4	7.8(5)(21)	
		Warrant to purchase up to 480,000 shares of Series B preferred stock (expires 6/2025)		6/5/2015	0.4	0.4(5)	
					7.8	8.2	
Liquid Robotics, Inc.	Ocean data services provider utilizing long duration, autonomous surface vehicles	First lien senior secured loan ($5.0 par due 5/2019)	9.00% (Libor + 8.00%/M)	10/29/2015	4.9	4.9(5)(21)	
		Warrant to purchase up to 50,263 shares of Series E preferred stock (expires 10/2025)		10/29/2015	0.1	0.1(5)	
					5.0	5.0	
					12.8	13.2	0.26%
					$ 9,147.6	$ 9,055.5	175.04%

(1) Other than the Company's investments listed in footnote 7 below (subject to the limitations set forth therein), the Company does not "Control" any of its portfolio companies, for the purposes of the Investment Company Act. In general, under the Investment Company Act, the Company would "Control" a portfolio company if the Company owned more than 25% of its outstanding voting securities (i.e., securities with the right to elect directors) and/or had the power to exercise control over the management or policies of such portfolio company. All of the Company's portfolio company investments, which as of December 31, 2015 represented 175% of the Company's net assets or 95% of the Company's total assets, are subject to legal restrictions on sales.

(2) These assets are pledged as collateral for the Revolving Credit Facility and, as a result, are not directly available to the creditors of the Company to satisfy any obligations of the Company other than the Company's obligations under the Revolving Credit Facility (see Note 5 to the consolidated financial statements).

(3) These assets are owned by the Company's consolidated subsidiary Ares Capital CP, are pledged as collateral for the Revolving Funding Facility and, as a result, are not directly available to the creditors of the Company to satisfy any obligations of the Company other than Ares Capital CP's obligations under the Revolving Funding Facility (see Note 5 to the consolidated financial statements).

(4) These assets are owned by the Company's consolidated subsidiary ACJB, are pledged as collateral for the SMBC Funding Facility and, as a result, are not directly available to the creditors of the Company to satisfy any obligations of the Company other than ACJB's obligations under the SMBC Funding Facility (see Note 5 to the consolidated financial statements).

(5) These assets are owned by the Company's consolidated subsidiary AVF LP, are pledged as collateral for the SBA Debentures and, as a result, are not directly available to the creditors of the Company to satisfy any obligations of the Company other than AVF LP's obligations (see Note 5 to the consolidated financial statements). AVF LP operates as a SBIC under the provisions of Section 301(c) of the Small Business Investment Act of 1958, as amended.

(6) Investments without an interest rate are non-income producing.

(7) As defined in the Investment Company Act, the Company is deemed to be an "Affiliated Person" and "Control" this portfolio company because it owns 5% or more of the portfolio company's outstanding voting securities or it has the power to exercise control over the management or policies of such portfolio company (including

through a management agreement). Transactions during the year ended December 31, 2015 in which the issuer was an Affiliated Person (but not a portfolio company that the Company is deemed to Control) are as follows (dollar amounts in thousands):

(in millions) Company	Purchases (cost)	Redemptions (cost)	Sales (cost)	Interest income	Capital structuring service fees	Dividend income	Other income	Net realized gains (losses)	Net unrealized gains (losses)
Campus Management Corp. and Campus Management Acquisition Corp.	$	$	$	$	$	$	$	$	$ (0.8)
Cast & Crew Payroll, LLC and Centerstage Co-Investors, L.L.C.	$ 41.6	$ 121.8	$ 43.2	$ 5.0	$ 0.1	$ 2.0	$ 0.1	$ 25.9	$ (11.7)
Crown Health Care Laundry Services, Inc. and Crown Laundry Holdings, LLC	$ 0.5	$ 1.6	$	$ 1.9	$	$	$ 0.1	$	$ 0.9
Investor Group Services, LLC	$	$	$	$	$	$ 0.1	$	$ 0.3	$ (0.3)
Multi-Ad Services, Inc.	$	$ 0.8	$	$	$	$ 2.2	$	$	$ (0.9)
Shock Doctor, Inc. and Shock Doctor Holdings, LLC	$ 108.4	$	$ 14.0	$ 6.9	$ 3.0	$	$	$	$ (0.2)
UL Holding Co., LLC	$	$ 0.3	$	$	$	$	$	$	$ 4.8

(8)

As defined in the Investment Company Act, the Company is deemed to be both an "Affiliated Person" and "Control" this portfolio company because it owns more than 25% of the portfolio company's outstanding voting securities or it has the power to exercise control over the management or policies of such portfolio company (including through a management agreement). Transactions during the year ended December 31, 2015 in which the issuer was both an Affiliated Person and a portfolio company that the Company is deemed to Control are as follows (dollar amounts in thousands):

(in millions) Company	Purchases (cost)	Redemptions (cost)	Sales (cost)	Interest income	Capital structuring service fees	Dividend income	Other income	Net realized gains (losses)	Net unrealized gains (losses)
10th Street, LLC and New 10th Street, LLC	$	$	$	$ 8.2	$	$ 1.0	$	$	$ (6.0)
AllBridge Financial, LLC	$	$	$	$	$	$	$	$	$ 2.2
Callidus Capital Corporation	$	$	$	$	$	$	$	$	$
Ciena Capital LLC	$	$ 18.4	$	$ 2.6	$	$	$	$	$ 11.3
Community Education Centers, Inc. and CEC Parent Holdings LLC	$	$	$	$ 3.9	$	$	$ 0.1	$	$ (0.7)
Crescent Hotels & Resorts, LLC and affiliates	$	$	$	$ 1.0	$	$	$	$	$ 3.0
HCI Equity, LLC	$	$	$	$	$	$ 0.1	$	$	$ (0.3)
HCP Acquisition Holdings, LLC	$	$	$	$	$	$	$	$	$
Ivy Hill Asset Management, L.P.	$	$	$	$	$	$ 50.0	$	$	$ (23.8)
MVL Group, Inc.	$	$	$	$	$	$	$	$	$
Orion Foods, LLC	$	$ 0.5	$	$	$	$	$	$	$ 1.1
PHL Investors, Inc., and PHL Holding Co.	$	$	$	$	$	$	$	$	$
Senior Secured Loan Fund LLC*	$ 228.7	$ 329.7	$	$ 276.1	$ 22.0	$	$ 26.2	$	$ (81.1)
Startec Equity, LLC	$	$	$	$	$	$	$	$	$
The Step2 Company, LLC	$	$	$	$ 3.3	$	$	$	$	$ 4.0

*

Together with GE, the Company has co-invested through the SSLP. The SSLP has been capitalized as transactions are completed and all portfolio decisions and generally all other decisions in respect of the SSLP must be approved by an investment committee of the SSLP consisting of representatives of the Company and GE (with approval from a representative of each required); therefore, although the Company owns more than 25% of the voting securities of the SSLP, the Company does not believe that it has control over the SSLP (for purposes of the Investment Company Act or otherwise) because, among other things, these "voting securities" do not afford the Company the right to elect directors of the SSLP or any other special rights (see Note 4 to the consolidated financial statements).

(9)

Non-U.S. company or principal place of business outside the U.S. and as a result is not a qualifying asset under Section 55(a) of the Investment Company Act. Under the Investment Company Act, the Company may not acquire any non-qualifying asset unless, at the time such acquisition is made, qualifying assets represent at least 70% of the Company's total assets.

(10)

Exception from the definition of investment company under Section 3(c) of the Investment Company Act and as a result is not a qualifying asset under Section 55(a) of the Investment Company Act. Under the Investment Company Act, the Company may not acquire any non-qualifying asset unless, at the time such acquisition is made, qualifying assets represent at least 70% of the Company's total assets.

(11)

In the first quarter of 2011, the Staff informally communicated to certain BDCs the Staff's belief that certain entities, which would be classified as an "investment company" under the Investment Company Act but for the exception from the definition of "investment company" set forth in Rule 3a-7 promulgated under the Investment Company Act, could not be treated as eligible portfolio companies (as defined in Section 2(a)(46) under Investment Company Act) (i.e. not eligible to be included in a BDC's 70% "qualifying assets" basket). Subsequently, in August 2011 the Securities and Exchange Commission issued a concept release (the "Concept Release") which stated that "[a]s a general matter, the Commission presently does not believe that Rule 3a-7 issuers are the type of small, developing and financially troubled businesses in which the U.S. Congress intended BDCs primarily to invest" and requested comment on whether or not a 3a-7 issuer should be considered an "eligible portfolio company". The Company provided a comment letter in respect of the Concept Release and continues to believe that the language of Section 2(a)(46) of the Investment Company Act permits a BDC to treat as "eligible portfolio companies" entities that rely on the 3a-7 exception. However, given the current uncertainty in this area (including the language in the Concept Release) and subsequent discussions with the Staff, the Company has, solely for purposes of calculating the composition of its portfolio pursuant to Section 55(a) of the Investment Company Act, identified such entities, which include the SSLP, as "non-qualifying assets" should the Staff ultimately disagree with the Company's position. Pursuant to Section 55(a) of the Investment Company Act (using the Staff's methodology described above solely for this purpose), 25% of the Company's total assets are represented by investments at fair value and other assets that are considered "non-qualifying assets" as of December 31, 2015.

(12)

Variable rate loans to the Company's portfolio companies bear interest at a rate that may be determined by reference to either LIBOR or an alternate base rate (commonly based on the Federal Funds Rate or the Prime Rate), at the borrower's option, which reset annually (A), semi-annually (S), quarterly (Q), bi-monthly (B), monthly (M) or daily (D). For each such loan, the Company has provided the interest rate in effect on the date presented.

(13)

In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 1.13% on $12.9 aggregate principal amount of a "first out" tranche of the portfolio company's senior term debt previously syndicated by the Company into "first out" and "last out" tranches, whereby the "first out" tranche will have priority as to the "last out" tranche with respect to payments of principal, interest and any other amounts due thereunder.

(14)

In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 2.00% on $85.1 aggregate principal amount of a "first out" tranche of the portfolio company's senior term debt previously syndicated by the Company into "first out" and "last

out" tranches, whereby the "first out" tranche will have priority as to the "last out" tranche with respect to payments of principal, interest and any other amounts due thereunder.

(15) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 2.50% on $61.9 aggregate principal amount of a "first out" tranche of the portfolio company's senior term debt previously syndicated by the Company into "first out" and "last out" tranches, whereby the "first out" tranche will have priority as to the "last out" tranche with respect to payments of principal, interest and any other amounts due thereunder.

(16) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 3.00% on $47.6 aggregate principal amount of a "first out" tranche of the portfolio company's first lien senior secured loans, whereby the "first out" tranche will have priority as to the "last out" tranche with respect to payments of principal, interest and any other amounts due thereunder.

(17) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 5.00% on $18.5 aggregate principal amount of a "first out" tranche of the portfolio company's senior term debt previously syndicated by the Company into "first out" and "last out" tranches, whereby the "first out" tranche will have priority as to the "last out" tranche with respect to payments of principal, interest and any other amounts due thereunder.

(18) In addition to the interest earned based on the stated interest rate of this security, the Company is entitled to receive an additional interest amount of 2.55% on $41.8 aggregate principal amount of a "first out" tranche of the portfolio company's first lien senior secured loans, whereby the "first out" tranche will have priority as to the "last out" tranche with respect to payments of principal, interest and any other amounts due thereunder.

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

(20) Loan was on non-accrual status as of December 31, 2015.

(21) Loan includes interest rate floor feature.

(22) In addition to the interest earned based on the stated contractual interest rate of this security, the certificates entitle the holders thereof to receive a portion of the excess cash flow from the SSLP's loan portfolio, after expenses, which may result in a return to the Company greater than the contractual stated interest rate.

(23) As of December 31, 2015, no amounts were funded by the Company under this first lien senior secured revolving loan; however, there were letters of credit issued and outstanding through a financial intermediary under the loan. See Note 7 to the consolidated financial statements for further information on letters of credit commitments related to certain portfolio companies.

(24) As of December 31, 2015, in addition to the amounts funded by the Company under this first lien senior secured revolving loan, there were also letters of credit issued and outstanding through a financial intermediary under the loan. See Note 7 to the consolidated financial statements for further information on letters of credit commitments related to certain portfolio companies.

(25) As of December 31, 2015, the Company had the following commitments to fund various revolving and delayed draw senior secured and subordinated loans, including commitments to issue letters of credit through a financial intermediary on behalf of certain portfolio companies. Such commitments are subject to the satisfaction of certain conditions set forth in the documents governing these loans and letters of credit and there can be no assurance that such conditions will be satisfied. See Note 7 to the consolidated financial statements for further information on revolving and delayed draw loan commitments, including commitments to issue letters of credit, related to certain portfolio companies.

(in millions) Portfolio Company	Total revolving and delayed draw loan commitments	Less: drawn commitments	Total undrawn commitments	Less: commitments substantially at discretion of the Company	Less: unavailable commitments due to borrowing base or other covenant restrictions	Total net adjusted undrawn revolving and delayed draw commitments
Aimbridge Hospitality, LLC	$ 2.5	$	$ 2.5	$	$	$ 2.5
American Seafoods Group LLC	22.1		22.1			22.1
Athletic Club Holdings, Inc.	10.0		10.0			10.0
Batanga, Inc.	4.0	(3.0)	1.0			1.0
Benihana, Inc.	3.2	(1.0)	2.2			2.2
Brandtone Holdings Limited	4.5		4.5			4.5
CCS Intermediate Holdings, LLC	7.5	(5.3)	2.2			2.2
Chariot Acquisition, LLC(28)	1.0		1.0			1.0
CIBT Holdings, Inc.	26.4		26.4			26.4
Ciena Capital LLC	20.0	(14.0)	6.0	(6.0)		
Competitor Group, Inc.	6.3	(5.0)	1.3			1.3
Component Hardware Group, Inc.	3.7	(2.2)	1.5			1.5
Correctional Medical Group Companies, Inc.	0.2		0.2			0.2
Crown Health Care Laundry Services, Inc.	5.0	(1.3)	3.7			3.7
DCA Investment Holding, LLC	5.8	(0.1)	5.7			5.7
Directworks, Inc.	1.0		1.0			1.0
Eckler Industries, Inc.	4.0	(2.0)	2.0			2.0
EN Engineering, L.L.C.(28)	4.9		4.9			4.9
Everspin Technologies, Inc.	4.0		4.0			4.0
Faction Holdings, Inc.	2.0	(2.0)				
Garden Fresh Restaurant Corp.	5.0	(3.7)	1.3			1.3
Greenphire, Inc.	8.0		8.0			8.0
Harvey Tool Company, LLC	0.8		0.8			0.8
ICSH, Inc.	5.0	(0.7)	4.3			4.3
Infilaw Holding, LLC	25.0	(9.5)	15.5			15.5
iPipeline, Inc.	4.0		4.0			4.0
Itel Laboratories, Inc.	2.5		2.5			2.5
Javlin Three LLC	60.0	(51.0)	9.0			9.0
Joule Unlimited Technologies, Inc.	5.0		5.0			5.0
K2 Pure Solutions Nocal, L.P.	5.0	(5.0)				
KeyImpact Holdings, Inc.(28)	12.5		12.5			12.5
LBP Intermediate Holdings LLC	0.9	(0.1)	0.8			0.8
LSQ Funding Group, L.C.	10.0		10.0			10.0
Massage Envy, LLC	5.0		5.0			5.0
McKenzie Sports Products, LLC	12.0		12.0			12.0
Ministry Brands LLC	5.0		5.0			5.0
MW Dental Holding Corp.	17.3	(3.5)	13.8			13.8
My Health Direct, Inc.	1.0		1.0			1.0
Niagara Fiber Intermediate Corp.	1.9	(1.9)				
Nordco Inc(28)	11.3	(3.8)	7.5			7.5
OmniSYS Acquisition Corporation	2.5		2.5			2.5
OTG Management, LLC	19.4	(2.3)	17.1			17.1
Paper Source, Inc.	2.5		2.5			2.5
PerfectServe, Inc.	5.0		5.0			5.0
PIH Corporation	3.3	(0.6)	2.7			2.7
Regent Education, Inc.	2.0	(1.0)	1.0			1.0
RuffaloCODY, LLC	7.7		7.7			7.7
Severin Acquisition, LLC	2.9		2.9			2.9
Things Remembered, Inc.	5.0	(3.2)	1.8			1.8
TPTM Merger Corp.	2.5	(0.8)	1.7			1.7
TraceLink, Inc.	3.0		3.0			3.0
TWH Water Treatment Industries, Inc.	9.0		9.0			9.0
Urgent Cares of America Holdings I, LLC(28)	16.0		16.0			16.0
Zemax, LLC	3.0		3.0			3.0
	$ 419.1	$ (123.0)	296.1	$ (6.0)	$	$ 290.1

