

Edgar Filing: ALLIED CAPITAL CORP - Form 10-Q

ALLIED CAPITAL CORP

Form 10-Q

August 10, 2001

1

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

QUARTERLY REPORT PURSUANT TO
SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD
ENDED JUNE 30, 2001
COMMISSION FILE NUMBER:
0-22832

ALLIED CAPITAL CORPORATION
(Exact Name of Registrant as Specified in its Charter)

MARYLAND
(State or Jurisdiction of
Incorporation or Organization)
52-1081052
(IRS Employer
Identification No.)

1919 PENNSYLVANIA AVENUE, N.W.
WASHINGTON, DC 20006
(Address of Principal Executive Offices)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (202) 331-1112

Indicate by check mark whether the Registrant (1) has filed all reports
required to be filed by Section 12 of 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter periods as the
Registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days. YES [X] NO []

On August 9, 2001 there were 92,690,062 shares outstanding of the
Registrant's common stock, \$0.0001 par value.

2

ALLIED CAPITAL CORPORATION

FORM 10-Q INDEX

PART I. FINANCIAL INFORMATION

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Item 1. Financial Statements	
Consolidated Balance Sheet as of June 30, 2001 (unaudited) and December 31, 2000.....	1
Consolidated Statement of Operations -- For the Three and Six Months Ended June 30, 2001 and 2000 (unaudited).....	2
Consolidated Statement of Changes in Net Assets -- For the Six Months Ended June 30, 2001 and 2000 (unaudited).....	3
Consolidated Statement of Cash Flows -- For the Six Months Ended June 30, 2001 and 2000 (unaudited).....	4
Consolidated Statement of Investments as of June 30, 2001 (unaudited) and December 31, 2000.....	5
Notes to Consolidated Financial Statements.....	21
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	32
Item 3. Quantitative and Qualitative Disclosures about Market Risk.....	52
 PART II. OTHER INFORMATION	
Item 1. Legal Proceedings.....	53
Item 2. Changes in Securities and Use of Proceeds.....	53
Item 3. Defaults Upon Senior Securities.....	53
Item 4. Submission of Matters to a Vote of Security Holders.....	53
Item 5. Other Information.....	53
Item 6. Exhibits and Reports on Form 8-K.....	53
Signatures.....	57

3

PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES CONSOLIDATED BALANCE SHEET

	JUNE 30, 2001	DECEMBER 31, 2000
(IN THOUSANDS, EXCEPT NUMBER OF SHARE AMOUNTS)	(UNAUDITED)	-----
ASSETS		
Portfolio at value:		
Private finance (cost: 2001-\$1,374,096; 2000-\$1,262,529).....	\$1,405,386	\$1,282,467
Commercial real estate finance (cost: 2001-\$592,901; 2000-\$503,366).....	595,176	505,534
Total portfolio at value.....	2,000,562	1,788,001
Cash and cash equivalents.....	3,433	2,449
Other assets.....	79,839	63,367
Total assets.....	\$2,083,834	\$1,853,817
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		

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Liabilities:			
Notes payable and debentures.....	\$ 716,314		\$ 704,648
Revolving credit facilities.....	164,750		82,000
Accounts payable and other liabilities.....	24,109		30,477
	-----		-----
Total liabilities.....	905,173		817,125
	-----		-----
Commitments and Contingencies			
Preferred stock.....	7,000		7,000
Shareholders' equity:			
Common stock, \$0.0001 par value, 200,000,000 shares authorized; 91,578,184 and 85,291,696 shares issued and outstanding at June 30, 2001 and December 31, 2000, respectively.....	9		9
Additional paid-in capital.....	1,176,587		1,043,653
Common stock held in deferred compensation trust (0 shares and 234,977 shares at June 30, 2001 and December 31, 2000, respectively).....	--		--
Notes receivable from sale of common stock.....	(26,237)		(25,083)
Net unrealized appreciation on portfolio.....	30,676		19,378
Distributions in excess of earnings.....	(9,374)		(8,265)
	-----		-----
Total shareholders' equity.....	1,171,661		1,029,692
	-----		-----
Total liabilities and shareholders' equity.....	\$2,083,834		\$1,853,817
	=====		=====

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

1

4

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENT OF OPERATIONS

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2001	2000	2001	2000
	(UNAUDITED)		(UNAUDITED)	
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)				
Interest and related portfolio income:				
Interest and dividends.....	\$58,824	\$42,986	\$113,699	\$81,714
Premiums from loan dispositions.....	910	4,554	1,731	7,843
Fees and other income.....	9,005	2,425	18,380	4,305
	-----	-----	-----	-----
Total interest and related portfolio income.....	68,739	49,965	133,810	93,862
	-----	-----	-----	-----
Expenses:				
Interest.....	15,951	14,280	31,881	26,591
Employee.....	7,547	5,191	13,965	9,760
Administrative.....	3,060	4,082	6,027	6,835
	-----	-----	-----	-----
Total operating expenses.....	26,558	23,553	51,873	43,186
	-----	-----	-----	-----

