

Financial highlights for the quarter and year are as follows:

AMERICAN CAPITAL STRATEGIES, LTD.
CONSOLIDATED BALANCE SHEETS
As of December 31, 2007 and 2006
(in millions)

	<u>2007</u> (unaudited)	<u>2006</u>	<u>2007</u> <u>Versus</u> <u>2006</u>	
			<u>\$</u>	<u>%</u>
Assets				
Investments at fair value (cost of \$10,667 and \$7,781 respectively)	\$ 10,928	\$8,076	\$2,852	35%
Cash and cash equivalents	143	77	66	86%
Restricted cash	401	233	168	72%
Interest receivable	56	44	12	27%
Other	204	179	25	14%
Total assets	<u>\$ 11,732</u>	<u>\$8,609</u>	<u>\$3,123</u>	<u>36%</u>
Liabilities and Shareholders' Equity				
Debt	\$ 4,824	\$3,926	\$ 898	23%
Derivative agreements	77	13	64	492%
Accrued dividends payable	195	130	65	50%
Other	195	198	(3)	-2%
Total liabilities	<u>5,291</u>	<u>4,267</u>	<u>1,024</u>	<u>24%</u>
Commitments and contingencies				
Shareholders' equity:				
Undesignated preferred stock, \$0.01 par value, 5.0 shares authorized, 0.0 issued and outstanding	—	—	—	—
Common stock, \$0.01 par value, 1,000.0 and 200.0 shares authorized, 201.4 and 151.6 issued and 195.9 and 147.6 outstanding, respectively	2	1	1	100%
Capital in excess of par value	6,020	3,980	2,040	51%
Notes receivable from sale of common stock	(7)	(7)	—	0%
Undistributed net realized earnings	254	88	166	189%
Net unrealized appreciation of investments	172	280	(108)	-39%
Total shareholders' equity	<u>6,441</u>	<u>4,342</u>	<u>2,099</u>	<u>48%</u>
Total liabilities and shareholders' equity	<u>\$ 11,732</u>	<u>\$8,609</u>	<u>\$3,123</u>	<u>36%</u>

AMERICAN CAPITAL STRATEGIES, LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS
Three and Twelve Months Ended December 31, 2007 and 2006
(in millions, except per share data)

	Three Months		Three Months		Fiscal Year		Fiscal Year		
	Ended December 31,		Ended December 31, 2007		Ended December 31,		Ended December 31, 2007		
	2007	2006	Versus 2006		2007	2006	Versus 2006		
	(unaudited)	(unaudited)	\$	%	(unaudited)		\$	%	
OPERATING INCOME:									
Investing operating income(1)	\$ 283	\$ 208	\$ 75	36%	\$ 980	\$ 689	\$ 291	42%	
Asset management and advisory operating income(2)	71	36	35	97%	260	171	89	52%	
Total operating income	354	244	110	45%	1,240	860	380	44%	
OPERATING EXPENSES:									
Interest	73	57	16	28%	287	190	97	51%	
Salaries, benefits and stock-based compensation	77	59	18	31%	254	161	93	58%	
General and administrative	27	22	5	23%	99	73	26	36%	
Total operating expenses	177	138	39	28%	640	424	216	51%	
OPERATING INCOME BEFORE INCOME TAXES									
	177	106	71	67%	600	436	164	38%	
(Provision) benefit for income taxes	(3)	7	(10)	NM	(6)	(11)	5	45%	
NET OPERATING INCOME	174	113	61	54%	594	425	169	40%	
Net realized gain on investments									
Portfolio company investments	41	68	(27)	-40%	198	175	23	13%	
Taxes on realized gains	(2)	(17)	15	88%	(6)	(17)	11	65%	
Foreign currency	5	—	5	100%	5	—	5	100%	
Derivative agreements	—	4	(4)	-100%	17	15	2	13%	
Total net realized gain	44	55	(11)	-20%	214	173	41	24%	
REALIZED EARNINGS	218	168	50	30%	808	598	210	35%	
Net unrealized (depreciation) appreciation of investments									
Portfolio company investments	(443)	128	(571)	NM	(126)	276	(402)	NM	
Foreign currency translation	37	18	19	106%	98	32	66	206%	
Derivative agreements	(55)	(2)	(53)	NM	(80)	(11)	(69)	-627%	
Total net unrealized (depreciation) appreciation	(461)	144	(605)	NM	(108)	297	(405)	NM	
INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE									
	(243)	312	(555)	NM	700	895	(195)	-22%	
Cumulative effect of accounting change, net of tax	—	—	—	—	—	1	(1)	-100%	
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS ("EARNINGS")	\$ (243)	\$ 312	\$ (555)	NM	\$ 700	\$ 896	\$ (196)	-22%	
NET OPERATING INCOME PER COMMON SHARE*:									
Basic	\$ 0.91	\$ 0.78	\$ 0.13	17%	\$ 3.42	\$ 3.15	\$ 0.27	9%	
Diluted	\$ 0.90	\$ 0.76	\$ 0.14	18%	\$ 3.36	\$ 3.11	\$ 0.25	8%	
REALIZED EARNINGS PER COMMON SHARE*:									
Basic	\$ 1.14	\$ 1.16	\$ (0.02)	-2%	\$ 4.65	\$ 4.43	\$ 0.22	5%	
Diluted	\$ 1.13	\$ 1.13	\$ —	0%	\$ 4.57	\$ 4.37	\$ 0.20	5%	
EARNINGS PER COMMON SHARE*:									
Basic	\$ (1.27)	\$ 2.15	\$ (3.42)	-159%	\$ 4.03	\$ 6.63	\$ (2.60)	-39%	
Diluted	\$ (1.27)	\$ 2.10	\$ (3.37)	-160%	\$ 3.96	\$ 6.55	\$ (2.59)	-40%	
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:									
Basic	190.6	145.2	45.4	31%	173.9	135.1	38.8	29%	
Diluted	193.0	148.4	44.6	30%	176.9	136.8	40.1	29%	
DIVIDENDS DECLARED PER COMMON SHARE									
	\$ 1.00	\$ 0.88	\$ 0.12	14%	\$ 3.72	\$ 3.33	\$ 0.39	12%	