(26)

As of December 31, 2015, the Company was party to subscription agreements to fund equity investments in private equity investment partnerships as follows (dollar amounts in thousands):

(in millions) Portfolio Company	Total private equity commitments	Less: funded private equity commitments	Total unfunded private equity commitments	Less: private equity commitments substantially at the discretion of the Company	Total net adjusted unfunded private equity commitments
Imperial Capital Private Opportunities, LP	$ 50.0	$ (6.8)	$ 43.2	$ (43.0)	$ 0.2
Partnership Capital Growth Investors III, L.P.	5.0	(4.0)	1.0		1.0
PCG Ares Sidecar Investment, L.P. and PCG Ares Sidecar Investment II, L.P.	50.0	(8.7)	41.3	(41.0)	0.3
Piper Jaffray Merchant Banking Fund I, L.P.	2.0	(1.4)	0.6		0.6
	$ 107.0	$ (20.9)	$ 86.1	$ (84.0)	$ 2.1

(27)

As of December 31, 2015, the Company had commitments to co-invest in the SSLP for its portion of the SSLP's commitment to fund delayed draw loans of up to $32.6. See Note 4 to the consolidated financial statements for more information on the SSLP.

(28)

Loan, or a portion of the loan, is included as part of a forward sale agreement. See Note 6 to the consolidated financial statements for more information on the forward sale agreement.

ARES CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(in millions, except per share data)

	Common Stock						
	Shares	Amount	Capital in Excess of Par Value	Accumulated Undistributed (Overdistributed) Net Investment Income	Accumulated Net Realized Gains (Losses) on Investments, Foreign Currency Transactions, Extinguishment of Debt and Other Assets	Net Unrealized Gains (Losses) on Investments, Foreign Currency and Other Transactions	Total Stockholders' Equity
Balance at December 31, 2013	298	$	$ 4,982	$ (9)	$ (166)	$ 96	$ 4,903
Issuances of common stock in add-on offerings (net of offering and underwriting costs)	16		258				258
Shares issued in connection with dividend reinvestment plan			11				11
Net increase in stockholders' equity resulting from operations				438	94	59	591
Dividends declared and payable ($1.57 per share)				(480)			(480)
Tax reclassification of stockholders' equity in accordance with GAAP			77	18	(95)		
Balance at December 31, 2014	314	$	$ 5,328	$ (33)	$ (167)	$ 155	$ 5,283
Shares issued in connection with dividend reinvestment plan			6				6
Repurchases of common stock			(2)				(2)
Net increase in stockholders' equity resulting from operations				508	117	(246)	379
Dividends declared and payable ($1.57 per share)				(493)			(493)
Tax reclassification of stockholders' equity in accordance with GAAP			(14)	17	(3)		
Balance at December 31, 2015	314	$	$ 5,318	$ (1)	$ (53)	$ (91)	$ 5,173
Repurchases of common stock			(5)				(5)
Net increase in stockholders' equity resulting from operations				494	110	(130)	474
Dividends declared and payable ($1.52 per share)				(477)			(477)
Tax reclassification of stockholders' equity in accordance with GAAP			(21)	21			
Balance at December 31, 2016	314	$	$ 5,292	$ 37	$ 57	$ (221)	$ 5,165

See accompanying notes to consolidated financial statements.

ARES CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions)

	For the Years Ended December 31,		
	2016	**2015**	**2014**
OPERATING ACTIVITIES:			
Net increase in stockholders' equity resulting from operations	$ 474	$ 379	$ 591
Adjustments to reconcile net increase in stockholders' equity resulting from operations:			
Net realized gains on investments and foreign currency transactions	(110)	(127)	(94)
Net unrealized losses (gains) on investments, foreign currency and other transactions	130	246	(59)
Realized losses on extinguishment of debt		10	
Net accretion of discount on investments	(6)	(4)	(3)
Payment-in-kind interest and dividends	(48)	(24)	(12)
Collections of payment-in-kind interest and dividends	12	1	12
Amortization of debt issuance costs	14	17	16
Net accretion of discount on notes payable	6	17	15
Depreciation	1	1	1
Proceeds from sales and repayments of investments	3,711	3,691	3,412
Purchases of investments	(3,475)	(3,816)	(4,537)
Changes in operating assets and liabilities:			
Interest receivable	26	23	(37)
Other assets	(12)	19	(2)
Base management fees payable			5
Income based fees payable	1	(2)	4
Capital gains incentive fees payable	(4)	(51)	12
Accounts payable and other liabilities	(6)	(24)	13
Interest and facility fees payable	(7)	4	4
Net cash provided by (used in) operating activities	707	360	(659)
FINANCING ACTIVITIES:			
Borrowings on debt	9,855	3,895	4,878
Repayments and repurchases of debt	(10,104)	(3,698)	(3,955)
Debt issuance costs	(10)	(6)	(13)
Dividends paid	(477)	(487)	(464)
Repurchases of common stock	(5)	(2)	
Net proceeds from issuance of common stock			258
Net cash provided by (used in) financing activities	(741)	(298)	704
CHANGE IN CASH AND CASH EQUIVALENTS	(34)	62	45
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	257	195	150
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 223	$ 257	$ 195

Supplemental Information:			
Interest paid during the period	$ 168	$ 181	$ 169
Taxes, including excise tax, paid during the period	$ 18	$ 16	$ 21
Dividends declared and payable during the period	$ 477	$ 493	$ 480

See accompanying notes to consolidated financial statements.

ARES CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of December 31, 2016
(in millions, except per share data, percentages and as otherwise indicated;
for example, with the word "billion" or otherwise)

1. ORGANIZATION

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

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

The Company is externally managed by Ares Capital Management LLC ("Ares Capital Management" or the Company's "investment adviser"), a subsidiary of Ares Management, L.P. ("Ares Management" or "Ares"), a publicly traded, leading global alternative asset manager, pursuant to an investment advisory and management agreement. Ares Operations LLC ("Ares Operations" or the Company's "administrator"), a subsidiary of Ares Management, provides certain administrative and other services necessary for the Company to operate.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles ("GAAP"), and include the accounts of the Company and its consolidated subsidiaries. The Company is an investment company following accounting and reporting guidance in Accounting Standards Codification ("ASC") 946. The consolidated financial statements reflect all adjustments and reclassifications that, in the opinion of management, are necessary for the fair presentation of the results of the operations and financial condition as of and for the periods presented. All significant intercompany balances and transactions have been eliminated.

Cash and Cash Equivalents

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

Concentration of Credit Risk

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

Investments

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

Investments for which market quotations are readily available are typically valued at such market quotations. In order to validate market quotations, the Company looks at a number of factors to determine if the quotations are representative of fair value, including the source and nature of the quotations. Debt and equity securities that are not publicly traded or whose market prices are not readily available (i.e., substantially all of the Company's investments) are valued at fair value as determined in good faith by the Company's board of directors, based on, among other things, the input of the Company's investment adviser, audit committee and independent third-party valuation firms that have been engaged at the direction of the Company's board of directors to assist in the valuation of each portfolio investment without a readily available market quotation at least once during a trailing 12-month period (with certain de minimis exceptions) and under a valuation policy and a consistently applied valuation process. The valuation process is conducted at the end of each fiscal quarter, and a minimum of 55% of the Company's portfolio at fair value is subject to review by an independent valuation firm each quarter. In addition, the Company's independent registered public accounting firm obtains an understanding of, and performs select procedures relating to, the Company's investment valuation process within the context of performing the integrated audit.

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

Because there is not a readily available market value for most of the investments in its portfolio, the Company values substantially all of its portfolio investments at fair value as determined in good faith by its board of directors, as described herein. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of the Company's investments may fluctuate from period to period. Additionally, the fair value of the Company's investments may differ significantly from the values that would have been used had a ready market existed for such investments and may differ materially from the values that the Company may ultimately realize. Further, such investments are generally subject to legal and other restrictions on resale or otherwise are less liquid than publicly traded securities. If the Company was required to liquidate a portfolio investment in a forced or liquidation sale, the Company could realize significantly less than the value at which the Company has recorded it.

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

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

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

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

- The audit committee of the Company's board of directors reviews these valuations, as well as the input of third parties, including independent third-party valuation firms, who review a minimum of 55% of the Company's portfolio at fair value.

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

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

Interest and Dividend Income Recognition

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

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

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

Payment-in-Kind Interest

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

Capital Structuring Service Fees and Other Income

The Company's investment adviser seeks to provide assistance to its portfolio companies and in return the Company may receive fees for capital structuring services. These fees are generally only

available to the Company as a result of the Company's underlying investments, are normally paid at the closing of the investments, are generally non-recurring and are recognized as revenue when earned upon closing of the investment. The services that the Company's investment adviser provides vary by investment, but generally include reviewing existing credit facilities, arranging bank financing, arranging equity financing, structuring financing from multiple lenders, structuring financing from multiple equity investors, restructuring existing loans, raising equity and debt capital, and providing general financial advice, which concludes upon closing of the investment. Any services of the above nature subsequent to the closing would generally generate a separate fee payable to the Company. In certain instances where the Company is invited to participate as a co-lender in a transaction and does not provide significant services in connection with the investment, a portion of loan fees paid to the Company in such situations will be deferred and amortized over the estimated life of the loan.

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

Foreign Currency Translation

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

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

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

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

Derivative Instruments

The Company does not utilize hedge accounting and as such values its derivatives at fair value with the unrealized gains or losses recorded in "net unrealized gains (losses) from foreign currency and other transactions" in the Company's consolidated statement of operations.

Equity Offering Expenses

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

Debt Issuance Costs

Debt issuance costs are amortized over the life of the related debt instrument using the straight line method or the effective yield method, depending on the type of debt instrument.

Income Taxes

The Company has elected to be treated as a RIC under the Code and operates in a manner so as to qualify for the tax treatment applicable to RICs. To qualify as a RIC, the Company must (among

other requirements) meet certain source-of- income and asset diversification requirements and timely distribute to its stockholders at least 90% of its investment company taxable income, as defined by the Code, for each year. The Company (among other requirements) has made and intends to continue to make the requisite distributions to its stockholders, which will generally relieve the Company from U.S. federal corporate-level income taxes.

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

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

Dividends to Common Stockholders

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

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

Use of Estimates in the Preparation of Financial Statements

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

3. AGREEMENTS

Investment Advisory and Management Agreement

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

Company's net investment income ("income based fee") and a fee based on the Company's net capital gains ("capital gains incentive fee"). The investment advisory and management agreement may be terminated by either party without penalty upon 60 days' written notice to the other party.

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

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

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

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

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

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

- 100% of the Company's pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.1875% in any calendar quarter. The Company refers to this portion of its pre-incentive fee net

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

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

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

See Note 16 for information regarding a transaction support agreement entered into between the Company and Ares Capital Management in connection with the American Capital Acquisition.

The capital gains incentive fee is determined and payable in arrears as of the end of each calendar year (or, upon termination of the investment advisory and management agreement, as of the termination date) and is calculated at the end of each applicable year by subtracting (a) the sum of the Company's cumulative aggregate realized capital losses and aggregate unrealized capital depreciation from (b) the Company's cumulative aggregate realized capital gains, in each case calculated from October 8, 2004 (the date the Company completed its initial public offering). Realized capital gains and losses include gains and losses on investments and foreign currencies, gains and losses on extinguishment of debt and other assets, as well as any income tax expense related to realized gains and losses. If such amount is positive at the end of such year, then the capital gains incentive fee for such year is equal to 20% of such amount, less the aggregate amount of capital gains incentive fees paid in all prior years. If such amount is negative, then there is no capital gains incentive fee for such year.

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

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

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

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

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

There was no capital gains incentive fee earned by the Company's investment adviser as calculated under the investment advisory and management agreement (as described above) for the years ended December 31, 2016 and 2015. The capital gains incentive fee earned by the Company's investment adviser as calculated under the investment advisory and management agreement for the year ended December 31, 2014 was $24. However, in accordance with GAAP, the Company had cumulatively accrued a capital gains incentive fee of $38 as of December 31, 2016, of which $38 is not currently due under the investment advisory and management agreement. GAAP requires that the capital gains incentive fee accrual consider the cumulative aggregate unrealized capital appreciation in the calculation, as a capital gains incentive fee would be payable if such unrealized capital appreciation were realized, even though such unrealized capital appreciation is not permitted to be considered in calculating the fee actually payable under the investment advisory and management agreement. This GAAP accrual is calculated using the aggregate cumulative realized capital gains and losses and aggregate cumulative unrealized capital depreciation included in the calculation of the capital gains incentive fee plus the aggregate cumulative unrealized capital appreciation. If such amount is positive at the end of a period, then GAAP requires the Company to record a capital gains incentive fee equal to 20% of such cumulative amount, less the aggregate amount of actual capital gains incentive fees paid or capital gains incentive fees accrued under GAAP in all prior periods. As of December 31, 2016, the Company has paid capital gains incentive fees since inception totaling $57. The resulting accrual for any capital gains incentive fee under GAAP in a given period may result in an additional expense if such cumulative amount is greater than in the prior period or a reversal of previously recorded expense if such cumulative amount is less than in the prior period. If such cumulative amount is negative, then there is no accrual. There can be no assurance that such unrealized capital appreciation will be realized in the future.

For the year ended December 31, 2016, base management fees were $137, income based fees were $123 and the reduction in capital gains incentive fees calculated in accordance with GAAP was $5. For the year ended December 31, 2015, base management fees were $134, income based fees were $121 and the reduction in capital gains incentive fees calculated in accordance with GAAP was $27. For the year ended December 31, 2014, base management fees were $128, income based fees were $118 and capital gains incentive fees calculated in accordance with GAAP were $30.