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Formula and cut-off awards.....	63	1,712	91	3,403
	-----	-----	-----	-----
Net operating income before net realized and unrealized gains.....	42,118	24,700	81,846	47,273
	-----	-----	-----	-----
Net realized and unrealized gains:				
Net realized gains.....	3,837	12,865	4,991	15,041
Net unrealized gains.....	151	(2,775)	11,297	2,057
	-----	-----	-----	-----
Total net realized and unrealized gains.....	3,988	10,090	16,288	17,098
	-----	-----	-----	-----
Net increase in net assets resulting from operations.....	\$46,106	\$34,790	\$ 98,134	\$64,371
	=====	=====	=====	=====
Basic earnings per common share.....	\$ 0.52	\$ 0.50	\$ 1.12	\$ 0.94
	=====	=====	=====	=====
Diluted earnings per common share.....	\$ 0.51	\$ 0.50	\$ 1.10	\$ 0.94
	=====	=====	=====	=====
Weighted average common shares outstanding -- basic.....	89,356	69,968	87,441	68,128
	=====	=====	=====	=====
Weighted average common shares outstanding -- diluted.....	90,848	70,035	88,966	68,175
	=====	=====	=====	=====

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

2

5

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

	FOR THE SIX MONTHS ENDED JUNE 30,	
	2001	2000
	(UNAUDITED)	
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
Operations:		
Net operating income before realized and unrealized gains.....	\$ 81,846	\$ 47,273
Net realized gains.....	4,991	15,041
Net unrealized gains.....	11,297	2,057
	-----	-----
Net increase in net assets resulting from operations.....	98,134	64,371
	-----	-----
Shareholder distributions:		
Common stock dividends.....	(87,836)	(63,866)
Preferred stock dividends.....	(110)	(110)
	-----	-----
Net decrease in net assets resulting from shareholder distributions.....	(87,946)	(63,976)
	-----	-----

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Capital share transactions:		
Sale of common stock.....	123,262	141,954
Issuance of common stock for portfolio investments.....	--	1,485
Issuance of common stock upon the exercise of stock options.....	6,258	1,431
Issuance of common stock in lieu of cash distributions.....	3,415	2,420
Net increase in notes receivable from sale of common stock.....	(1,154)	--
Net decrease in common stock held in deferred compensation trust.....	--	3,427
Other.....	--	(572)
	-----	-----
Net increase in net assets resulting from capital share transactions.....	131,781	150,145
	-----	-----
Total increase in net assets.....	\$ 141,969	\$150,540
	=====	=====
Net assets at beginning of period.....	\$1,029,692	\$667,513
	-----	-----
Net assets at end of period.....	\$1,171,661	\$818,053
	-----	-----
Net asset value per common share.....	\$ 12.79	\$ 10.96
	-----	-----
Common shares outstanding at end of period.....	91,578	74,636
	=====	=====

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

3

6

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

	FOR THE SIX MONTHS ENDED JUNE 30,	
	2001	2000
	-----	-----
	(UNAUDITED)	
(IN THOUSANDS)		
Cash flows from operating activities:		
Net increase in net assets resulting from operations.....	\$ 98,134	\$ 64,371
Adjustments		
Net unrealized gains.....	(11,297)	(2,057)
Depreciation and amortization.....	479	423
Amortization of loan discounts and fees.....	(7,722)	(6,211)
Changes in other assets and liabilities.....	(10,455)	(9,484)
	-----	-----
Net cash provided by operating activities.....	69,139	47,042
	-----	-----
Cash flows from investing activities:		
Portfolio investments.....	(320,409)	(431,600)
Repayments of investment principal.....	44,149	58,833
Proceeds from loan sales.....	74,648	117,092
Other investing activities.....	(1,846)	3,280
	-----	-----

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Net cash used in investing activities.....	(203,458)	(252,395)
Cash flows from financing activities:		
Sale of common stock.....	123,262	141,954
Collections of notes receivable from sale of common stock.....	3,002	2,567
Common dividends and distributions paid.....	(84,422)	(61,446)
Preferred stock dividends paid.....	(110)	(110)
Net borrowings under notes payable and debentures.....	11,666	8,000
Net borrowings under revolving lines of credit.....	82,750	125,500
Other financing activities.....	(845)	(543)
Net cash provided by financing activities.....	135,303	215,922
Net increase in cash and cash equivalents.....	\$ 984	\$ 10,569
Cash and cash equivalents at beginning of period.....	\$ 2,449	\$ 18,155
Cash and cash equivalents at end of period.....	\$ 3,433	\$ 28,724

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

4

7

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INVESTMENTS

PRIVATE FINANCE PORTFOLIO COMPANY (IN THOUSANDS, EXCEPT NUMBER OF SHARES)	INVESTMENT (2)	JUNE (UN COST
Ability One Corporation	Loans	\$ 10,30
ACE Products, Inc.	Loans	14,73
Acme Paging, L.P.	Debt Securities Limited Partnership Interest	6,98 1,45
Allied Office Products, Inc.	Debt Securities Warrants	9,39 62
American Barbecue & Grill, Inc.	Warrants	12
American Home Care Supply, LLC	Debt Securities Warrants	6,87 57
Aspen Pet Products, Inc.	Loans Series A Preferred Stock (1,860 shares) Series A Common Stock (1,400 shares)	14,13 1,90 14
ASW Holding Corporation	Warrants	2
Aurora Communications, LLC	Loans Equity Interest	15,26 2,46