NM = Not meaningful.

* May not recalculate due to rounding.

(1) The investing operating income consists of interest, dividends, prepayment fees and other investment fee income.

- (2) The asset management and advisory operating income consists primarily of asset management fees and reimbursements, dividends from portfolio company fund managers, transaction structuring fees, equity and loan financing fees, portfolio company management and administrative fees and other fee income.

AMERICAN CAPITAL STRATEGIES, LTD.
OTHER FINANCIAL INFORMATION
Three and Twelve Months Ended December 31, 2007 and 2006
(in millions, except per share data)
(unaudited)

	Q4 2007	Q4 2006	Q4 2007 Versus Q4 2006		2007	2006	2007 Versus 2006	
			\$	%			\$	%
Assets Under Management:								
American Capital Assets at Fair Value(1)	\$11,732	\$ 8,609	\$3,123	36%				
Externally Managed Assets at Fair Value(2)	5,372	2,708	2,664	98%				
Total	<u>\$17,104</u>	<u>\$11,317</u>	<u>\$5,787</u>	<u>51%</u>				
Capital Resources Under Management:								
American Capital Assets at Fair Value plus Available Capital Resources(1)	\$13,285	\$ 9,197	\$4,088	44%				
Externally Managed Assets at Fair Value plus Available Capital Resources(2)	5,896	3,111	2,785	90%				
Total	<u>\$19,181</u>	<u>\$12,308</u>	<u>\$6,873</u>	<u>56%</u>				
New Investments:								
Senior Debt	\$ 1,059	\$ 1,050	\$ 9	1%	\$ 3,977	\$2,504	\$1,473	59%
Subordinated Debt	400	196	204	104%	1,224	1,023	201	20%
Preferred Equity	277	146	131	90%	1,276	790	486	62%
Common Equity	123	43	80	186%	629	167	462	277%
Common Equity Warrants	1	7	(6)	-86%	6	92	(86)	-93%
CMBS Investments	75	155	(80)	-52%	499	414	85	21%
CLO Investments	2	63	(61)	-97%	317	146	171	117%
Total	<u>\$ 1,937</u>	<u>\$ 1,660</u>	<u>\$ 277</u>	<u>17%</u>	<u>\$ 7,928</u>	<u>\$5,136</u>	<u>\$2,792</u>	<u>54%</u>
American Capital Sponsored Buyouts	\$ 770	\$ 360	\$ 410	114%	\$ 3,273	\$2,200	\$1,073	49%
Financing for Private Equity Buyouts	568	716	(148)	-21%	1,756	1,043	713	68%
Investments in Managed Funds(3)	9	—	9	100%	474	—	474	100%
Direct Investments	204	153	51	33%	843	263	580	221%
CMBS Investments(3)	75	155	(80)	-52%	499	414	85	21%
CLO Investments(3)	2	63	(61)	-97%	103	146	(43)	-29%
Add-on Financing for Acquisitions	112	95	17	18%	385	584	(199)	-34%
Add-on Financing for Recapitalizations	191	105	86	82%	489	442	47	11%
Add-on Financing for Growth	2	—	2	100%	7	2	5	250%