Administration Agreement

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

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

For each of the years ended December 31, 2016, 2015 and 2014, the Company incurred $14 in administrative fees. As of December 31, 2016, $4 of these fees were unpaid and included in "accounts payable and other liabilities" in the accompanying consolidated balance sheet.

4. INVESTMENTS

As of December 31, 2016 and 2015, investments consisted of the following:

	As of December 31,			
	2016		2015	
	Amortized Cost(1)	Fair Value	Amortized Cost(1)	Fair Value
First lien senior secured loans	$ 2,102	$ 2,036	$ 2,735	$ 2,639
Second lien senior secured loans	3,069	2,987	2,945	2,861
Subordinated certificates of the SDLP(2)	270	270		
Subordinated certificates of the SSLP(3)	1,938	1,914	1,935	1,885
Senior subordinated debt	692	714	663	654
Preferred equity securities	505	273	435	376
Other equity securities	458	626	435	641
Total	$ 9,034	$ 8,820	$ 9,148	$ 9,056

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

(2) The proceeds from these certificates were applied to co-investments with Varagon and its clients to fund first lien senior secured loans to 14 different borrowers as of December 31, 2016.

(3) The proceeds from these certificates were applied to co-investments with GE to fund first lien senior secured loans to 19 and 41 different borrowers as of December 31, 2016 and 2015, respectively.

The industrial and geographic compositions of the Company's portfolio at fair value as of December 31, 2016 and 2015 were as follows:

	As of December 31,	
	2016	2015
Industry		
Investment Funds and Vehicles(1)	25.2%	21.2%
Healthcare Services	14.3	14.6
Business Services	9.8	5.3
Other Services	8.9	9.0
Consumer Products	7.2	7.7
Power Generation	6.4	6.3
Restaurants and Food Services	4.5	3.5
Financial Services	4.2	4.6
Manufacturing	3.8	6.0
Containers and Packaging	2.8	2.8
Food and Beverage	2.2	2.5
Education	2.0	4.6
Automotive Services	1.9	2.3
Oil and Gas	1.0	2.9
Commercial Real Estate Finance	1.0	1.1
Other	4.8	5.6
Total	100.0%	100.0%

(1) Includes the Company's investment in the SDLP, which had made first lien senior secured loans to 14 different borrowers as of December 31, 2016, and the Company's investment in the SSLP, which had made first lien senior secured loans to 19 and 41 different borrowers as of December 31, 2016 and 2015, respectively. The portfolio companies in the SDLP and SSLP are in industries similar to the companies in the Company's portfolio.

	As of December 31,	
	2016	2015
Geographic Region		
West(1)	41.5%	37.9%
Midwest	19.7	23.8
Southeast	19.5	20.3
Mid Atlantic	14.7	13.7
Northeast	3.6	2.3
International	1.0	2.0
Total	100.0%	100.0%

(1) Includes the Company's investment in the SDLP, which represented 3.1% of the total investment portfolio at fair value as of December 31, 2016, and the Company's investment in the SSLP, which represented 21.7% and 20.8% of the total investment portfolio at fair value as of December 31, 2016 and 2015, respectively.

As of December 31, 2016, 2.9% of total investments at amortized cost (or 0.8% of total investments at fair value) were on non-accrual status. As of December 31, 2015, 2.6% of total investments at amortized cost (or 1.7% of total investments at fair value) were on non-accrual

status.

Co-Investment Programs

Senior Direct Lending Program

The Company has established a joint venture with Varagon to make certain first lien senior secured loans, including certain stretch senior and unitranche loans, primarily to U.S. middle market companies. Varagon was formed in 2013 as a lending platform by American International Group, Inc. (NYSE:AIG) and other partners. The joint venture is called the SDLP. In July 2016, the Company and Varagon and its clients completed the initial funding of the SDLP. In conjunction with the initial funding, we and Varagon and its clients sold investment commitments to the SDLP. Such investment commitments included $529 of investment commitments sold to the SDLP by the Company. No realized gains or losses were recorded by the Company on these transactions. The SDLP may generally commit and hold individual loans of up to $300. The Company may directly co-invest with the SDLP to accommodate larger transactions. The SDLP is capitalized as transactions are completed and all portfolio decisions and generally all other decisions in respect of the SDLP must be approved by an investment committee of the SDLP consisting of representatives of the Company and Varagon (with approval from a representative of each required).

The Company provides capital to the SDLP in the form of subordinated certificates (the "SDLP Certificates"), and Varagon and its clients provide capital to the SDLP in the form of senior notes, intermediate funding notes and SDLP Certificates. As of December 31, 2016, the Company and a client of Varagon owned 87.5% and 12.5%, respectively, of the outstanding SDLP Certificates.

As of December 31, 2016, the Company and Varagon and its clients had agreed to make capital available to the SDLP of $2,925 in the aggregate, of which $591 has been made available from the Company. This capital will only be committed to the SDLP upon approval of transactions by the investment committee of the SDLP as discussed above. Below is a summary of the funded capital and unfunded capital commitments of the SDLP.

	As of December 31, 2016	
Total capital funded to the SDLP(1)	$	1,285
Total capital funded to the SDLP by the Company(1)	$	270
Total unfunded capital commitments to the SDLP(2)	$	177
Total unfunded capital commitments to the SDLP by the Company(2)	$	37

(1) At principal amount.

(2) These commitments have been approved by the investment committee of the SDLP and will be funded as the transactions are completed.

The SDLP Certificates pay a coupon of LIBOR plus 8.0% and also entitle the holders thereof to receive a portion of the excess cash flow from the loan portfolio, after expenses, which may result in a return to the holders of the SDLP Certificates that is greater than the stated coupon. The SDLP Certificates are junior in right of payment to the senior notes and intermediate funding notes.

The amortized cost and fair value of the SDLP Certificates held by the Company were $270 and $270, respectively, as of December 31, 2016. The Company's yield on its investment in the SDLP at amortized cost and fair value was 14.0% and 14.0%, respectively, as of December 31, 2016. For the year ended December 31, 2016, the Company earned interest income of $13 from its investment in the SDLP Certificates. The Company is also entitled to certain fees in connection with the SDLP. For the year ended December 31, 2016, in connection with the SDLP, the Company earned capital structuring service and other fees totaling $6.

As of December 31, 2016, the SDLP's portfolio was comprised entirely of first lien senior secured loans primarily to U.S. middle market companies and were in industries similar to the companies in the Company's portfolio. As of December 31, 2016, none of the loans were on non-accrual status. Below is a summary of the SDLP's portfolio.

(dollar amounts in millions)		As of December 31, 2016
Total first lien senior secured loans(1)	$	1,281
Largest loan to a single borrower(1)	$	125
Total of five largest loans to borrowers(1)	$	560
Number of borrowers in the SDLP		14
Commitments to fund delayed draw loans(2)	$	177

(1) At principal amount.

(2) As discussed above, these commitments have been approved by the investment committee of the SDLP.

Senior Secured Loan Program

The Company and GE have co-invested in first lien senior secured loans of middle market companies through the SSLP. The SSLP has been capitalized as transactions are completed. All portfolio decisions and generally all other decisions in respect of the SSLP must be approved by an investment committee of the SSLP consisting of representatives of the Company and GE (with approval from a representative of each required). The Company has provided capital to the SSLP in the form of subordinated certificates (the "SSLP Certificates"). As of December 31, 2016 and 2015, the Company and GE owned 87.5% and 12.5%, respectively, of the outstanding SSLP Certificates.

In August 2015, GE completed the sale of its U.S. Sponsor Finance business, through which GE had participated with the Company in the SSLP, to Canada Pension Plan Investment Board ("CPPIB"). This sale excluded GE's interest in the SSLP, and the Company and GE continue to operate the SSLP. The Company and GE no longer have an obligation to present senior secured lending investment opportunities to the SSLP and since June 30, 2015, the SSLP has not made any investments related to new portfolio companies; however, the Company and GE may provide capital to support the SSLP's funding of existing commitments (see below) and other amounts to its portfolio companies. On August 24, 2015, the Company was advised that GECC, as the holder of the senior notes of the SSLP (the "Senior Notes"), directed State Street Bank and Trust Company, as trustee of the Senior Notes and the SSLP Certificates, pursuant to the terms of the indenture governing the Senior Notes and the SSLP Certificates, to apply all principal proceeds received by the SSLP from its investments to the repayment of the outstanding principal amount of the Senior Notes until paid in full (prior to the distribution of any such principal proceeds to the holders of the SSLP Certificates, which includes the Company). GECC had previously elected to waive its right to receive priority repayments on the Senior Notes from principal proceeds in most circumstances. Prior to closing the sale to CPPIB, GE had announced its intention to provide the Company and CPPIB the opportunity to work together on the SSLP on a go-forward basis. GECC has also stated that if a mutual agreement between the Company and CPPIB to partner on the SSLP is not reached, it intends to retain its interest in the SSLP and the SSLP would be wound down in an orderly manner. The Company has been in dialogue with GE and CPPIB to determine if there is an opportunity to work together; however, to date there has been no agreement in respect of the SSLP as a result of these discussions and there can be no assurance that such discussions will continue or any such agreement will be reached.

As discussed above, the Company anticipates that no new investments will be made by the SSLP and that the Company and GE will only provide additional capital to support the SSLP's funding of

existing commitments and other amounts to its portfolio companies. Below is a summary of the funded capital and unfunded capital commitments of the SSLP.

	As of December 31,	
	2016	2015
Total capital funded to the SSLP(1)	$ 3,819	$ 8,535
Total capital funded to the SSLP by the Company(1)	$ 2,004	$ 2,001
Total unfunded capital commitments to the SSLP(2)	$ 50	$ 199
Total unfunded capital commitments to the SSLP by the Company(2)	$ 7	$ 33

(1) At principal amount.

(2) These commitments have been approved by the investment committee of the SSLP and will be funded as the transactions are completed.

The SSLP Certificates have a weighted average contractual coupon of LIBOR plus approximately 8.0% and also entitle the holders thereof to receive a portion of the excess cash flow from the loan portfolio, after expenses. However, the SSLP Certificates are junior in right of payment to the Senior Notes held by GE, and the Company expects that for so long as principal proceeds from SSLP repayments are directed entirely to repay the Senior Notes as discussed above, the yield on the SSLP Certificates will be lower than the stated coupon and continue to decline.

As of December 31, 2016 and 2015, the amortized cost and fair value of the SSLP Certificates held by the Company were $1,938 and $1,914, respectively, and $1,935 and $1,885, respectively. The Company's yield on its investment in the SSLP at amortized cost and fair value was 7.0% and 7.1%, respectively, as of December 31, 2016, and 12.0% and 12.3%, respectively, as of December 31, 2015. For the years ended December 31, 2016, 2015 and 2014, the Company earned interest income of $208, $276 and $275, respectively, from its investment in the SSLP Certificates. The Company is also entitled to certain fees in connection with the SSLP. For the years ended December 31, 2016, 2015 and 2014, in connection with the SSLP, the Company earned capital structuring service, sourcing and other fees totaling $20, $48 and $70, respectively.

As of December 31, 2016 and 2015, the SSLP's portfolio was comprised of all first lien senior secured loans to U.S. middle-market companies and were in industries similar to the companies in the Company's portfolio. As of December 31, 2016 and 2015, none of these loans were on non-accrual status. Below is a summary of the SSLP's portfolio.

	As of December 31,	
(dollar amounts in millions)	**2016**	**2015**
Total first lien senior secured loans(1)	$ 3,360	$ 8,139
Largest loan to a single borrower(1)	$ 260	$ 346
Total of five largest loans to borrowers(1)	$ 1,257	$ 1,580
Number of borrowers in the SSLP	19	41
Commitments to fund delayed draw loans(2)	$ 50	$ 199

(1) At principal amount.

(2) As discussed above, these commitments have been approved by the investment committee of the SSLP.

Ivy Hill Asset Management, L.P.

Ivy Hill Asset Management, L.P. ("IHAM") is an asset management services company and an SEC-registered investment adviser. The Company has made investments in IHAM, its wholly owned portfolio company and previously made investments in certain vehicles managed by IHAM. As of December 31, 2016, IHAM had assets under management of approximately $3.8 billion. As of December 31, 2016, IHAM managed 19 vehicles and served as the sub-manager/sub-servicer for two other vehicles (these vehicles managed or sub-managed/sub-serviced by IHAM are collectively referred to as the "IHAM Vehicles"). IHAM earns fee income from managing the IHAM Vehicles and has also invested in certain of these vehicles as part of its business strategy. As of December 31, 2016 and 2015, IHAM had total investments of $223 and $233, respectively. For the years ended December 31, 2016, 2015 and 2014, IHAM had management and incentive fee income of $17, $20 and $19, respectively, and other investment-related income of $24, $25 and $34, respectively.

The amortized cost and fair value of the Company's investment in IHAM was $171 and $229, respectively, as of December 31, 2016, and $171 and $236, respectively, as of December 31, 2015. For the years ended December 31, 2016, 2015 and 2014, the Company received distributions consisting entirely of dividend income from IHAM of $40, $50 and $50, respectively. The dividend income for the years ended December 31, 2015 and 2014 included additional dividends of $10 for each period in addition to the quarterly dividends generally paid by IHAM.

From time to time, IHAM or certain IHAM Vehicles may purchase investments from, or sell investments to, the Company. For any such sales or purchases by the IHAM Vehicles to or from the Company, the IHAM Vehicles must obtain approval from third parties unaffiliated with the Company or IHAM, as applicable. During the years ended December 31, 2016, 2015 and 2014, IHAM or certain of the IHAM Vehicles purchased $495, $538 and $220, respectively, of investments from the Company. Net realized gains of $1 and $1 were recorded by the Company on these transactions for the years ended December 31, 2016 and 2015, respectively. There were no realized gains or losses recorded by the Company on these transactions for the year ended December 31, 2014. During the years ended December 31, 2015 and 2014, the Company purchased $12 and $20 of investments, respectively, from certain of the IHAM Vehicles. The Company made no purchases from IHAM for the year ended December 31, 2016.

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

See Note 16 for information related to IHAM's role in the American Capital Acquisition.

5. DEBT

In accordance with the Investment Company Act, with certain limited exceptions, the Company is only allowed to borrow amounts such that its asset coverage, calculated pursuant to the Investment Company Act, is at least 200% after such borrowing. On June 21, 2016, the Company, Ares Capital Management, Ares Venture Finance GP LLC and AVF LP received exemptive relief from the SEC allowing the Company to modify the Company's calculation of asset coverage requirements to exclude the SBA Debentures (defined below). As such, the Company's ratio of total consolidated assets to outstanding indebtedness may be less than 200%. This exemptive relief provides the Company with increased investment flexibility but also increases the Company's risk related to leverage. As of December 31, 2016 the Company's asset coverage was 230% (excluding the SBA Debentures).