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Autania AG(1)	Debt Securities Common Stock (250,000 shares)	4,29 2,14
Avborne, Inc.	Debt Securities Warrants	12,14 1,18
Bakery Chef, Inc.	Loans	16,44
Blue Rhino Corporation(1)	Debt Securities Warrants	13,72 1,20
Border Foods, Inc.	Debt Securities Series A Convertible Preferred Stock (50,919 shares) Warrants	9,28 2,00 66
Business Loan Express, Inc.	Debt Securities Preferred Stock (25,111 shares) Common Stock (25,503,043 shares) Guaranty (\$51.7 million -- See Note 3)	68,53 25,11 104,51 -
Camden Partners Strategic Fund II, L.P.	Limited Partnership Interest	89
CampGroup, LLC	Debt Securities Warrants	2,63 22
Candlewood Hotel Company(1)	Preferred Stock (3,250 shares)	3,25
Celebrities, Inc.	Loan Warrants	25 1
Classic Vacation Group, Inc.(1)	Loan	6,03

(1) Public company.

(2) Common stock, preferred stock, warrants, options and equity interests are generally non-income producing and restricted.

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

PRIVATE FINANCE PORTFOLIO COMPANY (IN THOUSANDS, EXCEPT NUMBER OF SHARES)	INVESTMENT (2)	JUNE (UN COST
Colibri Holding Corporation	Loans Common Stock (3,362 shares) Warrants	\$ 3,45 1,25 29
The Color Factory Inc.	Loan Preferred Stock	4,43 25

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	Common Stock (980 shares)	6,53
Component Hardware Group, Inc.	Debt Securities	10,53
	Class A Preferred Stock (18,000 shares)	1,80
	Common Stock (2,000 shares)	20
Convenience Corporation of America	Debt Securities	8,35
	Series A Preferred Stock (31,521 shares)	33
	Warrants	-
Cooper Natural Resources, Inc.	Debt Securities	3,72
	Warrants	-
CorrFlex Graphics, LLC	Loan	6,96
	Debt Securities	4,96
	Warrants	-
	Options	-
Coverall North America, Inc.	Loan	9,69
	Debt Securities	5,24
	Warrants	-
CPM Acquisition Corp.	Loan	9,45
Csabai Canning Factory Rt.	Hungarian Quotas (9.2%)	70
CTT Holdings	Loan	1,30
CyberRep	Loan	1,04
	Debt Securities	11,06
	Warrants	66
The Debt Exchange Inc.	Series B Convertible Preferred Stock (921,829 shares)	1,25
Directory Investment Corporation	Common Stock (470 shares)	10
Directory Lending Corporation	Series A Common Stock (34 shares)	-
	Series B Common Stock (6 shares)	-
	Series C Common Stock (10 shares)	2
Drilltec Patents & Technologies Company, Inc.	Loan	10,91
	Debt Securities	1,50
	Warrants	-
eCentury Capital Partners, L.P.	Limited Partnership Interest	1,87
EDM Consulting, LLC	Debt Securities	1,80
	Common Stock (100 shares)	25
El Dorado Communications, Inc.	Loans	30
Elexis Beta GmbH	Options	42
Eparfin S.A.	Loan	2
Esquire Communications Ltd.(1)	Warrants	-

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6

9

PRIVATE FINANCE PORTFOLIO COMPANY (IN THOUSANDS, EXCEPT NUMBER OF SHARES)	INVESTMENT (2)	JUNE (UN ----- COST
E-Talk Corporation	Debt Securities Warrants	\$ 8,85 1,15
Executive Greetings, Inc.	Debt Securities Warrants	15,90 36
ExTerra Credit Recovery, Inc.	Series A Preferred Stock (500 shares) Common Stock (2,500 shares) Warrants	59 - -
Fairchild Industrial Products Company	Debt Securities Warrants	5,84 28
Galaxy American Communications, Inc.	Debt Securities Options	43,13 -
Garden Ridge Corporation	Debt Securities Preferred Stock (1,130 shares) Common Stock (471 shares)	26,83 1,13 61
Genesis Worldwide, Inc.(1)	Loan	1,06
Gibson Guitar Corporation	Debt Securities Warrants	16,80 52
Ginsey Industries, Inc.	Loans Convertible Debentures Warrants	5,00 50 -
Global Communications, LLC	Debt Securities Equity Interest Options	12,93 11,06 1,63
Grant Broadcasting Systems II	Warrants	8
Grant Television, Inc.	Equity Interest	66
Grotech Partners, VI, L.P.	Limited Partnership Interest	1,17
The Hartz Mountain Corporation	Debt Securities Common Stock (200,000 shares) Warrants	27,29 2,00 2,61

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HealthASPex, Inc.	Series A Convertible Preferred Stock (1,036,700 shares)	4,14
	Series A Preferred Stock (414,680 shares)	76
	Common Stock (1,451,380 shares)	

HMT, Inc.	Debt Securities	9,96
	Common Stock (300,000 shares)	3,00
	Warrants	—

Hotelevision, Inc.	Preferred Stock (315,100 shares)	31

Icon International, Inc.	Class A Common Stock (12,114 shares)	1,14
	Class C Common Stock (25,707 shares)	7