Add-on Financing for Working Capital in Distressed Situations	4	5	(1)	-20%	29	21	8	38%
Add-on Financing for Working Capital	—	8	(8)	100%	70	21	49	233%
Total	<u>\$ 1,937</u>	<u>\$ 1,660</u>	<u>\$ 277</u>	<u>17%</u>	<u>\$ 7,928</u>	<u>\$5,136</u>	<u>\$2,792</u>	<u>54%</u>
Realizations(4):								
Scheduled Principal Amortization	\$ 21	\$ 15	\$ 6	40%	\$ 74	\$ 64	\$ 10	16%
Senior Loan Syndications	300	266	34	13%	1,603	456	1,147	252%
Principal Prepayments	475	437	38	9%	1,409	1,223	186	15%
Payment of Accrued Payment-in-kind Interest and Dividends and Original Issue Discount	30	17	13	76%	74	73	1	1%
Sale of CMBS Securities	—	—	—	—	402	—	402	100%
Sale of Equity Investments	660	746	(86)	-12%	976	1,102	(126)	11%
Total	<u>\$ 1,486</u>	<u>\$ 1,481</u>	<u>\$ 5</u>	<u>0%</u>	<u>\$ 4,538</u>	<u>\$2,918</u>	<u>\$1,620</u>	<u>56%</u>
Appreciation, Depreciation, Gains and Losses:								
Gross Realized Gains	\$ 140	\$ 116	\$ 24	21%	\$ 363	\$ 356	\$ 7	2%
Gross Realized Losses	(99)	(48)	(51)	106%	(165)	(181)	16	9%
Portfolio Net Realized Gains	41	68	(27)	-40%	198	175	23	13%
Taxes on Realized Gains	(2)	(17)	15	88%	(6)	(17)	11	65%
Foreign Currency	5	—	5	100%	5	—	5	100%
Interest Rate Derivatives	—	4	(4)	100%	17	15	2	13%
Net Realized Gains	<u>44</u>	<u>55</u>	<u>(11)</u>	<u>-20%</u>	<u>214</u>	<u>173</u>	<u>41</u>	<u>24%</u>
Gross Unrealized Appreciation at 38, 52, 87 and 68 Portfolio Companies	247	306	(59)	-19%	1,073	785	288	37%
Gross Unrealized Depreciation at 56, 32, 85 and 53 Portfolio Companies	(631)	(114)	(517)	454%	(1,032)	(381)	(651)	-171%
Current Portfolio Net Unrealized (Depreciation) Appreciation	(384)	192	(576)	NM	41	404	(363)	NM
Net Depreciation From the Recognition of Net Realized Gains	(59)	(64)	5	8%	(167)	(128)	(39)	-30%
Net Unrealized Appreciation for Foreign Currency Translation	37	18	19	106%	98	32	66	206%
Interest Rate Derivatives, net	(55)	(2)	(53)	NM	(80)	(11)	(69)	-627%
Net Unrealized (Depreciation) Appreciation	(461)	144	(605)	NM	(108)	297	(405)	NM
Net Gains, Losses, Appreciation and Depreciation	<u>\$ (417)</u>	<u>\$ 199</u>	<u>\$ (616)</u>	<u>NM</u>	<u>\$ 106</u>	<u>\$ 470</u>	<u>\$ (364)</u>	<u>-77%</u>
Other Financial Data:								
Net Asset Value per Share	\$ 32.88	\$ 29.42	\$ 3.46	12%				
Market Capitalization	\$ 6,456	\$ 6,829	\$ (373)	-5%				
Total Enterprise Value	\$11,137	\$10,678	\$ 459	4%				
Credit Quality:								
Weighted Average Effective Interest Rate on Debt Investments at Period End	12.0%	12.3%						