The Company's outstanding debt as of December 31, 2016 and 2015 were as follows:

	As of December 31,					
	2016			2015		
	Total Aggregate Principal Amount Committed/ Outstanding(1)	**Principal Amount Outstanding**	**Carrying Value**	**Total Aggregate Principal Amount Committed/ Outstanding(1)**	**Principal Amount Outstanding**	**Carrying Value**
Revolving Credit Facility	$ 1,265(2)	$ 571	$ 571	$ 1,290	$ 515	$ 515
Revolving Funding Facility	540(3)	155	155	540	250	250
SMBC Funding Facility	400	105	105	400	110	110
SBA Debentures	75	25	24	75	22	21
February 2016 Convertible Notes			(4)	575	575	574(5)
June 2016 Convertible Notes			(4)	230	230	228(5)
2017 Convertible Notes	162	162	162(5)	162	162	160(5)
2018 Convertible Notes	270	270	267(5)	270	270	264(5)
2019 Convertible Notes	300	300	296(5)	300	300	295(5)
2018 Notes	750	750	745(6)	750	750	743(6)
2020 Notes	600	600	596(7)	600	600	594(7)
January 2022 Notes	600	600	592(8)			
October 2022 Notes	183	183	179(9)	183	183	178(9)
2047 Notes	230	230	182(10)	230	230	182(10)
Total	$ 5,375	$ 3,951	$ 3,874	$ 5,605	$ 4,197	$ 4,114

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(1) Subject to borrowing base, leverage and other restrictions. Represents the total aggregate amount committed or outstanding, as applicable, under such instrument.

(2) Provides for a feature that allows the Company, under certain circumstances, to increase the size of the Revolving Credit Facility (as defined below) to a maximum of $1,898. See Note 18 for a subsequent event relating to an amendment to the Revolving Credit Facility.

(3) Provides for a feature that allows the Company and Ares Capital CP (as defined below), under certain circumstances, to increase the size of Revolving Funding Facility (as defined below) to a maximum of $865. See Note 18 for a subsequent event relating to an amendment to the Revolving Funding Facility.

(4) See below for more information on the repayments of the February 2016 Convertible Notes and the June 2016 Convertible Notes (each as defined below).

(5) Represents the aggregate principal amount outstanding of the Convertible Unsecured Notes (as defined below), the February 2016 Convertible Notes and the June 2016 Convertible Notes less unamortized debt issuance costs and the unaccreted discount recorded upon the issuances of such notes. As of December 31, 2016, the total unamortized debt issuance costs and the unaccreted discount for the 2017 Convertible Notes, the 2018 Convertible Notes and the 2019 Convertible Notes (each as defined below) were $0, $3 and $4, respectively. As of December 31, 2015, the total unamortized debt issuance costs and the unaccreted discount for the February 2016

Convertible Notes, the June 2016 Convertible Notes, the 2017 Convertible Notes, the 2018 Convertible Notes and the 2019 Convertible Notes were $1, $2, $2, $6 and $5, respectively. See Note 18 for a subsequent event regarding an additional issuance of unsecured convertible notes.

(6) Represents the aggregate principal amount outstanding of the 2018 Notes (as defined below) less unamortized debt issuance costs and plus the net unamortized premium that was recorded upon the issuances of the 2018 Notes. As of December 31, 2016 and 2015, the total unamortized debt issuance costs less the net unamortized premium was $5 and $7, respectively.

(7) Represents the aggregate principal amount outstanding of the 2020 Notes (as defined below) less unamortized debt issuance costs and the net unaccreted discount recorded upon the issuances of the 2020 Notes. As of December 31, 2016 and 2015, the total unamortized debt issuance costs and the net unaccreted discount was $4 and $6 million, respectively.

(8) Represents the aggregate principal amount outstanding of the January 2022 Notes (as defined below), less unamortized debt issuance costs and the unaccreted discount recorded upon the issuance of the January 2022 Notes. As of December 31, 2016, the total unamortized debt issuance costs and the unaccreted discount was $8.

(9) Represents the aggregate principal amount outstanding of the October 2022 Notes (as defined below) less unamortized debt issuance costs. As of December 31, 2016 and 2015, the total unamortized debt issuance costs was $4 and $5, respectively.

(10) Represents the aggregate principal amount outstanding of the 2047 Notes (as defined below) less the unaccreted purchased discount recorded as a part of the Allied Acquisition (as defined below). As of December 31, 2016 and 2015, the total unaccreted purchased discount was $48 for both periods.

The weighted average stated interest rate and weighted average maturity, both on aggregate principal amount, of all the Company's outstanding debt as of December 31, 2016 were 4.2% and 4.8 years, respectively, and as of December 31, 2015 were 4.4% and 4.5 years, respectively.

Revolving Credit Facility

The Company is party to a senior secured revolving credit facility (as amended and restated, the "Revolving Credit Facility") that as of December 31, 2016 allowed the Company to borrow up to $1,265 at any one time outstanding. As of December 31, 2016, for $1,195 of the Revolving Credit Facility, the end of the revolving period and the stated maturity date was May 4, 2020 and May 4, 2021, respectively. For the remaining $70 of the Revolving Credit Facility, the end of the revolving period and the stated maturity date was May 4, 2019 and May 4, 2020, respectively. As of December 31, 2016, the Revolving Credit Facility also provided for a feature that allowed the Company, under certain circumstances, to increase in the size of the Revolving Credit Facility to a maximum of $1,898. The Revolving Credit Facility generally requires payments of interest at the end of each LIBOR interest period, but no less frequently than quarterly, on LIBOR based loans, and monthly payments of interest on other loans. From the end of the revolving period to the stated maturity date, the Company is required to repay outstanding principal amounts under the Revolving Credit Facility on a monthly basis in an amount equal to 1/12th of the outstanding principal amount at the end of the revolving period. See Note 18 for a subsequent event relating to an amendment to the Revolving Credit Facility.

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

are subject to important limitations and exceptions that are described in the documents governing the Revolving Credit Facility. Amounts available to borrow under the Revolving Credit Facility (and the incurrence of certain other permitted debt) are also subject to compliance with a borrowing base that applies different advance rates to different types of assets in the Company's portfolio that are pledged as collateral. As of December 31, 2016, the Company was in compliance in all material respects with the terms of the Revolving Credit Facility.

As of December 31, 2016 and 2015, there was $571 and $515 outstanding, respectively, under the Revolving Credit Facility. As of December 31, 2016, the Revolving Credit Facility also provides for a sub-limit for the issuance of letters of credit for up to an aggregate amount of $150. As of December 31, 2016 and 2015, the Company had $28 and $24, respectively, in letters of credit issued through the Revolving Credit Facility. The amount available for borrowing under the Revolving Credit Facility is reduced by any letters of credit issued. As of December 31, 2016, there was $666 available for borrowing (net of letters of credit issued) under the Revolving Credit Facility.

Since March 26, 2015, the interest rate charged on the Revolving Credit Facility is based on an applicable spread of either 1.75% or 2.00% over LIBOR or 0.75% or 1.00% over an "alternate base rate" (as defined in the agreements governing the Revolving Credit Facility), in each case, determined monthly based on the total amount of the borrowing base relative to the total commitments of the Revolving Credit Facility and other debt, if any, secured by the same collateral as the Revolving Credit Facility. As of December 31, 2016, the interest rate in effect was LIBOR plus 1.75%. Prior to and including March 25, 2015, the interest rate charged on the Revolving Credit Facility was based on an applicable spread of 2.00% over LIBOR or an applicable spread of 1.00% over an "alternate base rate." As of December 31, 2016, the one, two, three and six month LIBOR was 0.77%, 0.82%, 1.00% and 1.32%, respectively. As of December 31, 2015, the one, two, three and six month LIBOR was 0.43%, 0.51%, 0.61% and 0.85%, respectively. In addition to the stated interest expense on the Revolving Credit Facility, the Company is required to pay a commitment fee of 0.375% per annum on any unused portion of the Revolving Credit Facility. Since March 26, 2015, the Company is also required to pay a letter of credit fee of either 2.00% or 2.25% per annum on letters of credit issued, determined monthly based on the total amount of the borrowing base relative to the total commitments of the Revolving Credit Facility and other debt, if any, secured by the same collateral as the Revolving Credit Facility. Prior to and including March 25, 2015, the Company paid a letter of credit fee of 2.25% per annum on letters of credit issued.

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

For the years ended December 31, 2016, 2015 and 2014, the components of interest and credit facility fees expense, cash paid for interest expense, average stated interest rates (i.e., rate in effect plus the spread) and average outstanding balances for the Revolving Credit Facility were as follows:

	For the Years Ended December 31,		
	2016	2015	2014
Stated interest expense	$ 18	$ 1	$ 1
Facility fees	2	5	5
Amortization of debt issuance costs	3	3	3
Total interest and credit facility fees expense	$ 23	$ 9	$ 9
Cash paid for interest expense	$ 18	$ 1	$ 1
Average stated interest rate	2.29%	2.03%	2.20%
Average outstanding balance	$ 799	$ 67	$ 33

Revolving Funding Facility

The Company's consolidated subsidiary, Ares Capital CP Funding LLC ("Ares Capital CP"), is party to a revolving funding facility (as amended, the "Revolving Funding Facility") that as of December 31, 2016 allowed Ares Capital CP to borrow up to $540 at any one time outstanding. The Revolving Funding Facility is secured by all of the assets held by, and the membership interest in, Ares Capital CP. As of December 31, 2016, the end of the reinvestment period and the stated maturity date for the Revolving Funding Facility was May 14, 2017 and May 14, 2019, respectively. As of December 31, 2016, the Revolving Funding Facility also provided for a feature that allowed, under certain circumstances, for an increase in the Revolving Funding Facility to a maximum of $865. See Note 18 for a subsequent event relating to an amendment to the Revolving Funding Facility.

Amounts available to borrow under the Revolving Funding Facility are subject to a borrowing base that applies different advance rates to different types of assets held by Ares Capital CP. Ares Capital CP is also subject to limitations with respect to the loans securing the Revolving Funding Facility, including restrictions on sector concentrations, loan size, payment frequency and status, collateral interests, loans with fixed rates and loans with certain investment ratings, as well as restrictions on portfolio company leverage, which may also affect the borrowing base and therefore amounts available to borrow. The Company and Ares Capital CP are also required to comply with various covenants, reporting requirements and other customary requirements for similar facilities. These covenants are subject to important limitations and exceptions that are described in the agreements governing the Revolving Funding Facility. As of December 31, 2016, the Company and Ares Capital CP were in compliance in all material respects with the terms of the Revolving Funding Facility.

As of December 31, 2016 and 2015, there was $155 and $250 outstanding, respectively, under the Revolving Funding Facility. As of December 31, 2016, the interest rate charged on the Revolving Funding Facility was based on an applicable spread ranging from 2.25% to 2.50% over LIBOR or ranging from 1.25% to 1.50% over a "base rate" (as defined in the agreements governing the Revolving Funding Facility) in each case, determined monthly based on the composition of the borrowing base relative to outstanding borrowings under the Revolving Funding Facility. As of December 31, 2016, the interest rate in effect was LIBOR plus 2.25%. See Note 18 for a subsequent event relating to an amendment to the Revolving Funding Facility. Since May 14, 2014, Ares Capital CP is required to pay a commitment fee between 0.50% and 1.50% per annum depending on the size of the unused portion of the Revolving Funding Facility. Prior to and including May 13, 2014, Ares Capital CP was required to pay a commitment fee between 0.50% and 1.75% per annum depending on the size of the unused portion of the Revolving Funding Facility.

For the years ended December 31, 2016, 2015 and 2014, the components of interest and credit facility fees expense, cash paid for interest expense, average stated interest rates (i.e., rate in effect plus the spread) and average outstanding balances for the Revolving Funding Facility were as follows:

	For the Years Ended December 31,		
	2016	2015	2014
Stated interest expense	$ 4	$ 2	$ 4
Facility fees	2	4	4
Amortization of debt issuance costs	2	2	2
Total interest and credit facility fees expense	$ 8	$ 8	$ 10
Cash paid for interest expense	$ 3	$ 3	$ 4
Average stated interest rate	2.80%	2.47%	2.41%
Average outstanding balance	$ 142	$ 64	$ 164

SMBC Funding Facility

The Company's consolidated subsidiary, Ares Capital JB Funding LLC ("ACJB"), is party to a revolving funding facility (as amended, the "SMBC Funding Facility") with ACJB, as the borrower, and Sumitomo Mitsui Banking Corporation ("SMBC"), as the administrative agent, collateral agent, and lender, that allows ACJB to borrow up to $400 at any one time outstanding. The SMBC Funding Facility is secured by all of the assets held by ACJB. The end of the reinvestment period and the stated maturity date for the SMBC Funding Facility are September 14, 2017 and September 14, 2022, respectively. The reinvestment period and the stated maturity date are both subject to two one-year extensions by mutual agreement.

Amounts available to borrow under the SMBC Funding Facility are subject to a borrowing base that applies an advance rate to assets held by ACJB. The Company and ACJB are also required to comply with various covenants, reporting requirements and other customary requirements for similar facilities. These covenants are subject to important limitations and exceptions that are described in the documents governing the SMBC Funding Facility. As of December 31, 2016, the Company and ACJB were in compliance in all material respects with the terms of the SMBC Funding Facility.

As of December 31, 2016 and 2015, there was $105 and $110 outstanding, respectively, under the SMBC Funding Facility. Since June 30, 2015, the interest rate charged on the SMBC Funding Facility is based on an applicable spread of either 1.75% or 2.00% over LIBOR or 0.75% or 1.00% over a "base rate" (as defined in the agreements governing the SMBC Funding Facility), in each case, determined monthly based on the amount of the average borrowings outstanding under the SMBC Funding Facility. As of December 31, 2016, the interest rate in effect was LIBOR plus 2.00%. Prior to and including June 30, 2015, the interest rate charged on the SMBC Funding Facility was based on an applicable spread of 2.00% over LIBOR or 1.00% over a "base rate." As of December 31, 2016 and 2015, the interest rate in effect was based on one month LIBOR, which was 0.77% and 0.43%, respectively. Since March 15, 2014, ACJB is required to pay a commitment fee of between 0.35% and 0.875% per annum depending on the size of the unused portion of the SMBC Funding Facility. Prior to and including March 14, 2014, ACJB was required to pay a commitment fee of up to 0.75% per annum depending on the size of the unused portion of the SMBC Funding Facility.

For the years ended December 31, 2016, 2015 and 2014, the components of interest and credit facility fees expense, cash paid for interest expense, average stated interest rates (i.e., rate in effect plus the spread) and average outstanding balances for the SMBC Funding Facility were as follows:

	For the Years Ended December 31,		
	2016	2015	2014
Stated interest expense	$ 3	$ 1	$ 1
Facility fees	1	1	1
Amortization of debt issuance costs	1	1	1
Total interest and credit facility fees expense	$ 5	$ 3	$ 3
Cash paid for interest expense	$ 3	$ 1	$
Average stated interest rate	2.29%	2.09%	2.16%
Average outstanding balance	$ 112	$ 31	$ 22

SBA Debentures

In April 2015, the Company's wholly owned subsidiary, Ares Venture Finance, L.P. ("AVF LP"), received a license from the Small Business Administration ("SBA") to operate as a Small Business Investment Company ("SBIC") under the provisions of Section 301(c) of the Small Business Investment Act of 1958, as amended. The SBA places certain limitations on the financing of investments by SBICs in portfolio companies, including regulating the types of financings, restricting investments to only include small businesses with certain characteristics or in certain industries, and requiring capitalization thresholds that may limit distributions to the Company.