Impact Innovations Group	Debt Securities	6,47
	Warrants	1,67

Intellirisk Management Corporation	Loans	21,87

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7

10

PRIVATE FINANCE PORTFOLIO COMPANY (IN THOUSANDS, EXCEPT NUMBER OF SHARES)	INVESTMENT (2)	JUNE (UN ----- COST
International Fiber Corporation	Debt Securities	\$ 21,95
	Common Stock (1,029,068 shares)	5,48
	Warrants	55

iSolve Incorporated	Series A Preferred Stock (14,853 shares)	87
	Common Stock (13,306 shares)	1

Jakel, Inc.	Loan	19,66

JRI Industries, Inc.	Debt Securities	1,96
	Warrants	7

Julius Koch USA, Inc.	Debt Securities	1,68
	Warrants	25

Kirker Enterprises, Inc.	Warrants	34
	Equity Interest	

Kirkland's, Inc.	Debt Securities	7,09
	Preferred Stock (917 shares)	41
	Warrants	9

Kyrus Corporation	Debt Securities	7,77

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	Warrants	34
Liberty-Pittsburgh Systems, Inc.	Debt Securities Common Stock (64,535 shares)	4,23 14
The Loewen Group, Inc.(1)	High-Yield Senior Secured Debt	15,15
Logic Bay Corporation	Preferred Stock (1,131,222 shares)	5,00
Love Funding Corporation	Series D Preferred Stock (26,000 shares)	35
Magna Card, Inc.	Debt Securities Preferred Stock (1,875 shares) Common Stock (4,687 shares)	15 9 -
Master Plan, Inc.	Loan Common Stock (156 shares)	1,20 4
MedAssets.com, Inc.	Series B Convertible Preferred Stock (227,665 shares) Warrants	2,04 13
Mid-Atlantic Venture Fund IV, L.P.	Limited Partnership Interest	2,47
Midview Associates, L.P.	Warrants	-
Monitoring Solutions, Inc.	Debt Securities Common Stock (33,333 shares) Warrants	1,82 - -
MortgageRamp.com, Inc.	Class A Common Stock (800,000 shares)	4,00
Morton Grove Pharmaceuticals, Inc.	Loan Redeemable Convertible Preferred Stock (106,947 shares)	15,74 5,00
MVL Group	Debt Securities Warrants	14,40 64
NETtel Communications, Inc.	Debt Securities	13,48

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(IN THOUSANDS, EXCEPT NUMBER OF SHARES)	INVESTMENT (2)	COST
Nobel Learning Communities, Inc.(1)	Debt Securities Series D Convertible Preferred Stock (265,957 shares) Warrants	\$ 9,61 2,00 57
North American Archery, LLC	Loans Convertible Debentures	1,39 2,24
Northeast Broadcasting Group, L.P.	Debt Securities	33
Novak Biddle Venture Fund III, LP	Equity Interest	15
Nursefinders, Inc.	Debt Securities Warrants	11,05 90
Onyx Television GmbH	Preferred Units (600,000 shares)	20
Opinion Research Corporation(1)	Debt Securities Warrants	14,10 99
Oriental Trading Company, Inc.	Loan Debt Securities Preferred Equity Interest Common Equity Interest Warrants	12 12,58 1,50 - 1
Outsource Partners, Inc.	Debt Securities Warrants	23,87 82
Packaging Advantage Corporation	Debt Securities Common Stock (200,000 shares) Warrants	11,54 2,00 96
Physicians Specialty Corporation	Debt Securities Common Stock (79,567,042 shares)	39,40 1,00
Pico Products, Inc.(1)	Loan Debt Securities Common Stock (208,000 shares) Warrants	1,30 4,59 5 -
Polaris Pool Systems, Inc.	Debt Securities Warrants	6,53 1,05
Powell Plant Farms, Inc.	Loan	16,46
Proeducation GmbH	Loan	4
Professional Paint, Inc.	Debt Securities Preferred Stock (15,000 shares) Common Stock (110,000 shares)	20,75 15,00 6
Progressive International Corporation	Debt Securities Preferred Stock (500 shares) Common Stock (197 shares) Warrants	3,95 50 1 -
Raytheon Aerospace LLC	Debt Securities Common LLC Interest	5,00 -

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Redox Brands, Inc.	Debt Securities	9,28
	Warrants	58

(1) Public company.

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

9

12

PRIVATE FINANCE PORTFOLIO COMPANY (IN THOUSANDS, EXCEPT NUMBER OF SHARES)	INVESTMENT (2)	JUNE (UN COST
Schwinn Holdings Corporation	Debt Securities	\$ 10,55
	Warrants	39
Seasonal Expressions, Inc.	Series A Preferred Stock (1,000 shares)	50
Soff-Cut Holdings, Inc.	Debt Securities	8,60
	Preferred Stock (300 shares)	30
	Common Stock (2,000 shares)	20
	Warrants	44
Southern Communications, LLC	Equity Interest	9,77
Southwest PCS, LLC	Loan	7,93
Spa Lending Corporation	Preferred Stock (28,625 shares)	50
	Common Stock (6,208 shares)	2
Staffing Partners Holding Company, Inc.	Debt Securities	4,99
	Series A Redeemable Preferred Stock (414,600 shares)	2,07
	Class A1 Common Stock (1,000 shares)	
	Class A2 Common Stock (40,000 shares)	4
	Class B Common Stock (9,200 shares)	
	Warrants	1
Startec Global Communications, Corporation(1)	Debt Securities	20,73
	Loan	15,00
	Common Stock (258,064 shares)	3,00
	Warrants	-
Sunsource Inc.(1)	Debt Securities	29,66
	Loan	8,50
	Warrants	45