Loans on Non-Accrual at Face	\$ 338	\$ 183	\$ 155	85%
Loans on Non-Accrual at Fair Value	\$ 122	\$ 54	\$ 68	126%
Past Due Loans at Face	\$ 150	\$ 12	\$ 138	NM
Past Due and Non-Accrual Loans at Face as a Percentage of Total Loans	7.9%	4.0%		
Non-Accrual Loans at Fair Value as a Percentage of Total Loans	2.1%	1.2%		
Number of Portfolio Companies on Non-Accrual and Past Due	22	14		
Debt to Equity Conversions at Face Value	\$ —	\$ —	\$ —	—
Return on Equity:				
2007 Net Operating Income Return on Average Equity at Cost	11.3%	12.0%		
2007 Realized Earnings Return on Average Equity at Cost	15.3%	16.9%		
2007 Earnings Return on Average Equity	12.2%	24.6%		
Current Quarter Net Operating Income Return on Average Equity at Cost				
Annualized	11.4%	11.4%		
Current Quarter Realized Earnings Return on Average Equity at Cost				
Annualized	14.3%	17.0%		
Current Quarter Earnings Return on Average Equity Annualized	-14.9%	29.9%		
Dividends:				
Dividend Coverage (Realized Earnings per Basic Share/Dividend per Share)				
(5)	1.14x	1.32x		
Dividend Payout Ratio (Dividend per Share/Realized Earnings per Basic Share)(5)	0.88x	0.76x		
2007 Dividend Coverage (Realized Earnings per Basic Share/Dividend per Share)(5)	1.25x	1.33x		
2007 Dividend Payout Ratio (Dividend per Share/Realized Earnings per Basic Share)(5)	0.80x	0.75x		

NM = Not meaningful

- (1) Includes American Capital's investment in its externally managed funds.
- (2) Includes European Capital Limited, American Capital Equity I, American Capital Equity II, ACAS CLO-1 and ACAS CRE CDO 2007-1.
- (3) Investment in ACAS CRE CDO 2007-1 is included in Investments in Managed Funds.
- (4) Excludes repayments of European Capital Limited bridge loans.
- (5) American Capital elected to retain net long-term capital gains for the tax year ended September 30, 2006 and pay a federal tax on behalf of its shareholders. The taxes paid by American Capital are included in its Realized Earnings per Basic Share in the fourth quarter of 2006. For income tax purposes, the net long-term capital gains is treated as a deemed distribution to American Capital's shareholders, but is not included in the Dividends per Share.