The license from the SBA allows AVF LP to obtain leverage by issuing SBA-guaranteed debentures (the "SBA Debentures"), subject to issuance of a capital commitment by the SBA and other customary procedures. Leverage through the SBA Debentures is subject to required capitalization thresholds. Current SBA regulations limit the amount that any SBIC may borrow to $150 and as of December 31, 2016, the amount of the SBA Debentures committed to AVF LP by the SBA was $75. The SBA Debentures are non-recourse to the Company, have interest payable semi-annually, have a 10-year maturity and may be prepaid at any time without penalty. As of December 31, 2016, AVF LP had $25 of the SBA Debentures issued and outstanding, which mature between September 2025 and March 2026. As of December 31, 2016, AVF LP was in compliance in all material respects with SBA regulatory requirements.

The interest rate for the SBA Debentures is fixed at the time the SBA Debentures and other applicable SBA-guaranteed debentures can be pooled and sold to the public and is based on a spread over U.S. treasury notes with 10-year maturities. The pooling of newly issued SBA-guaranteed debentures occurs twice per year. The spread includes an annual charge as determined by the SBA (the "Annual Charge") as well as a market-driven component. Prior to the 10-year fixed interest rate being determined, the interim interest rate charged for the SBA-guarantee debentures is based on LIBOR plus an applicable spread of 0.30% and the Annual Charge. As of December 31, 2016, the weighted average interest rate in effect for the SBA Debentures was 3.48%.

For the years ended December 31, 2016 and 2015, the components of interest expense, cash paid for interest expense, average stated interest rate and average outstanding balances for the SBA Debentures were as follows:

	For the Years Ended December 31,	
	2016	2015
Stated interest expense	$ 1	$
Amortization of debt issuance costs		
Total interest and credit facility fees expense	$ 1	$
Cash paid for interest expense	$ 1	$
Average stated interest rate	3.41%	2.42%
Average outstanding balance	$ 25	$ 18

Convertible Unsecured Notes

The Company has issued $162 aggregate principal amount of unsecured convertible notes that mature on March 15, 2017 (the "2017 Convertible Notes"), $270 aggregate principal amount of unsecured convertible notes that mature on January 15, 2018 (the "2018 Convertible Notes") and $300 aggregate principal amount of unsecured convertible notes that mature on January 15, 2019 (the "2019 Convertible Notes" and together with the 2017 Convertible Notes and the 2018 Convertible Notes, the "Convertible Unsecured Notes"). The Convertible Unsecured Notes mature upon their respective maturity dates unless previously converted or repurchased in accordance with their terms. The Company does not have the right to redeem the Convertible Unsecured Notes prior to maturity. The 2017 Convertible Notes, the 2018 Convertible Notes and the 2019 Convertible Notes bear interest at a rate of 4.875%, 4.750% and 4.375%, respectively, per year, payable semi-annually.

In certain circumstances, the Convertible Unsecured Notes will be convertible into cash, shares of the Company's common stock or a combination of cash and shares of its common stock, at the Company's election, at their respective conversion rates (listed below as of December 31, 2016) subject to customary anti-dilution adjustments and the requirements of their respective indenture (the "Convertible Unsecured Notes Indentures"). To the extent the 2017 Convertible Notes are converted, the Company has elected to settle with a combination of cash and shares of its common stock. Prior to the close of business on the business day immediately preceding their respective conversion date (listed below), holders may convert their Convertible Unsecured Notes only under certain circumstances set forth in the Convertible Unsecured Notes Indentures. On or after their respective conversion dates until the close of business on the scheduled trading day immediately preceding their respective maturity date, holders may convert their Convertible Unsecured Notes at any time. In addition, if the Company engages in certain corporate events as described in their respective Convertible Unsecured Notes Indenture, holders of the Convertible Unsecured Notes may require the Company to repurchase for cash all or part of the Convertible Unsecured Notes at a repurchase price equal to 100% of the principal amount of the Convertible Unsecured Notes to be repurchased, plus accrued and unpaid interest through, but excluding, the required repurchase date.

Certain key terms related to the convertible features for each of the Convertible Unsecured Notes as of December 31, 2016 are listed below.

	2017 Convertible Notes	2018 Convertible Notes	2019 Convertible Notes
Conversion premium	17.5%	17.5%	15.0%
Closing stock price at issuance	$16.46	$16.91	$17.53
Closing stock price date	March 8, 2012	October 3, 2012	July 15, 2013
Conversion price(1)	$18.86	$19.64	$19.99
Conversion rate (shares per one thousand dollar principal amount)(1)	53.0342	50.9054	50.0292
Conversion dates	September 15, 2016	July 15, 2017	July 15, 2018

(1) Represents conversion price and conversion rate, as applicable, as of December 31, 2016, taking into account certain de minimis adjustments that will be made on the conversion date.

As of December 31, 2016, the principal amounts of each series of the Convertible Unsecured Notes exceeded the value of the underlying shares multiplied by the per share closing price of the Company's common stock.

The Convertible Unsecured Notes Indentures contain certain covenants, including covenants requiring the Company to comply with Section 18(a)(1)(A) as modified by Section 61(a)(1) of the Investment Company Act and to provide financial information to the holders of the Convertible Unsecured Notes under certain circumstances. These covenants are subject to important limitations and exceptions that are described in the Convertible Unsecured Notes Indentures. As of December 31, 2016, the Company was in compliance in all material respects with the terms of the Convertible Unsecured Notes Indentures.

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

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

	2017 Convertible Notes	2018 Convertible Notes	2019 Convertible Notes
Debt and equity component percentages, respectively(1)	97.0% and 3.0%	98.0% and 2.0%	99.8% and 0.2%
Debt issuance costs(1)	$ 5	$ 6	$ 4
Equity issuance costs(1)	$	$	$
Equity component, net of issuance costs(2)	$ 5	$ 5	$ 1

(1) At time of issuance.

(2) At time of issuance and as of December 31, 2016.

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

As of December 31, 2016, the components of the carrying value of the Convertible Unsecured Notes, the stated interest rate and the effective interest rate were as follows:

	2017 Convertible Notes	2018 Convertible Notes	2019 Convertible Notes
Principal amount of debt	$ 162	$ 270	$ 300
Debt issuance costs, net of amortization		(1)	(2)
Original issue discount, net of accretion		(2)	(2)
Carrying value of debt	$ 162	$ 267	$ 296
Stated interest rate	4.875%	4.750%	4.375%
Effective interest rate(1)	5.5%	5.3%	4.7%

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

In February 2016, the Company repaid in full the $575 aggregate principal amount of unsecured convertible notes (the "February 2016 Convertible Notes") upon their maturity. In June 2016, the Company repaid in full the $230 aggregate principal amount of unsecured convertible notes (the "June 2016 Convertible Notes") upon their maturity.

For the years ended December 31, 2016, 2015 and 2014, the components of interest expense and cash paid for interest expense for the Convertible Unsecured Notes, the February 2016 Convertible Notes and the June 2016 Convertible Notes are listed below.

	For the Years Ended December 31,		
	2016	2015	2014
Stated interest expense	$ 42	$ 79	$ 79
Amortization of debt issuance costs	4	7	7
Accretion of original issue discount	6	17	15

Total interest expense	$	52	$	103	$	101
Cash paid for interest expense	$	56	$	79	$	79

See Note 18 for a subsequent event regarding an additional issuance of unsecured convertible notes.

Unsecured Notes

2018 Notes

The Company had issued $750 in aggregate principal amount of unsecured notes that mature on November 30, 2018 (the "2018 Notes"). The 2018 Notes bear interest at a rate of 4.875% per year, payable semi-annually and all principal is due upon maturity. The 2018 Notes may be redeemed in whole or in part at any time at the Company's option at a redemption price equal to par plus a "make whole" premium, as determined pursuant to the indenture governing the 2018 Notes, and any accrued and unpaid interest. $600 in aggregate principal amount of the 2018 Notes were issued at a discount to the principal amount and $150 in aggregate principal amount of the 2018 Notes were issued at a premium to the principal amount.

2020 Notes

The Company had issued $600 in aggregate principal amount of unsecured notes that mature on January 15, 2020 (the "2020 Notes"). The 2020 Notes bear interest at a rate of 3.875% per year, payable semi-annually and all principal is due upon maturity. The 2020 Notes may be redeemed in whole or in part at any time at the Company's option at a redemption price equal to par plus a "make whole" premium, if applicable, as determined pursuant to the indenture governing the 2020 Notes, and any accrued and unpaid interest. $400 in aggregate principal amount of the 2020 Notes were issued at a discount to the principal amount and $200 in aggregate principal amount of the 2020 Notes were issued at a premium to the principal amount.

January 2022 Notes

The Company had issued $600 in aggregate principal amount of unsecured notes that mature on January 19, 2022 (the "January 2022 Notes"). The January 2022 Notes bear interest at a rate of 3.625% per year, payable semi-annually and all principal is due upon maturity. The January 2022 Notes may be redeemed in whole or in part at any time at the Company's option at a redemption price equal to par plus a "make whole" premium, if applicable, as determined pursuant to the indenture governing the January 2022 Notes, and any accrued and unpaid interest. The January 2022 Notes were issued at a discount to the principal amount.

October 2022 Notes

The Company had issued $183 in aggregate principal amount of unsecured notes that mature on October 1, 2022 (the "October 2022 Notes"). The October 2022 Notes bear interest at a rate of 5.875% per year, payable quarterly and all principal is due upon maturity. The October 2022 Notes may be redeemed in whole or in part at any time or from time to time at the Company's option, at a par redemption price of $25.00 per security plus accrued and unpaid interest.

2047 Notes

As part of the acquisition of Allied Capital Corporation ("Allied Capital") in April 2010 (the "Allied Acquisition"), the Company assumed $230 aggregate principal amount of unsecured notes due on April 15, 2047 (the "2047 Notes" and together with the 2018 Notes, the 2020 Notes, the January 2022 Notes, and the October 2022 Notes, the "Unsecured Notes"). The 2047 Notes bear interest at a rate of 6.875%, payable quarterly and all principal is due upon maturity. The 2047 Notes may be redeemed in whole or in part at any time or from time to time at the Company's option, at a par redemption price of $25.00 per security plus accrued and unpaid interest. As of December 31, 2016 and

2015, the outstanding principal was $230 and $230 respectively, and the carrying value was $182 and $182, respectively. The carrying value represents the outstanding principal amount of the 2047 Notes less the unaccreted purchased discount recorded as a part of the Allied Acquisition.

February 2022 Notes

In March 2015, the Company redeemed the $144 aggregate principal amount of unsecured notes that were scheduled to mature on February 15, 2022 (the "February 2022 Notes") in accordance with the terms of the indenture governing the February 2022 Notes. The February 2022 Notes bore interest at a rate of 7.00% per year, payable quarterly. The February 2022 Notes were redeemed at par plus accrued and unpaid interest for a total redemption price of approximately $145, which resulted in a realized loss on the extinguishment of debt of $4.

2040 Notes

In October 2015, the Company redeemed the $200 aggregate principal amount of unsecured notes that were scheduled to mature on October 15, 2040 (the "2040 Notes") in accordance with the terms of the indenture governing the 2040 Notes. The 2040 Notes bore interest at a rate of 7.75% per year, payable quarterly. The 2040 Notes were redeemed at par plus accrued and unpaid interest for a total redemption price of approximately $201, which resulted in a realized loss on the extinguishment of debt of $7.

For the years ended December 31, 2016, 2015 and 2014, the components of interest expense and cash paid for interest expense for the Unsecured Notes are listed below. For the year ended December 31, 2015 and 2014, the following also includes components of interest expense and cash paid for interest expense for the 2040 Notes and the February 2022 Notes.

	For the Years Ended December 31,		
	2016	**2015**	**2014**
Stated interest expense	$ 93	$ 100	$ 90
Amortization of debt issuance costs	4	4	3
Net accretion of original issue discount			
Accretion of purchase discount			
Total interest expense	$ 97	$ 104	$ 93
Cash paid for interest expense	$ 87	$ 97	$ 85

The Unsecured Notes contain certain covenants, including covenants requiring the Company to comply with Section 18(a)(1)(A) as modified by Section 61(a)(1) of the Investment Company Act and to provide financial information to the holders of such notes under certain circumstances. These covenants are subject to important limitations and exceptions set forth in the indentures governing such notes. As of December 31, 2016, the Company was in compliance in all material respects with the terms of the respective indentures governing each of the Unsecured Notes.

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

6. DERIVATIVE INSTRUMENTS

The Company enters into forward currency contracts from time to time to help mitigate the impact that an adverse change in foreign exchange rates would have on the value of the Company's investments denominated in foreign currencies. As of December 31, 2016 and 2015, the counterparty to these forward currency contracts was Bank of Montreal. Net unrealized gains or losses on foreign currency contracts are included in "net unrealized gains (losses) from foreign currency and other transactions" and net realized gains or losses on forward currency contracts are included in "net realized gains (losses) from foreign currency transactions" in the accompanying consolidated statement of operations.

During the year ended December 31, 2015, the Company entered into an agreement with the SDLP to sell certain of the Company's investments to the SDLP at a mutually agreed upon price on a future date (the "Forward Sale Agreement"). The value of the Forward Sale Agreement with the SDLP changed as the fair value of the identified loans changed and as additional loans were added to such agreement. In July 2016, the Company and Varagon and its clients completed the initial funding of the SDLP. In conjunction with the initial funding, the Company and Varagon and its clients sold investment commitments to the SDLP and the Forward Sale Agreement was terminated. For the years ended December 31, 2016 and 2015, the unrealized gain related to this agreement was included in the "net unrealized gains (losses) from foreign currency and other transactions" in the accompanying consolidated statement of operations and as of December 31, 2015 in "other assets" in the accompanying consolidated balance sheet.

Forward currency contracts are considered undesignated derivative instruments.

Certain information related to the Company's derivative financial instruments is presented below as of December 31, 2016 and 2015.

	As of December 31, 2016					
Description	**Notional Amount**	**Maturity Date**	**Gross Amount of Recognized Assets**	**Gross Amount of Recognized Liabilities**	**Gross Amount Offset in the Balance Sheet**	**Balance Sheet Location of Net Amounts**
Foreign currency forward contract	€ 2	1/5/2017	3	(3)		Other Assets
Total			$ 3	$ (3)	$	

	As of December 31, 2015					
Description	**Notional Amount**	**Maturity Date**	**Gross Amount of Recognized Assets**	**Gross Amount of Recognized Liabilities**	**Gross Amount Offset in the Balance Sheet**	**Balance Sheet Location of Net Amounts**
Foreign currency forward contract	CAD 45	1/6/2016	$ 1	$	$	Other Assets
Foreign currency forward contract	€ 4	1/6/2016				Other Assets
Forward sale agreement	$ 316		3			Other Assets
Total			$ 4	$	$	

7. COMMITMENTS AND CONTINGENCIES

The Company has various commitments to fund investments in its portfolio as described below. As of December 31, 2016 and 2015, the Company had the following commitments to fund various

revolving and delayed draw senior secured and subordinated loans, including commitments to fund which are at (or substantially at) the Company's discretion:

	As of December 31,	
	2016	2015
Total revolving and delayed draw loan commitments	$ 411	$ 419
Less: drawn commitments	(81)	(123)
Total undrawn commitments	330	296
Less: commitments substantially at discretion of the Company	(12)	(6)
Less: unavailable commitments due to borrowing base or other covenant restrictions		
Total net adjusted undrawn revolving and delayed draw loan commitments	$ 318	$ 290

Included within the total revolving and delayed draw loan commitments as of December 31, 2016 and 2015 were delayed draw loan commitments totaling $92 and $149, respectively. The Company's commitment to fund delayed draw loans is triggered upon the satisfaction of certain pre-negotiated terms and conditions. Generally, the most significant and uncertain term requires the borrower to satisfy a specific use of proceeds covenant. The use of proceeds covenant typically requires the borrower to use the additional loans for the specific purpose of a permitted acquisition or permitted investment, for example. In addition to the use of proceeds covenant, the borrower is generally required to satisfy additional negotiated covenants (including specified leverage levels).