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SunStates Refrigerated Services, Inc.	Loans Debt Securities	6,06 2,44
Sure-Tel, Inc.	Loan Preferred Stock (1,116,902 shares) Warrants Options	20 4,60 66 -
Sydran Food Services II, L.P.	Debt Securities	12,97
Total Foam, Inc.	Debt Securities Common Stock (910 shares)	26 1
Tubbs Snowshoe Company, LLC	Debt Securities Warrants Equity Interests	3,90 5 50
United Pet Group, Inc.	Debt Securities Warrants	4,96 1
Update Venture Partners, II, L.P.	Limited Partnership Interest	1,90
Velocita, Inc.	Debt Securities Warrants	11,60 3,54
Venturehouse Group, LLC	Common Equity Interest	66
Walker Investment Fund II, LLLP	Limited Partnership Interest	1,00

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

10

13

PRIVATE FINANCE PORTFOLIO COMPANY (IN THOUSANDS, EXCEPT NUMBER OF SHARES)	INVESTMENT (2)	JUNE (UN COST
Warn Industries, Inc.	Debt Securities Warrants	\$ 18,63 1,42
Williams Brothers Lumber Company	Warrants	2
Wilmar Industries, Inc.	Debt Securities Warrants	32,30 3,16
Wilshire Restaurant Group, Inc.	Debt Securities Warrants	15,34 -

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Wilton Industries, Inc.	Loan	12,83
Woodstream Corporation	Debt Securities	7,61
	Equity Interests	1,70
	Warrants	45
Wyo-Tech Acquisition Corporation	Debt Securities	12,57
	Preferred Stock (100 shares)	3,70
	Common Stock (99 shares)	10
Total private finance (128 investments)		\$1,374,09

(1) Public company.

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

11

14

(IN THOUSANDS, EXCEPT NUMBER OF LOANS)	INTEREST RATE RANGES	NUMBER OF LOANS	JUNE 30, 2001 (UNAUDITED)	
			COST	VALUE
COMMERCIAL REAL ESTATE FINANCE				
Commercial Mortgage Loans	Up to 6.99%	3	\$ 894	\$ 2,593
	7.00%- 8.99%	15	32,171	34,271
	9.00%-10.99%	28	23,859	23,816
	11.00%-12.99%	18	14,121	13,884
	13.00%-14.99%	9	13,204	13,178
	15.00% and above	2	92	68
Total commercial mortgage loans		75	\$84,341	\$87,810

	STATED INTEREST	FACE			
Purchased CMBS					
Mortgage Capital Funding, Series 1998-MC3	5.5%	\$ 54,491	\$	26,427	\$ 26,427
Morgan Stanley Capital I, Series 1999-RM1	6.4%	51,046		21,574	21,574
COMM 1999-1	5.6%	74,879		34,889	34,888
Morgan Stanley Capital I, Series 1999-FNV1	6.1%	45,536		22,201	22,200
DLJ Commercial Mortgage Trust 1999-CG2	6.1%	96,432		44,776	44,777
Commercial Mortgage Acceptance Corp., Series					

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1999-C1	6.8%	34,856	16,444	16,444
LB Commercial Mortgage Trust, Series 1999-C2	6.7%	29,005	11,161	11,161
Chase Commercial Mortgage Securities Corp., Series 1999-2	6.5%	43,046	20,702	20,702
FUNB CMT, Series 1999-C4	6.5%	49,287	22,472	22,622
Heller Financial, HFCMC Series 2000 PH-1	6.6%	45,456	18,853	18,853
SBMS VII, Inc., Series 2000-NL1	7.2%	24,230	13,290	13,290
DLJ Commercial Mortgage Trust, Series 2000-CF1	7.0%	40,502	19,393	19,393
Deutsche Bank Alex. Brown, Series Comm 2000-C1	6.9%	41,084	19,376	19,376
LB-UBS Commercial Mortgage Trust, Series 2000-C4	6.9%	31,471	11,562	11,562
Credit Suisse First Boston Mortgage Securities Corp., Series 2001-CK1	5.9%	58,786	28,936	28,936
Crest 2001-1, Ltd. (collateralized debt obligation)	0.0%	24,625	24,914	24,914
JP Morgan-CIBC-Deutsche 2001	5.8%	60,889	29,487	29,487
Lehman Brothers-UBS Warburg 2001-C4	6.4%	80,434	43,834	43,834
Total purchased CMBS		\$886,055	\$ 430,291	\$ 430,422
Residual CMBS			\$ 72,850	\$ 72,850
Residual Interest Spread			2,324	2,022
Real Estate Owned			3,095	2,062
Total commercial real estate finance			\$ 592,901	\$ 595,172
Total portfolio			\$1,966,997	\$2,000,562

(1) Public company.

