



Tax Characterization of 2006 Dividends

Record Date	Payment Date	Distribution Rate per Share	Ordinary Dividends %	Distributed Capital Gain % ¹	Return of Capital %	Non-Qualified Dividend	Qualified Dividend
02/28/06	04/03/06	\$0.80	100%	0%	0%	\$0.80	\$0.00
05/30/06	07/05/06	\$0.82	100%	0%	0%	\$0.82	\$0.00
09/06/06	10/02/06	\$0.83	100%	0%	0%	\$0.79	\$0.04
12/06/06	01/18/07	\$0.88	100%	0%	0%	\$0.84	\$0.04
Total		\$3.33	100%	0%	0%	\$3.25	\$0.08

¹ Excludes deemed capital gains distribution.

American Capital, Ltd.'s 2006 dividends of \$3.33 per share were a distribution of ordinary income. Of its 2006 ordinary dividends, \$3.25 per share were non-qualifying dividends and \$0.08 per share were qualified dividends. The \$0.08 per share of qualified dividends reflect qualified dividend income received by American Capital in 2006.

Qualified dividend income is dividend income received from domestic corporations and qualified foreign corporations. Qualified dividend income is taxed to stockholders at the rates that apply to net capital gains. American Capital stockholders should receive IRS Form 1099-DIV containing this information from their brokers, transfer agents or other institutions. American Capital must make certain distributions of its taxable income in order to maintain its tax status as a regulated investment company. Investors can refer to the Company's most recent report on SEC Form 10-K for more information about its tax status.

American Capital reports the estimated tax characteristics of each dividend when announced, while the actual tax characteristics of each year's dividends are reported annually to stockholders on Form 1099-DIV.

In addition, for its tax year ended September 30, 2006, American Capital retained and did not distribute its taxable net long-term capital gain on investments and paid a federal income tax thereon on behalf of its stockholders. Stockholders of record as of September 30, 2006 should receive a 2005 Form 2439, which reports their share of such capital gain and their share of the federal income tax paid for American Capital's tax year ending September 30, 2006. Stockholders must include on their income tax return for 2006 their share of American Capital's taxable net long-term capital gain for American Capital's tax year ending September 30, 2006, and stockholders on their 2006 return may take a credit for the tax paid on that gain by American Capital on the stockholder's behalf. Stockholders should increase the tax basis of their investment in American Capital stock by the excess of their share of the taxable net long-term capital gain over the amount of the federal income tax paid on their behalf. The total taxable net long-term capital gain realized and retained by American Capital for its tax year ending September 30, 2006, was \$0.29 per share, and the tax credit is at a 35% rate, which is equivalent



to \$0.10 per share. The increase in the stockholder's tax basis in American Capital stock is equivalent to \$0.19 per share, and to the extent a stockholder's capital gains tax rate is less than 35%, the tax credit may reduce other taxes owed or be refunded. Please consult with your personal tax adviser regarding your Form 2439.