Also included within the total revolving and delayed draw loan commitments as of December 31, 2016 were commitments to issue up to $52 in letters of credit through a financial intermediary on behalf of certain portfolio companies. As of December 31, 2016, the Company had $12 in letters of credit issued and outstanding under these commitments on behalf of portfolio companies. For all these letters of credit issued and outstanding, the Company would be required to make payments to third parties if the portfolio companies were to default on their related payment obligations. None of these letters of credit issued and outstanding are recorded as a liability on the Company's balance sheet as such letters of credit are considered in the valuation of the investments in the portfolio company. Of these letters of credit, $11 expire in 2017 and $1 expires in 2018.

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

As of December 31, 2016 and 2015, the Company was party to subscription agreements to fund equity investments in private equity investment partnerships as follows:

	As of December 31,	
	2016	2015
Total private equity commitments	$ 57	$ 107
Less: funded private equity commitments	(17)	(21)
Total unfunded private equity commitments	40	86
Less: private equity commitments substantially at discretion of the Company	(39)	(84)
Total net adjusted unfunded private equity commitments	$ 1	$ 2

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

Lease Commitments

The Company is obligated under a number of operating leases and subleases for office spaces with terms ranging from less than one year to more than 15 years. Total rent expense incurred by the Company for the years ended December 31, 2016, 2015 and 2014 was $4, $4 and $3, respectively.

The following table shows future minimum payments under the Company's operating leases and subleases where it is a sublessee as of December 31, 2016:

For the Years Ended December 31,	Amount
2017	$ 9
2018	9
2019	9
2020	9
2021	9
Thereafter	40
Total	$ 85

For certain of its operating leases, the Company has entered into subleases including ones with Ares Management and IHAM. See Note 13 for further description of these subleases.

The following table shows future expected rental payments to be received under the Company's subleases where the Company is the sublessor as of December 31, 2016. The current allocations reflected below are as of December 31, 2016. The allocations in connection with the Company's subleases are subject to change and future review. Further, such allocations are subject to change depending on the composition of, and functions performed by, the staff in each office.

For the Years Ended December 31,	Amount
2017	$ 6
2018	6
2019	6
2020	6
2021	6
Thereafter	27
Total	$ 57

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company follows ASC 825-10, which provides companies the option to report selected financial assets and liabilities at fair value. ASC 825-10 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to more easily understand the effect of the company's choice to use fair value on its earnings. ASC 825-10 also requires entities to display the fair value of the selected assets and liabilities on the face of the balance sheet. The Company has not elected the ASC 825-10 option to report selected financial assets and liabilities at fair value. With the

exception of the line items entitled "other assets" and "debt," which are reported at amortized cost, all assets and liabilities approximate fair value on the balance sheet. The carrying value of the lines titled "interest receivable," "receivable for open trades," "payable for open trades," "accounts payable and other liabilities," "base management fees payable," "income based fees payable," "capital gains incentive fees payable" and "interest and facility fees payable" approximate fair value due to their short maturity.

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

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

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

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

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

The Company's portfolio investments (other than as described below in the following paragraph) are typically valued using two different valuation techniques. The first valuation technique is an analysis of the enterprise value ("EV") of the portfolio company. Enterprise value means the entire value of the portfolio company to a market participant, including the sum of the values of debt and equity securities used to capitalize the enterprise at a point in time. The primary method for determining EV uses a multiple analysis whereby appropriate multiples are applied to the portfolio company's EBITDA (generally defined as net income before net interest expense, income tax expense, depreciation and amortization). EBITDA multiples are typically determined based upon review of market comparable transactions and publicly traded comparable companies, if any. The Company may also employ other valuation multiples to determine EV, such as revenues or, in the case of certain portfolio companies in the power generation industry, kilowatt capacity. The second method for determining EV uses a discounted cash flow analysis whereby future expected cash flows of the portfolio company are discounted to determine a present value using estimated discount rates (typically a weighted average cost of capital based on costs of debt and equity consistent with current market conditions). The EV analysis is performed to determine the value of equity investments, the value of debt investments in

portfolio companies where the Company has control or could gain control through an option or warrant security, and to determine if there is credit impairment for debt investments. If debt investments are credit impaired, an EV analysis may be used to value such debt investments; however, in addition to the methods outlined above, other methods such as a liquidation or wind-down analysis may be utilized to estimate enterprise value. The second valuation technique is a yield analysis, which is typically performed for non-credit impaired debt investments in portfolio companies where the Company does not own a controlling equity position. To determine fair value using a yield analysis, a current price is imputed for the investment based upon an assessment of the expected market yield for a similarly structured investment with a similar level of risk. In the yield analysis, the Company considers the current contractual interest rate, the maturity and other terms of the investment relative to risk of the company and the specific investment. A key determinant of risk, among other things, is the leverage through the investment relative to the enterprise value of the portfolio company. As debt investments held by the Company are substantially illiquid with no active transaction market, the Company depends on primary market data, including newly funded transactions, as well as secondary market data with respect to high yield debt instruments and syndicated loans, as inputs in determining the appropriate market yield, as applicable.

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

The following tables summarize the significant unobservable inputs the Company used to value the majority of its investments categorized within Level 3 as of December 31, 2016 and 2015. The tables are not intended to be all-inclusive, but instead capture the significant unobservable inputs relevant to the Company's determination of fair values.

As of December 31, 2016

			Unobservable Input		
Asset Category	**Fair Value**	**Primary Valuation Techniques**	**Input**	**Estimated Range**	**Weighted Average**
First lien senior secured loans	$ 2,036	Yield analysis	Market yield	5.5% - 20.0%	9.3%
Second lien senior secured loans	2,987	Yield analysis	Market yield	8.4% - 20.8%	10.7%
Subordinated certificates of the SDLP	270	Yield analysis	Yield	11.0% - 12.0%	11.5%
Subordinated certificates of the SSLP	1,914	Discounted cash flow analysis	Discount rate	6.5% - 7.5%	7.0%
Senior subordinated debt	714	Yield analysis	Market yield	9.8% - 17.5%	12.2%
Preferred equity securities	273	EV market multiple analysis	EBITDA multiple	3.5x - 14.8x	8.6x
Other equity securities and other	619	EV market multiple analysis	EBITDA multiple	5.0x - 16.4x	10.7x
Total Investments	$ 8,813				

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			As of December 31, 2015		
			Unobservable Input		
Asset Category	Fair Value	Primary Valuation Techniques	Input	Estimated Range	Weighted Average
First lien senior secured loans	$ 2,639	Yield analysis	Market yield	4.0% - 16.5%	9.2%
Second lien senior secured loans	2,861	Yield analysis	Market yield	8.5% - 19.5%	10.6%
Subordinated certificates of the SSLP	1,885	Discounted cash flow analysis	Discount rate	10.5% - 11.5%	11.0%
Senior subordinated debt	654	Yield analysis	Market yield	8.3% - 15.8%	12.2%
Preferred equity securities	376	EV market multiple analysis	EBITDA multiple	4.0x - 14.8x	7.2x
Other equity securities and other	630	EV market multiple analysis	EBITDA multiple	4.0x - 14.8x	10.2x
Total Investments	$ 9,045				
Derivatives	$ 3	Yield analysis	Market yield	7.0% - 7.6%	7.4%
Total Other Assets	$ 3				

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

Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of the Company's investments may fluctuate from period to period. Additionally, the fair value of the Company's investments may differ significantly from the values that would have been used had a ready market existed for such investments and may differ materially from the values that the Company may ultimately realize. Further, such investments are generally subject to legal and other restrictions on resale or otherwise are less liquid than publicly traded securities. If the Company was required to liquidate a portfolio investment in a forced or liquidation sale, it could realize significantly less than the value at which the Company has recorded it.

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

The following table presents fair value measurements of cash and cash equivalents, investments and derivatives as of December 31, 2016:

	Fair Value Measurements Using			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 223	$ 223	$	$
Investments not measured at net asset value	$ 8,814	$ 1	$	$ 8,813
Investments measured at net asset value(1)	$ 6			
Total Investments	$ 8,820			
Derivatives	$	$	$	$

(1) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheet.

The following table presents fair value measurements of cash and cash equivalents, investments and derivatives as of December 31, 2015:

	Fair Value Measurements Using			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 257	$ 257	$	$
Investments not measured at net asset value	$ 9,049	$ 4	$	$ 9,045
Investments measured at net asset value(1)	$ 7			
Total Investments	$ 9,056			
Derivatives	$ 4	$	$ 1	$ 3

(1) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheet.

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

The following table presents changes in investments that use Level 3 inputs as of and for the year ended December 31, 2016:

	As of and For the Year Ended December 31, 2016
Balance as of December 31, 2015	$ 9,045
Net realized gains	105
Net unrealized losses	(113)
Purchases	3,474
Sales	(1,776)
Redemptions	(1,970)
Payment-in-kind interest and dividends	48
Net accretion of discount on securities	6
Net transfers in and/or out of Level 3	(6)
Balance as of December 31, 2016	$ 8,813

As of December 31, 2016, the net unrealized depreciation on the investments that use Level 3 inputs was $223. For the year ended December 31, 2016, the net transfers out of Level 3 were due to privately held equity investments converting to publicly traded stock.

The following table presents changes in derivatives that use Level 3 inputs as of and for the year ended December 31, 2016:

	As of and For the Year Ended December 31, 2016
Balance as of December 31, 2015	$ 3
Net unrealized appreciation reversed related to termination of the Forward Sale Agreement	(3)
Balance as of December 31, 2016	$

As of December 31, 2016, the Company did not have any net unrealized appreciation on the derivatives that use Level 3 inputs.

For the year ended December 31, 2016, the total amount of gains (losses) for the period included in earnings attributable to the change in unrealized gains (losses) relating to the Company's Level 3 assets still held as of December 31, 2016, and reported within the net unrealized gains (losses) from investments, foreign currency and other transactions in the Company's consolidated statement of operations was $(139).

The following table presents changes in investments that use Level 3 inputs as of and for the year ended December 31, 2015:

	As of and For the Year Ended December 31, 2015
Balance as of December 31, 2014	$ 9,016
Net realized gains	114
Net unrealized losses	(241)
Purchases	3,881
Sales	(1,772)
Redemptions	(1,967)
Payment-in-kind interest and dividends	24
Net accretion of discount on securities	4
Net transfers in and/or out of Level 3	(14)
Balance as of December 31, 2015	$ 9,045

As of December 31, 2015, the net unrealized depreciation on the investments that use Level 3 inputs was $101. For the year ended December 31, 2015, the net transfers out of Level 3 were due to privately held equity investments converting to publicly traded stock.

The following table presents changes in derivatives that use Level 3 inputs as of and for the year ended December 31, 2015:

	As of and For the Year Ended December 31, 2015
Balance as of December 31, 2014	$
Net unrealized gains	3
Balance as of December 31, 2015	$ 3

As of December 31, 2015, the net unrealized appreciation on the derivatives that use Level 3 inputs was $3.

For the year ended December 31, 2015, the total amount of gains (losses) for the period included in earnings attributable to the change in unrealized gains (losses) relating to the Company's Level 3 assets still held as of December 31, 2015, and reported within the net unrealized gains (losses) from investments, foreign currency and other transactions in the Company's consolidated statement of operations was $(201).

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

Following are the carrying and fair values of the Company's debt obligations as of December 31, 2016 and 2015. Fair value is estimated by discounting remaining payments using applicable current

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

	As of December 31,			
	2016		2015	
	Carrying value(1)	Fair value	Carrying value(1)	Fair value
Revolving Credit Facility	571	$ 571	$ 515	$ 515
Revolving Funding Facility	155	155	250	250
SMBC Funding Facility	105	105	110	110
SBA Debentures	24	25	21	22
February 2016 Convertible Notes (principal amount outstanding of $0 and $575, respectively)	(2)		574(3)	575
June 2016 Convertible Notes (principal amount outstanding of $0 and $230, respectively)	(2)		228(3)	230
2017 Convertible Notes (principal amount outstanding of $162)	162(3)	163	160(3)	164
2018 Convertible Notes (principal amount outstanding of $270)	267(3)	278	264(3)	271
2019 Convertible Notes (principal amount outstanding of $300)	296(3)	312	295(3)	299
2018 Notes (principal amount outstanding of $750)	745(4)	776	743(4)	778
2020 Notes (principal amount outstanding of $600)	596(5)	608	594(5)	607
January 2022 Notes (principal amount outstanding of $600 and $0, respectively)	592(6)	584		
October 2022 Notes (principal amount outstanding of $183)	179(7)	184	178(7)	182
2047 Notes (principal amount outstanding of $230)	182(8)	228	182(8)	230
	$ 3,874(9)	$ 3,989	$ 4,114(9)	$ 4,233

(1) The Revolving Credit Facility, the Revolving Funding Facility and the SMBC Funding Facility carrying values are the same as the principal amounts outstanding.

(2) See Note 5 for more information on the repayments of the February 2016 Convertible Notes and the June 2016 Convertible Notes.

(3) Represents the aggregate principal amount outstanding of the Convertible Unsecured Notes less unamortized debt issuance costs and the unaccreted discount recorded upon the issuances of such notes.

(4) Represents the aggregate principal amount outstanding of the 2018 Notes less unamortized debt issuance costs plus the net unamortized premium recorded upon the issuances of the 2018 Notes.

(5) Represents the aggregate principal amount outstanding of the 2020 Notes less unamortized debt issuance costs and the net unaccreted discount recorded upon the issuances of the 2020 Notes.

(6) Represents the aggregate principal amount outstanding of the January 2022 Notes less unamortized debt issuance costs and the unaccreted discount recorded upon the issuance of the January 2022 Notes.

(7) Represents the aggregate principal amount outstanding of the October 2022 Notes less unamortized debt issuance costs.

(8) Represents the aggregate principal amount outstanding of the 2047 Notes less the unaccreted purchased discount.

(9) Total principal amount of debt outstanding totaled $3,951 and $4,197 as of December 31, 2016 and 2015, respectively.