(2) Common stock, preferred stock, warrants, options and equity interests are generally non-income producing and restricted.

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

12

15

ALLIED CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INVESTMENTS

PRIVATE FINANCE PORTFOLIO COMPANY (IN THOUSANDS, EXCEPT NUMBER OF SHARES)	INVESTMENT (2)	DECEMBER COST
Ability One Corporation	Loans	\$ 9,972
ACE Products, Inc.	Loans	14,272
Acme Paging, L.P.	Debt Securities Limited Partnership Interest	6,982 1,452
Allied Office Products, Inc.	Debt Securities Warrants	9,362 622

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American Barbecue & Grill, Inc.	Warrants	12
American Home Care Supply, LLC	Debt Securities Warrants	6,85 57
Aspen Pet Products, Inc.	Loans Series A Preferred Stock (1,860 shares) Series A Common Stock (1,400 shares)	13,86 1,86 14
ASW Holding Corporation	Warrants	2
Aurora Communications, LLC	Loans Equity Interest	14,41 1,50
Avborne, Inc.	Debt Securities Warrants	12,25 1,18
Bakery Chef, Inc.	Loans	15,89
Border Foods, Inc.	Debt Securities Series A Convertible Preferred Stock (50,919 shares) Warrants	9,90 2,00 -
Business Loan Express, Inc.	Debt Securities Preferred Stock (25,111 shares) Common Stock (25,503,043 shares)	74,46 25,11 104,50
Camden Partners Strategic Fund II, L.P.	Limited Partnership Interest	61
CampGroup, LLC	Debt Securities Warrants	2,57 22
Candlewood Hotel Company(1)	Preferred Stock (3,250 shares)	3,25
Celebrities, Inc.	Loan Warrants	27 1
Classic Vacation Group, Inc.(1)	Debt Securities	5,68
Colibri Holding Corporation	Loans Common Stock (3,362 shares) Warrants	3,43 1,25 29
Component Hardware Group	Debt Securities Class A Preferred Stock (18,000 shares) Common Stock (2,000 shares)	10,30 1,80 20

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PRIVATE FINANCE PORTFOLIO COMPANY (IN THOUSANDS, EXCEPT NUMBER OF SHARES)	INVESTMENT (2)	DECEMBER COST
Convenience Corporation of America	Debt Securities Series A Preferred Stock (31,521 shares) Warrants	\$ 8,35 33 -
Cooper Natural Resources, Inc.	Debt Securities Warrants	3,42 -
CorrFlex Graphics, LLC	Loan Debt Securities Warrants Options	6,95 4,95 - -
Cosmetic Manufacturing Resources, LLC	Loan Debt Securities Options	12 5,84 8
Coverall North America, Inc.	Loan Debt Securities Warrants	9,69 4,96 -
Csabai Canning Factory Rt.	Hungarian Quotas (9.2%)	70
CTT Holdings	Loan	1,22
CyberRep	Loan Debt Securities Warrants	94 10,29 66
Directory Investment Corporation	Common Stock (470 shares)	10
Directory Lending Corporation	Series A Common Stock (34 shares) Series B Common Stock (6 shares) Series C Common Stock (10 shares)	- - 2
Drilltec Patents & Technologies Company, Inc.	Loan Debt Securities Warrants	10,91 1,50 -
eCentury Capital Partners, L.P.	Limited Partnership Interest	1,87
EDM Consulting, LLC	Debt Securities Common Stock (100 shares)	1,87 25
El Dorado Communications, Inc.	Loans	30
Elexis Beta GmbH	Options	42
Eparfin S.A.	Loan	2
Esquire Communications Ltd.(1)	Warrants	-
E-Talk Corporation	Debt Securities Warrants	8,80 1,15

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Ex Terra Credit Recovery, Inc.	Series A Preferred Stock (500 shares) Common Stock (2,500 shares) Warrants	59 — —
Executive Greetings, Inc.	Debt Securities Warrants	15,88 36
Fairchild Industrial Products Company	Debt Securities Warrants	5,81 28

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14

17

PRIVATE FINANCE PORTFOLIO COMPANY (IN THOUSANDS, EXCEPT NUMBER OF SHARES)	INVESTMENT (2)	DECEMBER COST
FTI Consulting, Inc. (1)	Warrants	\$ 97
Galaxy American Communications, Inc.	Debt Securities Warrants	33,39 50
Garden Ridge Corporation	Debt Securities Preferred Stock (1,130 shares) Common Stock (471 shares)	26,53 1,13 61
Genesis Worldwide, Inc. (1)	Loan	1,06
Gibson Guitar Corporation	Debt Securities Warrants	16,44 52
Ginsey Industries, Inc.	Loans Convertible Debentures Warrants	5,00 50 —
Global Communications, LLC	Debt Securities Equity Interest Options	12,73 10,46 1,63
Grant Broadcasting Systems II	Warrants	8
Grant Television, Inc.	Equity Interest	66
Grotech Partners, VI, L.P.	Limited Partnership Interest	86
The Hartz Mountain Corporation	Debt Securities Common Stock (200,000 shares)	27,16 2,00