Portfolio Statistics (1) (\$ in millions, unaudited)	Static Pool										Pre-1999 - 2007 Aggregate	2003 - 2007 Aggregate	
	Pre-1999	1999	2000	2001	2002	2003	2004	2005	2006	2007			
Internal Rate of Return-All Investments(2)	7.3%	9.0%	7.5%	19.1%	9.5%	21.6%	17.2%	22.7%	18.5%	12.7%		16.0%	19.5%
Internal Rate of Return-Equity Investments Only (2)(10)	24.2%	-26.3%	10.1%	46.8%	15.3%	30.0%	29.5%	34.2%	30.9%	38.6%		28.1%	32.5%
Internal Rate of Return-Equity Investments Only (2)(5)(10)	24.2%	-26.3%	10.1%	46.8%	15.3%	30.0%	29.5%	37.5%	30.9%	38.9%		27.8%	33.1%
Original Investments and Commitments	\$ 395	\$ 380	\$ 285	\$ 372	\$ 957	\$ 1,432	\$ 2,259	\$ 3,872	\$ 5,034	\$ 6,480	\$	21,466	\$ 19,077
Total Exits and Prepayments of Original Investments	\$ 329	\$ 297	\$ 285	\$ 286	\$ 669	\$ 1,034	\$ 1,512	\$ 1,796	\$ 2,195	\$ 1,117	\$	9,520	\$ 7,654
Total Interest, Dividends and Fees Collected	\$ 154	\$ 145	\$ 105	\$ 149	\$ 287	\$ 343	\$ 498	\$ 673	\$ 533	\$ 323	\$	3,210	\$ 2,370
Total Net Realized (Loss) Gain on Investments	\$ (67)	\$ (47)	\$ (40)	\$ 25	\$ (58)	\$ 144	\$ 135	\$ 252	\$ 83	\$ (14)	\$	413	\$ 600
Current Cost of Investments	\$ 65	\$ 33	\$ —	\$ 57	\$ 262	\$ 354	\$ 743	\$ 2,081	\$ 2,501	\$ 4,571	\$	10,667	\$ 10,250
Current Fair Value of Investments(11)	\$ 51	\$ 18	\$ —	\$ 21	\$ 217	\$ 382	\$ 697	\$ 2,492	\$ 2,588	\$ 4,458	\$	10,924	\$ 10,617
Net Unrealized (Depreciation) Appreciation	\$ (14)	\$ (15)	\$ —	\$ (36)	\$ (45)	\$ 28	\$ (46)	\$ 411	\$ 87	\$ (113)	\$	257	\$ 367
Non-Accrual Loans at Face Value	\$ 14	\$ 7	\$ —	\$ 15	\$ 39	\$ 24	\$ 56	\$ 69	\$ 58	\$ 56	\$	338	\$ 263
Non-Accrual Loans at Fair Value	\$ 4	\$ 3	\$ —	\$ 2	\$ 13	\$ 10	\$ 18	\$ 19	\$ 43	\$ 10	\$	122	\$ 100
Equity Interest at Fair Value (9)	\$ 38	\$ 6	\$ —	\$ 3	\$ 43	\$ 138	\$ 150	\$ 1,724	\$ 828	\$ 1,445	\$	4,375	\$ 4,285
Debt to EBITDA(3)(4)(5)	NM	3.2	—	9.0	4.9	6.2	5.7	4.6	5.7	6.5		5.9	5.9
Interest Coverage(3)(5)	NM	2.8	—	2.2	1.9	1.4	1.7	2.5	1.8	2.0		2.0	2.0
Debt Service Coverage(3)(5)	NM	2.4	—	2.2	1.2	1.3	1.4	1.7	1.9	1.6		1.7	1.7
Average Age of Companies(5)	68 yrs	57 yrs	—	24 yrs	42 yrs	37 yrs	38 yrs	28 yrs	28 yrs	27 yrs		29 yrs	29 yrs
Diluted Ownership Percentage(9)	54%	58%	— %	52%	41%	50%	32%	56%	31%	41%		42%	42%
Average Sales(5)(6)	\$ 172	\$ 23	\$ —	\$ 86	\$ 66	\$ 152	\$ 98	\$ 109	\$ 133	\$ 195	\$	153	\$ 156
Average EBITDA(5)(7)	\$ 9	\$ 3	\$ —	\$ 3	\$ 13	\$ 25	\$ 22	\$ 24	\$ 27	\$ 38	\$	30	\$ 31
Average EBITDA Margin(5)	5.2%	13.0%	— %	3.5%	19.7%	16.4%	22.4%	22.0%	20.3%	19.5%		19.6%	19.9%
Total Sales(5)(6)	\$ 287	\$ 84	\$ —	\$ 639	\$ 395	\$ 1,565	\$ 1,819	\$ 3,008	\$ 5,729	\$ 9,316	\$	22,842	\$ 21,437
Total EBITDA(5)(7)	\$ 14	\$ 7	\$ —	\$ 24	\$ 54	\$ 226	\$ 318	\$ 470	\$ 1,007	\$ 1,745	\$	3,865	\$ 3,766
% of Senior Loans(5)(8)	95%	0%	— %	27%	70%	63%	62%	51%	45%	72%		60%	60%
% of Loans with Lien(5)(8)	100%	100%	— %	100%	100%	100%	94%	89%	82%	95%		91%	90%

- (1) Static pool classification is based on the year the initial investment was made. Subsequent add-on investments are included in the static pool year of the original investment. Investments in government securities and interest rate derivative agreements are excluded.
- (2) Assumes investments are exited at current fair value.
- (3) These amounts do not include investments in which the Company owns only equity.
- (4) For portfolio companies with a nominal EBITDA amount, the portfolio company's maximum debt leverage is limited to 15 times EBITDA.
- (5) Excludes investments in American Capital, LLC, commercial mortgage backed securities, collateralized loan obligations, collateralized debt obligations and managed funds.
- (6) Sales of the most recent twelve months, or when appropriate, the forecasted twelve months.
- (7) EBITDA of the most recent twelve months, or when appropriate, the forecasted twelve months.
- (8) As a percentage of our total debt investments.
- (9) Excludes investments in commercial mortgage backed securities, collateralized loan obligations and collateralized debt obligations.
- (10) Excludes equity investments that are the result of conversions of debt and warrants received with the issuance of debt.
- (11) Excludes derivative agreements.

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