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The following table presents fair value measurements of the Company's debt obligations as of December 31, 2016 and 2015:

Fair Value Measurements Using	**As of December 31, 2016**	**2015**
Level 1	$ 413	$ 412
Level 2	3,576	3,821
Total	$ 3,989	$ 4,233

9. STOCKHOLDERS' EQUITY

There were no sales of the Company's equity securities for the years ended December 31, 2016 and 2015. The following table summarizes the total shares issued and proceeds received in public offerings of the Company's common stock net of underwriting discounts and offering costs for the years ended December 31, 2014:

	Shares issued	**Offering price per share(1)**	**Proceeds net of underwriting discounts and offering costs**
2014			
July 2014 public offering	15.5	$ 16.63	$ 258
Total for the year ended December 31, 2014	15.5		$ 258

(1) The shares were sold to the underwriters for a price equal to the offering price per share, which the underwriters were then permitted to sell at variable prices to the public.

The Company used the net proceeds from the above public equity offerings to repay outstanding indebtedness and for general corporate purposes, which included funding investments in accordance with its investment objective. See Note 12 for information regarding shares of common stock issued or purchased in accordance with the Company's dividend reinvestment plan.

Stock Repurchase Program

In September 2015, the Company's board of directors approved a stock repurchase program authorizing the Company to repurchase up to $100 in the aggregate of its outstanding common stock in the open market at certain thresholds below its net asset value per share, in accordance with the guidelines specified in Rule 10b-18 of the Securities Exchange Act of 1934, as amended. The timing, manner, price and amount of any share repurchases will be determined by the Company, in its discretion, based upon the evaluation of economic and market conditions, stock price, applicable legal and regulatory requirements and other factors. The program was scheduled to expire on February 28, 2017, unless extended or until the approved dollar amount has been used to repurchase shares. The program does not require the Company to repurchase any specific number of shares and it cannot assure stockholders that any shares will be repurchased under the program. The program may be suspended, extended, modified or discontinued at any time. As of December 31, 2016, the Company had repurchased a total of 0.5 shares of its common stock in the open market under the stock repurchase program since its inception in September 2015, at an average price of $13.92 per share, including commissions paid, leaving approximately $93 available for additional repurchases under the program.

In May 2016, the Company suspended its stock repurchase program pending the completion of the American Capital Acquisition (see Note 16 for more information). During the year ended

December 31, 2016, the Company repurchased a total of 0.4 shares of the Company's common stock in the open market for $5 under the stock repurchase program. The shares were repurchased at an average price of $13.94 per share, including commissions paid. During the year ended December 31, 2015, the Company repurchased a total of 0.1 shares of the Company's common stock in the open market for $2. The shares were repurchased at an average price of $13.86 per share, including commissions paid. See Note 18 for a subsequent event relating to the stock repurchase program.

10. EARNINGS PER SHARE

The following information sets forth the computations of basic and diluted net increase in stockholders' equity resulting from operations per share for the years ended December 31, 2016, 2015 and 2014:

	For the Years Ended December 31,		
	2016	**2015**	**2014**
Net increase in stockholders' equity resulting from operations available to common stockholders	$ 474	$ 379	$ 591
Weighted average shares of common stock outstanding basic and diluted	314	314	305
Basic and diluted net increase in stockholders' equity resulting from operations per share	$ 1.51	$ 1.20	$ 1.94

For the purpose of calculating diluted net increase in stockholders' equity resulting from operations per share, the average closing price of the Company's common stock for the years ended December 31, 2016, 2015 and 2014 were less than the conversion price for each of the Convertible Unsecured Notes outstanding as of December 31, 2016, 2015 and 2014, respectively. Therefore, for all periods presented in the financial statements, the underlying shares for the intrinsic value of the embedded options in the Convertible Unsecured Notes, the February 2016 Convertible Notes and the June 2016 Convertible Notes have no impact on the computation of diluted net increase in stockholders' equity resulting from operations per share.

11. INCOME AND EXCISE TAXES

For income tax purposes, dividends paid and distributions made to the Company's stockholders are reported by the Company to the stockholders as ordinary income, capital gains, or a combination thereof. Dividends paid per common share for the years ended December 31, 2016, 2015 and 2014 were taxable as follows (unaudited):

	For the Years Ended December 31,		
	2016	**2015**	**2014**
Ordinary income(1)	$ 1.26	$ 1.56	$ 1.57
Capital gains	0.26	0.01	
Total(2)	$ 1.52	$ 1.57	$ 1.57

(1) For the years ended December 31, 2016, 2015 and 2014, ordinary income included dividend income of approximately $0.0892, $0.0730 and $0.1055, per share, respectively, that qualified to be taxed at the maximum capital gains rate. For certain eligible corporate shareholders, these dividends were eligible for the dividends received deduction.

(2) For the years ended December 31, 2016, 2015 and 2014, dividends paid were comprised of interest-sourced dividends in amounts equal to 81.4%, 91.1% and 90.1% of total dividends paid, respectively.

The following reconciles net increase in stockholders' equity resulting from operations to taxable income for the years ended December 31, 2016, 2015 and 2014:

	For the Years Ended December 31,		
	2016 (Estimated)(1)	**2015**	**2014**
Net increase in stockholders' equity resulting from operations	$ 474	$ 379	$ 591
Adjustments:			
Net unrealized losses (gains) on investments, foreign currency and other transactions	130	246	(59)
Income not currently taxable	(39)	(56)	(61)
Income for tax but not book	25	49	10
Expenses not currently deductible	28	14	44
Expenses for tax but not book	(5)	(3)	(5)
Realized gain/loss differences	(58)	(44)	(101)
Taxable income	$ 555	$ 585	$ 419

(1) The calculation of estimated 2016 taxable income includes a number of estimated inputs, including information received from third parties and, as a result, actual 2016 taxable income will not be finally determined until the Company's 2016 tax return is filed in 2017 (and, therefore, such estimate is subject to change).

Taxable income generally differs from net increase in stockholders' equity resulting from operations for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses, and generally excludes net unrealized gains or losses, as unrealized gains or losses are generally not included in taxable income until they are realized. In addition, on April 1, 2010, the Company acquired Allied Capital in a tax-free merger, which has caused certain merger-related items to vary in their deductibility for GAAP and tax purposes.

Capital losses in excess of capital gains earned in a tax year may generally be carried forward and used to offset capital gains, subject to certain limitations. As of December 31, 2016, the Company estimates that it will have a capital loss carryforward of approximately $127 available for use in later tax years. Because of the loss limitation rules of the Code, some of the tax basis capital losses may be limited in their use. The unused balance will be carried forward and utilized as gains are realized, subject to such limitations. In addition to the capital loss carryforwards, the Company realized tax basis net losses totaling approximately $0.3 billion from the Allied Capital portfolio since the Allied Acquisition through December 31, 2016, that have not yet been deducted for tax purposes as their deductibility in years since the Allied Acquisition was limited by the Code. While the Company's ability to utilize losses in the future depends upon a variety of factors that cannot be known in advance, substantially all of the Company's capital loss carryforwards and the net realized losses from the Allied Capital portfolio may become permanently unavailable due to limitations by the Code.

For 2016, the Company had estimated taxable income in excess of the distributions made from such taxable income during the year, and therefore, the Company has elected to carry forward the excess for distribution to shareholders in 2017. The amount carried forward to 2017 is estimated to be approximately $339, of which $290 is ordinary income and $49 is capital gain net income, although these amounts will not be finalized until the 2016 tax returns are filed in 2017. For 2015 and 2014, the

Company had taxable income in excess of the distributions made from such taxable income during the year, and therefore, the Company elected to carry forward the excess for distribution to shareholders in 2016 and 2015, respectively. The amount carried forward to 2016 and 2015 was approximately $262 and $171, respectively. To the extent that the Company determines that its estimated current year annual taxable income will be in excess of estimated current year dividend distributions from such income, the Company accrues excise tax on estimated excess taxable income. For the years ended December 31, 2016, 2015 and 2014, a net expense of $12, $9 and $6, respectively, was recorded for U.S. federal excise tax. The net expense for the years ended December 31, 2016, 2015 and 2014 each included a reduction in expense related to the recording of a requested refund resulting from the overpayment of the prior year's excise tax of $1, $1 and $2, respectively.

As of December 31, 2016, the estimated cost basis of investments for tax purposes was $9.8 billion resulting in estimated gross unrealized gains and losses of $0.1 billion and $0.8 billion, respectively. As of December 31, 2015, the estimated cost basis of investments for tax purposes was $10.0 billion resulting in estimated gross unrealized gains and losses of $0.05 billion and $1.0 billion, respectively. As of December 31, 2016 and 2015, the cost of investments for tax purposes was greater than the amortized cost of investments for book purposes of $9.0 billion and $9.1 billion, respectively, primarily as a result of the Allied Acquisition. The Allied Acquisition qualified as a tax free merger, which resulted in the acquired assets retaining Allied Capital's cost basis at the merger date.

In general, the Company may make certain adjustments to the classification of stockholders' equity as a result of permanent book-to-tax differences, which may include merger-related items, differences in the book and tax basis of certain assets and liabilities, and nondeductible federal taxes, among other items. During the year ended December 31, 2016, the Company increased accumulated undistributed net investment income by $21 and decreased capital in excess of par value by $21. During the year ended December 31, 2015, the Company decreased accumulated overdistributed net investment income by $17, increased accumulated net realized loss on investments by $3 and decreased capital in excess of par value by $14. During the year ended December 31, 2014, the Company decreased accumulated overdistributed net investment income by $18, increased accumulated net realized loss on investments, foreign currency transactions, extinguishment of debt and other assets by $95 and increased capital in excess of par value by $77.

Certain of the Company's consolidated subsidiaries are subject to U.S. federal and state income taxes. For the years ended December 31, 2016, 2015 and 2014, the Company recorded a tax expense of approximately $9, $9 and $12, respectively, for these subsidiaries.

12. DIVIDENDS AND DISTRIBUTIONS

The following table summarizes the Company's dividends or distributions declared during the years ended December 31, 2016, 2015 and 2014:

Date declared	Record date	Payment date	Per share amount	Total amount
November 2, 2016	December 15, 2016	December 30, 2016	$ 0.38	$ 119
August 3, 2016	September 15, 2016	September 30, 2016	0.38	119
May 4, 2016	June 15, 2016	June 30, 2016	0.38	119
February 26, 2016	March 15, 2016	March 31, 2016	0.38	120
Total declared for 2016			$ 1.52	$ 477
November 4, 2015	December 15, 2015	December 31, 2015	$ 0.38	$ 120
August 4, 2015	September 15, 2015	September 30, 2015	0.38	119
May 4, 2015	June 15, 2015	June 30, 2015	0.38	119
February 26, 2015	March 13, 2015	March 31, 2015	0.38	119
February 26, 2015	March 13, 2015	March 31, 2015	0.05(1)	16
Total declared for 2015			$ 1.57	$ 493
November 4, 2014	December 15, 2014	December 31, 2014	$ 0.38	$ 120
August 5, 2014	September 15, 2014	September 30, 2014	0.38	119
May 6, 2014	June 16, 2014	June 30, 2014	0.38	113
February 26, 2014	March 14, 2014	March 31, 2014	0.38	113
November 5, 2013	March 14, 2014	March 28, 2014	0.05(1)	15
Total declared for 2014			$ 1.57	$ 480

(1) Represents an additional dividend.

The Company has a dividend reinvestment plan, whereby the Company may buy shares of its common stock in the open market or issue new shares in order to satisfy dividend reinvestment requests. When the Company issues new shares in connection with the dividend reinvestment plan, the issue price is equal to the closing price of its common stock on the dividend payment date. Dividend reinvestment plan activity for the years ended December 31, 2016, 2015 and 2014, was as follows:

	For the Years Ended December 31,		
	2016	2015	2014
Shares issued		0.4	0.6
Average issue price per share	$	$ 17.17	$ 17.74
Shares purchased by plan agent to satisfy dividends declared and payable during the period for stockholders	1.3	0.7	0.7
Average purchase price per share	$ 15.14	$ 15.70	$ 15.93

13. RELATED PARTY TRANSACTIONS

In accordance with the investment advisory and management agreement, the Company bears all costs and expenses of the operation of the Company and reimburses its investment adviser or its affiliates for certain of such costs and expenses incurred in the operation of the Company.

For the years ended December 31, 2016, 2015 and 2014, the Company's investment adviser or its affiliates incurred such expenses totaling $5, $7 and $6, respectively.

The Company is party to office leases pursuant to which it is leasing office facilities from third parties. For certain of these office leases, the Company has also entered into separate subleases with Ares Management LLC, the sole member of Ares Capital Management, and IHAM, pursuant to which Ares Management LLC and IHAM sublease a portion of these leases. For the years ended December 31, 2016, 2015 and 2014, amounts payable to the Company under these subleases totaled $6, $5 and $4, respectively.

Ares Management LLC has also entered into separate subleases with the Company, pursuant to which the Company subleases certain office spaces from Ares Management LLC. For the years ended December 31, 2016, 2015 and 2014, amounts payable to Ares Management LLC under these subleases totaled $1, $1 and $1, respectively.

The Company has also entered into agreements with Ares Management LLC and IHAM, pursuant to which Ares Management LLC and IHAM are entitled to use the Company's proprietary portfolio management software. For the years ended December 31, 2016 and 2015, amounts payable to the Company under these agreements totaled $0 million and $0 million, respectively. For the year ended December 31, 2014, there was no amount payable to the Company as there was no such agreements in place during the period.

See Notes 3, 4, 6 and 16 for descriptions of other related party transactions.

14. FINANCIAL HIGHLIGHTS

The following is a schedule of financial highlights as of and for the years ended December 31, 2016, 2015 and 2014:

	As of and For the Years Ended December 31,		
Per Share Data:	**2016**	**2015**	**2014**
Net asset value, beginning of period(1)	$ 16.46	$ 16.82	$ 16.46
Issuances of common stock		0.01	
Repurchases of common stock		(0.01)	
Net investment income for period(2)	1.57	1.62	1.43
Net realized and unrealized gains(losses) for period(2)	(0.06)	(0.41)	0.50
Net increase in stockholders' equity	1.51	1.21	1.93
Total distributions to stockholders(3)	(1.52)	(1.57)	(1.57)
Net asset value at end of period(1)	$ 16.45	$ 16.46	$ 16.82
Per share market value at end of period	$ 16.49	$ 14.25	$ 15.61
Total return based on market value(4)	26.39%	1.35%	(3.32)%
Total return based on net asset value(5)	9.15%	7.16%	11.79%
Shares outstanding at end of period	314	314	314
Ratio/Supplemental Data:			
Net assets at end of period	$ 5,165	$ 5,173	$ 5,284
Ratio of operating expenses to average net assets(6)(7)	9.59%	9.51%	10.46%
Ratio of net investment income to average net assets(6)(8)	9.58%	9.75%	8.71%
Portfolio turnover rate(6)	39%	42%	39%

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

(2) Weighted average basic per share data.

(3) Includes an additional dividend of $0.05 per share for the three months ended March 31, 2015.