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	Warrants	2,61
HealthASPex, Inc.	Series A Convertible Preferred Stock (396,908 shares)	1,34
	Series A Preferred Stock (225,112 shares)	76
	Common Stock (1,036,700 shares)	-
HMT, Inc.	Debt Securities	9,95
	Common Stock (300,000 shares)	3,00
	Warrants	-
Hotelevision, Inc.	Preferred Stock (315,100 shares)	31
Icon International, Inc.	Class A Common Stock (12,114 shares)	1,14
	Class C Common Stock (25,707 shares)	7
Impact Innovations Group	Debt Securities	6,36
	Warrants	1,67
Intellirisk Management Corporation	Loans	21,44
International Fiber Corporation	Debt Securities	21,62
	Common Stock (1,029,068 shares)	5,48
	Warrants	55
iSolve Incorporated	Series A Preferred Stock (14,853 shares)	87
	Common Stock (13,306 shares)	1
Jakel, Inc.	Loan	19,23

(1) Public company.

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15

18

PRIVATE FINANCE PORTFOLIO COMPANY (IN THOUSANDS, EXCEPT NUMBER OF SHARES)	INVESTMENT (2)	DECEMBER COST
JRI Industries, Inc.	Debt Securities	\$ 1,95
	Warrants	7
Julius Koch USA, Inc.	Debt Securities	2,29
	Warrants	25
Kirker Enterprises, Inc.	Warrants	34
	Equity Interest	

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Kirkland's, Inc.	Debt Securities Preferred Stock (917 shares) Warrants	6,34 41 9
Kyrus Corporation	Debt Securities Warrants	7,73 34
Liberty-Pittsburgh Systems, Inc.	Debt Securities Common Stock (64,535 shares)	3,47 14
The Loewen Group, Inc.(1)	High-Yield Senior Secured Debt	15,15
Logic Bay Corporation	Preferred Stock (1,131,222 shares)	5,00
Love Funding Corporation	Series D Preferred Stock (26,000 shares)	35
Master Plan, Inc.	Loan Common Stock (156 shares)	2,00 4
MedAssets.com, Inc.	Series B Convertible Preferred Stock (227,665 shares) Warrants	2,04 13
Mid-Atlantic Venture Fund IV, L.P.	Limited Partnership Interest	2,47
Midview Associates, L.P.	Warrants	-
Monitoring Solutions, Inc.	Debt Securities Common Stock (33,333 shares) Warrants	1,82 -
MortgageRamp.com, Inc.	Class A Common Stock (800,000 shares)	4,00
Morton Grove Pharmaceuticals, Inc.	Loan Redeemable Convertible Preferred Stock (106,947 shares)	15,35 5,00
MVL Group	Debt Securities Warrants	14,12 64
NETtel Communications, Inc.	Debt Securities	13,47
Nobel Learning Communities, Inc.(1)	Debt Securities Series D Convertible Preferred Stock (265,957 shares) Warrants	9,57 2,00 57
North American Archery, LLC	Loans Convertible Debentures	1,39 2,24
Northeast Broadcasting Group, L.P.	Debt Securities	34

(1) Public company.

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

16

19

PRIVATE FINANCE PORTFOLIO COMPANY (IN THOUSANDS, EXCEPT NUMBER OF SHARES)	INVESTMENT (2)	DECEMBER ----- COST
Nursefinders, Inc.	Debt Securities Warrants	\$ 11,00 90
Old Mill Holdings, Inc.	Debt Securities	14
Onyx Television GmbH	Common Stock (600,000 shares)	20
Opinion Research Corporation(1)	Debt Securities Warrants	14,03 99
Oriental Trading Company, Inc.	Debt Securities Loan Preferred Equity Interest Common Equity Interest Warrants	12,45 12 1,48 1 -
Outsource Partners, Inc.	Debt Securities Warrants	23,85 82
Packaging Advantage Corporation	Debt Securities Common Stock (200,000 shares) Warrants	11,49 2,00 96
Physicians Specialty Corporation	Debt Securities Redeemable Preferred Stock (850 shares) Convertible Preferred Stock (97,411 shares) Warrants	14,80 85 15 47
Pico Products, Inc.(1)	Loan Debt Securities Common Stock (208,000 shares) Warrants	1,30 4,59 5 -
Polaris Pool Systems, Inc.	Debt Securities Warrants	6,48 1,05
Powell Plant Farms, Inc.	Loan	15,70
Proeducation GmbH	Loan	4
Professional Paint, Inc.	Debt Securities Preferred Stock (15,000 shares) Common Stock (110,000 shares)	20,00 15,00 6
Progressive International Corporation	Debt Securities Preferred Stock (500 shares) Common Stock (197 shares)	3,94 50 1

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	Warrants	
Schwinn Holdings Corporation	Debt Securities	10,36
	Warrants	39
Seasonal Expressions, Inc.	Series A Preferred Stock (1,000 shares)	50
Soff-Cut Holdings, Inc.	Debt Securities	8,45
	Preferred Stock (300 shares)	30
	Common Stock (2,000 shares)	20
	Warrants	44

(1) Public company.

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17

20

PRIVATE FINANCE PORTFOLIO COMPANY (IN THOUSANDS, EXCEPT NUMBER OF SHARES)	INVESTMENT (2)	DECEMBER COST
Southern Communications, LLC	Equity Interest	\$ 9,77
Southwest PCS, LLC	Loan	7,50
Southwest PCS, L.P.	Debt Securities	6,51
Spa Lending Corporation	Preferred Stock (28,625 shares) Common Stock (6,208 shares)	54 2
Staffing Partners Holding Company, Inc.	Debt Securities Series A Redeemable Preferred Stock (414,600 shares) Class A1 Common Stock (1,000 shares) Class A2 Common Stock (40,000 shares) Class B Common Stock (9,200 shares) Warrants	4,99 2,07 4 1
Startec Global Communications, Corporation(1)	Debt Securities Common Stock (258,064 shares) Warrants	20,20 3,00 -
Sunsource Inc.(1)	Debt Securities Warrants	29,85 -
SunStates Refrigerated Services, Inc.	Loans Debt Securities	6,06 2,44

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Sure-Tel, Inc.	Loan	20
	Preferred Stock (1,116,902 shares)	4,55
	Warrants	66
	Options	-

Sydran Food Services II, L.P.	Debt Securities	12,97

Total Foam, Inc.	Debt Securities	26
	Common Stock (910 shares)	1

Tubbs Snowshoe Company, LLC	Debt Securities	3,89
	Warrants	5
	Equity Interests	50

United Pet Group	Debt Securities	4,95
	Warrants	1

Velocita, Inc.	Debt Securities	11,53
	Warrants	3,54

Venturehouse Group, LLC	Common Equity Interest	33

Walker Investment Fund II, LLLP	Limited Partnership Interest	80

Warn Industries, Inc.	Debt Securities	19,33
	Warrants	1,42

Williams Brothers Lumber Company	Warrants	2

Wilmar Industries, Inc.	Debt Securities	31,72
	Warrants	3,16

Wilshire Restaurant Group, Inc.	Debt Securities	15,19
	Warrants	-

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18

21

PRIVATE FINANCE PORTFOLIO COMPANY (IN THOUSANDS, EXCEPT NUMBER OF SHARES)	INVESTMENT (2)	DECEMBER COST
-----		-----
Wilton Industries, Inc.	Loan	\$ 12,83

Woodstream Corporation	Debt Securities	7,59
	Equity Interests	1,70
	Warrants	45

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Wyo-Tech Acquisition Corporation	Debt Securities	15,67
	Preferred Stock (100 shares)	3,70
	Common Stock (99 shares)	10
Total private finance (122 investments)		\$1,262,52

- (1) Public company.
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The accompanying notes are an integral part of these consolidated financial statements.

19

22

(IN THOUSANDS, EXCEPT NUMBER OF LOANS)	INTEREST RATE RANGES	NUMBER OF LOANS	DECEMBER 31, 2000	
			COST	VALUE
COMMERCIAL REAL ESTATE FINANCE				
Commercial Mortgage Loans	Up to 6.99%	3	\$ 882	\$ 2,582
	7.00%- 8.99%	13	30,032	32,132
	9.00%-10.99%	17	22,302	22,190
	11.00%-12.99%	38	35,250	35,042
	13.00%-14.99%	12	14,391	14,391
	15.00% and above	2	100	76
Total commercial mortgage loans		85	\$102,957	\$106,413

	STATED INTEREST	FACE			
Purchased CMBS					
Mortgage Capital Funding, Series 1998-MC3	5.5%	\$ 54,491	\$ 25,681	\$ 25,681	
Morgan Stanley Capital I, Series 1999-RM1	6.4%	59,640	27,429	27,429	
COMM 1999-1	5.6%	74,879	34,352	34,352	
Morgan Stanley Capital I, Series 1999-FNV1	6.1%	45,536	21,972	21,972	
DLJ Commercial Mortgage Trust 1999-CG2	6.1%	96,432	44,332	44,332	
Commercial Mortgage Acceptance Corp., Series 1999-C1	6.8%	34,856	16,397	16,397	
LB Commercial Mortgage Trust, Series 1999-C2	6.7%	29,005	10,910	10,910	
Chase Commercial Mortgage Securities Corp., Series 1999-2	6.5%	43,046	20,552	20,552	
FUNB CMT, Series 1999-C4	6.5%	49,287	22,515	22,766	
Heller Financial, HFCMC Series 2000 PH-1	6.6%	45,456	19,039	19,039	
SBMS VII, Inc., Series 2000-NL1	7.2%	30,079	17,820	18,000	

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DLJ Commercial Mortgage Trust, Series 2000-CF1	7.0%	40,502	19,166	19,166
Deutsche Bank Alex. Brown, Series Comm 2000-C1	6.9%	41,084	19,170	19,170
LB-UBS Commercial Mortgage Trust, Series 2000-C4	6.9%	31,471	11,552	11,552

Total purchased CMBS		\$675,764	\$ 310,887	\$ 311,320

Residual CMBS			\$ 78,723	\$ 78,723
Residual Interest Spread			3,297	2,997
Real Estate Owned			7,502	6,080

Total commercial real estate finance			\$ 503,366	\$ 505,530

Total portfolio			\$1,765,895	\$1,788,000

(1) Public company.

(2) Comm