(4)
For the year ended December 31, 2016, the total return based on market value equaled the increase of the ending market value at December 31, 2016 of $16.49 per share from the ending market value at December 31, 2015 of $14.25 per share plus the declared and payable dividends of $1.52 per share for the year ended December 31, 2016, divided by the market value at December 31, 2015. For the year ended December 31, 2015, the total return based on market value equaled the decrease of the ending market value at December 31, 2015 of $14.25 per share from the ending market value at December 31, 2014 of $15.61 per share plus the declared and payable dividends of $1.57 per share for the year ended December 31, 2015, divided by the market value at December 31, 2014. For the year ended December 31, 2014, the total return based on market value equaled the decrease of the ending market value at December 31, 2014 of $15.61 per share from the ending market value at December 31, 2013 of $17.77 per share plus the declared and payable dividends of $1.57 per share for the year ended December 31, 2014, divided by the market value at December 31, 2013. The Company's shares fluctuate in value. The Company's performance changes over time and currently may be different than that shown. Past performance is no guarantee of future results.

(5)
For the year ended December 31, 2016, the total return based on net asset value equaled the change in net asset value during the period plus the declared and payable dividends of $1.52 per share for the year ended December 31, 2016, divided by the beginning net asset value for the period. For the year ended December 31, 2015, the total return based on net asset value equaled the change in net asset value during the period plus the declared and payable dividends of $1.57 per share for the year ended December 31, 2015, divided by the beginning net asset value for the period. For the year ended December 31, 2014, the total return based on net asset value equaled the change in net asset value during the period plus the declared and payable dividends of $1.57 per share for the year ended December 31, 2014, divided by the beginning net asset value for the period. These calculations are adjusted for shares issued in connection with the dividend reinvestment plan, the issuance of common stock in connection with any equity offerings and the equity components of any convertible notes issued during the period. The Company's performance changes over time and currently may be different than that shown. Past performance is no guarantee of future results.

(6)
The ratios reflect an annualized amount.

(7)
For the year ended December 31, 2016, the ratio of operating expenses to average net assets consisted of 2.64% of base management fees, 2.29% of income based fees and capital gains incentive fees, 3.58% of the cost of borrowing and 1.08% of other operating expenses. For the year ended December 31, 2015, the ratio of operating expenses to average net assets consisted of 2.55% of base management fees, 2.31% of income based fees and capital gains incentive fees, 4.32% of the cost of borrowing and 0.33% of other operating expenses. For the year ended December 31, 2014, the ratio of operating expenses to average net assets consisted of 2.51% of base management fees, 2.90% of income based fees and capital gains incentive fees, 4.24% of the cost of borrowing and 0.81% of other operating expenses.

(8)
The ratio of net investment income to average net assets excludes income taxes related to realized gains and losses.

15. SELECTED QUARTERLY DATA (Unaudited)

	2016			
	Q4	Q3	Q2	Q1
Total investment income	$ 261	$ 258	$ 245	$ 248
Net investment income before net realized and unrealized gains and income based fees and capital gains incentive fees	$ 157	$ 164	$ 144	$ 147
Income based fees and capital gains incentive fees	$ 19	$ 27	$ 39	$ 33
Net investment income before net realized and unrealized gains (losses)	$ 138	$ 137	$ 105	$ 114
Net realized and unrealized gains (losses)	$ (63)	$ (28)	$ 53	$ 18
Net increase in stockholders' equity resulting from operations	$ 75	$ 109	$ 158	$ 132
Basic and diluted earnings per common share	$ 0.24	$ 0.35	$ 0.50	$ 0.42
Net asset value per share as of the end of the quarter	$ 16.45	$ 16.59	$ 16.62	$ 16.50

	2015			
	Q4	Q3	Q2	Q1
Total investment income	$ 262	$ 261	$ 249	$ 253
Net investment income before net realized and unrealized gains and income based fees and capital gains incentive fees	$ 151	$ 160	$ 145	$ 147
Income based fees and capital gains incentive fees	$ 4	$ 29	$ 36	$ 25
Net investment income before net realized and unrealized gains (losses)	$ 147	$ 131	$ 108	$ 122
Net realized and unrealized gains (losses)	$ (132)	$ (14)	$ 38	$ (21)
Net increase in stockholders' equity resulting from operations	$ 15	$ 117	$ 146	$ 101
Basic and diluted earnings per common share	$ 0.05	$ 0.37	$ 0.47	$ 0.32
Net asset value per share as of the end of the quarter	$ 16.46	$ 16.79	$ 16.80	$ 16.71

	2014			
	Q4	Q3	Q2	Q1
Total investment income	$ 271	$ 253	$ 225	$ 240
Net investment income before net realized and unrealized gains and income based fees and capital gains incentive fees	$ 166	$ 151	$ 128	$ 141
Income based fees and capital gains incentive fees	$ 38	$ 45	$ 36	$ 29
Net investment income before net realized and unrealized gains	$ 128	$ 106	$ 92	$ 112
Net realized and unrealized gains	$ 25	$ 72	$ 51	$ 5
Net increase in stockholders' equity resulting from operations	$ 153	$ 178	$ 143	$ 117
Basic and diluted earnings per common share	$ 0.49	$ 0.57	$ 0.48	$ 0.39
Net asset value per share as of the end of the quarter	$ 16.82	$ 16.71	$ 16.52	$ 16.42

16. AMERICAN CAPITAL ACQUISITION

On May 23, 2016, the Company entered into a definitive agreement (the "Merger Agreement") to acquire American Capital, Ltd. ("American Capital"), a Delaware corporation, in a cash and stock transaction (the "American Capital Acquisition"). The board of directors of both companies each unanimously approved the American Capital Acquisition and on December 15, 2016, American Capital's stockholders approved the merger and the Company's stockholders approved the issuance of shares of the Company's common stock to American Capital's stockholders. See Note 18 for a subsequent event relating to the closing of the American Capital Acquisition on January 3, 2017.

In connection with the American Capital Acquisition, American Capital Asset Management, LLC, a wholly owned portfolio company of American Capital, will merge with and into IHAM, with IHAM remaining as the surviving entity as a wholly owned portfolio company of the Company.

Additionally, on May 23, 2016, the Company entered into an agreement with Ares Capital Management, its investment adviser (the "Transaction Support Agreement") in connection with the American Capital Acquisition. Under the terms of the Transaction Support Agreement, the Company's investment adviser (i) provided approximately $275 of cash consideration, or $1.20 per share of American Capital common stock, paid to American Capital stockholders in accordance with the terms and conditions set forth in the Merger Agreement at closing and (ii) will waive, for each of the first 10 calendar quarters beginning with the second quarter of 2017, the lesser of (x) $10 of income based fees and (y) the amount of income based fees for such quarter, in each case, to the extent earned and payable by the Company in such quarter pursuant to and as calculated under the Company's investment advisory and management agreement.

The American Capital Acquisition will be accounted for as an asset acquisition in accordance with the asset acquisition method of accounting as detailed in ASC 805-50, *Business Combinations-Related Issues.* The fair value of the merger consideration paid by the Company is allocated to the assets acquired and liabilities assumed based on their relative fair values as of the date of acquisition and will not give rise to goodwill. If the fair value of the net assets acquired exceeds the fair value of the merger consideration paid by the Company, then the Company would recognize a deemed contribution from Ares Capital Management in an amount up to the cash consideration to be paid by Ares Capital Management described above. If the fair value of the net assets acquired exceeds the fair value of the aggregate merger consideration paid by the Company and by Ares Capital Management, then the Company would recognize a purchase accounting gain. Alternatively, if the fair value of the net assets acquired is less than the fair value of the merger consideration paid by the Company, then the Company would recognize a purchase accounting loss.

17. LITIGATION

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

On May 20, 2013, the Company was named as one of several defendants in an action (the Action) filed in the United States District Court for the Eastern District of Pennsylvania (the Pennsylvania Court) by the bankruptcy trustee of DSI Renal Holdings LLC and two related companies. On March 17, 2014, the Action was transferred to the United States District Court for the District of Delaware (the Delaware Court) pursuant to a motion filed by the defendants and granted by the Pennsylvania Court. On May 6, 2014, the Delaware Court referred the Action to the United States Bankruptcy Court for the District of Delaware. The complaint in the Action alleges, among other things, that each of the named defendants participated in a purported fraudulent transfer involving the restructuring of a subsidiary of DSI Renal Holdings LLC. Among other things, the complaint seeks, jointly and severally from all defendants, (1) damages of approximately $425, of which the complaint states the Company's individual share is approximately $117, and (2) punitive damages. The Company is currently unable to assess with any certainty whether it may have any exposure in the Action. The Company believes the plaintiff's claims are without merit and intends to vigorously defend itself in the Action.

18. SUBSEQUENT EVENTS

The Company's management has evaluated subsequent events through the date of issuance of the consolidated financial statements included herein. There have been no subsequent events that occurred during such period that would require disclosure in this Form 10-K or would be required to be recognized in the consolidated financial statements as of and for the year ended December 31, 2016, except as disclosed below.

On January 3, 2017, the Company completed the American Capital Acquisition in a cash and stock transaction, pursuant to the terms and conditions of the Merger Agreement. Pursuant to the Merger Agreement, American Capital shareholders received approximately $18.06 per share comprised of: (i) $14.41 per share from the Company consisting of approximately $6.48 per share of cash (including a make-up dividend in the amount of $0.07 per share) and 0.483 shares of the Company's common stock for each American Capital share at a value of $7.93 per American Capital share (based on the closing price per share of the Company's common stock on January 3, 2017), (ii) $2.45 per share of cash from American Capital's previously announced sale of American Capital Mortgage Management, LLC, and (iii) approximately $1.20 per share of cash as transaction support provided by Ares Capital Management LLC, the Company's investment adviser, acting solely on its own behalf. As of January 3, 2017, the transaction was valued at approximately $4.2 billion. In connection with the stock consideration, the Company issued approximately 112 million shares of its common stock to American Capital's then-existing stockholders (including outstanding in-the-money American Capital stock options), thereby resulting in the Company's then-existing stockholders owning approximately 73.7% of the combined company and then-existing American Capital stockholders owning approximately 26.3% of the combined company.

In January 2017, the Company entered into an agreement to amend the Revolving Funding Facility that, among other things, (a) increased the commitments under the Revolving Funding Facility from $540 to $1.0 billion, (b) extended the reinvestment period from May 14, 2017 to January 3, 2019, (c) extended the stated maturity date from May 14, 2019 to January 3, 2022, (d) modified the interest rate charged on the Revolving Funding Facility from a rate based on LIBOR plus applicable spreads ranging from 2.25% to 2.50% or on a "base rate" (as defined in the agreements governing the Revolving Funding Facility) over applicable spreads ranging from 1.25% to 1.50%, in each case, determined monthly based on the composition of the borrowing base relative to outstanding borrowings under the Revolving Funding Facility, to a rate based on LIBOR plus 2.30% per annum or a "base rate" plus 1.30% per annum, (e) added a commitment termination premium in an amount equal to 1.00% for any commitment reduction prior to January 3, 2018 and 0.50% for any commitment reduction prior to July 3, 2018, and (f) modified certain loan portfolio concentration limits.

In January 2017, the Company entered into an agreement to amend and restate the Revolving Credit Facility that, among other things, (a) added a term loan tranche in an amount equal to $383 with stated maturity dates equal to the extended stated maturity dates applicable to the extending revolving lenders, (b) extended the expiration of the revolving period for certain lenders electing to extend their commitments in an amount equal to $1.6 billion from May 4, 2020 to January 4, 2021, during which period the Company, subject to certain conditions, may make borrowings under the Revolving Credit Facility, (c) extended the stated maturity date for certain lenders electing to extend their revolving commitments in an amount equal to $1.6 billion from May 4, 2021 to January 4, 2022, (d) permitted certain lenders who previously elected not to extend their commitments in an amount equal to $45 to remain subject to the revolving period and stated maturity in respect of their non-extending commitments applicable to such lenders in the existing revolver, and (e) permitted certain lenders electing not to extend their commitments in an amount equal to $75 to remain subject to the revolving period and stated maturity in the Revolving Credit Facility prior to this amendment in respect of their non-extending commitments.The total size of the Revolving Credit Facility is $2.1 billion following the amendment and restatement thereof. The Revolving Credit Facility includes

an "accordion" feature that allows the Company, under certain circumstances, to increase the size of the facility by an amount up to $1.0 billion.

In January 2017, the Company issued $350 aggregate principal amount of unsecured convertible notes that mature on February 1, 2022 (the "2022 Convertible Notes"), unless previously converted or repurchased in accordance with their terms. The Company does not have the right to redeem the 2022 Convertible Notes prior to maturity. In February 2017, the initial purchasers of the 2022 Convertible Notes exercised their option to purchase an additional $38 aggregate principal amount of the 2022 Convertible Notes bringing the total aggregate principal amount outstanding of the 2022 Convertible Notes to $388. The 2022 Convertible Notes bear interest at a rate of 3.75% per year, payable semi-annually in arrears on February 1 and August 1 of each year, commencing on August 1, 2017. In certain circumstances, the 2022 Convertible Notes will be convertible into cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock, at its election, at an initial conversion rate of 51.5756 shares of common stock per one thousand dollar principal amount of the 2022 Convertible Notes, which was equivalent to an initial conversion price of approximately $19.39 per share of the Company's common stock, subject to customary anti-dilution adjustments. The initial conversion price was approximately 15% above the $16.86 per share closing price of the Company's common stock on January 23, 2017.

In February 2017, the Company's board of directors authorized an amendment to its stock repurchase program to (a) increase the total authorization under the program from $100 to $300 and (b) extend the expiration date of the program from February 28, 2017 to February 28, 2018. Under the stock repurchase program, the Company may repurchase up to $300 in the aggregate of its outstanding common stock in the open market at a price per share that meets certain thresholds below its net asset value per share, in accordance with the guidelines specified in Rule 10b-18 of the Exchange Act. The timing, manner, price and amount of any share repurchases will be determined by the Company, in its discretion, based upon the evaluation of economic and market conditions, stock price, applicable legal and regulatory requirements and other factors.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ARES CAPITAL CORPORATION
By: /s/ R. KIPP DEVEER

R. Kipp deVeer
Chief Executive Officer and Director
Date: February 22, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ R. KIPP DEVEER

R. Kipp deVeer
Chief Executive Officer (principal executive officer) and Director
Date: February 22, 2017

By: /s/ PENNI F. ROLL

Penni F. Roll
Chief Financial Officer (principal financial officer)
Date: February 22, 2017

By: /s/ SCOTT C. LEM

Scott C. Lem
Chief Accounting Officer (principal accounting officer)
Date: February 22, 2017

By: /s/ MICHAEL J AROUGHETI

Michael J Arougheti
Director
Date: February 22, 2017

By: /s/ STEVE BARTLETT

Steve Bartlett
Director
Date: February 22, 2017

By: /s/ ANN TORRE BATES

Ann Torre Bates
Director
Date: February 22, 2017

By: /s/ STEVEN B. MCKEEVER

Steven B. McKeever
Director

By: /s/ DANIEL KELLY, JR.

Daniel Kelly, Jr.
Director
Date: February 22, 2017

By: /s/ ROBERT L. ROSEN

Robert L. Rosen
Director
Date: February 22, 2017

By: /s/ BENNETT ROSENTHAL

Bennett Rosenthal
Director
Date: February 22, 2017

By: /s/ ERIC B. SIEGEL

Eric B. Siegel
Director
Date: February 22, 2017